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# MICRONETICS

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# 2009 Annual Report

Micronetics manufactures microwave and radio frequency (RF) components and integrated subassemblies used in a variety of defense, aerospace and commercial applications. Micronetics also manufactures and designs test equipment and components that test the strength, durability and integrity of communication signals in communications equipment. Micronetics serves a diverse customer base, including Aerosat Anritsu, BAE Systems, Boeing Company, General Dynamics, ITT Electronic Warfare Systems, L-3 Communications, Northrop Grumman, Raytheon and Thales. In addition, direct government customers including DFAS, Hill AFB, Augusta Aerospace and NAVICP. Additional information can be found on our website at http://www.micronetics.com.

MICRONETICS

Dear Shareholders:

In Fiscal Year 2009, despite the challenging economic environment, we continued our course towards long term growth. The fundamentals of our long term growth strategy remain strong. Most of the industries we serve are sound, the underlying demand drivers remain robust, and our commitment to our customer relationships and high quality products remains at the center of our priorities.

We are actively pursuing larger customers in our commercial markets and are broadening our technology focus to respond more comprehensively to shifting customer requirements and marketplace trends. We are pleased with the pace of this transition.

Fiscal Year 2009 was a year during which we saw the emergence of our integrated sub-assembly business as reflected by our record $26 million backlog at March 31, 2009. Our long term strategy to pursue the higher value, larger market opportunities for these sophisticated products was validated as sub-assembly orders outpaced orders for components. Our transition to meet demand for integrated sub-assemblies is well underway, and we are seeing the rewards of this strategy in our record backlog. We intend to continue our focus on sub-assemblies, and have invested in a new, larger facility specifically for our integrated sub-assembly products in order to meet demand.

Fiscal Year 2009 was also a year of strong technology development. We developed a digital pre-distortion high power amplifier line. This technology allows us to offer a cleaner signal over a broader range of amplification with lower power consumption. We invested in in-flight internet delivery which has substantial potential for the airline industry. We are excited about the near term prospects for this technology. We also invested in high power switch technology which will have a variety of applications particularly for defense applications.

We continued our selective acquisition strategy during the year with the acquisition of the RFID product line. This acquisition added antenna technology to our technology base and brought a significant commercial market opportunity in the area of inventory identification and management. We are currently shipping product for this application which holds promise for substantial future business.

The stock market decline caused us, along with many other companies, to take a non-cash charge related to goodwill and intangible assets. While this resulted in a significant charge to our income statement it did not affect our ongoing operations.

We remain focused on going the extra mile to satisfy our customers. We believe a successful business is dependent on strong customer relationships grounded in working collaboratively with our customers to meet and exceed their requirements. To that end, during the year, we named Kevin Beals as president of the company. Kevin brings an impressive track record in the industry of working effectively with the customer profiles we are targeting.

We are excited about our future. During the year, we bought back 9% of our outstanding shares because we felt it was an excellent investment. We believe the combination of our technology, customer focus and market presence positions us well for future success in the wireless market place.

I wish to thank our employees for their hard work and our shareholders for their support of Micronetics, Inc.

Respectfully,

David Robbins
Chief Executive Officer

All inquires can be sent to:

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Hudson, NH 03051
Email: drobbins@micronetics.com
Tel: (603) 883-2900

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

# FORM 10-K

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

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

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File No.: 0-17966**

# MICRONETICS, INC.
**(Name of small business issuer in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **22-2063614**<br>**(IRS Employer Identification No.)** |
| **26 Hampshire Drive, Hudson, NH**<br>**(Address of principal executive offices)** | **03051**<br>**(Zip Code)** |

**Issuer's telephone number: (603) 883-2900**
**Securities registered under Section 12(b) of the Exchange Act: None**
**Securities registered under Section 12(g) of the Exchange Act:**
**Common Stock, par value $.01 per share**
**(Title of class)**

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 in not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☒ |

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer was approximately $24,506,830 based on the closing price of $5.94 of the issuer's common stock, par value $.01 per share, as reported by NASDAQ on September 27, 2008.

On June 19, 2009, there were 4,553,635 shares of the issuer's common stock outstanding.

The Proxy Statement of the registrant to be filed on or before July 29, 2009 is incorporated by reference to Part III herein.

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## Part I

This Annual Report on Form 10-K contains statements which constitute forward-looking statements. These statements appear in a number of places in this Form 10-K and include statements regarding the intent, belief or current expectations of Micronetics, Inc. Forward-looking statements are merely our current predictions of future events. Investors are cautioned that any such forward-looking statements are inherently uncertain, are not guaranties of future performance and involve risks and uncertainties. Actual results may differ materially from our predictions. Important factors that could cause actual results to differ from our predictions include those discussed under "Risk Factors," "Management's Discussion and Analysis" and "Description of Business." Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that we have identified all possible issues which we might face. We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to review carefully the risk factors described in this annual report and in the other documents that we file with the Securities and Exchange Commission. You can read these documents at *www.sec.gov*.

Where we say "we," "us," "our," "Company" or "Micronetics" we mean Micronetics, Inc. and its subsidiaries.

### ITEM 1. Business.

*General*

Micronetics was incorporated in New Jersey in 1975 and re-incorporated in Delaware in 1987.

In March 2009, we acquired certain assets of M/A-COM RFID Inc. The acquisition of the radio frequency identification system product line ("RFID") was accounted for as a purchase, and the operating results are included in the consolidated financial statements since the March 18, 2009 acquisition date. The purchase price has been allocated to the relative fair value of assets acquired and liabilities assumed based on their fair value at the date of acquisition.

In June 2007, we acquired all of the issued and outstanding capital stock of MICA Microwave Corporation ("MICA"), a California corporation located in Manteca, California. The acquisition of MICA was accounted for as a purchase, and the operating results of MICA have been included in the consolidated financial statements since the June 5, 2007 acquisition date. The purchase price has been allocated to the fair value of assets acquired and liabilities assumed based on their fair value at the date of acquisition.

In June 2005, we acquired all of the issued and outstanding capital stock of Stealth Microwave, Inc. ("Stealth"), a New Jersey corporation located in Trenton, New Jersey. The acquisition of Stealth was accounted for as a purchase, and the operating results of Stealth have been included in the consolidated financial statements since the June 10, 2005 acquisition date. The purchase price has been allocated to the fair value of assets acquired and liabilities assumed based on their fair value at the date of acquisition.

*Business of Issuer*

Headquartered in Hudson, New Hampshire, Micronetics manufactures microwave and radio frequency (RF) components and integrated multifunction subassemblies used in a variety of commercial wireless, defense and aerospace products, including satellite communications, electronic warfare and electronic counter-measures. We also manufacture and design test equipment, subassemblies and components that are used to test the strength, durability and integrity of signals in communications equipment. Our products are embedded in a variety of radars, electronic warfare systems, guidance systems, wireless telecommunications and satellite equipment. Our microwave devices are used on subassemblies and integrated systems in addition to being sold on a component basis.

Micronetics operates through its four wholly owned subsidiaries, Micro-Con, MVS, Stealth and MICA. These subsidiaries, along with Micronetics' NH based facility, manufacture products in three major product categories: RF Microwave Components, Microwave Integrated Multifunction Subassemblies and Test Solutions.

Management has determined that we operate as a single integrated business and as such have one operating segment as a provider of RF and microwave components and sub-assemblies for defense and commercial customers worldwide. Our product groups have similar characteristics such as cost to design and manufacture, applications, types of customers, and sales channels.

The following are descriptions of Micronetics' three major product categories:

*RF Microwave Components:*

Micronetics' RF Microwave Component product family consists of high performance receiver components, noise components, voltage controlled oscillator components, linearized and non-linearized power amplifier components and Ferrite components. These components are designed and manufactured at our wholly owned subsidiaries MVS, Micro-Con, Stealth, MICA and the Micronetics' NH facility.

Our *receiver components* (switches, attenuators, phase shifters, detectors and mixers) are used widely in military ground-based, shipboard and airborne radar for tracking and simulation, phased array radar, electronic warfare systems, electronic intelligence and tactical/satellite communication systems. In addition, receiver components have commercial applications such as wireless communications, radar surveillance and test equipment to support systems. This category of products offers several competitive technical advantages, including a dedicated high power design and development facility, which manufactures receiver components in power levels up to 1200W CW (carrier wave). We are only aware of a few companies with this expertise. These designs are successfully embedded into applications such as radar measurement, airborne synthetic aperture radar polarization and receiver protection in radar and communications. In addition, Micronetics also offers high power testing services.

Micronetics' *noise components* are employed in testing and measuring sophisticated communication systems to determine the quality of the reception and transmission of information. The widest application for our noise components is as a reference standard in test instruments that measure unwanted noise in devices and components. Our noise components are used in wireless communication systems as part of built-in test equipment to continuously monitor the quality of the receiver. The major application of the noise source components involves some function of detection, calibration, simulation, security and statistical analysis. The components apply impulses of noise to the receiver to measure the radar sensitivity, signal gain, and frequency bandwidth. Our components used in conjunction with other electronic components are an effective means of jamming, blocking and disturbing hostile radar and other communications, as well as insulating and protecting friendly communications. Micronetics' noise source components are also used to test satellite communications and automated test equipment.

Micronetics' *voltage controlled oscillators (VCOs)* provide a precise signal source within a given frequency range. These products generate sinusoidal signals in frequency ranges from 100MHz to over 7.5GHz, utilizing packaged silicon bipolar transistors that are controlled by an input voltage signal. Our VCOs are used in wireless applications including some military communications and satellite voice/messaging. We offer products in a series of narrow-band, wide-band and selective octave tuning bandwidths. Depending on the series, packaging configurations for MIL and commercial applications include PIN types, SMT, hermetic and miniature packages.

Micronetics designs and manufactures a broad selection of linearized and non linearized power amplifiers including analog and digital pre-distortion products. Our specialized amplifiers are designed with a proprietary linearization capability that allows for smaller size amplifier solutions with a fraction of the power consumption. Our amplifier products are used in various commercial and military applications, and are currently in operation in applications such as base stations for commercial telecommunications standards to 3G and 4G standards, portable mobile video transmitters, MMDS transmitters, digital electronic news gathering equipment, RF test and measurement, multi-band military radio systems for man-pack, vehicular, and flight applications military countermeasures, jamming systems, and RF medical devices.

Micronetics designs and manufactures broadband mixers and ferrites. Its products offer exceptional performance for systems where spectral purity is important, including IED Jamming, TD-CDMA, WiMAX, COFDM, Radar, Electronic Warfare and Space applications.

