

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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended **March 31, 2021**
- 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**



(Exact name of registrant as specified in its charter)

**Minnesota**

State or other jurisdiction of incorporation or organization

**41-1424202**

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

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

(Address of principal executive offices)

**55344**

(Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on September 30, 2020, the last business day of the Registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Stock Market, was approximately \$147 million.

The number of shares of the registrant's Common Stock (par value \$0.01) outstanding as of April 30, 2021 was 4,833,232.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our Proxy Statement for our 2021 Annual Meeting of Shareholders are incorporated by reference into Items 10, 11, 12, 13, and 14 of Part III hereof.

**NVE CORPORATION  
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## **PART I**

### **FORWARD-LOOKING STATEMENTS**

Some of the statements made in this Report or in the documents incorporated by reference in this Report and in other materials filed or to be filed by us with the Securities and Exchange Commission (“SEC”) as well as information included in verbal or written statements made by us constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to the safe harbor provisions of the reform act. Forward-looking statements may be identified by the use of the terminology such as may, will, expect, anticipate, intend, believe, estimate, should, or continue, or the negatives of these terms or other variations of these words or comparable terminology. To the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of NVE, you should be aware that our actual financial condition, operating results and business performance may differ materially from that projected or estimated by us in the forward-looking statements. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from their current expectations. These differences may be caused by a variety of factors, including but not limited to risks related to our reliance on several large customers for a significant percentage of revenue, uncertainties related to the economic environments in the industries we serve, uncertainties related to future sales and revenues, risks related to the COVID-19 pandemic, risks and uncertainties related to future stock repurchases and dividend payments, 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.

#### **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. These contracts have helped us develop products and build our intellectual property portfolio. We have adopted a March 31 fiscal year, so 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 high-speed data between robots and central controllers. 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 antitamper 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.

The second type of spintronic structure we use is based on tunneling magnetoresistance (TMR). Such devices are known as Spin-Dependent Tunnel (SDT) junctions or Magnetic Tunnel Junctions (MTJs). 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 encapsulated (“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. Our spintronic technology provides eyes, nerves, and brains for electronic systems, breathing life and intelligence into inanimate objects. Our unique products support global trends of smart, low-power end nodes for the “Internet of Things.” We plan to monetize our technology 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 automotive electronics.

## **Our Products and Markets**

### ***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, more reliable, and lower power than competing devices. Our major market for standard sensors is the Industrial Internet of Things (IIoT) for 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 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. Our major coupler market is currently the Industrial Internet of Things (IIoT) for factory automation. We are targeting the automotive market longer term.

### ***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 memory manufacturing capabilities.

## **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 America II Electronics, Inc., Angst+Pfister Sensors and Power, Avnet companies, and Digi-Key Corporation. Our distributor agreements generally renew annually. In addition, we distribute versions of some of our products under private-brand partnerships with large integrated device manufacturers. These private-brand partnerships broaden our distribution and enhance our sales support, technical support, and brand awareness.

### **New Product Status**

In the past year we began marketing a number of new and improved products, including:

- new smart sensors for the Internet of Things;
- new TMR magnetic sensors and magnetic switches;
- data couplers with isolated power convertors; and
- couplers with improved Common-Mode Transient Immunity for more efficient power control.

Long-term product development programs in fiscal 2021 included:

- new TMR sensors;
- custom integrated circuits for smart sensors; and
- power conversion integrated circuits.

### **Our Competition**

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

Several other companies either make or may have the capability to make GMR or 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 or power-efficient 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. 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. Prominent optical coupler suppliers include Broadcom Limited, 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.

#### ***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 chalcogenide, 3D XPoint, or Ovonic memory), resistive RAM (ReRAM or RRAM), conductive bridge RAM (CBRAM), 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, 2021 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.

We 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. Although it is not critical to our current business, we have identified U.S. patent 6,744,086 titled “Current switched magnetoresistive memory cell” as particularly important for successful high-density, high-performance MRAMs. The patent has been reissued as RE 44,878 and expires May 15, 2022.

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.

### ***Trademarks***

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

## **Dependence on Major Customers**

We rely on several large customers for a significant percentage of our revenue, including Abbott Laboratories, Sonova AG, 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.

## **Government Regulations**

We are subject to government regulations including, but not limited to, regulations related to environment, tax matters, securities, conflict minerals, ethics and foreign corrupt practices, import and export controls, product safety and liability, workplace health and safety, labor and employment, and data privacy. We incur and expect to continue to incur costs and expenses to comply with these regulations and may incur penalties for any failure to do so.

Additionally, certain contracts required us maintain facilities and personnel security clearances to protect classified information. Such clearances are subject Government audits and investigations, and any deficiencies or illegal activities identified during the audits or investigations could result in the forfeiture or suspension of payments and civil or criminal penalties.

## **Environmental Matters**

We are subject to environmental laws and regulations particularly state and local laws and regulations relating 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.

## **Human Capital Resources**

We had 44 employees as of March 31, 2021, all of whom were full-time.

We have policies to prevent discrimination based on gender, race, disability, ethnicity, nationality, religion, sexual orientation, gender identity, or gender expression. We take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. We also take affirmative action to employ and advance veterans in employment.

We offer employees free health risk assessments, wellness programs, and financial incentives for healthy biometrics.

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.

## **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)). These filings are also accessible through the SEC’s Website ([www.sec.gov](http://www.sec.gov)).

## **ITEM 1A. RISK FACTORS.**

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

### **Risks Related to our Business**

#### ***We may lose revenue if any of our large customers cancel, postpone, or reduce their purchases.***

We rely on several large customers for a significant percentage of our revenue. These large customers include Abbott Laboratories, Sonova AG, 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, and some orders were delayed or canceled due to the effects of the COVID-19 pandemic. Any decreases in purchases, 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.***

We have a number of competitors and potential competitors, many of whom 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.

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

Some of our customers, including 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 may lose revenue if we are unable to renew customer agreements.***

We have agreements with certain customers, including a Supplier Partnering Agreement, as amended, with Abbott Laboratories, which expires November 30, 2021, and Supply Agreement, as amended, with Sonova AG, which expires March 31, 2025. We cannot predict if 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 these customers could have a significant adverse impact on our revenue and our profitability.

#### ***Changes in tax law, in our tax rates or in exposure to additional income tax liabilities may materially and adversely affect our financial condition, results of operations, and cash flows.***

Changes in law and policy relating to taxes may materially and adversely affect our financial condition, results of operations and cash flows. For example, the 2017 Federal Tax Reform Act significantly decreased our Federal income tax rate. The current administration and Congress could make changes to existing tax law such as an increase in the corporate tax rate. Changes to existing Federal or state tax laws could adversely affect our financial condition and results of operations.

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

A 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 subject to the availability of Congressional appropriations and that, as a result, long-term government contracts are partially funded initially with additional funds committed only as Congress makes further appropriations. Certain contracts require us to maintain facilities and personnel security clearances to protect classified information. Such clearances are subject Government audits and investigations, and any deficiencies or illegal activities identified during the audits or investigations could result in the forfeiture or suspension of payments and civil or criminal penalties. Furthermore, some of our Government funding has been through Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) contracts. SBIR and STTR budgets, eligibility, or funding limits may be changed by legislation or by agencies such as the Department of Defense.

