

NVE CORP /NEW/  
Form 10-K  
May 01, 2013

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

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**FORM 10-K**

(Mark One)

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

For the fiscal year ended **March 31, 2013**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section

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

Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on September 28, 2012, the last business day of the Registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Stock Market, was approximately \$176 million.

The number of shares of the registrant's Common Stock (par value \$0.01) outstanding as of April 26, 2013 was 4,862,436.

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#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for our 2013 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13, and 14 of Part III hereof.

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### **PART I**

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

Some of the statements made in this Report or in the documents incorporated by reference in this Report and in other materials filed or to be filed by us with the Securities and Exchange Commission ( SEC ) as well as information included in verbal or written statements made by us constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to the safe harbor provisions of the reform act. Forward-looking statements may be identified by the use of the terminology such as may, will, expect, anticipate, intend, believe, estimate, should, or continue, or the negatives of these terms or other variations on these words or comparable terminology. To the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of NVE, you should be aware that our actual financial condition, operating results and business performance may differ materially from that projected or estimated by us in the forward-looking statements. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from their current expectations. These differences may be caused by a variety of factors, including but not limited to uncertainties related to the economic environments in the industries we serve, uncertainties related to direct and indirect U.S. Government funding, uncertainties relating to future revenue and growth, risks related to developing marketable products, uncertainties relating to the revenue potential of new products, risks in the enforcement of our patents, litigation risks, and other specific risks that may be alluded to in this Report or in the documents incorporated by reference in this Report. For more 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 molecular layers).

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 multisensor elements configuration. Future custom sensor target markets include consumer electronics, automotive electronics, and biosensors.

#### ***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 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 high-speed couplers; and IL4/IL3-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**

The heart of 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 send wafers 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, 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 June 27, 2013. We may add other private-brand coupler partners in the future.

### **New Product Status**

In the past year we began marketing a number of new products including lines of:

- higher-performance network couplers;
- smaller network couplers; and
- lower-priced network couplers.

Long-term product development programs in fiscal 2013 included:

- couplers for battery management systems and in-car networks;
- low-power couplers;
- isolated power convertors;
- current sensors for factory automation;
- low-field sensors applicable to consumer and industrial electronics; and
- high-field sensors applicable to medical devices.

### **Our Competition**

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

Several 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), capacitive couplers, and radio-frequency modulation 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, Lite-On Technology Corporation, Renesas Electronics Corporation, Toshiba Corporation, and Vishay Intertechnology.

Our strategy is to compete based on product features rather than to compete solely on price. IsoLoop couplers are smaller and therefore require less circuit board space per channel than most competing couplers. Our other advantages over competing technologies may include less signal distortion, longer product life, and lower power consumption.

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### ***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 (ReRAM or 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.

### **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; most of our packaging services take place in Asia.

### **Intellectual Property**

#### ***Patents***

As of March 31, 2013 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 current 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 inventions we believe may be necessary for successful high-density, high-performance MRAMs. We believe U.S. patents 6,275,411 and 6,349,053, both titled *Spin Dependent Tunneling Memory*, and patent 6,538,921 titled *Circuit Selection of Magnetic Memory Cells and Related Cell Structures*, are particularly important. The 6,275,411 and 6,349,053 patents expire July 23, 2013 and the 6,538,921 patent expires August 14, 2021. The United States Patent and Trademark Office granted requests by Everspin for *inter partes* reexaminations of U.S. patent 6,349,053 on May 16, 2012, and of U.S. patent 6,538,921 on September 16, 2012.

We also have patents on advanced MRAM designs that we believe are important, including patents that relate to magnetothermal MRAM, spin-momentum MRAM, and synthetic antiferromagnetic storage.

#### ***Trademarks***

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

#### ***Licenses***

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

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

We have agreements and amendments to agreements with Honeywell dating 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 nonexclusive, nontransferable, and nonassignable 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 Technologies, Inc., an independent company that would take ownership of Freescale's MRAM manufacturing assets. In January 2012 we filed a patent infringement lawsuit against Everspin.

**Seasonality**

In some years we have observed product sales weakness for quarters ending December 31. This seasonality may have been due in part to distributor ordering patterns or customer vacations and shutdowns late in calendar years. We cannot predict whether this seasonal pattern will return in future fiscal years.

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### **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.

### **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; and certain distributors. The loss of one or more of these customers could have a material adverse effect on us.

### **Firm Backlog**

As of March 31, 2013 we had \$194,416 of contract research and development backlog we believed to be firm, compared to \$1,059,686 as of March 31, 2012. We expect the firm backlog as of March 31, 2013 to be filled in fiscal 2014. Approximately 59% of our backlog as of March 31, 2012 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. 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 noncancelable and the dollar amount associated with the noncancelable 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, as well as related underlying technologies. We spent \$2,304,710 for fiscal 2013, \$1,887,297 for fiscal 2012, and \$1,062,694 for fiscal 2011 in company-sponsored research and development activities. Additionally, we spent \$2,040,640 during fiscal 2013, \$3,261,191 during fiscal 2012, and \$4,371,852 during fiscal 2011 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 54 employees as of March 31, 2013. 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**

Foreign sales accounted for approximately 56% of our revenue in fiscal 2013. More information about geographic

areas is contained in Note 8 Segment Information to the Financial Statements included in this report

**Available Information**

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

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### **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.

#### ***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; and certain distributors. 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.***

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; Memsicap 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 are dependent on customers to integrate our products into next-level assemblies.***

We are dependent on customers to integrate our products into next-level assemblies with other components in order for some of our products to be commercially viable. There can be no assurance that such customers will manufacture appropriate assembly products or, if they do manufacture such products, that they will choose to use our products. Any integration, design, manufacturing or marketing problems encountered by such customers could adversely affect the market for our products and 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 agreement with Avago Technologies, Inc., as amended, expires June 27, 2013; our Phonak AG Supply Agreement expires March 31, 2015; and our Supplier Partnering Agreement with St. Jude Medical, as amended, expires January 1, 2016. We cannot predict if any of these agreements will be renewed, or if renewed, under what terms. Although it is possible we could continue to sell products to these customers without formal agreements, an 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.

#### ***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 could hamper future research and development activity and decrease related revenue. In addition to direct Government funding, certain of our non-Government customers and prospective 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 budgets and priorities that can change and over which we have no control, and delays in such funding can occur for a number of reasons. Interruptions in the Government funding process such as federal budget delays, debt ceiling limitations, sequestration, or Department of Defense spending cuts, may impact Government contract funding. Furthermore, a significant portion of our Government funding has been through Small Business Innovation Research (SBIR) contracts. SBIR budgets, eligibility, or funding limits may be changed by legislation or by agencies such as the Department of Defense.



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***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.

***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, effects of U.S. healthcare reform legislation 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.

***Failure to meet stringent customer requirements could result in the loss of key customers and 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 or to adopt and comply with specific quality standards. Certain customers also periodically audit our performance. Failure to meet technical or quality requirements or a negative customer audit could result in the loss of current sales revenue, customers, and future sales.

***We could be subject to claims based on warranty, product liability, or delivery failures.***

Claims based on warranty, product liability, or delivery failures that could lead to significant expenses as we defend such claims or pay damage awards. We may also incur costs if we decide to compensate the affected customer or end consumer for such claims. In addition, if our customers recall products containing our products, we may incur costs and expenses relating to the recall. Costs or payments we may make in connection with warranty, delivery claims or product recalls may adversely affect our business and financial condition.

***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. Our indemnifying customers may not have the financial resources to cover all liability. 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.

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### ***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 thin 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, and metals. 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 subject to shortages or be discontinued by their suppliers at any time. For example, there have been helium shortages in recent years. 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 packaging vendors could impact our ability to produce and deliver products and cause loss of revenue.***

We are dependent on our packaging vendors. Because of the unique materials our products use, the complexity of some of our products, and the high isolation voltage specifications of our couplers, many of our products are more challenging to package than conventional integrated circuits. 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. We have alternate vendors or potential alternate vendors for the substantial majority of our product sales, but it could prove expensive, time-consuming, or technically challenging to convert certain products to an alternate vendor. We might not be able to recover work in process or finished goods in their possession if one of our packaging vendors were to become insolvent or disrupted by acts of God, including floods, typhoons, or earthquakes. Furthermore, an alternate vendor may not have sufficient capacity available to meet our requirements. One of our packaging vendors, Circuit Electronic Industries Public Co., Ltd. ( CEI ) of Ayutthaya,

Thailand has been operating under voluntary debt rehabilitation under Thailand law since 2005, was shut down from October 2011 through March 2012 due to flooding of its facility, and has resumed only limited operations. CEI and certain other packaging vendors are in flood-susceptible areas. Flooding risks to such vendors may increase in the future due to possible higher ocean levels and other potential effects of climate change. 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 56% of our revenue for fiscal 2013, and we expect foreign sales to continue to represent a significant portion of our revenue. Furthermore, we rely on suppliers in China, India, the Philippines, Taiwan, Thailand, and other foreign countries. Risks relating to 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 jurisdictions where we do business.