*Microwave Integrated Multifunction Subassemblies:*

Micronetics designs and manufactures complex *microwave integrated multifunction subassemblies*, also know as microwave multifunction modules, which consist of sophisticated assemblies that perform many functions related to the switching of microwave signals. Micronetics' integrated subassemblies are employed in several defense, commercial or aerospace electronics systems and programs. These subassemblies combine microwave functions such as amplification, attenuation, switching of multiple signals, and phase and amplitude control. We also facilitate the assembly and testing services of high-end, customer-designed RF microwave assemblies, including all assembly, testing and environmental screening of customer-designed complex subassemblies.

The primary design and development of these subassemblies is performed at our Micro-Con facility, where the manufacturing capability extends across the 0.1GHz to 40GHz frequency range for both broadband multi-octave and narrowband applications. We have design proficiencies in over 125 unique designs that include such highly integrated multi-function modules as, low noise receivers, both up and down conversion modules, RF microwave distribution networks, transmit drivers, broadband frequency synthesizers and phase/amplitude control networks.

*Test Solutions*

Micronetics designs and manufactures several broadband *test solution* platforms specifically designed to serve the wireless telecommunications and satellite communication markets employing such application standards as TDMA, CDMA, GSM, PCS, HDTV and other markets employing cable modem transmission and other internet infrastructure applications. The test equipment is centered around the following four platforms: Carrier-to-Noise, Automated Noise Generators, bench-top Noise Generators and hand-held Power Meter instruments. These platforms perform a variety of tests, which are used in performance verification, and the emulation of impairments in cellular/PCN/PCS, satellite, television and cable modem communication systems.

*Overview of Markets Served*

*Defense/Aerospace Marketplace*

The defense/aerospace marketplace is in a period of transition, attempting to keep pace with a U.S. military strategy that has been evolving to respond to the decentralized, asymmetric threats that have emerged since the mid-1980s. Current U.S. defense strategy and force structure is moving towards lighter, smarter and more flexible weapons systems with an emphasis on intelligence, surveillance and reconnaissance.

The defense industry is currently dominated by a small number of large domestic prime contractors and a few large European defense companies with an increasing presence in U.S. markets. The large defense prime contractors have shifted their business strategies to focus on platforms and systems integration and consequently have subcontracted the development of many systems and subsystems.

The current business, political and global security environments continue to provide opportunities for mid-tier defense/aerospace manufacturers to develop strategic relationships with prime contractors. Retro-fits and upgrades of existing platforms continue to be funded even as major new programs are being deferred.

*Commercial Marketplace*

Wireless communication is the transmission of voice and data signals through the air, without a physical connection, such as metal wire or fiber-optic cable. Information transmitted through wireless communications equipment is transmitted by electromagnetic waves, also known as signals. Electromagnetic waves vary in length, or frequency, and intensity. The range of electromagnetic waves is called the spectrum, which encompasses sound near the low end and light toward the higher end. In between is the radio spectrum that is used in all wireless communications. RF indicates lower frequencies, while "microwave" refers to relatively higher frequencies in the spectrum.

Different types of wireless communications systems utilize different frequencies in the spectrum. Frequency is measured in cycles per second, or Hertz. The spectrum currently in use by all types of wireless communications equipment ranges from 1 kilohertz (1 thousand cycles per second) to 20 gigahertz (20 billion cycles per second). The Federal Communications Commission ("FCC") allocates portions of the spectrum for the various types of wireless communication systems. Wireless communications systems currently in use include cellular and PCS telephones and base stations, wireless cable, satellite communications, global positioning systems, direct broadcast satellites, local area networks, as well as radar systems. Non-wireless communications systems are also concerned whether there is unwanted noise in the line that could disrupt the integrity of the communicating signals. Our products are designed for use in wireless and non-wireless applications.

A key driver of demand for Micronetics' products is the pervasive transformation of information from the analog domain to the digital domain. Because digital technologies require greater degrees of precision and rely more on miniature circuits than analog technologies, testing is critical for the rapid commercialization of reliable products necessitated by broadband and wireless communication technologies. As the speed to market challenges increase, larger companies are relying increasingly on other companies to manufacture a module or an integrated subassembly to perform such testing. This module or subassembly is then assembled by the larger company into an integrated piece of equipment and sold to a customer. Micronetics has been seeking to capitalize on this trend by increasing its capability for manufacturing integrated subassemblies. Our goal is to leverage our high power and noise technology to continue to be the most reliable microwave subsystem supplier in the marketplace.

Micronetics' overall strategy in these markets is to:

- INCREASE VALUE THROUGH HIGHER LEVELS OF INTEGRATION AND BUILT-IN SELF TEST. Combining our extensive expertise in both microwave components and microwave subsystem integration (with built-in test) we are able to achieve significant cost reduction and improved reliability over subsystems based on components alone. This is an attractive solution for long-term high reliability programs.
- REMAIN A LEADING SUPPLIER OF KEY TECHNOLOGIES. We are a leading supplier of certain key technologies in all our business segments. Our core competencies are our broadband noise sources, low noise amplifiers, low IMD switches and mixers, high power components and linearized power amplifiers. These areas provide a real lead into many microwave system applications.
- STRENGTHEN OUR EXISTING RELATIONSHIPS WITH PRIME CONTRACTORS. Our history as a supplier of quality high reliability microwave components for airborne platforms has established us as a key supplier to many prime contractors. We continue to leverage off that legacy to support higher integration subsystems with those prime contractors.
- CAPITALIZE ON OUTSOURCING DYNAMICS IN THE AEROSPACE AND DEFENSE INDUSTRY. As new platforms are becoming increasingly expensive and world threats are becoming less defined, key industries are facing an urgent need to upgrade existing platforms with new electronics. Government agencies are working with smaller companies as opposed to the large OEMs for these upgrades. Our ability to provide a timely, cost effective, and reliable design upgrade allows us to become a key provider in this area.

- PURSUE STRATEGIC ACQUISITIONS. We will continue to look for small profitable, entrepreneurial organizations with compatible technologies for potential acquisitions. We believe our philosophy of leaving the operations intact, adding some corporate structure, sharing sales and marketing intelligence and combining forces to win large microwave subsystems positions us for growth.
- CONTROL COSTS THROUGH OUTSOURCING. We have controlled costs of goods sold through the use of manufacturing partners. These partnership arrangements allow us to focus on the quality, integrity and intelligence of our engineering designs, while maintaining tight control over costs, scheduling, quality, manufacturing and final test.
- MAINTAIN DIVERSITY IN THE DEFENSE AND COMMERCIAL MARKETPLACE. We balance business in defense with commercial marketplaces in order to diversify our customers. The defense marketplace provides stable growth opportunities with long-range visibility, while the commercial marketplace offers more aggressive growth opportunities and is more variable. We believe this dual focus maximizes our growth potential.

*Manufacturing*

Our components that require automated assembly equipment are generally manufactured by third parties and tested by Micronetics for quality assurance. The production process for these products is usually completed within two to three weeks. Manufacturing of our other products, which involve less automated assembly equipment, takes place at our Hudson, NH, Monroe, CT, Fairfield, NJ, Trenton, NJ, or Manteca, CA facilities. The production process for these products ranges from one to twenty-four weeks.

Micronetics' Hudson, NH facility, Micro-Con, Stealth and MICA are ISO 9001: 2000 certified facilities. Independent ISO 9001 quality system registrars certified these facilities as compliant, following rigorous audits to assess our quality assurance systems against ISO certification requirements. To be in compliance with ISO standards, we had to demonstrate our use of well-documented and highly disciplined controls and processes to ensure consistency and reliability of product quality, interaction with our customers and a continuous effort to improve.

*Suppliers*

We have approximately 500 suppliers, a few of which are the sole source for some raw materials. During the past ten years, we have experienced limited supply problems and do not anticipate any material increase in these problems in the foreseeable future. We do not believe there would be any significant business disruption if we were to lose one of our sole suppliers because we generally have sufficient inventory to give us time to develop an alternative supplier.

*Sales and Marketing*

Our sales are made primarily through direct sales personnel or through independent sales representatives who promote and solicit orders for our products on a commission basis in exclusive marketing territories. We select our sales representatives on the basis of technical and marketing expertise, reputation within the industry and financial stability. These sales representatives represent other manufacturers with products complementary to, rather than competitive with Micronetics' products.

We also promote our products through field visits to customers, telephone solicitation, direct mailing campaigns, advertising in trade journals, participation in trade shows and maintenance of a website.

During Fiscal 2009 and Fiscal 2008, the approximate mix of sales was 31% and 69% respectively, for commercial applications and 69% and 31% respectively, for defense applications. During Fiscal 2009, we saw a significant shift to our sales mix with erosion in the commercial marketplace for high powered amplifiers offset by an increase in defense related components and integrated subassemblies.

*Customers*

We sell primarily to original equipment manufacturers of communications equipment in either the commercial or the defense electronic marketplace. Many of those customers are prime contractors for defense work or larger Fortune 500 companies with world-wide operations. Our three largest customers, ITT Electronic Warfare Systems, BAE Systems and Raytheon accounted for 22%, 5% and 5% of the consolidated sales in Fiscal 2009, respectively. We believe that replacing any of these customers could be difficult.

Other customers of Micronetics include Northrop Grumman Corporation, Aerosat Avionics LLC, L3 Communications Corporation, Thales, Boeing Company and Anritsu. In addition, direct government customers include DFAS, Hill AFB, Augusta Aerospace and NAVICP. Our customers generally purchase our products on the basis of purchase orders, rather than long-term supply contracts.

*Competition*

We are subject to active competition in the sale of virtually all of our products. Many of our competitors, including divisions of major corporations, have significantly greater resources than those currently available to us. Additionally, some of our customers compete directly by manufacturing certain components themselves, rather than purchasing them from Micronetics.

Our primary competitors are Aeroflex, Inc., Aethercomm, Anaren Inc., Cobham, PLC, ComTech Telecommunications Corporation, Herley Industries, Inc., Spectrum Control, Inc., and Teledyne Technologies, Inc.