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

If we were to be charged with violation of certain laws or if the U.S. Government were to determine that we are not a “presently responsible contractor,” we could be temporarily suspended or, in the event of a violation, barred for up to three years from receiving new U.S. Government contracts or government-approved subcontracts. Additionally, we are subject to routine government audits and may be subject to investigations, and any deficiencies or illegal activities identified during the audits or investigations may result in the forfeiture or suspension of payments and civil or criminal penalties. 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.

***Some of our products 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 products are used in medical devices, including devices that help sustain human life. We are also marketing our 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.

***We may lose revenue if we are unable to maintain important certifications.***

Our quality management system is certified to the ISO 9001 standard, and we have received a letter of conformance for the International Automotive Task Force (IATF) 16949 automotive sector-specific standard. Our products are also subject to independent certification and listings including by the VDE Institute and UL LLC. These certifications are subject to a number of rigorous conditions. Failure to achieve or maintain any of these certifications or listings could cause us to be disqualified by one or more of our customers, and could have a material adverse impact on our business and revenue.

***Federal legislation may not protect us against liability for the use of our products 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.

***The malfunction of our products in medical devices could lead to the need to recall devices incorporating our products from the market, which may be harmful to our reputation and cause a significant loss of revenue.***

The malfunction of our products that are incorporated in medical devices could lead to the recall of existing medical devices incorporating our products. Such a recall could be harmful to our reputation for product safety and efficacy. Even if assertions that our products caused or contributed to device failure do not lead to product liability or contract claims, such assertions could harm our reputation and 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 substantially impact our ability to produce and deliver products and seriously harm our business and financial condition.***

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. In the past fiscal year there have been industry-wide semiconductor wafer shortages and leadtimes have increased for certain of our foundry wafers. Wafer supply interruptions for any reason, including acts of God such as floods, typhoons, cyclones, earthquakes, or pandemics could seriously jeopardize our ability to provide products that are critical to our business and operations, and may cause us to lose revenue.



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

There are a number of critical chemicals and supplies that we require to make products. These include certain gases, photoresists, polymers, metals, and specialized alloys. We maintain inventory of critical chemicals and materials, but in many cases we are dependent on single sources, and some of the materials could be subject to shortages or be discontinued by their suppliers at any time. 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, unique magnetic requirements, and high isolation voltage specifications, 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 due to vendors' business decisions, business condition, or acts of God, including floods, typhoons, earthquakes, or pandemics. Leadtimes for packaging services have increased during the COVID-19 pandemic and there have been shortages of raw materials and equipment our packaging vendors need for their process. One of our packaging vendors in India was forced to suspend its factory operations from late March 2020 until mid-May 2020 and was permitted only limited operation from mid-May through August 2020 pursuant to COVID-19 government orders, and is still not fully operational. Restrictions on our packaging vendors could be reimposed in the future. Additionally, certain of our packaging vendors are in flood-susceptible areas. Flooding risks to such vendors may increase in the future due to possible higher ocean levels, extreme weather, and other potential effects of climate change. We have alternate vendors or potential alternate vendors for the majority of our products, but it can be expensive, time-consuming, and technically challenging to convert to alternate vendors. Furthermore, we may not be able to recover work in process or finished goods at a packaging vendor in the event of a disruption. 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 are a significant portion of our revenue and we rely on suppliers in China, India, 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; acts of God, including floods, typhoons, cyclones and earthquakes; public health crises including, but not limited to, the COVID-19 pandemic; difficulties in enforcement of contractual obligations and intellectual property rights; changes in regulatory requirements, tariffs, customs, duties, and other trade barriers; transportation delays; 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.

***Public health crises could have an adverse effect on our operations and financial results.***

Public health crises could adversely affect our ongoing business operations. In particular, the COVID-19 pandemic has impacted global economic activity, caused many of our important customers to delay or cancel orders, and disrupted our supply chains. Any customer or supplier disruptions could affect our ability to operate. These and other impacts of COVID-19 pandemic or other public health crises could have a material adverse effect on our results of operations or our financial condition.

***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. Additionally, rights granted under the patents or under licensing agreements may not provide a competitive advantage to us. 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.

***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.

***Our business could be negatively impacted by cyber security events or information technology disruptions.***

We face various cyber security threats, including threats to our information technology infrastructure and attempts to gain access to our proprietary or classified information, and denial-of-service attacks. Additionally, there is a risk of disruptions due to failures of our information technology infrastructure or service provider outages. We maintain policies and procedures for the mitigation of information technology risks, and we maintain data backups, backup hardware, and some redundant systems. We have experienced cyber security events and disruptions such as viruses, ransomware, hacker attacks, and limited server, Website, and e-mail outages. Although these events did not materially impact our business, future events could disrupt our operations, harm our reputation, expose us to liability, compromise our eligibility for research and development contracts involving sensitive or classified information, or have other effects including unpredictable effects.

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

As of March 31, 2021, we held \$54,717,626 in short-term and long-term marketable securities, representing approximately 75% of our total assets. Conditions and circumstances beyond our control or ability to anticipate, including the effects of the COVID-19 pandemic, can cause downgrades and increased default risk, and such downgrades or increases in default risk are possible at any time. Additionally, the assignment of a high credit rating does not preclude the risk of default on any marketable security. Defaults, default risks, or changes in market conditions could cause us to incur losses on our marketable securities, which could have a material adverse impact on our financial condition, income, or cash flows, and our ability to pay dividends.

**Risks Related to our Industry**

***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. 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 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.

**Risks Related to our Stock**

***Any decisions to reduce or discontinue paying cash dividends to our shareholders could cause the market price of our common stock to decline.***

Future dividends will be subject to Board approval and will take into account factors including our results of operations, cash and marketable security balances, the timing of securities maturations, estimates of future cash requirements, fixed asset requirements, the impacts of the COVID-19 pandemic, and other factors our Board may deem relevant. Because they are generally more than our current cash flow from operations, recent and declared dividend amounts may be unsustainable. Any reduction or discontinuance by us of cash dividends could cause the market price of our common stock to decline.

***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:

- the announcement of new products, product enhancements, or contracts by us or our competitors;
- delays in our introduction of new products or technologies or market acceptance of these products or technologies;
- loss of customers, decreases in customers' purchases, or decreases in customers' purchase prices;
- changes in demand for our customers' products;
- quarterly variations in our financial results, revenue, or revenue growth rates;
- speculation in the press or analyst community about our business, potential revenue, or potential earnings;
- general economic conditions or market conditions specific to industries we or our customers serve or may serve;
- legal proceedings involving us, including intellectual property litigation or class action litigation;
- changes in Federal corporate income tax rates or changes in other tax provisions;
- changes in tariffs, customs, duties, or other trade barriers in foreign jurisdictions where we purchase raw materials or sell our products;
- the impact or perceived impact of the COVID-19 pandemic on general economic conditions, our industry, or our revenues or net income;
- our stock repurchase and dividend policies and decisions.

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

None.

**ITEM 2. PROPERTIES.**

Our principal executive offices and manufacturing facility are located at 11409 Valley View Road, Eden Prairie, Minnesota, 55344, and leased under an agreement expiring March 31, 2026. The space consists of 21,362 square feet of offices, laboratories, and production areas. The facility is currently being utilized at less than 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. At this time we are not aware of any material pending or threatened legal proceedings or other proceedings contemplated by governmental authorities that we expect would have a material adverse impact on our future results of operation and financial condition.

**ITEM 4. 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 and Dividends**

Our Common Stock trades on the Capital Market tier of the NASDAQ Stock Market under the symbol NVEC.