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### ***Our business and our reliance on intellectual property exposes us to litigation risks.***

If patent infringement claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new noninfringing technology. Such licenses or design modifications can be costly or could increase the cost of our products. In addition, we may decide to settle a claim or action against us, which settlement could be costly. We may also be liable for any past infringement, and we may be required to indemnify our customers against expenses relating to possible infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would increase our costs or harm our operating results.

### ***We may not be able to enforce our intellectual property rights.***

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. Currently, two of our patents are subject to *inter partes* reexamination by the U.S. Patent and Trademark Office initiated by Everspin Technologies, Inc. as a defensive action in connection with our litigation against it. A final adverse decision in these or any future reexamination proceedings could invalidate some or all of the claims of those patents. Additionally, rights granted under the patents or under licensing agreements may not provide a competitive advantage to us. We have filed a patent infringement lawsuit against Everspin and at least several other companies have described designs that we believe may infringe on our patents if such designs were commercialized. Efforts to 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. 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 enforce our patents against Motorola, 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, Inc. 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 filed a patent infringement lawsuit against Everspin. There can be no assurance, however, that we can successfully enforce our patents against Motorola, Freescale, or Everspin or that any agreement will be reached with Freescale or Everspin, 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 employees.***

We have employment agreements with certain employees, including our Chief Executive Officer and Chief Financial Officer, but those agreements do not prevent employees from leaving the company. 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, 2013, we held \$82,751,286 in short-term and long-term marketable securities, representing approximately 86% of our total assets. A number of the securities we hold have been downgraded by Moody's or Standard and Poor's indicating a possible increase in default risk. Conditions and circumstances beyond our control or ability to anticipate can cause downgrades and increases in default risk. 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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***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;
- legal proceedings involving us;
- delays in our introduction of new products or technologies or market acceptance of these products or technologies;
- changes in demand for our customers' products;
- 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; and
- general economic conditions or market conditions specific to industries we or our customers serve or may serve.

### **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, 2020. The facility is currently being utilized below maximum capacity to allow for growth, and we believe the facility is adequate to meet our current requirements. We hold no investments in real estate.

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

In the ordinary course of business we may become involved in litigation. Other than as set forth below, 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.

On January 3, 2012 we filed a patent infringement lawsuit against Everspin Technologies, Inc. in the U.S. District Court for the Minnesota District. The lawsuit is based on Everspin's sale of magnetoresistive random access memory, commonly known as MRAM. The lawsuit seeks an injunction for Everspin to cease using NVE's patented technology and provide compensation for Everspin's past infringement. On May 24, 2012 Everspin filed an answer denying our allegations and filed counterclaims. The U.S. Patent and Trademark Office granted requests by Everspin for *inter partes* reexaminations of U.S. patent 6,349,053 on May 16, 2012, and of U.S. patent 6,538,921 on September 19, 2012. Both patents are assigned to us and are patents in suit. On March 8, 2013 the Court ordered all proceedings in the case stayed until June 28, 2013.

On February 24, 2012, Everspin filed a patent infringement lawsuit against us in the U.S. District Court for the Minnesota District, alleging certain NVE products infringe on two patents purported to be owned by Everspin. The lawsuit seeks an injunction and compensation.

### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## **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 |          |          |          |          |          |          |          |
|---------|---------------|----------|----------|----------|----------|----------|----------|----------|
|         | 3/31/13       | 12/31/12 | 9/30/12  | 6/30/12  | 3/31/12  | 12/31/11 | 9/30/11  | 6/30/11  |
| High \$ | 56.49         | \$ 61.47 | \$ 60.96 | \$ 57.48 | \$ 58.46 | \$ 68.93 | \$ 69.46 | \$ 62.55 |
| Low \$  | 52.52         | \$ 47.40 | \$ 48.61 | \$ 46.35 | \$ 49.50 | \$ 53.21 | \$ 52.54 | \$ 52.36 |

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

We had approximately 104 shareholders of record and 6,100 total shareholders as of April 16, 2013. We have not paid or declared any cash dividends on our Common Stock in the two most recent fiscal years. We currently 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 defense of our intellectual property, or for 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 2013 Annual Meeting of Shareholders, and is incorporated by reference into Item 12 of this Report.



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

The graph below compares the performance of our Common Stock to the cumulative five-year performance of the NASDAQ Industrial Index and the SmallTimes Index of Companies Involved in Micro- and Nanotech. NVE is included in both indices. We presented the Cedrus Nanotechnology Index Pure, which is no longer being publicly reported, in our previous year's report on Form 10-K. The graph and table assume \$100 was invested on March 31, 2008 in each of our Common Stock, the NASDAQ Industrial Index, the Cedrus Nanotechnology Index Pure, and the SmallTimes Index, with reinvestment of dividends.

|                                  | 3/31/2008 | 3/31/2009 | 3/31/2010 | 3/31/2011 | 3/31/2012 | 3/31/2013 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| NVE Corporation                  | \$ 100.00 | \$ 116.64 | \$ 183.40 | \$ 228.10 | \$ 214.57 | \$ 228.42 |
| SmallTimes Index                 | \$ 100.00 | \$ 64.16  | \$ 91.08  | \$ 99.05  | \$ 102.69 | \$ 108.11 |
| Cedrus Nanotechnology Index Pure | \$ 100.00 | \$ 60.93  | \$ 113.26 | \$ 131.03 | \$ 112.80 | \$ -      |
| NASDAQ Industrial Index          | \$ 100.00 | \$ 59.27  | \$ 98.40  | \$ 123.60 | \$ 130.31 | \$ 151.61 |

**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 past two fiscal years.

**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.

|   | <b>Balance Sheet Data as of March 31</b> |               |               |               |               |
|---|--|---------------|---------------|---------------|---------------|
|   | <b>2013</b>                              | <b>2012</b>   | <b>2011</b>   | <b>2010</b>   | <b>2009</b>   |
| Cash, cash equivalents, and marketable securities | \$ 85,260,969                            | \$ 73,541,463 | \$ 62,179,707 | \$ 49,543,766 | \$ 34,321,811 |
| Total assets                                      | \$ 95,765,496                            | \$ 83,126,763 | \$ 71,836,225 | \$ 57,462,914 | \$ 42,566,440 |
| Total shareholders equity                         | \$ 93,984,608                            | \$ 81,458,858 | \$ 69,970,549 | \$ 55,953,294 | \$ 41,567,571 |

**Income Statement Data for Years Ended March 31**

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|   | <b>2013</b>          | <b>2012</b>          | <b>2011</b>          | <b>2010</b>          | <b>2009</b>          |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Revenue</b>                            |                      |                      |                      |                      |                      |
| Product sales                             | \$ 24,434,823        | \$ 25,151,822        | \$ 26,024,823        | \$ 22,665,860        | \$ 19,715,311        |
| Contract research and development         | 2,598,596            | 3,427,398            | 5,172,240            | 5,481,325            | 3,656,958            |
| <b>Total revenue</b>                      | <b>\$ 27,033,419</b> | <b>\$ 28,579,220</b> | <b>\$ 31,197,063</b> | <b>\$ 28,147,185</b> | <b>\$ 23,372,269</b> |
| Gross profit                              | \$ 20,008,238        | \$ 19,253,709        | \$ 21,413,365        | \$ 19,834,170        | \$ 16,648,027        |
| Income from operations                    | \$ 15,196,854        | \$ 14,273,048        | \$ 17,669,770        | \$ 16,298,536        | \$ 13,251,590        |
| Net cash provided by operating activities | \$ 12,645,302        | \$ 12,811,910        | \$ 12,808,807        | \$ 12,463,616        | \$ 9,998,114         |
| Net income                                | \$ 11,828,838        | \$ 11,381,095        | \$ 13,360,945        | \$ 11,999,344        | \$ 9,782,895         |
| Net income per share diluted              | \$ 2.43              | \$ 2.34              | \$ 2.76              | \$ 2.47              | \$ 2.04              |

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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.