Micronetics' competitive position is supported by:

- A HISTORY OF RELIABILITY ON AIRBORNE PROGRAMS. We have an excellent performance track record in airborne programs. Our experience has allowed us to deliver complex integrated subsystems to meet the exacting requirements of airborne in-flight satellite broadcasting.
- DIVERSE PRODUCTS AND MARKET BASE. With a balanced combination of defense and commercial markets, we are able to leverage technology development for defense programs to commercial products and the volume on commercial applications reduces manufacturing cost for our defense products.
- SUCCESSFUL ACQUISITION TRACK RECORD. We believe our acquisition strategy based on keeping the operations of acquired entities intact is key to successfully integrating and operating acquired entities. Our strategy allows for a smooth transition and maintains valuable resources. Our goal is to continue to expand our Company by increasing our resources to manufacture and design complex integrated subassemblies through acquisitions.

*Research and Development*

Micronetics maintained an engineering staff of 29 individuals as of March 31, 2009, whose duties include the improvement of existing products, modification of products to meet customer needs and the engineering, research and development of new products and applications. Expenses for research and development predominantly involve engineering for improvements and development of new products for commercial markets. Such expenditures include the cost of engineering services and engineering-support personnel. These expenses were $1,869,142 and $1,018,010 for Fiscal 2009 and Fiscal 2008, respectively. The increase was primarily due to development work for an in-flight high-speed transceiver product, high power products for defense applications and a new high power amplifier line for commercial telecom applications.

Micronetics intends to continue its research and development activities and considers these efforts to be vital to its future growth and success.

*Backlog*

Micronetics' backlog of firm orders was approximately $26 million and $14 million on March 31, 2009 and 2008, respectively.

*Government Regulatory Matters*

In many instances, we have been required to obtain export licenses before filling foreign orders. United States Export Administration regulations control high tech exports like our products for reasons of national security and compliance with foreign policy, to guarantee domestic reserves of products in short supply and, under certain circumstances, for the security of a destination country. Thus, any foreign sales of our products requiring export licenses must comply with these general policies. Although we have not experienced any significant export licensing problems to date, such problems may arise in the future, since many of our products have military and other governmental applications. These regulations are subject to change, and any such change may require us to improve our technologies, incur expenses or both in order to comply with such regulations.

*Employees*

As of March 31, 2009, we had 202 full-time employees including 39 engaged in management and administration, 29 in engineering, 129 in production and testing and 5 in sales. Management believes that relations with our employees are good.

*Intellectual Property*

Micronetics has been granted U.S. patents on certain of its designs, including the MicroCal test components and a VCO design. In the absence of patents, Micronetics relies upon trade secret laws and confidentiality procedures to protect its confidential and proprietary information.

Due to the rapid rate of technological change in our market, we believe the ability to innovate is of greater importance to our business than availability of patents and proprietary rights. We believe barriers to competitor entry into our markets include the time and expense necessary to design and manufacture components and the difficulty of selling to an established customer who has already designed our products into its equipment.

We have registered "Micronetics" and "Innovation For the Future" as trademarks with the U.S. Patent and Trademark Office.

*Warranty and Service*

We generally provide one-year warranties on all of our products covering both parts and labor. Micronetics, at its option, repairs or replaces products that are defective during the warranty period if the proper preventative maintenance procedures have been followed by the customer. Repairs that are necessitated by misuse of such products or are required outside the warranty period are not covered by warranty.

In the case of defective products, the customer typically returns them to our facility. Micronetics' service personnel replace or repair the defective items and ship them back to the customer. Generally, all servicing is done at our plant, and we charge our customers a fee for those service items that are not covered by warranty. We do not offer our customers any formal written service contracts.

*Product Liability Coverage*

The testing of electronic communications equipment and the accurate transmission of information entail a risk of product liability by customers and others. Claims may be asserted against Micronetics by end-users of any of our products. We maintain product liability insurance coverage with an aggregate annual liability coverage limit, regardless of the number of occurrences, of $2.0 million. There is no assurance that such insurance will continue to be available at a reasonable cost or sufficient to cover all possible liabilities. In the event of a successful suit against us, lack or insufficiency of insurance coverage could have a material adverse effect on our business.

*Environmental Laws*

The costs and effects of compliance with federal, state and local environmental laws were not material to our business.

### Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors in evaluating our business. If any of these risks, or other risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition and results of operations could be adversely affected. If that happens, the market price of our common stock could decline.

**Recent Changes in Economic Conditions May Adversely Affect Our Business.**

Recent changes in domestic and global economic conditions could adversely affect our business. In response to such changes we may experience, insolvency of key suppliers resulting in product delays; customer insolvencies; decreased customer confidence; and decreased customer demand. Any of these events, or any other events caused by the recent changes in economic conditions, may have a material adverse effect on our business, operating results, and financial condition.

**We may be materially and adversely affected by reductions in spending by certain of our customers.**

The significant slowdown in capital spending by certain of our customers, coupled with existing economic and geopolitical uncertainties and the potential impact on customer demand, has created uncertainty as to market demand. As a result, revenues and operating results for a particular period can be difficult to predict. In addition, there can be no certainty as to the severity or duration of the current industry adjustment. As a result of changes in industry and market conditions, many of our customers have significantly reduced their capital spending. Our revenues and operating results have been and may continue to be materially and adversely affected by reductions in capital spending by our customers.

**Our operating results have historically been subject to yearly and quarterly fluctuations and are expected to continue to fluctuate.**

Our operating results have historically been and are expected to continue to be subject to quarterly and yearly fluctuations as a result of a number of factors including:

- our ability to successfully implement programs to stimulate sales by anticipating and offering the kinds of products and services customers will require in the future to increase the efficiency and profitability of their products;
- our ability to successfully complete programs on a timely basis, to reduce our cost structure, including fixed costs, to streamline our operations and to reduce product costs;
- our ability to focus our business on what we believe to be potentially higher growth, higher margin businesses and to dispose of or exit non-core businesses;
- increased price and product competition in our markets;
- the inherent uncertainties of using forecasts, estimates and assumptions for asset valuations and in determining the amounts of accrued liabilities and other items in our consolidated financial statements;
- our ability to implement our work plan without negatively impacting our relationships with our customers, the delivery of products based on new and developing technologies, the delivery of high quality products at competitive prices, the maintenance of technological leadership, the effectiveness of our internal processes and organizations and the retention of qualified personnel;

- fluctuations in our gross margins;
- the development, introduction and market acceptance of new technologies;
- variations in sales channels, product costs and the mix of products sold;
- the size and timing of customer orders and shipments;
- our ability to maintain appropriate inventory levels;
- the impact of acquired businesses and technologies;
- the impact of our product development schedules, product quality variances, manufacturing capacity and lead times required to produce our products;
- changes in legislation, regulation and/or accounting rules; the impact of higher insurance premiums and deductibles and greater limitations on insurance coverage; and
- acts of terrorism or the outbreak of hostilities or armed conflict between countries.

**There are a number of trends and factors which affect our markets, including economic conditions in the United States, Europe and globally, and are beyond our control. These trends and factors may result in reduced demand and pricing pressure on our products.**

There are trends and factors affecting our markets that are beyond our control and may affect our operations. Such trends and factors include:

- adverse changes in the public and private equity and debt markets and our ability, as well as the ability of our customers and suppliers, to obtain financing or to fund working capital and capital expenditures;
- adverse changes in our current credit condition or the credit quality of our customers and suppliers;
- adverse changes in the market conditions in our markets;
- the trend towards the sale of integrated products;
- visibility to, and the actual size and timing of, capital expenditures by our customers;
- inventory practices, including the timing of product and service deployment, of our customers;
- policies of our customers regarding utilization of single or multiple vendors for the products they purchase;
- the overall trend toward industry consolidation and rationalization among our customers, competitors and suppliers;
- conditions in the broader market for military and communications products;
- governmental regulation or intervention affecting our products; and
- the effects of war and acts of terrorism, such as disruptions in general global economic activity, changes in logistics and security arrangements and reduced customer demand for our products and services.

**Economic conditions affecting the industry, which affect market conditions in the military and communication infrastructure industry in the United States, Europe and globally, affect our business.**

Reduced capital spending and/or negative economic conditions in the United States, Europe as well as other areas of the world have resulted in, and could continue to result in, reduced demand for or increased pricing pressures on our products.

**We have made, and may continue to make, strategic acquisitions in order to enhance our business. If we are not successful in operating or integrating these acquisitions, our business, results of operations and financial condition may be materially and adversely affected.**

In the past, we acquired companies to enhance the expansion of our business and products. We may consider additional acquisitions which could involve significant risks and uncertainties.

These risks and uncertainties include:

- the risk that the industry may develop in a different direction than anticipated and that the technologies we acquire do not prove to be those we need to be successful in the industry;
- the risk that future valuations of acquired businesses may decrease from the market price we paid for these acquisitions;
- the generation of insufficient revenues by acquired businesses to offset increased operating expenses associated with these acquisitions;
- the potential difficulties in completing in-process research and development projects and delivering high quality products to our customers;
- the potential difficulties in integrating new products, businesses and operations in an efficient and effective manner;
- the risk that our customers or customers of the acquired businesses may defer purchase decisions as they evaluate the impact of the acquisitions on our future product strategy;
- the potential loss of key employees of the acquired businesses;
- the risk that acquired businesses will divert the attention of our senior management from the operation of our business; and
- the risks of entering new markets in which we have limited experience and where competitors may have a stronger market presence.

Our inability to successfully operate and integrate newly-acquired businesses appropriately, effectively and in a timely manner could have a material adverse effect on our ability to take advantage of further growth in demand for products in our marketplace, as well as on our revenues, gross margins and expenses.

**If we cannot effectively manage our growth, our business may suffer.**

We have previously expanded our operations through acquisitions in order to pursue existing and potential market opportunities. If we fail to manage our growth properly, we may incur unnecessary expenses and the efficiency of our operations may decline. To manage our growth effectively, we must, among other things:

- successfully attract, train, motivate and manage a larger number of employees for production and testing, engineering and administration activities;
- control higher inventory and working capital requirements; and
- improve the efficiencies within our operating, administrative, financial and accounting systems, and our procedures and controls.

**Our reliance on a limited number of customers for a large portion of our revenues could materially and adversely affect our results of operations and financial condition.**

Relatively few customers have accounted for a substantial portion of our net sales. During Fiscal 2009 our top three customers collectively accounted for 32% of our total net sales. We may not continue to receive significant revenues from any of these or from other large customers. Because of our significant customer concentration, our net sales and operating income could fluctuate significantly due to the loss of, reduction of business with, or less favorable terms for any of our significant customers. A reduction or delay in orders from any of our significant customers, or a delay or default in payment by any significant customer could materially harm our results of operation and liquidity.