Dividends have been funded from net cash provided by operating activities and proceeds from maturities of marketable securities. Our dividend policy is subject to change at any time, and future dividends will be subject to Board approval and subject to the company’s results of operations, cash and marketable security balances, our forecasts of future cash requirements, and other factors our Board may deem relevant.

**Shareholders**

We have approximately 61 shareholders of record as of April 16, 2021. There are also several thousand beneficial holders of our common stock in “street name,” whose shares of record are held by banks, brokers, and other financial institutions.

**Securities Authorized for Issuance Under Equity Compensation Plans**

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 2021 Annual Meeting of Shareholders, and is incorporated by reference into Item 12 of this Report.

**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 from time to time in open market, block, or privately negotiated transactions. The timing and extent of any repurchases depends on market conditions, the trading price of the company’s stock, and other factors, and subject to the restrictions relating to volume, price, and timing under applicable law. On August 27, 2015, we announced that our Board of Directors authorized up to \$5,000,000 of additional repurchases. Our repurchase program does not have an expiration date and does not obligate us to purchase any shares. The Program may be modified or discontinued at any time without notice. We intend to finance any stock repurchases with cash provided by operating activities or maturing marketable securities. We repurchased 1,806 shares of our Common Stock in fiscal 2021 and 12,972 shares in fiscal 2020. The remaining authorization was \$3,762,040 as of March 31, 2021. Common Stock repurchases during each quarter of fiscal 2021, all of which were made as part of our publicly announced program, were as follows:

| <u>Period</u>                       | <u>Total number of shares purchased</u> | <u>Average price paid per share</u> | <u>Total number of shares purchased as part of publicly announced program</u> | <u>Max. approximate dollar value of shares that may yet be purchased under the program</u> |
|-------------------------------------|---|-------------------------------------|---|--|
| April 1, 2020 – June 30, 2020       | -                                       | \$ -                                | -   | \$ 3,853,459   |
| July 1, 2020 – September 30, 2020   | 1,806                                   | \$ 50.62                            | 1,806   | \$ 3,762,040   |
| October 1, 2020 – December 31, 2020 | -                                       | \$ -                                | -   | \$ 3,762,040   |
| January 1, 2021 – March 31, 2021    | -                                       | \$ -                                | -   | \$ 3,762,040   |
|                                     | <u>1,806</u>                            |                                     | <u>1,806</u>  |  |

## **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 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 loss, net of tax, is included as a separate component of shareholders’ equity, “Accumulated other comprehensive income.” 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 \$230,000 as of March 31, 2021 and \$210,000 as of March 31, 2020.

### ***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. No valuation allowance was recorded as we believe it is more likely than not that all of the deferred tax assets will be realized.

We had \$73,538 of net deferred tax assets as of March 31, 2021 and \$108,119 as of March 31, 2020. Net deferred tax assets included \$75,189 in deferred tax assets for stock-based compensation deductions as of March 31, 2021 and \$65,218 as of March 31, 2020.

## Results of Operations

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

|                                      | Percentage of Revenue<br>Year Ended March 31 |        | Year-<br>to-Year<br>Change |
|--------------------------------------|--|--------|----------------------------|
|                                      | 2021   | 2020   |                            |
| Revenue                              |  |        |                            |
| Product sales                        | 96.1%  | 96.0%  | (15.8)%                    |
| Contract research and development    | 3.9%   | 4.0%   | (18.4)%                    |
| Total revenue                        | 100.0%                                       | 100.0% | (15.9)%                    |
| Cost of sales                        | 19.3%  | 19.2%  | (15.7)%                    |
| Gross profit                         | 80.7%  | 80.8%  | (16.0)%                    |
| Expenses                             |  |        |                            |
| Research and development             | 14.9%  | 14.5%  | (13.7)%                    |
| Selling, general, and administrative | 6.2%   | 5.2%   | (0.1)%                     |
| Total expenses                       | 21.1%  | 19.7%  | (10.1)%                    |
| Income from operations               | 59.6%  | 61.1%  | (17.9)%                    |
| Interest income                      | 7.1%   | 7.0%   | (16.2)%                    |
| Income before taxes                  | 66.7%  | 68.1%  | (17.7)%                    |
| Income tax provision                 | 12.0%  | 10.9%  | (8.2)%                     |
| Net income                           | 54.7%  | 57.2%  | (19.5)%                    |

Total revenue for fiscal 2021 decreased 16% compared to fiscal 2020 due to a 16% decrease in product sales and a 18% decrease in contract research and development revenue. The decrease in product sales was primarily due to decreased purchases by existing customers. The decrease in contract research and development revenue was due to the completion of certain contracts.

Total expenses decreased 10% for fiscal 2021 compared to fiscal 2020 due primarily to a 14% decrease in research and development expense. The decrease in research and development expense was primarily due to the completion of certain new-product development projects.

Interest income for fiscal 2021 decreased 16% due to a decrease in our available-for-sale securities and a decrease in the average interest rates on those securities.

Our effective tax rate for fiscal 2021 was 18% of income before taxes compared to 16% for fiscal 2020. The smaller effective rate for fiscal 2020 was due to tax benefits from the Federal Tax Reform Act enacted in 2017. We currently expect our tax rate for fiscal 2022 to be approximately 18%.

The decrease in net income in fiscal 2021 compared to the prior year was primarily due to decreases in revenue and interest income, partially offset by a decrease in total expenses.

## The Impact of the COVID-19 Pandemic

We believe the COVID-19 pandemic had a significant impact on total revenue and net income for fiscal 2021 due to its effects on market conditions in certain industries, especially medical devices. We believe the effects of the pandemic on our business began to subside in the second half of fiscal 2021.

## Liquidity and Capital Resources

### Overview

Cash and cash equivalents were \$10,427,340 as of March 31, 2021 compared to \$8,065,594 as of March 31, 2020. The \$2,361,746 increase in cash and cash equivalents was due to \$13,364,832 in net cash provided by operating activities and \$8,424,873 net cash provided by investing activities, partially offset by \$19,427,959 net cash used in financing activities.

### Operating Activities

Net cash provided by operating activities related to product sales and research and development contract revenue as our primary source of working capital for fiscal 2021 and 2020. Net cash provided by operating activities was \$13,364,832 for fiscal 2021 and \$15,895,773 for fiscal 2020.

Accounts receivable decreased \$729,737 primarily due to the timing of sales to and payments from customers.

### ***Investing Activities***

Net cash provided by investing activities in fiscal 2021 was due to marketable security maturities of \$19,000,000, partially offset by marketable security purchases of \$10,512,400 and fixed assets purchases of \$62,727.

Purchases of fixed assets were \$62,727 in fiscal 2021 and \$52,041 in fiscal 2020. Purchases were primarily for capital equipment and leasehold improvements and were financed with cash provided by operating activities. Our capital expenditures have been significantly higher in prior years and can vary from year to year depending on our needs and equipment purchasing opportunities.

### ***Financing Activities***

Net cash used in financing activities in fiscal 2021 was due to \$19,336,540 in cash dividends to shareholders and \$91,419 in repurchases of our common stock.

In addition to cash dividends to shareholders paid in fiscal 2021, on May 5, 2021 we announced that our Board had declared a cash dividend of \$1.00 per share of Common Stock, or \$4,833,232 based on shares outstanding as of April 30, 2021, to be paid May 31, 2021. We plan to fund dividends through cash provided by operating activities and proceeds from maturities of marketable securities. All future dividends will be subject to Board approval and subject to the company's results of operations, cash and marketable security balances, estimates of future cash requirements, the impacts of the COVID-19 pandemic, and other factors the Board may deem relevant. Furthermore, dividends may be modified or discontinued at any time without notice.