#### ***Investment Valuation***

Our investments consist primarily of corporate and municipal obligations. We have generally invested excess cash in high-quality investment grade long-term marketable securities with less than five years to maturity. We classify all of our marketable securities as available-for-sale, thus securities are recorded at fair value and any associated unrealized gain or losses, net of tax, is included as a separate component of shareholders' equity, Accumulated other comprehensive income (loss). If we judged a decline in fair value for any security to be other than temporary, the cost basis of the individual security would be written down and a charge recognized to net income. The fair values for our securities are determined based on quoted market prices as of the valuation date and observable prices for similar assets. We consider a number of factors in determining whether other-than-temporary impairment exists, including: credit market conditions; the credit ratings of the securities; historical default rates for securities of comparable credit rating; the presence of insurance of the securities and, if insured, the credit rating and financial condition of the insurer; the effect of market interest rates on the value of the securities; and the duration and extent of any unrealized losses. We also consider the likelihood that we will be required to sell the securities prior to maturity based on our financial condition and anticipated cash flows. If any of these conditions and estimates change in the future, or, if different estimates are used, the fair value of the investments may change significantly and could result in other-than-temporary decline in value, which could have an adverse impact on our results of operations.

#### ***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 \$285,000 at March 31, 2013 and \$300,000 at March 31, 2012.

#### ***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, 2013 our net deferred tax liabilities were \$440,736 compared to \$136,872 as of March 31, 2012. Net deferred tax liabilities included \$145,592 in deferred tax assets for stock-based compensation deductions as of March 31, 2013 and \$145,418 as of March 31, 2012. Utilization of certain of our deferred tax assets is subject to limitations based on Internal Revenue Code Section 382.

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

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

|                                      | Percentage of Revenue<br>Year Ended March 31 |        |        | Year-to-Year Change<br>Years Ended March 31 |                 |
|--------------------------------------|--|--------|--------|---|-----------------|
|                                      | 2013   | 2012   | 2011   | 2012 to<br>2013                             | 2011 to<br>2012 |
| <b>Revenue</b>                       |  |        |        |   |                 |
| Product sales                        | 90.4%  | 88.0%  | 83.4%  | (2.9)%                                      | (3.4)%          |
| Contract research and development    | 9.6%   | 12.0%  | 16.6%  | (24.2)%                                     | (33.7)%         |
| Total revenue                        | 100.0%                                       | 100.0% | 100.0% | (5.4)%                                      | (8.4)%          |
| Cost of sales                        | 26.0%  | 32.6%  | 31.4%  | (24.7)%                                     | (4.7)%          |
| Gross profit                         | 74.0%  | 67.4%  | 68.6%  | 3.9%  | (10.1)%         |
| <b>Expenses</b>                      |  |        |        |   |                 |
| Selling, general, and administrative | 8.3%   | 8.4%   | 7.9%   | (5.9)%                                      | (3.8)%          |
| Research and development             | 9.5%   | 9.1%   | 4.1%   | (1.1)%                                      | 104.9%          |
| Total expenses                       | 17.8%  | 17.5%  | 12.0%  | (3.4)%                                      | 33.0%           |
| Income from operations               | 56.2%  | 49.9%  | 56.6%  | 6.5%  | (19.2)%         |
| Interest income                      | 8.7%   | 8.3%   | 6.5%   | 0.4%  | 16.3%           |
| Income before taxes                  | 64.9%  | 58.2%  | 63.1%  | 5.6%  | (15.6)%         |
| Income tax provision                 | 21.1%  | 18.4%  | 20.3%  | 9.3%  | (17.2)%         |
| Net income                           | 43.8%  | 39.8%  | 42.8%  | 3.9%  | (14.8)%         |

Total revenue for fiscal 2013 decreased 5% compared to fiscal 2012, and decreased 8% in fiscal 2012 compared to fiscal 2011. The decrease in fiscal 2013 was due to a 24% decrease in contract research and development revenue and a 3% decrease in product sales. The decrease in total revenue in fiscal 2012 was due to a 34% decrease in contract research and development revenue and a 3% decrease in product sales. The decreases in contract research and development revenue for fiscal 2013 compared to fiscal 2012 and for fiscal 2012 compared to fiscal 2011 were due to completion of certain contracts and contract activities and a challenging environment for government contract funding. Contract research and development activities can fluctuate for a number of reasons, some of which are beyond our control, and revenues may not continue at fiscal 2013 levels. The decreases in product sales for fiscal 2013 and fiscal 2012 was due to decreased purchase volume by existing customers.

Gross profit margin increased to 74% of revenue for fiscal 2013 from 67% for fiscal 2012 due to a more favorable revenue mix, a more favorable product sales mix, and more efficient product manufacturing. Gross profit margin decreased to 67% of revenue for fiscal 2012 from 69% for fiscal 2011 due to decreased revenue and increased labor cost.

Total expenses decreased 3% for fiscal 2013 compared to fiscal 2012 and increased 33% for fiscal 2012 compared to fiscal 2011. The decrease in total expenses in fiscal 2013 compared to fiscal 2012 was due to a 1% decrease in research and development expense and a 6% decrease in selling, general, and administrative expense. The decrease in selling, general, and administrative expense was primarily due to a reduction in staffing. The expense decreases in fiscal 2013 may not be representative of future periods. Research and development expense increased 105% for fiscal 2012 compared to fiscal 2011 due to increased product development activities and decreases in contract research and development activities, which caused resources to be reallocated to expensed research and development activities. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Interest income was approximately the same for fiscal 2013 as fiscal 2012, and increased 16% in fiscal 2012 compared to fiscal 2011. For fiscal 2013, an increase in interest-bearing marketable securities was offset by a decrease in interest rates earned on reinvested funds. For fiscal 2012, the increase in interest-bearing marketable securities was partially offset by a decrease in interest rates earned on reinvested funds.

The effective income tax rate in fiscal 2013 was 33% of income before taxes, compared to 32% for fiscal 2012 and fiscal 2011. Our effective tax rates can fluctuate 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 4% in fiscal 2013 compared to fiscal 2012 primarily due to increased gross profit margin and decreased expenses, partially offset by decreased revenue and increased taxes. Net income decreased 15% in fiscal 2012 compared to fiscal 2011 primarily due to decreased contract research and development revenue and increased research and development expense.

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Comprehensive income increased 8% to \$12.3 million in fiscal 2013 compared to fiscal 2012 due to an increase in net income and a net unrealized gain from marketable securities. Comprehensive income decreased 14% in fiscal 2012 compared to fiscal 2011 due primarily to a decrease in net income.

### **Liquidity and Capital Resources**

Our primary source of working capital for fiscal years 2011 through 2013 was cash provided by operating activities related to product sales and research and development contract revenue. At March 31, 2013 we had \$85,260,969 in cash plus short-term and long-term marketable securities compared to \$73,541,463 at March 31, 2012. All of our marketable securities were classified as available for sale. The \$11,719,506 increase in cash plus marketable securities was primarily due to \$12,645,302 in net cash provided by operating activities.

The \$18,594,959 increase in long-term marketable securities in fiscal 2013 was due to investment of cash flow from operations and proceeds from the maturation of short-term marketable securities in long-term securities. The \$7,840,600 decrease in short-term marketable securities was due to proceeds from the maturation of short-term marketable securities being reinvested in long-term securities.

Purchases of fixed assets were \$1,824,324 in fiscal 2013 compared to \$1,480,237 in fiscal 2012 and \$732,800 in fiscal 2011. Purchases were primarily for capital equipment and leasehold improvements 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, 2013 our marketable securities had remaining maturities between one day and 248 weeks (see Note 4 Marketable Securities to the Financial Statements, included elsewhere in this Report 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:

| <b>Contractual obligations</b> | <b>Payments Due by Period</b> |                   |                   |                   |                    |
|--------------------------------|-------------------------------|-------------------|-------------------|-------------------|--------------------|
|                                | <b>Total</b>                  | <b>&lt;1 Year</b> | <b>1 3 Years</b>  | <b>3 5 Years</b>  | <b>&gt;5 Years</b> |
| Operating lease obligations    | \$ 2,140,639                  | \$ 266,496        | \$ 541,208        | \$ 549,965        | \$ 782,970         |
| Purchase obligations           | 145,698                       | 145,698           | -                 | -                 | -                  |
| <b>Total</b>                   | <b>\$ 2,286,337</b>           | <b>\$ 412,194</b> | <b>\$ 541,208</b> | <b>\$ 549,965</b> | <b>\$ 782,970</b>  |

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, 2013 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 \$108,096 of fixed asset purchase obligations as of March 31, 2013 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 2014.