**We depend on single manufacturing lines for our products, and any significant disruption in production could impair our ability to deliver our products.**

We currently manufacture and assemble our products at our various facilities using individual production lines for certain product categories. We have experienced manufacturing difficulties in the past, and any significant disruption to one of these production lines will require time either to reconfigure and equip an alternative production line or to restore the original line to full capacity. Some of our production processes are complex, and we may be unable to respond rapidly to the loss of the use of any production line. This could result in delayed shipments, which could result in customer dissatisfaction, loss of sales and damage to our reputation.

**We depend on sole or limited source suppliers, and any disruption in supply could impair our ability to deliver our products on time or at expected cost.**

We obtain many key components for our products from third-party suppliers, and in some cases we obtain raw materials from a single or a limited number of suppliers. Interruptions in supply of components or other products from third-party suppliers could impair our ability to deliver our products until we identify a new source of supply, which could take several weeks, months or longer and could increase our costs significantly. In general, we do not have written long-term supply agreements with our suppliers but instead purchase components through purchase orders, which expose us to potential price increases and termination of supply without notice or recourse. If we are required to use a new source of materials or components, it could also result in unexpected manufacturing difficulties and could affect product performance and reliability.

**Our gross margins may be negatively affected, which in turn would negatively affect our operating results.**

Our gross margins may be negatively affected as a result of a number of factors, including:

- increased price competition;
- excess capacity or excess fixed assets;
- customer and contract settlements;
- higher product, material or labor costs;
- increased inventory provisions or contract and customer settlement costs;
- warranty costs;
- obsolescence charges;
- loss of cost savings on future inventory purchases as a result of high inventory levels;
- introductions of new products and costs of entering new markets;
- increased levels of customer services;
- changes in distribution channels; and
- changes in product and geographic mix.

Lower than expected gross margins would negatively affect our operating results.

**We may not be able to attract or retain the specialized technical and managerial personnel necessary to achieve our business objectives.**

Competition for certain key positions and specialized technical personnel in the high-technology industry is strong. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel in a timely manner, particularly in key senior management positions and in our key areas of potential growth. An important factor in attracting and retaining qualified employees is our ability to provide employees with the opportunity to participate in the potential growth of our business through programs such as stock option plans. We may also find it more difficult to attract or retain qualified employees because of our size. In addition, if we have not properly sized our workforce and retained those employees with the appropriate skills, our ability to compete effectively may be adversely affected. If we are not successful in attracting, retaining or recruiting qualified employees, including members of senior management, in the future, we may not have the necessary personnel to effectively compete in the highly dynamic, specialized and volatile industry in which we operate or to achieve our business objectives.

**Future cash flow fluctuations may affect our ability to fund our working capital requirements or achieve our business objectives in a timely manner.**

Our working capital requirements and cash flows historically have been, and are expected to continue to be, subject to quarterly and yearly fluctuations, depending on such factors as timing and size of capital expenditures, levels of sales, timing of deliveries and collection of receivables, inventory levels, customer payment terms and supplier terms and conditions. We believe our cash on hand and availability under our line of credit will be sufficient to fund our current business model, manage our investments and meet our customer commitments for at least the next 12 months. However, a greater than expected slow down in capital spending by our customers may require us to adjust our current business model. As a result, our revenues and cash flows may be materially lower than we expect and we may be required to reduce our capital expenditures and investments or take other measures in order to meet our cash requirements. We may seek additional funds from liquidity-generating transactions and other conventional sources of external financing (which may include a variety of debt, convertible debt and/or equity financings). We cannot provide any assurance that our net cash requirements will be as we currently expect. Our inability to manage cash flow fluctuations resulting from the above factors could have a material adverse effect on our ability to fund our working capital requirements from operating cash flows and other sources of liquidity or to achieve our business objectives in a timely manner.

**Our business may be materially and adversely affected by increased levels of debt.**

In order to finance our business or to finance possible acquisitions we may incur significant levels of debt compared to historical levels, and we may need to secure additional sources of funding, which may include debt or convertible debt financing, in the future. A high level of debt, arduous or restrictive terms and conditions relating to accessing certain sources of funding, failure to meet the financial and/or other covenants in our credit and/or support facilities and any significant reduction in, or access to, such facilities, poor business performance or lower than expected cash inflows could have adverse consequences on our ability to fund our business and the operation of our business.

Other effects of a high level of debt include the following:

- we may have difficulty borrowing money in the future or accessing sources of funding;
- we may need to use a large portion of our cash flow from operations to pay principal and interest on our indebtedness, which would reduce the amount of cash available to finance our operations and other business activities;
- a high debt level, arduous or restrictive terms and conditions, or lower than expected cash flows would make us more vulnerable to economic downturns and adverse developments in our business; and

- if operating cash flows are not sufficient to meet our operating expenses, capital expenditures and debt service requirements as they become due, we may be required, in order to meet our debt service obligations, to delay or reduce capital expenditures or the introduction of new products, sell assets and/or forego business opportunities including acquisitions, research and development projects or product design enhancements.

**We operate in highly dynamic and volatile industries characterized by changing technologies, evolving industry standards, frequent new product introductions and relatively short product life cycles.**

The markets for our products are characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles. We expect our success to depend, in substantial part, on the timely and successful introduction of high quality, new products and upgrades, as well as cost reductions on current products to address the operational speed, bandwidth, efficiency and cost requirements of our customers. Our success will also depend on our ability to comply with emerging industry standards, to operate with products of other suppliers, to address emerging market trends, to provide our customers with new revenue-generating opportunities and to compete with technological and product developments carried out by others. The development of new, technologically advanced products, is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. Investments in such development may result in expenses growing at a faster rate than revenues, particularly since the initial investment to bring a product to market may be high. We may not be successful in targeting new market opportunities, in developing and commercializing new products in a timely manner or in achieving market acceptance for our new products.

The success of new or enhanced products, depends on a number of other factors, including the timely introduction of such products, market acceptance of new technologies and industry standards, the quality and robustness of new or enhanced products, competing product offerings, the pricing and marketing of such products and the availability of funding for such networks. Products and technologies developed by our competitors may render our products obsolete. If we fail to respond in a timely and effective manner to unanticipated changes in one or more of the technologies affecting telecommunications or our new products or product enhancements fail to achieve market acceptance, our ability to compete effectively in our industry, and our sales, market share and customer relationships could be materially and adversely affected.

**We face significant competition and may not be able to increase or maintain our market share and may suffer from competitive pricing practices.**

We operate in an industry that is characterized by industry rationalization and consolidation, vigorous competition for market share and rapid technological development. Competition is heightened in periods of slow overall market growth. These factors could result in aggressive pricing practices and growing competition from niche companies, established competitors, as well as well-capitalized companies, which, in turn, could have a material adverse effect on our gross margins.

We expect that we will face additional competition from existing competitors and from a number of companies that have entered or may enter our existing and future markets. Some of our current and potential competitors have greater marketing, technical and financial resources, including access to capital markets and/or the ability to provide customer financing in connection with the sale of products. Many of our current and potential competitors have also established, or may in the future establish, relationships with our current and potential customers. Other competitive factors include the ability to provide new technologies and products, end-to-end solutions, and new product features, as well as conformance to industry standards. Increased competition could result in price reductions, negatively affecting our operating results, reducing profit margins and potentially leading to a loss of market share.

**Our business may suffer if we cannot protect our proprietary technology.**

Our ability to compete depends significantly upon our patents and our other proprietary technology. The steps we have taken to protect our technology may be inadequate to prevent others from using what we regard as our technology to compete with us. Our patents could be challenged, invalidated or circumvented, and the rights we have under our patents could provide no competitive advantages. Existing trade secrets, copyright and trademark laws offer only limited protection. In addition, other companies could independently develop similar or superior technology without violating our intellectual property rights. Any misappropriation of our technology or the development of competing technology could seriously harm our competitive position, which could lead to a substantial reduction in net sales.

If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome, disruptive and expensive, distract the attention of management, and there can be no assurance that we would prevail.

**Claims by others that we infringe their intellectual property rights could harm our business and financial condition.**

We cannot be certain that our products do not and will not infringe issued patents, patents that may be issued in the future, or other intellectual property rights of others. We do not conduct exhaustive patent searches to determine whether the technology used in our products infringes patents held by third parties.

Any claim of infringement could cause us to incur substantial costs defending against the claim, even if the claim is invalid, and could distract the attention of our management. If any of our products are found to violate third-party proprietary rights, we may be required to pay substantial damages. In addition, we may be required to re-engineer our products or obtain licenses from third parties to continue to offer our products. Any efforts to re-engineer our products or obtain licenses on commercially reasonable terms may not be successful, which would prevent us from selling our products, and, in any case, could substantially increase our costs and have a material adverse effect on our business, financial condition and results of operations.

**The market price of our common stock may be volatile.**

Our stock price has historically been volatile. From April 1, 2007 to March 31, 2009, the trading price of our common stock ranged from $10.43 to $1.57. Many factors may cause the market price of our common stock to fluctuate, including:

- variations in our quarterly results of operations;
- the introduction of new products by us or our competitors;
- the hiring or departure of key personnel;
- acquisitions or strategic alliances involving us or our competitors;
- changes in, or adoptions of, accounting principles; and
- market conditions in our industries.

In addition, the stock market can experience extreme price and volume fluctuations. These fluctuations, which are often unrelated to the operating performance of particular companies, may adversely affect the market price of our common stock.

**Our common stock is thinly traded; therefore, our stock price may fluctuate more than the stock market as a whole.**

Although our shares are traded on the Nasdaq Stock Market, our stock is thinly traded. As a result, its market price may fluctuate significantly more than the stock market as a whole or the stock prices of similar companies. Without a larger float, our common stock will be less liquid than the stock of companies with broader public ownership, and as a result, the trading prices for our common stock may be more volatile. Among other things, trading of a relatively small volume of common stock may have a greater impact on the trading price than would be the case if the public float were larger.

**Declines in the market price of our common stock may negatively impact our ability to make future strategic acquisitions, raise capital, issue debt or retain employees.**

The stock markets have experienced extreme price fluctuations that have affected the market price and trading volumes of many technology and telecommunications companies in particular, with potential consequential negative effects on the trading of securities of such companies. A major decline in the capital markets generally, or an adjustment in the market price or trading volumes of our common stock may negatively impact our ability to raise capital, issue debt, retain employees or make future strategic acquisitions. These factors, as well as general economic and political conditions, and continued negative events within the technology sector, may in turn have a material adverse effect on the market price of our common stock.