We believe our working capital and cash generated from operations will be adequate for our needs at least through fiscal 2022.

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

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

## **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 that are defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "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, 2021, 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, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 *Internal Control—Integrated Framework*. Based on our assessment using the criteria set forth by COSO in the 2013 *Internal Control—Integrated Framework*, management concluded that our internal control over financial reporting was effective as of March 31, 2021.

## **ITEM 9B. OTHER INFORMATION.**

Effective as of April 30, 2021 we executed Amendment No. 7 to our Supplier Partnering Agreement dated January 3, 2006 by and between Pacesetter, Inc., now a subsidiary of Abbott Laboratories, and us, as amended by Amendment No. 1 to the Agreement dated September 6, 2007, Amendment No. 2 dated December 15, 2009, Amendment No. 3 dated September 13, 2010, Amendment No. 4 dated February 1, 2011, Amendment No. 5 dated April 20, 2016, and Amendment No. 6 dated December 18, 2020. We supply products to Abbott Laboratories under the Supplier Partnering Agreement as amended. The Amendment extends the Supplier Partnering Agreement term through November 30, 2021. The Amendment is filed as Exhibit 10.18 to this Annual Report on Form 10-K.

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, 2021, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **PART III**

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

The section titled “Proposal 1. Election of Board of Directors” to be included in our Proxy Statement for our 2021 Annual Meeting of Shareholders sets forth certain information regarding our directors and executive officers required by Item 10, the section titled “Information About Our Executive Officers” 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 2021 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,” and “Director Compensation” to be included in our Proxy Statement for our 2021 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 2021 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 5 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 2021 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 Our Independent Registered Public Accounting Firm During Fiscal 2020 and 2019” and “Audit Committee Disclosure – Audit Committee Pre-Approval Policy” to be included in our Proxy Statement for our 2021 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**

The following is a list of exhibits:

| <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 May 6, 2020.  |
| 4                | Description of the registrant's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.   |
| 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             | Third amendment to lease between the company and Carlson Real Estate (incorporated by reference to the Form 8-K/A filed December 20, 2007).  |
| 10.5             | 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).  |
| 10.6             | Fifth amendment to lease between the company and GRE – Bryant Lake, LLC (incorporated by reference to our Current Report on Form 8-K/A filed March 3, 2020).   |
| 10.7†            | 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).  |
| 10.8†            | NVE Corporation 2000 Stock Option Plan as Amended July 19, 2001 by the shareholders (incorporated by reference to our Registration Statement on Form S-8 filed July 20, 2001).   |
| 10.9             | 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). |
| 10.10+           | Supplier Partnering Agreement by and between St. Jude and the company (incorporated by reference to the Form 8-K filed January 4, 2006).   |
| 10.11+           | 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).  |
| 10.12+           | 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).   |
| 10.13+           | 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).  |
| 10.14            | 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).  |
| 10.15            | Supplier Quality Agreement between St. Jude and the company (incorporated by reference to the Form 8-K filed February 10, 2016).   |
| 10.16            | Amendment No. 5 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed April 21, 2016).  |
| 10.17            | Amendment No. 6 to Supplier Partnering Agreement between Abbott and the company (incorporated by reference to the Form 8-K/A filed December 21, 2020).   |
| 10.18            | Amendment No. 7 to Supplier Partnering Agreement between Abbott and the company (filed with this Annual Report on Form 10-K).  |
| 10.19+           | Supply Agreement by and between the company and Sonova AG (incorporated by reference to the Form 8-K/A filed November 16, 2015).   |
| 10.20*           | First Amendment to Supply Agreement by and between the company and Sonova AG (incorporated by reference to the Form 8-K/A filed February 18, 2020).  |
| 23.1             | Consent of Boulay PLLP.  |
| 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.

\*Certain confidential portions redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The omitted information is (i) not material and (ii) would likely cause us competitive harm if publicly disclosed. We agree to furnish supplementally an unredacted copy of the exhibit to the Securities and Exchange Commission on its request.



**ITEM 16. FORM 10-K SUMMARY.**

We have elected not to include an optional Form 10-K Summary.

**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**

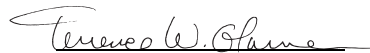


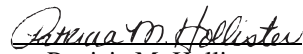
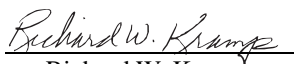
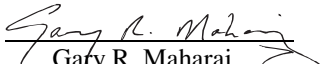
(Registrant)



by Daniel A. Baker  
President and Chief Executive Officer

Date May 5, 2021

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.

| <u>Name</u>  | <u>Title</u>  | <u>Date</u>        |
|--|---|--------------------|
| <br>Terrence W. Glarner     | Director and<br>Chairman of the Board   | <u>May 5, 2021</u> |
| <br>Daniel A. Baker       | Director,<br>President & Chief Executive Officer<br>(Principal Executive Officer)           | <u>May 5, 2021</u> |
| <br>Curt A. Reynders      | Treasurer and<br>Chief Financial Officer<br>(Principal Financial and<br>Accounting Officer) | <u>May 5, 2021</u> |
| <br>Patricia M. Hollister | Director  | <u>May 5, 2021</u> |
| <br>Richard W. Kramp      | Director  | <u>May 5, 2021</u> |
| <br>Gary R. Maharaj       | Director  | <u>May 5, 2021</u> |



## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
NVE Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of NVE Corporation (the Company) as of March 31, 2021 and 2020, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended March 31, 2021, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended March 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) related to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition – Refer to Note 1 to the Financial Statements

### **Description of the Matter**

The Company recognizes revenue from product sales to customers and distributors upon satisfaction of the performance obligation, at a point in time, upon product shipment or delivery to its customer or distributor as determined by agreed upon shipping terms. Additionally, the Company recognizes contract research and development revenue over a period of time as the performance obligation is satisfied over a period of time. Each research and development contract has specifications unique to each customer and does not create an asset with an alternate use, and the Company has an enforceable right to payment for performance completed to date. The Company recognizes revenue over a period of time based on an input method using costs incurred as the measurement of progress towards completion.

Significant judgment is exercised by the Company in determining revenue recognition for these customer agreements, and includes the following:

- Determination of whether products and services are considered distinct performance obligations that should be accounted for separately versus together as it relates to product sales and research and development contracts.
- Determination of stand-alone selling prices for each distinct performance obligation and for products and services that are not sold separately.
- The pattern of delivery (i.e., timing of when revenue is recognized) for each distinct performance obligation.
- Estimation of variable consideration when determining the amount of revenue to recognize (e.g., customer credits, incentives, and in certain instances, estimation of customer usage of products and services).

Given these factors, the related audit effort in evaluating management's judgments in determining revenue recognition for these customer agreements was extensive and required a high degree of auditor judgment.

#### **How the Critical Audit Matter Was Addressed in the Audit**

Our principal audit procedures related to the Company's revenue recognition for these customer agreements included the following:

- We evaluated the Company's accounting policies and related disclosures for compliance with applicable revenue recognition accounting guidance.
- We obtained an understanding of the design and implementation of internal controls related to the Company's revenue recognition process, including the identification of performance obligations and allocation of transaction price.
- We performed analytical procedures to test the reasonableness of recorded balances.
- We performed procedures to test the transactions were recorded in the appropriate accounting period.
- We selected a sample of product sales and contract research agreements and performed the following procedures:
  - Tested the existence and accuracy of the transaction by obtaining and agreeing terms to the underlying contract.
  - Evaluated management's identification of significant terms for completeness, including the identification of distinct performance obligations and variable consideration.
  - We evaluated the reasonableness of management's estimate of stand-alone selling prices for products and services that are not sold separately.
  - Tested the underlying costs driving recognition of revenue related to contract research and development contracts.
  - Evaluated whether the transaction was accounted for in accordance with the Company's policies

*Boulay PLLP*

We have served as the Company's auditor since May 8, 2019.