**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.



**Table of Contents****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 securities including 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, 2013 had remaining maturities between one day and 248 weeks. Marketable securities had a market value of \$82,751,286 at March 31, 2013, representing approximately 86% 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.

**Quarterly Summary Information**

Selected unaudited quarterly financial data for fiscal 2013 and 2012, presented as supplementary financial information, are as follows:

|                                      | <b>Unaudited; Quarter Ended</b> |                      |                       |                      |
|--------------------------------------|---------------------------------|----------------------|-----------------------|----------------------|
|                                      | <b>March 31, 2013</b>           | <b>Dec. 31, 2012</b> | <b>Sept. 30, 2012</b> | <b>June 30, 2012</b> |
| <b>Revenue</b>                       |                                 |                      |                       |                      |
| Product sales                        | \$ 6,409,821                    | \$ 5,762,925         | \$ 5,231,332          | \$ 7,030,745         |
| Contract research and development    | 812,676                         | 762,296              | 591,464               | 432,160              |
| Total revenue                        | 7,222,497                       | 6,525,221            | 5,822,796             | 7,462,905            |
| Cost of sales                        | 1,877,297                       | 1,738,618            | 1,606,913             | 1,802,353            |
| Gross profit                         | 5,345,200                       | 4,786,603            | 4,215,883             | 5,660,552            |
| <b>Expenses</b>                      |                                 |                      |                       |                      |
| Selling, general, and administrative | 526,018                         | 570,741              | 607,694               | 536,110              |
| Research and development             | 769,212                         | 501,325              | 612,258               | 688,026              |
| Total expenses                       | 1,295,230                       | 1,072,066            | 1,219,952             | 1,224,136            |
| Income from operations               | 4,049,970                       | 3,714,537            | 2,995,931             | 4,436,416            |
| Income before taxes                  | 4,624,610                       | 4,314,932            | 3,617,881             | 4,999,034            |
| Net income                           | \$ 3,108,955                    | \$ 2,899,342         | \$ 2,442,883          | \$ 3,377,658         |
| Net income per share diluted         | \$ 0.64                         | \$ 0.60              | \$ 0.50               | \$ 0.69              |

|                                   | <b>Unaudited; Quarter Ended</b> |                      |                       |                      |
|-----------------------------------|---------------------------------|----------------------|-----------------------|----------------------|
|                                   | <b>March 31, 2012</b>           | <b>Dec. 31, 2011</b> | <b>Sept. 30, 2011</b> | <b>June 30, 2011</b> |
| <b>Revenue</b>                    |                                 |                      |                       |                      |
| Product sales                     | \$ 7,176,491                    | \$ 5,394,758         | \$ 5,557,299          | \$ 7,023,274         |
| Contract research and development | 431,808                         | 763,768              | 1,041,334             | 1,190,488            |

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|                                      |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Total revenue                        | 7,608,299    | 6,158,526    | 6,598,633    | 8,213,762    |
| Cost of sales                        | 2,277,115    | 2,174,878    | 2,277,926    | 2,595,592    |
| Gross profit                         | 5,331,184    | 3,983,648    | 4,320,707    | 5,618,170    |
| Expenses                             |              |              |              |              |
| Selling, general, and administrative | 637,882      | 520,044      | 606,847      | 615,830      |
| Research and development             | 774,899      | 718,688      | 611,595      | 494,876      |
| Total expenses                       | 1,412,781    | 1,238,732    | 1,218,442    | 1,110,706    |
| Income from operations               | 3,918,403    | 2,744,916    | 3,102,265    | 4,507,464    |
| Income before taxes                  | 4,514,008    | 3,336,610    | 3,699,628    | 5,072,993    |
| Net income                           | \$ 3,097,683 | \$ 2,289,091 | \$ 2,555,093 | \$ 3,439,228 |
| Net income per share diluted         | \$ 0.63      | \$ 0.47      | \$ 0.52      | \$ 0.70      |

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### **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, 2013, 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, 2013. 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, 2013. Our internal control over financial reporting as of March 31, 2013 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, 2013, 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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**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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 and 2012 and Audit Committee Disclosure Audit Committee Pre-Approval Policy to be included in our Proxy Statement for our 2013 Annual Meeting of Shareholders is incorporated by reference into this section.

**PART IV**

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

**(a) Financial Statements and Schedules**

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

**(b) Exhibits**

A list of exhibits is on the following page.



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| <b>Exhibit #</b> | <b>Description</b>   |
|------------------|--|
| 3.1              | Amended and Restated Articles of Incorporation of the company as amended by the Board of Directors effective November 21, 2002 (incorporated by reference to the Form 10-QSB for the period ended December 31, 2002).                    |
| 3.2              | Bylaws of the company as amended by the Board of Directors effective December 18, 2007 (incorporated by reference to the Form 8-K filed December 19, 2007).  |
| 10.1             | Lease dated October 1, 1998 between the company and Glenborough Properties, LP (incorporated by reference to the Form 10-QSB for the period ended September 30, 2002).   |
| 10.2             | First amendment to lease between the company and Glenborough dated September 18, 2002 (incorporated by reference to the Form 10-QSB for the period ended September 30, 2002).  |
| 10.3             | Second amendment to lease between the company and Glenborough dated December 1, 2003 (incorporated by reference to the Form 10-QSB for the period ended December 31, 2003).  |
| 10.4             | Notification from Carlson Real Estate Company, Inc. relating to change in building ownership (incorporated by reference to the Form 8-K filed October 11, 2005).   |
| 10.5             | Third amendment to lease between the company and Carlson Real Estate (incorporated by reference to the Form 8-K/A filed December 20, 2007).  |
| 10.6             | Letter from Carlson Real Estate relating to transfer of building title (incorporated by reference to the Form 8-K/A filed April 15, 2011).   |
| 10.7             | Fourth amendment to lease between the company and the Barbara C. Gage Revocable Trust (incorporated by reference to our Current Report on Form 8-K/A filed August 3, 2011).  |
| 10.8*            | Employment Agreement between the company and Daniel A. Baker dated January 29, 2001 (incorporated by reference to the Form 10-KSB for the year ended March 31, 2001).  |
| 10.9*            | NVE Corporation 2000 Stock Option Plan as Amended July 19, 2001 by the shareholders (incorporated by reference to our Registration Statement on Form S-8 filed July 20, 2001).   |
| 10.10+           | Agreement between the company and Agilent Technologies, Inc. dated September 27, 2001 (incorporated by reference to the Form 10-QSB for the period ended September 30, 2001).  |
| 10.11            | Amendment dated October 18, 2002 to Agreement between the company and Agilent (incorporated by reference to the Form 10-QSB for the period ended December 31, 2002).   |
| 10.12            | Report of completion of the divestiture of Agilent's Semiconductor Products business (incorporated by reference to the Form 8-K/A filed December 6, 2005).   |
| 10.13            | Amendment No. 2 to OEM Purchase Agreement between Agilent and the company (incorporated by reference to the Form 8-K/A filed September 11, 2007).  |
| 10.14            | Amendment No. 3 to Agreement between the company and Agilent (incorporated by reference to the Form 8-K/A filed June 28, 2010).  |
| 10.15            | Indemnification Agreement by and between Pacesetter, Inc., a St. Jude Medical Company, d.b.a. St. Jude Medical Cardiac Rhythm Management Division, and the company (incorporated by reference to the Form 8-K filed September 27, 2005). |
| 10.16+           | Supplier Partnering Agreement by and between St. Jude and the company (incorporated by reference to the Form 8-K filed January 4, 2006).   |
| 10.17+           | Amendment No. 1 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed September 10, 2007).  |
| 10.18+           | Amendment No. 2 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed December 18, 2009).   |
| 10.19+           | Amendment No. 3 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed September 16, 2010).  |
| 10.20            | Amendment No. 4 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed February 7, 2011).  |
| 10.21            | Supply Agreement by and between the company and Phonak AG (incorporated by reference to the Form 8-K filed May 6, 2009).   |

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- 10.22+ Amendment to Supply Agreement by and between the company and Phonak (incorporated by reference to the Form 8-K/A filed January 12, 2011).
- 23 Consent of Ernst & Young LLP.
- 31.1 Certification by Daniel A. Baker pursuant to Rule 13a-14(a)/15d-14(a).
- 31.2 Certification by Curt A. Reynders pursuant to Rule 13a-14(a)/15d-14(a).
- 32 Certification by Daniel A. Baker and Curt A. Reynders pursuant to 18 U.S.C. Section 1350.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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