**The testing of electronic communications equipment and the accurate transmission of information entail a risk of product liability claims by customers and others.**

Claims may be asserted against Micronetics by end-users of any of our products. We maintain product liability insurance coverage with an aggregate annual liability coverage limit, regardless of the number of occurrences, of $2.0 million. There is no assurance that such insurance will continue to be available at a reasonable cost or will be sufficient to cover all possible liabilities. In the event of a successful suit against us, lack or insufficiency of insurance coverage could result in substantial cost and could have a material adverse effect on our business.

**Our products with military applications are subject to export regulations, which may be costly.**

We are required to obtain export licenses before filling foreign orders for many of our products with military or other governmental applications. United States Export Administration regulations control high tech exports like our products for reasons of national security and compliance with foreign policy, to guarantee domestic reserves of products in short supply and, under certain circumstances, for the security of a destination country. Thus, any foreign sales of our products requiring export licenses must comply with these general policies. Although we have not experienced any significant export licensing problems to date, such problems may arise in the future. In addition, these regulations are subject to change, and any such change may require us to improve our technologies, incur expenses or both in order to comply with such regulations.

**We are subject to recently enacted environmental regulation, compliance with which may be costly.**

In 2006 the European Union (“EU”) implemented two new directives known as the Restriction on Certain Hazardous Substances Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE). These directives place restrictions on the distribution within the EU of certain substances, and require a manufacturer to recycle products containing the restricted substances. We believe that the majority of our products are exempt from the directives because they are used for military purposes rather than by consumers. However, we may not be able to rely on such an exemption until regulators review documentation and issue a ruling on each product. We are redesigning our products that we believe may not be exempt from the directives in order to be able to continue to offer such products for sale in the EU. We may encounter unanticipated delays in the completion of the redesign or in the delivery of any products that are not exempt from the directives. In addition certain products that we maintain in inventory may be rendered obsolete if not in compliance with the directives and may have to be written off. Although we cannot predict the ultimate impact of the directives, they will likely result in additional costs or decreased revenue and could require that we redesign or change how we manufacture our products.

**Changes in the securities laws and regulations have increased, and are likely to continue to increase, our costs, and may also adversely affect our ability to attract and retain qualified directors.**

The Sarbanes-Oxley Act has required changes in some of our corporate governance, securities disclosure and compliance practices. Pursuant to the requirements of that Act, the SEC and the Nasdaq Stock Market have promulgated rules and listing standards covering a variety of subjects. Compliance with these new rules and listing standards has increased our legal costs, and increased our accounting and auditing costs, and we expect these costs to continue to increase, and to materially impact our financial results. In particular, we have incurred and will continue to incur substantial expense in the on-going evaluation and testing of our internal control over financial reporting as we comply with Section 404 of the Sarbanes-Oxley Act. These changes in securities laws and regulations may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our board of directors, particularly independent directors, or qualified executive officers.

**If we or our independent registered public accounting firm are unable to affirm the effectiveness of our internal control over financial reporting in future years, the market value of our common stock could be adversely affected.**

Our independent registered public accounting firm must audit and report on our internal controls over financial reporting as of March 31, 2010 and subsequent fiscal year end dates to be included in our Annual Report on Form 10-K. We cannot assure you that we or our independent registered public accounting firm will be able to report that our internal controls over financial reporting are effective as of March 31, 2010 and subsequent fiscal year end dates. In this event, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the market value of our Common Stock.

**Our Financing Requirements May Increase and We Could Have Limited Access to Capital Markets.**

The United States and worldwide capital and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. In addition, declining capital ratios of many lending institutions and the very weak commercial paper market have adversely impacted various lending institutions, which may adversely impact our ability to borrow under our existing lines of credit. While we believe that our current resources and access to capital markets are adequate to support operations over the near term and foreseeable future, we cannot assure you that these circumstances will remain unchanged. Our need for capital is dependent on operating results and may be greater than expected. Our ability to maintain our current sources of debt financing depends on our ability to remain in compliance with covenants contained in our financing agreements, including, among other requirements, maintaining minimum tangible net assets, a minimum current ratio, a minimum quarterly EBITDA and a minimum quarterly debt service ratio. If changes in capital markets restrict the availability of funds or increase the cost of funds, we may be required to modify, delay or abandon some of our planned expenditures, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**ITEM 1B. Unresolved Staff Comments.**

None.

**ITEM 2. Properties.**

Our principal manufacturing facility and corporate office is located in a 32,000 square foot building in Hudson, NH which we own. Until May 31, 2007 we leased the remaining 7,000 square feet of this facility to an unaffiliated entity. In February 2004, we refinanced our mortgage on this facility, entering into a new five year mortgage payable for $630,000 with interest at 5.75%, payable in monthly installments of $12,107. This loan was paid in full in February 2009.

MVS operates out of a 3,700 square foot facility located in Monroe, CT, which is leased from an unaffiliated entity.

Micro-Con operates out of a 9,600 square foot facility located in Fairfield, NJ, which is leased from an unaffiliated entity. In the second quarter of Fiscal 2010 we plan to move into a 23,000 square foot leased facility in West Caldwell, NJ replacing the current 9,600 square foot facility.

Stealth operates out of a 21,000 square foot facility located in Trenton, NJ, which is leased from an entity whose owners include two executives of Micronetics.

MICA operates out of a 20,750 square foot facility located in Manteca, CA, which is leased from an unaffiliated entity.

We believe our facilities are adequate for our current and presently anticipated future needs.

**ITEM 3. Legal Proceedings.**

Micronetics is not a party to any pending legal proceedings.

**ITEM 4. Submission of Matters to a Vote of Security Holders.**

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## Part II

## ITEM 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

The common stock is traded on the NASDAQ Capital Market under the symbol NOIZ.

The closing high and low sale prices for the Common Stock for each fiscal quarter from April 1, 2007 until March 31, 2009 as reported by NASDAQ, were as follows:

**Bid Prices**

| Quarter Ended | High | Low |
|---|---|---|
| *Fiscal 2008* | | |
| First Quarter | 9.18 | 7.53 |
| Second Quarter | 10.43 | 8.04 |
| Third Quarter | 9.66 | 7.01 |
| Fourth Quarter | 8.94 | 6.54 |
| *Fiscal 2009* | | |
| First Quarter | 8.57 | 6.41 |
| Second Quarter | 8.49 | 5.54 |
| Third Quarter | 7.52 | 1.57 |
| Fourth Quarter | 3.65 | 1.88 |

The number of holders of record of the common stock as of June 19, 2009 was 218. Micronetics believes that there are a substantially greater number of beneficial owners of shares of its common stock who maintain their shares in "street" name. On June 19, 2009, the last sale price of the common stock as reported by NASDAQ was $3.58 per share.

Micronetics has not paid any cash dividends during its two most recent fiscal years, nor during any subsequent interim period. Under its loan agreements, it is restricted from paying dividends without the consent of its bank.

**Equity Compensation Plan Information**

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 699,125 | $7.78 | 698,000 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 699,125 | $7.78 | 698,000 |

**ITEM 6. Selected Financial Data (unaudited)**

| | Years ended March 31, (in thousands, except earnings per share) | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net sales | $30,347 | $32,625 | $23,690 | $26,909 | $14,059 |
| Gross profit | $ 9,184 | $12,919 | $ 9,377 | $11,695 | $ 6,421 |
| Gross profit | 30% | 40% | 40% | 43% | 46% |
| Net (loss) income | $(9,564) | $ 1,662 | $ 1,041 | $ 2,540 | $ 1,275 |
| (Loss) earnings per common share —basic | $ (1.98) | $ 0.34 | $ 0.22 | $ 0.57 | $ 0.29 |
| Basic weighted average shares | 4,836 | 4,932 | 4,637 | 4,465 | 4,375 |
| (Loss) earnings per common share —diluted | $ (1.98) | $ 0.34 | $ 0.22 | $ 0.54 | $ 0.29 |
| Diluted weighted average shares | 4,836 | 4,951 | 4,789 | 4,697 | 4,452 |
| Total assets | $25,526 | $33,386 | $29,819 | $27,748 | $14,636 |
| Total current liabilities | $ 9,303 | $ 5,426 | $ 5,487 | $ 5,598 | $ 1,918 |
| Long-term debt, net of current portion | $ 3,085 | $ 4,226 | $ 5,633 | $ 5,328 | $ 734 |
| Other long-term liabilities | $ 908 | $ 1,325 | $ 722 | $ 963 | $ 170 |

**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This section should be read in combination with the accompanying audited consolidated financial statements and related notes prepared in accordance with accounting principles generally accepted in the United States of America. This section contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors, including those discussed under the heading "Risk Factors" and elsewhere in this annual report.

*Recent Accounting Pronouncements*

The Provisions of SFAS 157, as issued, are effective for the fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. 157-2, "*Effective Date of FASB Statement No. 157*", ("FSP 157-2") that amended SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope. The Company is in the process of analyzing the potential impact of SFAS No. 157 relating to its planned April 1, 2009 adoption of the remainder of the standard.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) 07-03, "*Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*" ("EITF 07-03"). EITF 07-03 requires companies to defer and capitalize prepaid nonrefundable advance payments for goods or services that will be used for future research and development activities over the period that the research and development activities are performed or the services are provided, subject to an assessment of recoverability. The provisions of EITF 07-3 were effective beginning April 1, 2008. The adoption of EITF 07-03 did not have any effect on the Company's financial statements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(Revised), "*Business Combinations*" ("SFAS 141R"), which replaces Statement of Financial Accounting Standards No. 141, "*Business Combinations*" ("SFAS 141"). SFAS 141R requires the assets acquired, liabilities assumed, and any non-controlling interest to be measured at their fair values as of the acquisition date. SFAS 141R also requires expensing of acquisition related costs and restructuring costs, and re-measurement of earn out provisions at fair value. SFAS 141R is effective for any of the Company's business combinations on or after April 1, 2009. SFAS 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at the time.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *"Noncontrolling Interests in Consolidated Financial Statements"* ("SFAS 160"). SFAS 160 clarifies the accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of equity. SFAS 160 is effective for the Company on April 1, 2009. The Company is currently evaluating the effect that the adoption of SFAS 160 will have on its consolidated results of operations and financial condition.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *"Disclosures About Derivative Instruments and Hedging Activities, an Amendment of Statement No. 133"* ("SFAS 161"). SFAS 161 expands the disclosure requirements in Statement 133 about an entity's derivative instruments and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the effect that the adoption of SFAS 161 will have on its consolidated financial statements.