Minneapolis, Minnesota

May 5, 2021

**NVE CORPORATION  
BALANCE SHEETS**

|   | <u>March 31, 2021</u> | <u>March 31, 2020</u> |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                       |
| Current assets  |                       |                       |
| Cash and cash equivalents   | \$ 10,427,340         | \$ 8,065,594          |
| Marketable securities, short-term   | 7,678,957             | 19,084,814            |
| Accounts receivable, net of allowance for uncollectible accounts of \$15,000  | 1,964,281             | 2,694,018             |
| Inventories   | 3,900,777             | 3,884,450             |
| Prepaid expenses and other assets   | 391,278               | 655,835               |
| Total current assets  | <u>24,362,633</u>     | <u>34,384,711</u>     |
| Fixed assets  |                       |                       |
| Machinery and equipment   | 9,254,664             | 9,280,062             |
| Leasehold improvements  | 1,810,872             | 1,797,245             |
|   | <u>11,065,536</u>     | <u>11,077,307</u>     |
| Less accumulated depreciation and amortization  | 10,728,853            | 10,494,840            |
| Net fixed assets  | 336,683               | 582,467               |
| Deferred tax assets   | 73,538                | 108,119               |
| Marketable securities, long-term  | 47,038,669            | 43,606,495            |
| Right-of-use asset – operating lease  | 689,216               | 816,358               |
| Total assets  | <u>\$ 72,500,739</u>  | <u>\$ 79,498,150</u>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                       |
| Current liabilities   |                       |                       |
| Accounts payable  | \$ 336,591            | \$ 186,993            |
| Accrued payroll and other   | 540,474               | 482,074               |
| Operating lease   | 150,273               | 127,134               |
| Total current liabilities   | <u>1,027,338</u>      | <u>796,201</u>        |
| Operating lease   | 581,459               | 706,600               |
| Total liabilities   | <u>1,608,797</u>      | <u>1,502,801</u>      |
| Shareholders' equity  |                       |                       |
| Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,833,232 issued and outstanding as of March 31, 2021 and 4,835,038 as of March 31, 2020 | 48,332                | 48,350                |
| Additional paid-in capital  | 19,338,127            | 19,383,956            |
| Accumulated other comprehensive income  | 1,101,119             | 516,523               |
| Retained earnings   | 50,404,364            | 58,046,520            |
| Total shareholders' equity  | <u>70,891,942</u>     | <u>77,995,349</u>     |
| Total liabilities and shareholders' equity  | <u>\$ 72,500,739</u>  | <u>\$ 79,498,150</u>  |

See accompanying notes.

**NVE CORPORATION  
STATEMENTS OF INCOME**

|  | <b>Year Ended March 31</b> |                      |
|--|----------------------------|----------------------|
|  | <b>2021</b>                | <b>2020</b>          |
| Revenue                                  |                            |                      |
| Product sales                            | \$ 20,540,557              | \$ 24,400,192        |
| Contract research and development        | 825,689                    | 1,011,971            |
| Total revenue                            | <u>21,366,246</u>          | <u>25,412,163</u>    |
| Cost of sales                            | 4,121,461                  | 4,889,295            |
| Gross profit                             | <u>17,244,785</u>          | <u>20,522,868</u>    |
| Expenses                                 |                            |                      |
| Research and development                 | 3,184,754                  | 3,690,539            |
| Selling, general, and administrative     | 1,316,427                  | 1,317,543            |
| Total expenses                           | <u>4,501,181</u>           | <u>5,008,082</u>     |
| Income from operations                   | 12,743,604                 | 15,514,786           |
| Interest income                          | 1,498,148                  | 1,787,117            |
| Income before taxes                      | 14,241,752                 | 17,301,903           |
| Provision for income taxes               | 2,547,368                  | 2,775,261            |
| Net income                               | <u>\$ 11,694,384</u>       | <u>\$ 14,526,642</u> |
| Net income per share – basic             | <u>\$ 2.42</u>             | <u>\$ 3.00</u>       |
| Net income per share – diluted           | <u>\$ 2.42</u>             | <u>\$ 3.00</u>       |
| Cash dividends declared per common share | <u>\$ 4.00</u>             | <u>\$ 4.00</u>       |
| Weighted average shares outstanding      |                            |                      |
| Basic                                    | 4,834,054                  | 4,845,627            |
| Diluted                                  | 4,834,462                  | 4,847,294            |

**STATEMENTS OF COMPREHENSIVE INCOME**

|  | <b>Year Ended March 31</b> |                      |
|--|----------------------------|----------------------|
|  | <b>2021</b>                | <b>2020</b>          |
| Net income   | \$ 11,694,384              | \$ 14,526,642        |
| Unrealized gain from marketable securities, net of tax | 584,596                    | 599,248              |
| Comprehensive income                                   | <u>\$ 12,278,980</u>       | <u>\$ 15,125,890</u> |

See accompanying notes.

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

|  | <u>Common Stock</u> |                  | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Accumulated<br/>Other<br/>Comprehen-<br/>sive Income<br/>(Loss)</u> | <u>Retained<br/>Earnings</u> | <u>Total</u>         |
|--|---------------------|------------------|---|--|------------------------------|----------------------|
|  | <u>Shares</u>       | <u>Amount</u>    |   | <u>(Loss)</u>  |                              |                      |
| Balance as of March 31, 2019                               | 4,846,010           | \$ 48,460        | \$ 19,910,558                             | \$ (82,725)  | \$ 62,903,918                | \$ 82,780,211        |
| Exercise of stock options                                  | 2,000               | 20               | 112,340                                   |  |                              | 112,360              |
| Repurchase of common stock                                 | (12,972)            | (130)            | (687,302)                                 |  |                              | (687,432)            |
| Comprehensive income:                                      |                     |                  |   |  |                              |                      |
| Unrealized gain on marketable securities, net of tax       |                     |                  |   | 599,248  |                              | 599,248              |
| Net income   |                     |                  |   |  | 14,526,642                   | 14,526,642           |
| Total comprehensive income                                 |                     |                  |   |  |                              | 15,125,890           |
| Stock-based compensation                                   |                     |                  | 48,360                                    |  |                              | 48,360               |
| Cash dividends declared (\$4.00 per share of common stock) |                     |                  |   |  | (19,384,040)                 | (19,384,040)         |
| Balance as of March 31, 2020                               | <u>4,835,038</u>    | <u>\$ 48,350</u> | <u>\$ 19,383,956</u>                      | <u>\$ 516,523</u>  | <u>\$ 58,046,520</u>         | <u>\$ 77,995,349</u> |
| Repurchase of common stock                                 | (1,806)             | (18)             | (91,401)                                  |  |                              | (91,419)             |
| Comprehensive income:                                      |                     |                  |   |  |                              |                      |
| Unrealized gain on marketable securities, net of tax       |                     |                  |   | 584,596  |                              | 584,596              |
| Net income   |                     |                  |   |  | 11,694,384                   | 11,694,384           |
| Total comprehensive income                                 |                     |                  |   |  |                              | 12,278,980           |
| Stock-based compensation                                   |                     |                  | 45,572                                    |  |                              | 45,572               |
| Cash dividends declared (\$4.00 per share of common stock) |                     |                  |   |  | (19,336,540)                 | (19,336,540)         |
| Balance as of March 31, 2021                               | <u>4,833,232</u>    | <u>\$ 48,332</u> | <u>\$ 19,338,127</u>                      | <u>\$ 1,101,119</u>  | <u>\$ 50,404,364</u>         | <u>\$ 70,891,942</u> |

See accompanying notes.