+Confidential portions deleted and filed separately with the SEC.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NVE CORPORATION**

(Registrant)

/s/Daniel A. Baker

by Daniel A. Baker

President and Chief Executive Officer

Date May 1, 2013

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

| <b><u>Name</u></b>                                       | <b><u>Title</u></b>   | <b><u>Date</u></b> |
|--|---|--------------------|
| <u>/s/Terrence W. Glarner</u><br>Terrence W. Glarner     | Director and<br>Chairman of the Board   | <u>May 1, 2013</u> |
| <u>/s/Daniel A. Baker</u><br>Daniel A. Baker             | Director,<br>President & Chief Executive Officer<br>(Principal Executive Officer)           | <u>May 1, 2013</u> |
| <u>/s/Curt A. Reynders</u><br>Curt A. Reynders           | Treasurer and<br>Chief Financial Officer<br>(Principal Financial and<br>Accounting Officer) | <u>May 1, 2013</u> |
| <u>/s/James D. Hartman</u><br>James D. Hartman           | Director  | <u>May 1, 2013</u> |
| <u>/s/Patricia M. Hollister</u><br>Patricia M. Hollister | Director  | <u>May 1, 2013</u> |
| <u>/s/Robert H. Irish</u><br>Robert H. Irish             | Director  | <u>May 1, 2013</u> |





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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
NVE Corporation

We have audited NVE Corporation's internal control over financial reporting as of March 31, 2013, 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 Management's Annual 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, 2013, 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, 2013 and 2012, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the periods ended March 31, 2013, of NVE Corporation and our report dated May 1, 2013, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota  
May 1, 2013

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
NVE Corporation

We have audited the accompanying balance sheets of NVE Corporation as of March 31, 2013 and 2012, and the related statement of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2013. 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, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2013, 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, 2013, 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 1, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota  
May 1, 2013

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

|  | <b>March 31</b> |               |
|--|-----------------|---------------|
|  | <b>2013</b>     | <b>2012</b>   |
| <b>ASSETS</b>  |                 |               |
| Current assets   |                 |               |
| Cash and cash equivalents  | \$ 2,509,683    | \$ 1,544,536  |
| Marketable securities, short term  | 9,711,029       | 17,551,629    |
| Accounts receivable, net of allowance for uncollectible accounts of \$15,000   | 2,521,395       | 2,684,840     |
| Inventories  | 3,336,592       | 3,229,376     |
| Prepaid expenses and other assets  | 958,147         | 1,159,852     |
| Total current assets   | 19,036,846      | 26,170,233    |
| Fixed assets   |                 |               |
| Machinery and equipment  | 8,417,061       | 7,488,211     |
| Leasehold improvements   | 1,499,454       | 720,882       |
|  | 9,916,515       | 8,209,093     |
| Less accumulated depreciation  | 6,228,122       | 5,697,861     |
| Net fixed assets   | 3,688,393       | 2,511,232     |
| Marketable securities, long term   | 73,040,257      | 54,445,298    |
| Total assets   | \$ 95,765,496   | \$ 83,126,763 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                 |               |
| Current liabilities  |                 |               |
| Accounts payable   | \$ 422,092      | \$ 663,702    |
| Accrued payroll and other  | 918,060         | 867,331       |
| Deferred taxes   | 440,736         | 136,872       |
| Total current liabilities  | 1,780,888       | 1,667,905     |
| Shareholders equity  |                 |               |
| Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,862,436 issued and outstanding as of March 31, 2013 and 4,824,745 and issued and outstanding as of March 31, 2012 | 48,624          | 48,247        |
| Additional paid-in capital   | 21,200,742      | 20,974,477    |
| Accumulated other comprehensive income   | 1,557,726       | 1,087,456     |
| Retained earnings  | 71,177,516      | 59,348,678    |
| Total shareholders equity  | 93,984,608      | 81,458,858    |
| Total liabilities and shareholders equity  | \$ 95,765,496   | \$ 83,126,763 |

See accompanying notes.

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

|  | <b>Year Ended March 31</b> |               |               |
|--|----------------------------|---------------|---------------|
|  | <b>2013</b>                | <b>2012</b>   | <b>2011</b>   |
| <b>Revenue</b>                             |                            |               |               |
| Product sales                              | \$ 24,434,823              | \$ 25,151,822 | \$ 26,024,823 |
| Contract research and development          | 2,598,596                  | 3,427,398     | 5,172,240     |
| Total revenue                              | 27,033,419                 | 28,579,220    | 31,197,063    |
| Cost of sales                              | 7,025,181                  | 9,325,511     | 9,783,698     |
| Gross profit                               | 20,008,238                 | 19,253,709    | 21,413,365    |
| <b>Expenses</b>                            |                            |               |               |
| Selling, general, and administrative       | 2,240,563                  | 2,380,603     | 2,474,468     |
| Research and development                   | 2,570,821                  | 2,600,058     | 1,269,127     |
| Total expenses                             | 4,811,384                  | 4,980,661     | 3,743,595     |
| Income from operations                     | 15,196,854                 | 14,273,048    | 17,669,770    |
| Interest income                            | 2,359,603                  | 2,350,191     | 2,021,426     |
| Income before taxes                        | 17,556,457                 | 16,623,239    | 19,691,196    |
| Provision for income taxes                 | 5,727,619                  | 5,242,144     | 6,330,251     |
| Net income                                 | \$ 11,828,838              | \$ 11,381,095 | \$ 13,360,945 |
| Net income per share basic                 | \$ 2.44                    | \$ 2.37       | \$ 2.83       |
| Net income per share diluted               | \$ 2.43                    | \$ 2.34       | \$ 2.76       |
| <b>Weighted average shares outstanding</b> |                            |               |               |
| Basic                                      | 4,839,810                  | 4,796,227     | 4,729,035     |
| Diluted                                    | 4,863,546                  | 4,863,471     | 4,844,266     |

**STATEMENTS OF COMPREHENSIVE INCOME**

|   | <b>Year Ended March 31</b> |               |               |
|---|----------------------------|---------------|---------------|
|   | <b>2013</b>                | <b>2012</b>   | <b>2011</b>   |
| Net income  | \$ 11,828,838              | \$ 11,381,095 | \$ 13,360,945 |
| Unrealized gain (loss) from marketable securities, net of tax | 470,270                    | 27,018        | (69,288)      |
| Comprehensive income  | \$ 12,299,108              | \$ 11,408,113 | \$ 13,291,657 |

See accompanying notes.

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

|  | Common Stock |           | Additional    | Accumulated  | Retained      | Total         |
|--|--------------|-----------|---------------|--------------|---------------|---------------|
|  | Shares       | Amount    | Paid-In       | Other        | Earnings      |               |
|  |              |           | Capital       | Comprehen-   |               |               |
|  |              |           |               | sive Income  |               |               |
|  |              |           |               | (Loss)       |               |               |
| Balance at March 31, 2010                              | 4,700,583    | \$ 47,006 | \$ 20,169,924 | \$ 1,129,726 | \$ 34,606,638 | \$ 55,953,294 |
| Exercise of stock options and warrants                 | 75,615       | 756       | 417,949       | -            | -             | 418,705       |
| <b>Comprehensive income:</b>                           |              |           |               |              |               |               |
| Unrealized (loss) on marketable securities, net of tax | -            | -         | -             | (69,288)     |               | (69,288)      |
| Net income   | -            | -         | -             | -            | 13,360,945    | 13,360,945    |
| Total comprehensive income                             |              |           |               |              |               | 13,291,657    |
| Stock-based compensation                               |              |           | 76,720        |              |               | 76,720        |
| Tax benefit of stock-based compensation                |              |           | 230,173       |              |               | 230,173       |
| Balance at March 31, 2011                              | 4,776,198    | 47,762    | 20,894,766    | 1,060,438    | 47,967,583    | 69,970,549    |
| Exercise of stock options and warrants                 | 48,547       | 485       | (449)         | -            | -             | 36            |
| <b>Comprehensive income:</b>                           |              |           |               |              |               |               |
| Unrealized gain on marketable securities, net of tax   | -            | -         | -             | 27,018       |               | 27,018        |
| Net income   | -            | -         | -             | -            | 11,381,095    | 11,381,095    |
| Total comprehensive income                             |              |           |               |              |               | 11,408,113    |
| Stock-based compensation                               |              |           | 80,160        |              |               | 80,160        |
| Balance at March 31, 2012                              | 4,824,745    | 48,247    | 20,974,477    | 1,087,456    | 59,348,678    | 81,458,858    |
| Exercise of stock options and warrants                 | 37,691       | 377       | 143,811       | -            | -             | 144,188       |
| <b>Comprehensive income:</b>                           |              |           |               |              |               |               |
| Unrealized gain on marketable securities, net of tax   | -            | -         | -             | 470,270      |               | 470,270       |
| Net income   | -            | -         | -             | -            | 11,828,838    | 11,828,838    |
| Total comprehensive income                             |              |           |               |              |               | 12,299,108    |
| Stock-based compensation                               |              |           | 66,720        |              |               | 66,720        |
| Tax benefit of stock-based compensation                |              |           | 15,734        |              |               | 15,734        |
| Balance at March 31, 2013                              | 4,862,436    | \$ 48,624 | \$ 21,200,742 | \$ 1,557,726 | \$ 71,177,516 | \$ 93,984,608 |

See accompanying notes.