In April 2008, the FASB issued Staff Position No. FAS 142-3, *"Determination of the Useful Life of Intangible Assets"* ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets ("SFAS 142"). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(Revised) and other applicable accounting literature. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the effect that the adoption of FSP FAS 142-3 will have on its consolidated results of operations and financial condition.

In November 2008, the FASB ratified Emerging Issues Task Force Issue No. 08-7, *Accounting for Defensive Intangible Assets*. EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

*Critical Accounting Policies and Estimates*

The discussion and analysis of our financial condition and the results of operations are based on our consolidated financial statements and the data used to prepare them. Our consolidated financial statements have been prepared based on accounting principles generally accepted in the United States of America ("US GAAP"). On an on-going basis, we evaluate our judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and judgments include revenue recognition, assumptions used in stock option and goodwill valuations, reserves for accounts receivable and inventories, useful lives of property, plant and equipment, purchase price allocation, valuation of investments, intangibles, accrued liabilities, and deferred income taxes and various other assumptions that we believe are reasonable under the circumstances. These estimates and judgments are based on historical experience and various other assumptions that are believed to be reasonable under current business conditions and circumstances. Actual results may differ from these estimates under different assumptions or conditions.

*Revenue Recognition And Product Warranties*

We generate revenue from the sale of products, technology development, and licensing. Revenue is recognized when persuasive evidence of a sales arrangement exists, delivery of product has occurred or services have been rendered, the price to the customer is fixed or determinable, collection is reasonably assured, and no future services are required. Our products are primarily hardware components, and to a lesser extent integrated assembly which includes microwave hardware and embedded software, that are delivered to original equipment manufacturers (OEMs) of telecommunication and networking products who are considered to be end users. During the year ended March 31, 2009, we entered into a contract for production of highly customized microwave and radio frequency components and integrated sub-assemblies. We record revenue for these types of contracts based upon the percentage of completion method in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type of Contracts." For these types of contracts (assuming all other requirements for revenue recognition have been satisfied) we typically use labor hours to measure progress toward completion of the contract as this methodology best reflects the fundamentals of the contract. If estimates to complete the contract change materially from one period to the next, profit levels could significantly vary. Deferred revenue represents billings in excess of revenue recognized.

We record amounts for shipping and handling fees billed to customers as revenue. The cost of shipping and handling fees are recorded as a component of cost of sales.

We sell our products using a direct sales force and sales representatives. Contracts with customers do not include product return rights or price protection. The estimated cost of product warranties are accrued based on historical experience at the time the revenue is recognized. Unless customers purchase an extended warranty, Micronetics offers a one-year warranty.

*Accounts Receivable, Net of Allowance For Doubtful Accounts*

Accounts receivable are customer obligations due under normal trade terms, carried at face value less an allowance for doubtful accounts. We regularly monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon the review of the aging of outstanding accounts, loss experiences, factors related to specific customers' ability to pay, current economic trends and any specific customer collection issues that have been identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that have been experienced in the past. We write off accounts receivable against the allowance in the period that a receivable is determined to be uncollectible.

*Inventories*

Inventories are valued at the lower of cost or market, based on the first in, first out method. Inventory items are reviewed regularly for excess and obsolete inventory based on an estimated forecast of product demand. Inventories that are in excess of future requirements are written down to their estimated value based upon projected demand. Demand for our products can be forecasted based on current backlog, customer options to reorder under existing contracts, and the need to retrofit older units and parts needed for general repairs. Although management makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have an impact on the level of obsolete material in our inventories and operating results could be affected accordingly.

*Business Combinations*

We are required to allocate the purchase price of an acquired company based on the estimated fair values of assets acquired and liabilities assumed, determined as of the date of acquisition. Micronetics employs independent valuation specialists to help determine the fair values of identifiable intangible assets in order to determine the portion of the purchase price allocable to these assets. The excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill.

*Valuation Of Long-Lived Assets, Goodwill And Intangible Assets And Their Impairment*

We assess the need to record impairment losses on long-lived assets, including fixed assets, goodwill and other intangible assets, to be held and used in operations, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, we estimate the undiscounted future cash flows to result from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying value, we would recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. Assets to be disposed of are carried at their lower of the carrying value or fair value less costs to sell.

Goodwill and other indefinite lived intangible assets are tested for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), which requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but rather, be tested annually for impairment.

We assess goodwill, by reporting unit, for impairment at least once each year by applying a direct value-based fair value test. Goodwill could be impaired due to market declines, reduced expected future cash flows, or other factors or events. Should the fair value of goodwill at the measurement date fall below its carrying value, a charge for impairment of goodwill would occur in that period. SFAS 142 requires a two-step impairment testing approach. We must first determine whether goodwill is impaired and if so, we must value that impairment based on the amount by which the book value exceeds the estimated fair value. We used discounted cash flows, sales and EBITDA multiples as the best evidence of fair value. In preparing the goodwill impairment test for this reporting unit we assumed operating margin performance consistent with historical performance and revenue growth between 3% and 5%. If actual results are significantly different than these assumptions, the associated goodwill may be subject to an impairment charge. As of December 27, 2008 we recorded a goodwill impairment charge of approximately $8.0 million. Please see "Impairment of Goodwill" under "Results of Operations" below for further description. At March 31, 2009, we updated our goodwill impairment assessment for the remaining approximately $1.1 million goodwill and determined that no further impairment charge was required.

On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets. During this review, we evaluate the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been an impairment of the value of long-lived assets based upon events or circumstances that have occurred since the acquisition. The impairment policy is consistently applied in evaluating impairment for each of our wholly-owned subsidiaries and investments. As of December 27, 2008 we recorded a long-lived asset impairment charge of approximately $1.3 million. Please see "Impairment of Long-Lived Assets" under "Results of Operations" below for further description. At March 31, 2009 we determined that no new triggering events had occurred warranting a further impairment assessment of our long-lived assets.

*Stock Compensation Expense*

We account for stock-based compensation in accordance with the fair value recognition provision of Statement of Financial Accounting Standards ("SFAS") No. 123R, Share-Based Payment ("SFAS 123R"). We use the Black-Scholes option-pricing model, which requires the input of subjective assumptions. These assumptions include estimates of the length of time employees will retain their vested stock options before exercising them, expected term, the volatility of our common stock price over the expected term, risk free interest rate and the number of options that will not vest. Changes in these assumptions could materially affect the estimate of fair value stock-based compensation and consequently, the related amount recognized on the consolidated statements of operations.

*Income Taxes and Valuation Allowances*

We recognize income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for temporary differences. Temporary differences occur when income and expenses are recognized in different periods for financial reporting purposes and for purposes for computing income taxes currently payable. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. No valuation allowance was required at March 31, 2009 and 2008 because we believe we have adequate carryback profit to fully utilize this deferred tax asset. If actual results are significantly different from our assumptions the deferred tax asset may be subject to a valuation allowance.

Effective April 1, 2007, we adopted Interpretation No. 48, "Accounting for Uncertainty in Income Taxes— An Interpretation of FASB Statement No. 109" (FIN 48), which prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. In particular, the Interpretation requires that a tax benefit related to a given tax position be reflected in the financial statements only if it is more likely than not that it would be sustained on its technical merits in the event of a tax audit. The assessment of each tax position and the application of the measurement methodology of FIN 48 requires significant judgment. All tax positions are periodically analyzed and adjusted as a result of events, such as the resolution of tax audits or the expiration of statutes of limitations, which may result in charges or credits to the provision for income taxes. See Note 13 to the Consolidated Financial Statements included in this Form 10-K for further disclosure regarding FIN 48.

**Results of Operations**

***Fiscal 2009 versus Fiscal 2008***

**Net sales**

Net sales for Fiscal 2009 were $30,347,285, a decrease of $2,277,661 or 7% as compared to net sales of $32,624,946 for Fiscal 2008. The decrease in net sales is primarily attributable to a decrease in net sales of high performance amplifiers for commercial WIMAX and public safety applications of approximately $6.8 million partially offset by an increase of $2.8 million in sales of integrated component sub-systems for jamming and electronic modernization. Other component sales increased by approximately $1.7 million of which approximately $0.8 million was the result of the MICA Microwave sales being included for the full period in Fiscal 2009 as compared to a partial period in Fiscal 2008. In Fiscal 2009 we experienced a decline in the commercial market for high performance amplifiers necessary for wireless applications, which had an adverse affect on our high performance amplifier sales. We are investing in a digital high power amplifier product and taking steps to shift our customer base to include large volume customers.

Foreign sales accounted for approximately $5,215,000 and $8,797,000 in Fiscal 2009 and Fiscal 2008, respectively. The decrease is primarily attributable to the decrease in foreign sales related to high performance power amplifiers.

**Gross profit margin**

Gross margin decreased to 30.3% for Fiscal 2009 as compared to 39.6% for Fiscal 2008. The decrease is due primarily to three factors of approximately equal weight: lower sales without a corresponding decrease in fixed costs primarily related to high power amplifiers; a change in mix of products sold to more products with higher average costs; and an increase in component inventory reserves. Of the inventory reserve increase approximately $185,000 was related to the decline in our high power amplifier business and was recorded in the third quarter. The remaining reserve of $638,000 was related to shifts in customer requirements for our other component products and was recorded in the fourth quarter of Fiscal 2009.

**Research and development**

Research and development ("R&D") expense increased by $851,132 to $1,869,142 and represented 6% of net sales for Fiscal 2009 as compared to $1,018,010 or 3% for Fiscal 2008. The increase was primarily due to development work on an in-flight high-speed internet transceiver product, high power products for defense applications and a new product line for commercial telecom applications.

**Selling, general and administrative**

Selling, general and administrative ("SG&A") expense increased by $309,363 to $7,898,753 or 26% of net sales in Fiscal 2009 as compared to $7,589,390 or 23% of net sales in Fiscal 2008. Approximately $200,000 of the increase was due to the inclusion of MICA's SG&A expenses for a full period in Fiscal 2009. All other SG&A expenses increased by approximately $100,000. The percent increase is primarily due to the decrease in net sales in Fiscal 2009 as compared to Fiscal 2008.

**Amortization of intangible assets**

Amortization expense attributable to the intangible assets related to the acquisitions of Stealth and MICA was $565,503 in Fiscal 2009 as compared to $733,160 in Fiscal 2008. The decrease was due to an intangible asset impairment charge which we recorded in the third quarter. Please see "Impairment of Long-Lived Assets" below for further explanation.