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

|   | <b>Year Ended March 31</b> |                     |
|---|----------------------------|---------------------|
|   | <b>2021</b>                | <b>2020</b>         |
| <b>OPERATING ACTIVITIES</b>   |                            |                     |
| Net income  | \$ 11,694,384              | \$ 14,526,642       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |                     |
| Depreciation and amortization   | 542,926                    | 549,969             |
| Stock-based compensation  | 45,572                     | 48,360              |
| Deferred income taxes   | (129,155)                  | 77,779              |
| Changes in operating assets and liabilities:                                      |                            |                     |
| Accounts receivable   | 729,737                    | 301,620             |
| Inventories   | (16,327)                   | 380,426             |
| Prepaid expenses and other assets   | 391,699                    | (394,504)           |
| Accounts payable and accrued expenses   | 105,996                    | 405,481             |
| Net cash provided by operating activities   | <u>13,364,832</u>          | <u>15,895,773</u>   |
| <b>INVESTING ACTIVITIES</b>   |                            |                     |
| Purchases of fixed assets   | (62,727)                   | (52,041)            |
| Purchases of marketable securities  | (10,512,400)               | (7,196,330)         |
| Proceeds from maturities and sales of marketable securities                       | <u>19,000,000</u>          | <u>12,500,000</u>   |
| Net cash provided by investing activities   | <u>8,424,873</u>           | <u>5,251,629</u>    |
| <b>FINANCING ACTIVITIES</b>   |                            |                     |
| Proceeds from exercise of stock options   | -                          | 112,360             |
| Repurchase of common stock  | (91,419)                   | (687,432)           |
| Payment of dividends to shareholders  | <u>(19,336,540)</u>        | <u>(19,384,040)</u> |
| Net cash used in financing activities   | <u>(19,427,959)</u>        | <u>(19,959,112)</u> |
| Increase in cash and cash equivalents   | 2,361,746                  | 1,188,290           |
| Cash and cash equivalents at beginning of year                                    | <u>8,065,594</u>           | <u>6,877,304</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 10,427,340</u>       | <u>\$ 8,065,594</u> |
| <b>Supplemental disclosures of cash flow information:</b>                         |                            |                     |
| Cash paid during the year for income taxes  | \$ 2,438,788               | \$ 2,586,661        |

See accompanying notes.

**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. We operate in one reportable segment.

**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.

**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.

Cash and cash equivalents have been maintained in financial institutions we believe have high credit quality, however these accounts are generally in excess of federally insured amounts.

We have invested our excess cash in corporate-backed and municipal-backed bonds and money market instruments. Our investment policy prescribes purchases of only high-grade securities, and limits the amount of credit exposure to any one issuer. The effects of the COVID-19 pandemic have degraded outlooks for some of our securities' issuers, which may increase the risk of default on one or more securities.

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. The effects of the COVID-19 pandemic could increase our bad-debt risk in the future.

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. The effects of the COVID-19 pandemic have increased the risk of supply interruptions.

**Accounts Receivable and Allowance for Doubtful Accounts**

We grant credit to customers in the normal course of business and at times may require customers to prepay for an order prior to shipment. 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 2021 or 2020.

**Inventories**

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

**Product Warranty**

In general we warranty 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 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 did not identify any indicators of impairment during fiscal 2021 or 2020. Depreciation and amortization expense related to fixed assets was \$308,511 for fiscal 2021 and \$364,409 for fiscal 2020.



## Revenue Recognition

We recognize revenue when we satisfy performance obligations by the transfer of control of products or services to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those products or services. Revenue is disaggregated into product sales and contract research and development to depict the nature, amount, timing of revenue recognition and economic characteristics of our business, and is represented within the financial statements.

We recognize revenue from product sales to customers and distributors when we satisfy our performance obligation, at a point in time, on product shipment or delivery to our customer or distributor as determined by agreed on shipping terms. Shipping charges billed to customers are included in product sales and the related shipping costs are included in cost of sales. 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. We recognize discounts provided to our distributors as reductions in revenue.

We recognize contract research and development revenue over a period of time as the performance obligation is satisfied over a period of time rather than a point in time. Contracts have specifications unique to each customer and do not create an asset with an alternate use, and we have an enforceable right to payment for performance completed to date. We recognize revenue over a period of time using costs incurred as the measurement of progress towards completion.

Accounts receivable is recognized when we have transferred a good or service to a customer and our right to receive consideration is unconditional through the completion of our performance obligation. A contract asset is recognized when we have a right to consideration from the transfer of goods or services to a customer but have not completed our performance obligation. A contract liability is recognized when we have been paid by a customer but have not yet satisfied the performance obligation by transferring goods or services. We had no material contract assets or contract liabilities as of March 31, 2021 or March 31, 2020.

Our performance obligations related to product sales and contract research and development contracts are satisfied in one year or less. Unsatisfied performance obligations represent contracts with an original expected duration of one year or less. As permitted under Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, we are using the practical expedient not to disclose the value of these unsatisfied performance obligations. We also use the practical expedient in which we do not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

## Income Taxes

We account for income taxes using the asset and 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. Customer-sponsored research and development costs are included in cost of sales.

## 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 recognize any forfeitures as they occur.

## 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 exercise of all stock options. The following table shows the components of diluted shares:

|   | <b>Year Ended March 31</b> |                  |
|---|----------------------------|------------------|
|   | <b>2021</b>                | <b>2020</b>      |
| Weighted average common shares outstanding – basic      | 4,834,054                  | 4,845,627        |
| Dilutive effect of stock options                        | 408                        | 1,667            |
| Shares used in computing net income per share – diluted | <u>4,834,462</u>           | <u>4,847,294</u> |

## 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

### *New Accounting Standards Not Yet Adopted*

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2019-12, *Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes*. ASU 2019-12 is intended to simplify accounting for income taxes. It removes certain exceptions to the general principles in Topic 740 and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years, which is fiscal 2022 for us. We do not expect adoption of the new guidance to have a significant impact on our financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements*. ASU 2016-13 requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. In November 2018 the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies codification and corrects unintended application of the guidance, and in November 2019, the FASB issued ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies or addresses specific issues about certain aspects of ASU 2016-13. In November 2019 the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and in February 2020 the FASB issued ASU No. 2020-02, *Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*, both of which delay the effective date of ASU 2016-13 by three years for certain Smaller Reporting Companies such as us. In March 2020, the FASB issued ASU No. 2020-03, *Codification Improvements to Financial Instruments*; which modifies the measurement of expected credit losses of certain financial instruments. In accordance with ASU 2019-10 and ASU 2020-02, ASU 2016-13 is effective for certain Smaller Reporting Companies for financial statements issued for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years, which will be fiscal 2024 for us if we continue to be classified as a Smaller Reporting Company, with early adoption permitted. We do not expect adoption of the new guidance to have a significant impact on our financial statements.