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

|   | Year Ended March 31 |               |               |
|---|---------------------|---------------|---------------|
|   | 2013                | 2012          | 2011          |
| <b>OPERATING ACTIVITIES</b>   |                     |               |               |
| Net income  | \$ 11,828,838       | \$ 11,381,095 | \$ 13,360,945 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |               |               |
| Depreciation  | 647,163             | 500,121       | 411,547       |
| Stock-based compensation  | 66,720              | 80,160        | 76,720        |
| Excess tax benefits   | (15,734)            | -             | (230,173)     |
| Deferred income taxes   | 51,262              | (12,850)      | 294,384       |
| Changes in operating assets and liabilities                                       |                     |               |               |
| Accounts receivable   | 163,445             | 911,399       | 625,325       |
| Inventories   | (107,216)           | 114,481       | (1,637,430)   |
| Prepaid expenses and other assets   | 201,705             | 25,454        | (404,012)     |
| Accounts payable and accrued expenses   | (190,881)           | (187,950)     | 332,334       |
| Deferred revenue  | -                   | -             | (20,833)      |
| Net cash provided by operating activities   | 12,645,302          | 12,811,910    | 12,808,807    |
| <b>INVESTING ACTIVITIES</b>   |                     |               |               |
| Purchases of fixed assets   | (1,824,324)         | (1,480,237)   | (732,800)     |
| Purchases of marketable securities  | (27,209,753)        | (18,501,362)  | (14,742,032)  |
| Proceeds from maturities and sales of marketable securities                       | 17,194,000          | 7,761,980     | 1,580,068     |
| Net cash used in investing activities   | (11,840,077)        | (12,219,619)  | (13,894,764)  |
| <b>FINANCING ACTIVITIES</b>   |                     |               |               |
| Net proceeds from sale of common stock  | 144,188             | 36            | 418,705       |
| Excess tax benefits   | 15,734              | -             | 230,173       |
| Net cash provided by financing activities   | 159,922             | 36            | 648,878       |
| Increase (decrease) in cash and cash equivalents                                  | 965,147             | 592,327       | (437,079)     |
| Cash and cash equivalents at beginning of year                                    | 1,544,536           | 952,209       | 1,389,288     |
| Cash and cash equivalents at end of year  | \$ 2,509,683        | \$ 1,544,536  | \$ 952,209    |
| <b>Supplemental disclosures of cash flow information:</b>                         |                     |               |               |
| Cash paid during the year for income taxes  | \$ 5,202,616        | \$ 5,207,565  | \$ 6,303,598  |

See accompanying notes.

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**NVE CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF BUSINESS**

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

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

**Cash and Cash Equivalents**

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

**Fair Value of Financial Instruments**

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

**Marketable Securities**

We classify securities with original maturities greater than three months and remaining maturities one year or less as short-term marketable securities and securities with remaining maturities greater than one year as long-term marketable securities. Securities not due at a single maturity date are classified by their average life. We classify all of our marketable securities as available-for-sale, thus securities are recorded at fair value and any associated unrealized gain or loss, net of tax, is included as a separate component of shareholders' equity. Accumulated other comprehensive income (loss). We use a specific-identification cost basis to determine gains and losses. The amortized cost of marketable securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest income.

We consider an other-than-temporary impairment of our marketable securities to exist if we determine it is probable that we will be unable to collect all amounts due according to the contractual terms of a debt security. If we judged a decline in fair value for any security to be other than temporary, the cost basis of the individual security would be written down and a charge recognized in net income. We consider a number of factors in determining whether other-than-temporary impairment exists, including: credit market conditions; the credit ratings of the securities; historical default rates for securities of comparable credit rating; the presence of insurance of the securities and, if insured, the credit rating and financial condition of the insurer; the effect of market interest rates on the value of the securities; and the duration and extent of any unrealized losses. We also consider the likelihood that we will be required to sell the securities prior to maturity based on our financial condition and anticipated cash flows. We determined that no write-downs for other-than-temporary impairment were required on available-for-sale securities during fiscal 2013, 2012, or 2011.

**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 have invested our excess cash in corporate-backed and municipal-backed bonds and other money market instruments. Our investment policy prescribes purchases of only high-grade securities, and limits the amount of credit exposure to any one issuer.

Our customers are throughout the world. We generally do not require collateral from our customers, but we perform ongoing credit evaluations of their financial condition. More information on accounts receivable is contained

in the paragraph titled *Accounts Receivable and Allowance for Doubtful Accounts* of this note.

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

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded net of an allowance for doubtful accounts. We make estimates of the uncollectibility of accounts receivable. We specifically analyze accounts receivable, historical bad debts, and customer creditworthiness when evaluating the adequacy of the allowance. We had no charges or provisions to our allowance for doubtful accounts in fiscal 2013, 2012, or 2011.

**Inventories**

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

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### **Product Warranty**

In general we warrant our products to be free from defects in material and workmanship for one year.

### **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. We have not identified any indicators of impairment during fiscal 2013, 2012, or 2011.

### **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 on shipment. Our customers may return defective products for refund or replacement under warranty, and have other very limited rights of return.

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 \$27,386 for fiscal 2013, \$40,185 for fiscal 2012, and \$39,427 for fiscal 2011.

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

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

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

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

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

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

Cost-plus-fixed-fee contracts are cost-reimbursement contracts that also provide for payment to us of a negotiated fee that is fixed at the inception of the contract. The costs for which we earn reimbursement are the actual costs incurred and are recorded in the period in which they are incurred. We recognize the contract fees pro-rata as work

progresses.

### **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 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.

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**Table of Contents****Net Income Per Share**

Net income per basic share is computed based on the weighted-average number of common shares issued and outstanding during each year. Net income per diluted share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options and warrants). Stock options and warrants totaling 5,000 for fiscal 2013; 5,000 for fiscal 2012; and 1,000 for fiscal 2011 were not included in the computation of diluted earnings per share because the exercise prices were greater than the market price of the common stock. The following table reflects the components of common shares outstanding:

|   |         | <b>Year Ended March 31</b> |             |             |
|---|---------|----------------------------|-------------|-------------|
|   |         | <b>2013</b>                | <b>2012</b> | <b>2011</b> |
| Weighted average common shares outstanding    | basic   | 4,839,810                  | 4,796,227   | 4,729,035   |
| Effect of dilutive securities:                |         |                            |             |             |
| Stock options                                 |         | 21,934                     | 60,075      | 108,121     |
| Warrants                                      |         | 1,802                      | 7,169       | 7,110       |
| Shares used in computing net income per share | diluted | 4,863,546                  | 4,863,471   | 4,844,266   |

**Use of Estimates**

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

**Recently Issued Accounting Standards**

We have adopted all applicable recently issued accounting pronouncements.

In January 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* (ASU No. 2013-02), which requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income. ASU No. 2013-02 is effective for reporting periods beginning after December 15, 2012, which will be our first quarter of fiscal 2014. The adoption of ASU No. 2013-02 will affect the presentation of comprehensive income but will not impact our financial condition or results of operations.

**NOTE 3. FAIR VALUE MEASUREMENTS**

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

**Level 1** Financial instruments with quoted prices in active markets for identical assets or liabilities. Our Level 1 financial instruments consist of publicly-traded marketable corporate debt securities, which are classified as available-for-sale. On the balance sheets, these securities are included in Marketable securities, short term and Marketable securities, long term. The fair value of our Level 1 marketable securities was \$75,298,160 at March 31, 2013 and \$51,918,559 at March 31, 2012.