**Impairment of Goodwill**

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* (SFAS No. 142) we test goodwill for impairment annually and when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Goodwill is tested for impairment using a two-step process. The first step is to determine if there is an impairment and the second step is to determine the amount of the impairment.

During the thirteen weeks ended December 27, 2008, we experienced a significant decline in our stock price and we experienced a decline in the commercial market for high performance analog amplifiers necessary for wireless applications, which is having an adverse affect on our high performance amplifier sales. Lastly, the recent dramatic downturn in the liquidity and economic outlook has caused us to re-evaluate our business outlook. We now believe we are in a one to two year period of slow growth which is driven by the global liquidity crisis and resultant economic decline. Accordingly, at December 27, 2008, we performed a step 1 assessment of goodwill for impairment. The results of our step 1 assessment indicated that a step 2 was required for two of our three reporting units. As a result of our step 2 analysis, the Company recorded a goodwill impairment charge of $4.9 million and $3.1 million for the high performance amplifier and mixer/ferrite reporting units, respectively. The impairment charge is the result of the assumptions described above. There remains approximately $1.1 million of goodwill associated with our power amplifier, noise module, phase shifter, switches and attenuator product group. The estimated fair value of this reporting unit exceeded its carry value as of March 31, 2009 and therefore no step 2 was required. In preparing the goodwill impairment test for this reporting unit we assumed operating margin performance consistent with historical performance and revenue growth of approximately between 3% and 5%. If actual results are significantly different than these assumptions, the associated goodwill may be subject to an impairment charge.

In performing our step 1 goodwill assessment, we used discounted cash flows, sales and EBITDA multiples as the best evidence of fair value. For purposes of testing impairment under SFAS No. 142, we have three separate reporting units with goodwill. Testing was performed separately for each of the three goodwill reporting units and an impairment charge was recorded at two of the goodwill reporting units (high power amplifier and mixer/ferrite product groups). Please see Footnote 3. Intangible Assets and Goodwill for further explanation.

**Impairment of Long-Lived Assets**

In addition, in accordance with SFAS No, 144, *Accounting for Impairment or Disposal of Long-Lived Assets,* ("SFAS No. 144), in the third quarter of Fiscal 2009 we determined that the customer list intangible asset related to the high performance amplifier business was impaired and we recorded a charge of approximately $1.3 million. Please see Footnote 3. Intangible Assets and Goodwill for further explanation. In the fourth quarter of fiscal 2009 we determined that no further triggering event had occurred warranting a long-lived asset impairment review.

**Interest expense**

Interest expense decreased $105,033 or 22% to $380,323 for Fiscal 2009 as compared to $485,356 for Fiscal 2008 due primarily to lower average debt at lower average interest rates.

**Interest rate swap**

An unrealized gain of $215 was recorded for Fiscal 2009 as compared to an unrealized loss of $280,865 recorded in Fiscal 2008 to reflect the change in fair value of the mark to market valuation for the interest rate swap agreement entered into in April 2007 to mitigate the interest rate fluctuations on our term loan.

**Provision for income taxes**

Our effective tax rate was 11% for Fiscal 2009 as compared to 45% for Fiscal 2008. In Fiscal 2009 we recorded a discrete item of $2.7 million related to a goodwill impairment charge that is non-tax deductible. In addition, approximately $75,000 of uncertain tax benefits were recognized due to statute of limitations expiring for previously filed tax returns.

***Financial Condition, Liquidity and Capital Resources***

We finance our operating and investment requirements primarily through operating cash flows and borrowings. Cash equivalents and marketable securities was $620,259 and $3,563,415, respectively, at March 31, 2009 and March 31, 2008. Working capital defined as accounts receivable, inventory, prepaid expenses, other current assets net of accounts payable and accrued expenses was $11,549,933 and $8,491,849 at March 31, 2009 and March 31, 2008, respectively. Borrowings under our revolving line of credit were $3,502,620 and zero at March 31, 2009 and March 31, 2008, respectively.

Our current ratio was approximately 1.92 at March 31, 2009 as compared to 3.06 at March 31, 2008.

Net cash used in operating activities was $2,565,989 in Fiscal 2009 compared to cash provided by operating activities of $3,888,038 during Fiscal 2008. In Fiscal 2009 cash provided by net loss after adjusting for non-cash items including depreciation, amortization, stock-based compensation, changes in working capital reserves and goodwill and intangible asset impairment charges was approximately $3.2 million. Approximately $3.1 million was used for inventory related largely to contracts in anticipation of future sales. Approximately $1.2 million was used for prepaid income taxes. Approximately $1.3 million was used for deferred taxes.

In Fiscal 2008 cash provided by net income after adjusting for non-cash items including depreciation, amortization, stock-based compensation, changes in working capital reserves and goodwill and intangible asset impairment charges was approximately $4.7 million. Approximately $.3 million was used to fund receivables resulting from increased sales. Approximately $.8 million was used to fund increases in inventory and approximately $0.3 million was provided by all other largely accounts payable and accrued expenses.

Net cash used in investing activities was $762,623 during Fiscal 2009 as compared to $5,839,078 in Fiscal 2008. In Fiscal 2009 we purchased equipment of approximately $1.0 million, purchased the assets of a radio frequency identification system product line ("RFID") for approximately $.4 million and sold investments of approximately $.6 million.

In Fiscal 2008 we acquired MICA Microwave for approximately $3.1 million, made the final earnout payment to the former stockholders of Stealth Microwave of approximately $1.5 million and purchased capital equipment of approximately $1.1 million

Net cash provided by financing activities was $785,456 during Fiscal 2009 as compared to cash used in financing activities of $1,944,069 during Fiscal 2008.

In Fiscal 2009 we borrowed approximately $3.5 million from our line of credit, repaid mortgage and term debt obligations of approximately $1.4 million and repurchased shares of our common stock for approximately $1.2 million.

In Fiscal 2008 we repaid mortgage and term debt obligations of approximately $2.1 million and received proceeds from the issuance of common stock of approximately $.3 million and repurchased shares for approximately $.2 million.

In summary, during Fiscal 2009 we used cash of approximately $2.5 million and drew on our revolving line of credit for an additional approximately $3.5 million for a total use of approximately $6.0 million. We generated cash of approximately $3.2 million from net income after adjusting for non-cash items and approximately $0.7 million from the sale of investments. We used approximately $3.1 million to fund inventory largely for contracts, approximately $2.5 million for taxes, approximately $1.3 million to repurchase shares of our common stock, approximately $1.4 million to repay debt, approximately $1.0 million for capital expenditures and approximately $.4 million to acquire the RFID product line.

We believe that cash and cash equivalents on hand, anticipated future cash receipts, and borrowings available under our line of credit will be sufficient to meet our obligations as they become due for the next twelve months. However, a decrease in our sales or demand for our products would likely adversely affect our working capital amounts. As part of our business strategy, we occasionally evaluate potential acquisitions of businesses, products and technologies. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products or businesses. These potential transactions may require substantial capital resources, which, in turn, may require us to seek additional debt or equity financing. There are no assurances that we will be able to consummate any such transaction. There are no current plans to raise additional debt or equity capital, nor is there a projected need to raise any such capital.

*Term Loan and Revolver*

In March 2007, we entered into a credit facility consisting of a $6.5 million five year secured term loan and a $5.0 million three year revolving line of credit, which replaced the then existing $6.0 million term loan entered into in June 2005.

We entered into an interest rate swap agreement in April 2007 to mitigate interest rate fluctuations on the term loan. At the end of each reporting period we record the current fair value of the interest rate swap on the balance sheet. Any unrealized gain or loss on the swap is charged to earnings.

The term loan is guaranteed by our subsidiaries and secured by substantially all of our assets. The term loan is payable in quarterly principal installments of $325,000 plus accrued interest at the rate of 5.2% plus the applicable margin. The final payment for the term loan is in April 2012.

The revolving line of credit bears interest at the current prime rate, which at March 31, 2009 was 3.25%. We had $1.5 million available under the line at March 31, 2009. In December 2008 we extended our revolving line of credit by two years. The revolving line of credit now expires in March 2012.

Under the terms of the term loan and the revolver, we are required to maintain certain financial covenants on a quarterly and annual basis, including total funded debt to EBITDA not exceeding 2.25:1, minimum debt service coverage of 1.25:1, and minimum tangible net worth of $7.5 million. We obtained an amendment to the term loan and revolver agreements to include the goodwill and intangible asset impairment charges as an add-back to the EBITDA covenants. We also obtained an Amendment and Waiver Agreement to the term loan and revolver agreements to waive our EBITDA covenants for the thirteen weeks ended March 31, 2009 and to substitute modified quarterly EBITDA covenants through March 31, 2010. Under the terms of our amendment, our interest rate will increase from a maximum of LIBOR plus 2.5% to a maximum of LIBOR plus 4.25% for our revolving line of credit and a maximum adjusted LIBOR plus 3.75% for our term loan. The rate decreases to a minimum of LIBOR plus 2.5% based upon performance. We do not anticipate the change in rate will have a material adverse affect on our cash flows for Fiscal 2010.

*Mortgage payable, NH*

In February 2004, Micronetics refinanced the mortgage on its headquarters, entering into a new five-year mortgage payable for $630,000. The note bears interest at 5.75% per annum and is payable in monthly installments, including interest, of $12,107. This loan was paid in full in February 2009.

*Mortgage payable, MA*

In March 2003, in connection with the purchase of a portion of a commercial condominium housing Micronetics' Enon Microwave division, Micronetics entered into a mortgage payable for $352,750. In May 2007, the commercial condominium was sold and the remaining mortgage was settled.

*Capital leases*

Commercial capital leases payable are reflected at their present value based upon interest rates that range from 6.4% to 10.6% per annum, and are secured by the underlying assets. The assets are depreciated over their estimated useful lives.

*Stock Repurchase Plan*

In November 2008 our Board of Directors approved a stock repurchase plan. Pursuant to such plan, in November 2008 we re-purchased 454,107 shares of our common stock for $1,248,314. Bank approval for the plan expired on May 5, 2009. We have no plans at this time to make an additional repurchases under the plan.

*Acquisition*

On March 18, 2009, we purchased the assets of an RFID product line for approximately $.4 million. This product line includes forklift, wall and floor mount radio frequency identification systems for inventory management and other applications. It also adds antennas to our component product line.