### **NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Our corporate bonds and money market funds are classified as available-for-sale securities and carried at estimated fair value. Unrealized holding gains and losses are included in accumulated other comprehensive income in the statement of shareholders’ equity. Corporate bonds 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. We consider all highly-liquid investments with maturities of three months or less when purchased, including money market funds, to be cash equivalents. Gains and losses on marketable security transactions are reported on the specific-identification method.

The fair value of our available-for-sale securities as of March 31, 2021 by maturity were as follows:

| <u>Total</u>  | <u>&lt;1 Year</u> | <u>1–3 Years</u> | <u>3–5 Years</u> |
|---------------|-------------------|------------------|------------------|
| \$ 64,860,822 | \$ 17,822,153     | \$ 36,716,130    | \$ 10,322,539    |

Total available-for-sale securities represented approximately 89% of our total assets. Marketable securities as of March 31, 2021 had remaining maturities between 20 weeks and 47 months.

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.

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.

Level 3 – Inputs to the fair value measurement are unobservable inputs or valuation techniques.

Money market funds are included on the balance sheets in “Cash and cash equivalents.” Corporate bonds are included on the balance sheets in “Marketable securities, short term” and “Marketable securities, long term.”

The following table shows the estimated fair value of assets that were accounted for at fair value on a recurring basis:

|                    | As of March 31, 2021 |                      |                      | As of March 31, 2020 |                      |                      |
|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                    | Level 1              | Level 2              | Total                | Level 1              | Level 2              | Total                |
| Money market funds | \$ 10,143,196        | \$ -                 | \$ 10,143,196        | \$ 7,903,433         | \$ -                 | \$ 7,903,433         |
| Corporate bonds    | -                    | 54,717,626           | 54,717,626           | -                    | 62,691,309           | 62,691,309           |
| Total              | <u>\$ 10,143,196</u> | <u>\$ 54,717,626</u> | <u>\$ 64,860,822</u> | <u>\$ 7,903,433</u>  | <u>\$ 62,691,309</u> | <u>\$ 70,594,742</u> |

Our available-for-sale securities as of March 31, 2021 and 2020, aggregated into classes of securities, were as follows:

|                    | As of March 31, 2021 |                                |                                 | As of March 31, 2020 |                     |                                |                                 |                      |
|--------------------|----------------------|--------------------------------|---------------------------------|----------------------|---------------------|--------------------------------|---------------------------------|----------------------|
|                    | Amortized Cost       | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Estimated Fair Value | Amortized Cost      | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Estimated Fair Value |
| Money market funds | \$10,143,196         | \$ -                           | \$ -                            | \$10,143,196         | \$ 7,903,433        | \$ -                           | \$ -                            | \$ 7,903,433         |
| Corporate bonds    | 53,308,105           | 1,570,195                      | (160,674)                       | 54,717,626           | 62,030,120          | 752,621                        | (91,432)                        | 62,691,309           |
| Total              | <u>\$63,451,301</u>  | <u>\$ 1,570,195</u>            | <u>\$ (160,674)</u>             | <u>\$64,860,822</u>  | <u>\$69,933,553</u> | <u>\$ 752,621</u>              | <u>\$ (91,432)</u>              | <u>\$70,594,742</u>  |

The following table shows the gross unrealized holding losses and fair value of our available-for-sale securities with unrealized holding losses, aggregated by class of securities and length of time that individual securities had been in a continuous unrealized loss position as of March 31, 2021 and 2020.

|                      | Less Than 12 Months  |                                 | 12 Months or Greater |                                 | Total                |                                 |
|----------------------|----------------------|---------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|
|                      | Estimated Fair Value | Gross Unrealized Holding Losses | Estimated Fair Value | Gross Unrealized Holding Losses | Estimated Fair Value | Gross Unrealized Holding Losses |
| As of March 31, 2021 |                      |                                 |                      |                                 |                      |                                 |
| Corporate bonds      | \$ 10,322,539        | \$ (160,674)                    | \$ -                 | \$ -                            | \$ 10,322,539        | \$ (160,674)                    |
| Total                | <u>\$ 10,322,539</u> | <u>\$ (160,674)</u>             | <u>\$ -</u>          | <u>\$ -</u>                     | <u>\$ 10,322,539</u> | <u>\$ (160,674)</u>             |
| As of March 31, 2020 |                      |                                 |                      |                                 |                      |                                 |
| Corporate bonds      | \$ 19,525,169        | \$ (91,432)                     | \$ -                 | \$ -                            | \$ 19,525,169        | \$ (91,432)                     |
| Total                | <u>\$ 19,525,169</u> | <u>\$ (91,432)</u>              | <u>\$ -</u>          | <u>\$ -</u>                     | <u>\$ 19,525,169</u> | <u>\$ (91,432)</u>              |

We did not consider any of our available-for-sale securities to be impaired as of March 31, 2021. None of the securities were impaired at acquisition, and subsequent declines in fair value are not attributed to declines in credit quality. The effects of the COVID-19 pandemic, however, have degraded outlooks for some of our marketable securities’ issuers, which could lead to credit-quality downgrades in the future. When evaluating for impairment we assess indicators that include, but are not limited to, earnings performance, changes in underlying credit ratings, market conditions, bona fide offers to purchase or sell, and ability to hold until maturity. Because we believe it is more likely than not we will recover the cost basis of our investments, we did not consider any of our marketable securities to be impaired as of March 31, 2021.

#### NOTE 4. INVENTORIES

Inventories are shown in the following table:

|                   | March 31            |                     |
|-------------------|---------------------|---------------------|
|                   | 2021                | 2020                |
| Raw materials     | \$ 660,678          | \$ 1,017,451        |
| Work in process   | 2,220,723           | 1,863,000           |
| Finished goods    | 1,019,376           | 1,003,999           |
| Total inventories | <u>\$ 3,900,777</u> | <u>\$ 3,884,450</u> |

## NOTE 5. 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 \$45,572 in fiscal 2021 and \$48,360 in fiscal 2020.

### Valuation assumptions

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

|                         | Year Ended March 31 |      |
|-------------------------|---------------------|------|
|                         | 2021                | 2020 |
| Risk-free interest rate | 0.2 – 0.4%          | 1.7% |
| Expected volatility     | 34 – 35%            | 37%  |
| Expected life (years)   | 4.6                 | 4.6  |
| Dividend yield          | 7.0 – 7.4%          | 5.9% |

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.

### 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 assumed a 7.0% to 7.4% dividend yield for fiscal 2021 and 5.9% for fiscal 2020 based on the dividend yield on the date the options were granted.

### Tax effects of stock-based compensation

Stock-based compensation increased deferred tax assets by \$9,971 for fiscal 2021 and \$10,581 for fiscal 2020.