**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. Our Level 2 financial instruments consist of municipal debt securities,

which are classified as available-for-sale. On the balance sheets, these securities are included in Marketable securities, short term and Marketable securities, long term. The fair value of our Level 2 marketable securities was \$7,453,126 at March 31, 2013 and \$20,078,368 at March 31, 2012. The classification of municipal debt securities as Level 2 at March 31, 2012 has been revised to conform with the current-year classification, consistent with the Level 2 measurement principles applied to securities in all periods presented.

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

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

Marketable securities with remaining maturities less than one year are classified as short-term, and those with remaining maturities greater than one year are classified as long-term. The fair value of our marketable securities as of March 31, 2013, by maturity, were as follows:

| Total         | <1 Year      | 1 3 Years     | 3 5 Years     |
|---------------|--------------|---------------|---------------|
| \$ 82,751,286 | \$ 9,711,029 | \$ 34,310,566 | \$ 38,729,691 |

As of March 31, 2013 and 2012 our marketable securities were as follows:

|                 | As of March 31, 2013 |                        |                         |                   | As of March 31, 2012 |                        |                         |                   |
|-----------------|----------------------|------------------------|-------------------------|-------------------|----------------------|------------------------|-------------------------|-------------------|
|                 | Adjusted Cost        | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value | Adjusted Cost        | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| Corporate bonds | \$ 72,923,502        | \$ 2,378,845           | \$ (4,187)              | \$ 75,298,160     | \$ 50,513,389        | \$ 1,481,604           | \$ (76,434)             | \$ 51,918,559     |
| Municipal bonds | 7,381,223            | 81,058                 | (9,155)                 | 7,453,126         | 19,775,582           | 334,793                | (32,007)                | 20,078,368        |
| Total           | \$ 80,304,725        | \$ 2,459,903           | \$ (13,342)             | \$ 82,751,286     | \$ 70,288,971        | \$ 1,816,397           | \$ (108,441)            | \$ 71,996,927     |

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, 2013 and 2012:

|                      | 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, 2013 |                     |                         |                      |                         |                   |                         |
| Corporate bonds      | \$ 1,171,976        | \$ (4,187)              | \$ -                 | \$ -                    | \$ 1,171,976      | \$ (4,187)              |
| Municipal bonds      | 508,607             | (9,155)                 | -                    | -                       | 508,607           | (9,155)                 |
| Total                | \$ 1,680,583        | \$ (13,342)             | \$ -                 | \$ -                    | \$ 1,680,583      | \$ (13,342)             |
| As of March 31, 2012 |                     |                         |                      |                         |                   |                         |
| Corporate bonds      | \$ 10,387,955       | \$ (76,434)             | -                    | -                       | \$ 10,387,955     | \$ (76,434)             |
| Municipal bonds      | -                   | -                       | 908,550              | (32,007)                | 908,550           | (32,007)                |
| Total                | \$ 10,387,955       | \$ (76,434)             | \$ 908,550           | \$ (32,007)             | \$ 11,296,505     | \$ (108,441)            |

Gross unrealized losses totaled \$13,342 as of March 31, 2013, and were attributed to one corporate bond and two municipal bonds out of a portfolio of 43 bonds. The gross unrealized losses were due to market-price decreases and rating downgrades after the bonds were purchased, and none had been in a continuous unrealized loss position for 12 months or greater. A substantial majority of the bonds we held were rated by Moody's or Standard and Poor's and had investment-grade credit ratings. For each bond with an unrealized loss, we expect to recover the entire cost basis of each security based on our consideration of factors including their credit ratings, the underlying ratings of insured bonds, and historical default rates for securities of comparable credit rating. Because we expect to recover the entire cost basis of the securities, and because we do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities before recovery of the cost basis, which may be maturity, we did not consider any of our marketable securities to be other-than-temporarily impaired at March 31, 2013.



**Table of Contents****NOTE 5. INVENTORIES**

Inventories consisted of the following:

|                        | <b>March 31</b> |              |
|------------------------|-----------------|--------------|
|                        | <b>2013</b>     | <b>2012</b>  |
| Raw materials          | \$ 1,312,011    | \$ 1,285,106 |
| Work in process        | 1,533,951       | 1,658,467    |
| Finished goods         | 775,630         | 585,803      |
|                        | 3,621,592       | 3,529,376    |
| Less inventory reserve | (285,000)       | (300,000)    |
| Total inventories      | \$ 3,336,592    | \$ 3,229,376 |

**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. Stock-based compensation expense was \$66,720 in fiscal 2013, \$80,160 in fiscal 2012, and \$76,720 in fiscal 2011.

**Valuation assumptions**

We use the Black-Scholes standard option-pricing model to determine the fair value of stock options. The following assumptions were used to estimate the fair value of options granted:

|                         | <b>Year Ended March 31</b> |             |             |
|-------------------------|----------------------------|-------------|-------------|
|                         | <b>2013</b>                | <b>2012</b> | <b>2011</b> |
| Risk-free interest rate | 0.7%                       | 1.0%        | 1.6%        |
| Expected volatility     | 38%                        | 42%         | 56%         |
| Expected life (years)   | 4.1                        | 4.1         | 4.2         |
| 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 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 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 option. We examined the historical pattern of option exercises to determine if there was a discernible pattern as to how different classes of optionees exercised their options. Our analysis showed that officers and directors held their stock options for a longer period of time before exercising compared to the rest of our employee population. Therefore we use different expected lives for officers and directors than we use for our general employee population for determining the fair value of options.

***Risk-free interest rate***

The risk-free rate is based on the yield of U.S. Treasury securities on the grant date for maturities similar to the expected lives of the options.

***Volatility***

We use historical volatility to estimate the expected volatility of our common stock.

***Dividend yield***

We assume a dividend yield of zero because we do not anticipate paying dividends in the foreseeable future.

**Tax effects of stock-based compensation**

Stock-based compensation increased deferred tax assets by \$24,239 for fiscal 2013 and \$29,122 for fiscal 2012.

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

We had no nonvested shares as of March 31, 2013 or 2012.

The following table summarizes information about options outstanding at March 31, 2013, all of which were exercisable:

| <b>Ranges of Exercise Prices</b> | <b>Number Outstanding</b> | <b>Weighted Average Exercise Price</b> | <b>Weighted Remaining Contractual Life (years)</b> |
|----------------------------------|---------------------------|--|--|
| \$ 15.08 - 16.33                 | 27,000                    | \$ 16.24                               | 2.8  |
| 31.27 - 42.45                    | 9,000                     | 37.00                                  | 6.0  |
| 51.04 - 58.27                    | 13,000                    | 54.76                                  | 7.5  |
|                                  | 49,000                    | \$ 30.27                               | 4.6  |

Our 2000 Stock Option Plan, as amended, provides for issuance to employees, directors, and certain service providers of incentive stock options and nonstatutory stock options. Generally, the options may be exercised at any time prior to expiration, subject to vesting based on terms of employment. The period ranges from immediate vesting to vesting over a five-year period. The options have exercisable lives ranging from one year to ten years from the date of grant. Exercise prices are not less than fair market value as determined by our Board at the date the options are granted.

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

|                   | <b>Option Shares Reserved</b> | <b>Options Outstanding</b> | <b>Weighted Average Option Exercise Price</b> | <b>Warrants Outstanding</b> | <b>Weighted Average Warrant Exercise Price</b> |
|-------------------|-------------------------------|----------------------------|---|-----------------------------|--|
| At March 31, 2010 | 170,230                       | 254,500                    | \$ 17.28                                      | 10,000                      | \$ 16.28                                       |
| Granted           | (4,000)                       | 4,000                      | \$ 42.45                                      | -                           | -  |
| Exercised         | -                             | (83,500)                   | \$ 9.56                                       | -                           | -  |
| At March 31, 2011 | 166,230                       | 175,000                    | \$ 21.54                                      | 10,000                      | \$ 16.28                                       |
| Granted           | (4,000)                       | 4,000                      | \$ 58.25                                      | -                           | -  |
| Exercised         | -                             | (70,000)                   | \$ 16.93                                      | -                           | -  |
| At March 31, 2012 | 162,230                       | 109,000                    | \$ 25.85                                      | 10,000                      | \$ 16.28                                       |
| Granted           | (4,000)                       | 4,000                      | \$ 54.11                                      | -                           | -  |
| Exercised         | -                             | (64,000)                   | \$ 24.23                                      | -                           | -  |
| Terminated        | -                             | -                          | \$ -  | (6,000)                     | 7.35   |
| At March 31, 2013 | 158,230                       | 49,000                     | \$ 30.27                                      | 4,000                       | \$ 29.69                                       |

The remaining weighted-average exercisable life was 4.6 years at March 31, 2013; 3.7 years at March 31, 2012; and 4.3 years at March 31, 2011. All outstanding options were exercisable as of March 31, 2013, 2012, and 2011. The total intrinsic value of options exercised during fiscal 2013 was \$1,881,138 based on the difference between the exercise price and stock price at the time of exercise for in-the-money options. The total intrinsic value of options outstanding March 31, 2013, based on our closing stock price for that day, was \$1,290,440 all of which were exercisable. The total fair value of option grants was \$66,720 in fiscal 2013. There was no unrecognized stock-based compensation at March 31, 2013.