### General stock option information

The following table summarizes information on options outstanding as of March 31, 2021:

| <u>Ranges of<br/>Exercise Prices</u> | <u>Number<br/>Outstanding</u> | <u>Weighted Average<br/>Exercise Price</u> | <u>Weighted Remaining<br/>Contractual Life (years)</u> |
|--------------------------------------|-------------------------------|--|--|
| \$49.86 – \$67.69                    | 22,000                        | \$ 59.85                                   | 5.3  |
| \$76.13 – \$107.86                   | 8,000                         | 92.00                                      | 6.9  |
|                                      | <u>30,500</u>                 | <u>\$ 68.28</u>                            | <u>5.7</u>   |

A summary of our stock options is shown in the following table:

|                   | <u>Option Shares<br/>Reserved</u> | <u>Options<br/>Outstanding</u> | <u>Weighted Average<br/>Option Exercise Price</u> |
|-------------------|-----------------------------------|--------------------------------|---|
| At March 31, 2019 | <u>135,230</u>                    | <u>22,000</u>                  | <u>\$ 70.89</u>                                   |
| Granted           | (4,000)                           | 4,000                          | \$ 67.65  |
| Exercised         | -                                 | (2,000)                        | \$ 56.18  |
| At March 31, 2020 | <u>131,230</u>                    | <u>24,000</u>                  | <u>\$ 71.58</u>                                   |
| Granted           | (6,500)                           | 6,500                          | \$ 56.12  |
| At March 31, 2021 | <u>124,730</u>                    | <u>30,500</u>                  | <u>\$ 68.28</u>                                   |

The remaining weighted-average exercisable life was 5.7 years as of March 31, 2021 and 6.6 years as of March 31, 2020. 28,000 outstanding options were exercisable as of March 31, 2021 and 24,000 outstanding options were exercisable as of March 31, 2020. The total intrinsic value of options outstanding March 31, 2021, based on our closing stock price for that day, was \$230,540, \$191,140 of which was exercisable. The total fair value of option grants was \$47,140 in fiscal 2021. There was \$1,568 of unrecognized stock-based compensation as of March 31, 2021 related to nonvested options, which we expect to recognize in the first quarter of fiscal 2022.

#### NOTE 6. INCOME TAXES

Income tax provisions for fiscal 2021 and 2020 consisted of the following:

|                      | <b>Year Ended March 31</b> |                     |
|----------------------|----------------------------|---------------------|
|                      | <b>2021</b>                | <b>2020</b>         |
| Current taxes        |                            |                     |
| Federal              | \$ 2,600,670               | \$ 2,710,658        |
| State                | 75,852                     | (13,176)            |
| Deferred taxes       |                            |                     |
| Federal              | (123,959)                  | 74,651              |
| State                | (5,195)                    | 3,128               |
| Income tax provision | <u>\$ 2,547,368</u>        | <u>\$ 2,775,261</u> |

A reconciliation of income tax provisions at the U.S. statutory rate for fiscal 2021 and 2020 is as follows:

|   | <b>Year Ended March 31</b> |                     |
|---|----------------------------|---------------------|
|   | <b>2021</b>                | <b>2020</b>         |
| Tax expense at U.S. Statutory rate          | \$ 2,990,768               | \$ 3,633,400        |
| State income taxes, net of Federal benefit  | 88,909                     | 77,989              |
| Research and development credits            | (86,223)                   | (126,320)           |
| Foreign-derived intangible income deduction | (450,912)                  | (540,265)           |
| Other                                       | 4,826                      | (269,543)           |
| Income tax provision                        | <u>\$ 2,547,368</u>        | <u>\$ 2,775,261</u> |

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, 2021 and 2020 were as follows:

|  | <b>March 31</b>  |                   |
|--|------------------|-------------------|
|  | <b>2021</b>      | <b>2020</b>       |
| Paid time off accrual                    | \$ 60,869        | \$ 55,240         |
| Inventory reserve                        | 50,324           | 45,948            |
| Depreciation and amortization            | 88,690           | 22,651            |
| Stock-based compensation deductions      | 75,189           | 65,218            |
| Unrealized gain on marketable securities | (308,403)        | (144,668)         |
| Other                                    | 106,869          | 63,730            |
| Deferred tax assets                      | <u>\$ 73,538</u> | <u>\$ 108,119</u> |

We had no unrecognized tax benefits as of March 31, 2021, 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, 2021 we had no accrued interest related to uncertain tax positions. The tax years 2016 through 2019 remain open to examination by the major taxing jurisdictions to which we are subject.

#### NOTE 7. LEASES

We conduct our operations in a leased facility under a non-cancellable lease expiring March 31, 2026. Our lease does not provide an implicit rate, so we used our incremental borrowing rate to determine the present value of lease payments. Lease expense is recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and real estate taxes which are paid based on actual costs incurred by the lessor. Details of our operating lease are as follows:

|  | <b>Year Ended March 31</b> |                   |
|--|----------------------------|-------------------|
|  | <b>2021</b>                | <b>2020</b>       |
| Operating lease cost   | \$ 158,439                 | \$ 154,565        |
| Variable lease cost  | 109,449                    | 96,798            |
| Total  | <u>\$ 267,888</u>          | <u>\$ 251,363</u> |
| Cash paid for amounts included in the measurement of lease liabilities |                            |                   |
| Operating cash flows for leases  | \$ 133,299                 | \$ 174,528        |
| Remaining lease term   | 5 years                    | 6 years           |
| Discount rate  | 3.5%                       | 3.5%              |

The following table presents the maturities of lease liabilities as of March 31, 2021:

| <b>Year Ending March 31</b> | <b>Operating Leases</b> |
|-----------------------------|-------------------------|
| 2022                        | 152,703                 |
| 2023                        | 156,121                 |
| 2024                        | 159,592                 |
| 2025                        | 163,224                 |
| 2026                        | 165,947                 |
| Total lease payments        | <u>797,587</u>          |
| Imputed lease interest      | <u>(65,855)</u>         |
| Total lease liabilities     | <u>\$ 731,732</u>       |

#### NOTE 8. CONCENTRATIONS

The following table summarizes customers comprising 10% or more of revenue for the two most recent fiscal years:

|            | <b>% of Revenue for</b>    |             |
|------------|----------------------------|-------------|
|            | <b>Year Ended March 31</b> |             |
|            | <b>2021</b>                | <b>2020</b> |
| Customer A | 22%                        | 24%         |
| Customer B | 15%                        | 14%         |
| Customer C | Less than 10%              | 10%         |

These customers accounted for 43% of our accounts receivable as of March 31, 2021 and 43% as of March 31, 2020. We believe the receivable balances from these customers do not represent a significant credit risk based on past collection experience.

#### NOTE 9. 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 from time to time in open market, block, or privately negotiated transactions. The timing and extent of any repurchases depends on market conditions, the trading price of the company's stock, and other factors, and subject to the restrictions relating to volume, price, and timing under applicable law. On August 27, 2015, we announced that our Board of Directors authorized up to \$5,000,000 of additional repurchases. Our repurchase program does not have an expiration date and does not obligate us to purchase any shares. The Program may be modified or discontinued at any time without notice. We intend to finance any stock repurchases with cash provided by operating activities or maturing marketable securities. We repurchased 1,806 shares of our Common Stock in fiscal 2021 and 12,972 shares in fiscal 2020. The remaining authorization was \$3,762,040 as of March 31, 2021. The Stock Repurchase Program may be modified or discontinued at any time without notice.

#### NOTE 10. 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 \$94,498 for fiscal 2021 and \$92,880 for fiscal 2020.

#### NOTE 11. SUBSEQUENT EVENTS

On May 5, 2021 we announced that our Board had declared a quarterly cash dividend of \$1.00 per share of Common Stock to be paid May 31, 2021 to shareholders of record as of the close of business May 17, 2021.

## EXHIBIT INDEX

| <b>Exhibit #</b> | <b>Description</b>   |
|------------------|--|
| 4                | Description of the registrant's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934. |
| 10.18            | Amendment No. 7 to Supplier Partnering Agreement between Abbott and the company.                                     |
| 23               | Consent of Boulay PLLP.  |
| 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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