No warrants were issued in the past three fiscal years. Remaining weighted-average exercisable warrant life was 0.9 years at March 31, 2013; 0.9 years at March 31, 2012; and 1.9 years at March 31, 2011.



**Table of Contents****NOTE 7. INCOME TAXES**

Income tax provisions for fiscal 2011 through 2013 consisted of the following:

|                      | <b>Year Ended March 31</b> |              |              |
|----------------------|----------------------------|--------------|--------------|
|                      | <b>2013</b>                | <b>2012</b>  | <b>2011</b>  |
| Current taxes        |                            |              |              |
| Federal              | \$ 5,314,876               | \$ 4,847,082 | \$ 5,761,632 |
| State                | 377,215                    | 407,913      | 504,408      |
| Deferred taxes       |                            |              |              |
| Federal              | 34,718                     | (17,233)     | 56,996       |
| State                | 810                        | 4,382        | 7,215        |
| Income tax provision | \$ 5,727,619               | \$ 5,242,144 | \$ 6,330,251 |

A reconciliation of income tax provisions at the U.S. statutory rate for fiscal 2011 through 2013 is as follows:

|  | <b>Year Ended March 31</b> |              |              |
|--|----------------------------|--------------|--------------|
|  | <b>2013</b>                | <b>2012</b>  | <b>2011</b>  |
| Tax expense at U.S. statutory rate         | \$ 6,046,264               | \$ 5,700,630 | \$ 6,809,003 |
| State income taxes, net of Federal benefit | 244,691                    | 252,881      | 345,213      |
| Domestic manufacturing deduction           | (460,723)                  | (467,053)    | (549,123)    |
| Municipal interest                         | (118,282)                  | (235,470)    | (239,636)    |
| Other                                      | 15,669                     | (8,844)      | (35,206)     |
| Income tax provision                       | \$ 5,727,619               | \$ 5,242,144 | \$ 6,330,251 |

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, 2013 and 2012 were as follows:

|  | <b>March 31</b> |              |
|--|-----------------|--------------|
|  | <b>2013</b>     | <b>2012</b>  |
| Vacation accrual                         | \$ 134,214      | \$ 126,453   |
| Inventory reserve                        | 103,540         | 108,990      |
| Depreciation                             | (4,756)         | 9,245        |
| Stock-based compensation deductions      | 145,592         | 145,418      |
| Unrealized gain on marketable securities | (888,836)       | (620,500)    |
| Other                                    | 69,510          | 93,522       |
| Net deferred tax liabilities             | \$ (440,736)    | \$ (136,872) |

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 \$15,734 in fiscal 2013 and \$230,173 in fiscal 2011 were attributed to stock-based compensation deductions. The Additional paid-in capital credits also included the tax benefit of stock-based compensation deductions in those years.

The amounts credited to Additional paid-in capital were the tax benefits of the deductions to the extent they exceeded the corresponding compensation expense recognized for financial reporting purposes. Tax benefit of stock-based compensation represented the tax benefits of deductions for stock-based compensation to the extent they exceeded the corresponding compensation expense recognized for financial reporting purposes. Cash we received from the exercise of stock options related to excess tax benefits is included in Net proceeds from sale of common stock in the statement of cash flows for the year in which the option was exercised and cash received.

We had \$95,184 of Federal net operating losses and \$142,775 of state net operating losses at March 31, 2013, compared to \$149,284 of Federal net operating losses and \$155,681 of state net operating losses at March 31, 2012. These net operating losses expire in fiscal 2020 and are subject to limitation including limitation under the Internal Revenue Code.

We had no unrecognized tax benefits as of March 31, 2013, and we do not expect any significant unrecognized tax benefits within 12 months of the reporting date. We recognize interest and penalties related to income tax matters in income tax expense. As of March 31, 2013 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2012 remain open to examination by the major taxing jurisdictions to which we are subject.

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**Table of Contents****NOTE 8. SEGMENT INFORMATION**

We operate in one reportable segment. We manufacture and sell spintronic products, and conduct contract research and development activities.

The following table summarizes customers comprising 10% or more of revenue for fiscal 2013, 2012, and 2011:

|            | <b>% of Revenue for Year<br/>Ended March 31</b> |             |             |
|------------|---|-------------|-------------|
|            | <b>2013</b>                                     | <b>2012</b> | <b>2011</b> |
| Customer A | 16%   | 16%         | 14%         |
| Customer B | 15%   | 14%         | 11%         |
| Customer C | 14%   | *           | 11%         |

\*Less than 10%

Revenue by geographic region was as follows:

|                      | <b>Year Ended March 31</b> |                      |                      |
|----------------------|----------------------------|----------------------|----------------------|
|                      | <b>2013</b>                | <b>2012</b>          | <b>2011</b>          |
| United States        | \$ 12,006,493              | \$ 13,334,563        | \$ 14,169,952        |
| Europe               | 10,666,338                 | 10,798,146           | 12,009,294           |
| Asia                 | 3,979,862                  | 4,130,930            | 4,576,270            |
| Other                | 380,726                    | 315,581              | 441,547              |
| <b>Total Revenue</b> | <b>\$ 27,033,419</b>       | <b>\$ 28,579,220</b> | <b>\$ 31,197,063</b> |

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

Lease payments were \$259,823 for fiscal 2013, \$253,740 for fiscal 2012, and \$245,220 for fiscal 2011. The operating lease for our facility expires December 31, 2020. 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:

|  | <b>Year Ending March 31</b> |             |             |             |             |             |             |             |              |
|--|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
|  | <b>2014</b>                 | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>Total</b> |
|  | \$ 266,496                  | \$ 269,269  | \$ 271,938  | \$ 272,953  | \$ 277,012  | 281,124     | \$ 285,396  | \$ 216,451  | \$ 2,140,639 |

On February 24, 2012, Everspin filed a patent infringement lawsuit against us in the U.S. District Court for the Minnesota District alleging certain NVE products infringe on two patents purported to be owned by Everspin. The lawsuit seeks an injunction and compensation. While the ultimate results of this matter cannot be predicted with certainty, we do not expect it to have a material adverse effect on our financial statements.

**NOTE 10. STOCK REPURCHASE PLAN**

Our authorized stock is stated as six million shares of common stock, \$0.01 par value, and ten million shares of all types. Our Board may designate any series and fix any relative rights and preferences to authorized but undesignated stock. We have an outstanding authorization from our Board to purchase up to \$2,500,000 of our common stock, all of which remained available as of March 31, 2013.

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

All of our employees are eligible to participate in our 401(k) savings plan the first quarter after reaching age 21. Employees may contribute up to the Internal Revenue Code maximum. We make matching contributions of 100% of the first 3% of participants' salary deferral contributions. Our matching contributions were \$105,370 for fiscal 2013, \$109,126 for fiscal 2012, and \$110,268 for fiscal 2011.

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**EXHIBIT INDEX**

| <b>Exhibit #</b> | <b>Description</b>  |
|------------------|---|
| 23               | Consent of Ernst & Young LLP.   |
| 31.1             | Certification by Daniel A. Baker pursuant to Rule 13a-14(a)/15d-14(a).                    |
| 31.2             | Certification by Curt A. Reynders pursuant to Rule 13a-14(a)/15d-14(a).                   |
| 32               | Certification by Daniel A. Baker and Curt A. Reynders pursuant to 18 U.S.C. Section 1350. |
| 101.INS          | XBRL Instance Document  |
| 101.SCH          | XBRL Taxonomy Extension Schema Document   |
| 101.CAL          | XBRL Taxonomy Extension Calculation Linkbase Document                                     |
| 101.DEF          | XBRL Taxonomy Extension Definition Linkbase Document                                      |
| 101.LAB          | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE          | XBRL Taxonomy Extension Presentation Linkbase Document                                    |

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