On June 5, 2007, we acquired MICA Microwave, Inc. ("MICA"), a California corporation in a merger transaction pursuant to which MICA became a wholly-owned subsidiary of Micronetics, and the holders of MICA common stock were paid $3.0 million in cash and $2.0 million in shares of Micronetics' common stock (248,135 shares). A post-closing adjustment of $20,522 was recorded during the thirteen weeks ended June 28, 2008 based upon MICA's net worth on the closing date.

*Off-Balance Sheet Arrangements*

We did not have any off-balance sheet arrangements, other than operating leases, that have or are, in the opinion of management, likely to have a current or future material effect on our financial statements.

**ITEM 8. Financial Statements and Supplementary Data.**

This information is contained on pages F-1 through F-27 hereof.

## ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

## ITEM 9A(T). Controls and Procedures.

**Evaluation of disclosure controls and procedures**—As of March 31, 2009, the Company carried out an evaluation, under the supervision and with the Company's management, including the Company's Chief Executive Officer and Acting Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation and as described below under "Management's Report on Internal Control over Financial Reporting," the Company's Chief Executive Officer and Acting Chief Financial Officer have identified a material weakness in our internal control over financial reporting. Solely, as a result of this material weakness, the Company's Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2009, to provide reasonable assurance that material information relating to the Company required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Notwithstanding the material weakness discussed below, our Chief Executive Officer and Acting Chief Financial Officer have concluded that the consolidated financial statements included in this Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America. In making this determination, management considered the material weaknesses in our internal control over financial reporting that existed as of March 31, 2009, as more fully described below.

**Management's report on internal control over financial reporting**—Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Act of 1934, as amended. Under the supervision and with the participation of our management, including our Chief Executive Officer and Acting Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. In making its assessment of internal control over financial reporting, management used criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework". Based on these criteria, management has concluded that, as of March 31, 2009, the Company's internal control over financial reporting is ineffective because of a material weakness in the Company's accounting for income taxes. Specifically, the Company did not properly supervise and review the calculation of its income tax provision for the fiscal year ended March 31, 2009, which could have resulted in a material misstatement of annual or interim consolidated financial statement not being prevented or detected in a timely manner. As a result of this material weakness, management has concluded that as of March 31, 2009 its internal control over financial reporting was not effective. The Company has taken additional measures to ensure that the consolidated financial statements filed in this 10-K are complete and accurate.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

**Plan for Remediation of Material Weakness**—To remedy the material weakness described above, we have initiated a more rigorous review of our income tax provision calculations, including additional reviews by Company personnel as well as additional reviews by the 3rd party firm used to assist us in the preparation of our tax provision. These changes are in the process of being implemented.

**Changes in internal control**—There were no significant changes in the Company's internal controls over financial reporting that occurred during the fourth quarter of Fiscal 2009 that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. Other Information.**

On June 26, 2009 we entered into an Amendment and Waiver Agreement for our term loan and revolver agreements. Under the terms of the Amendment and Waiver Agreement, we and our bank agreed to waive our EBITDA covenants for the quarter ended March 31, 2009 and to substitute modified quarterly EBITDA covenants through March 31, 2010. As part of the terms of the waiver and amendment, our interest rate will increase from a maximum of LIBOR plus 2.5% to a maximum LIBOR plus 4.25% for our revolving line of credit and adjusted LIBOR plus 3.75% for our term loan. The rate decreases to a minimum of LIBOR plus 2.5% based upon performance. At March 31, 2009, we were in compliance with all financial debt covenants as amended.

## PART III

The information to be contained in Items 10-14 herein is incorporated by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission on or before July 29, 2009.

## PART IV

### ITEM 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements, Schedules and Exhibits:

(1),(2) The consolidated financial statements and required schedules begin on page F-1.

(3) Exhibits.

| | |
|---|---|
| 2.1 | Stock Purchase Agreement among Micronetics, Inc., and the Stockholders of Stealth Microwave, Inc., dated June 10, 2005 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Company on June 16, 2005). |
| 2.2 | Earnout Agreement, dated June 10, 2005, among Micronetics, Inc., Stealth Microwave, Inc., the Stockholders of Stealth Microwave, Inc. and Stephen N. Barthelmes Sr., Stephen N. Barthelmes Jr. and Brian E. Eggleston as the representatives of the stockholders (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by the Company on June 16, 2005). |
| 2.3 | Amendment No. 1 to Earnout Agreement, dated as of February 9, 2006, among Micronetics, Inc., Stealth Microwave, Inc.; and Stephen N. Barthelmes Sr., Stephen N. Barthelmes Jr., and Brian E. Eggleston, as representatives of the Sellers (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-QSB filed by the Company on February 10, 2006). |
| 2.4 | Agreement of Merger and Plan of Reorganization among Micronetics, Inc., Del Merger Subsidiary, Inc., MICA Microwave Corporation, Frederick Mills, Individually, and Frederick Mills, As the Stockholders' Representative, dated June 5, 2007 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Company on June 5, 2007). |
| 2.5 | Company Stockholders' Agreement, by and among Micronetics, Inc., MICA Microwave Corporation, Del Merger Subsidiary, Inc., the Stockholders of MICA Microwave Corporation listed on Exhibit A thereto, Frederick Mills, individually, and Frederick Mills as the Stockholders' Representative, dated June 5, 2007 (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by the Company on June 5, 2007). |
| 2.6 | Asset Purchase Agreement, by and among Micronetics, Inc., M/A-COM RFID Inc., solely for the purposes of Section 5.3 and Section 5.9, Cobham Defense Electronic Systems Corporation, and solely for the purposes of Section 5.10 and Article VI, Cobham Defense Electronic Systems – M/A-COM Inc., dated March 18, 2009. |
| 3.1 | Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to Registration Statement No. 33-16453 (the "Registration Statement")). |
| 3.2 | Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on October 19, 2007). |
| 4.1 | Specimen certificate for common stock of Micronetics, Inc. (incorporated by reference to Exhibit 4.1 to the Registration Statement). |
| 10.1 | 2003 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed on September 24, 2003).* |
| 10.2 | 2006 Equity Incentive Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement filed on July 31, 2006).* |
| 10.3 | Amended and Restated 401(k) Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-KSB for its fiscal year ended March 31, 2005).* |

10.4 Amended and Restated Employment Agreement, dated as of June 26, 2006, between Stealth Microwave, Inc. and Stephen N. Barthelmes, Jr. (incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-KSB filed by the Company on June 29, 2006).*

10.5 Commercial Loan Agreement, dated as of March 30, 2007, between Micronetics, Inc. and Citizens Bank New Hampshire (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on March 30, 2007).

10.6 Amendment to Commercial Loan Agreement and Loan Documents, by and between, Micronetics, Inc., Microwave & Video Systems, Inc., Microwave Concepts, Inc., Stealth Microwave, Inc., MICA Microwave Corporation and RBS Citizens National Association (successor by merger to Citizens Bank New Hampshire), dated December 12, 2008 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on December 15, 2008).

10.7 Amendment to Commercial Loan Agreement and Loan Documents, by and between, Micronetics, Inc., Microwave & Video Systems, Inc., Microwave Concepts, Inc., Stealth Microwave, Inc., MICA Microwave Corporation and RBS Citizens National Association (successor by merger to Citizens Bank New Hampshire), dated March 5, 2009 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on March 9, 2009).

10.8 Amendment and Waiver To Commercial Loan Agreement and Loan Documents, by and between, Micronetics, Inc., Microwave & Video Systems, Inc., Microwave Concepts, Inc., Stealth Microwave, Inc., MICA Microwave Corporation and RBS Citizens National Association (successor by merger to Citizens Bank New Hampshire), dated June 26, 2009.

10.9 Mortgage and Security Agreement, by and between, Micronetics, Inc., and RBS Citizens National Association (successor by merger to Citizens Bank New Hampshire), dated June 26, 2009.

10.10 Revolving Credit Note, dated as of March 30, 2007, between Micronetics, Inc. and Citizens Bank New Hampshire (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Company on March 30, 2007).

10.11 Term Note, dated as of March 30, 2007, between Micronetics, Inc. and Citizens Bank New Hampshire (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Company on March 30, 2007).

10.12 Security Agreement, dated as of March 30, 2007, between Micronetics, Inc. and Citizens Bank New Hampshire (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by the Company on March 30, 2007).

10.13 Security Agreement (Intellectual Property), dated as of March 30, 2007, between Micronetics, Inc. and Citizens Bank New Hampshire (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed by the Company on March 30, 2007).

10.14 Stock Pledge and Security Agreement, dated as of March 30, 2007, between Micronetics, Inc. and Citizens Bank New Hampshire (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed by the Company on March 30, 2007).

10.15 Employment Agreement between MICA Microwave Corporation and Frederick Mills dated June 5, 2007 (incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K filed by the Company on June 5, 2007).*

10.16 Employment Agreement between the Company and David Robbins dated July 17, 2007 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Company on July 18, 2007).*

10.17 Lease by and between Microwave Concepts, Inc. and SAI Property Management LLC, dated October 17, 2008 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on November 5, 2008.)

| | |
|---|---|
| 10.18 | Guaranty by Micronetics, Inc. to SAI Property Management LLC, dated October 17, 2008 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Company on November 5, 2008.) |
| 10.19 | Lease, dated September 4, 2008, by and between Micronetics, Inc. and SBJ Development, LLC (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by the Company on November 12, 2008.) |
| 21 | List of Subsidiaries of the Company. |
| 23.1 | Consent of Grant Thornton LLP dated June 29, 2009. |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification pursuant to 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management contract or compensatory plan or arrangement

## SIGNATURES

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

**MICRONETICS, INC.**

Dated: June 29, 2009

By: /s/ DAVID ROBBINS
**David Robbins,**
**Chief Executive Officer and Treasurer**
**(Principal Executive Officer)**

Dated: June 29, 2009

By: /s/ CARL LUEDERS
**Carl Lueders,**
**Acting Chief Financial Officer**
**(Principal Financial and Accounting Officer)**

registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ DAVID ROBBINS<br>**David Robbins** | Chief Executive Officer and Treasurer (Principal Executive Officer) | June 29, 2009 |
| /s/ DAVID SIEGEL<br>**David Siegel** | Director | June 29, 2009 |
| /s/ DOROTHY ANNE HURD<br>**Dorothy Anne Hurd** | Director | June 29, 2009 |
| /s/ GERALD HATTORI<br>**Gerald Hattori** | Director | June 29, 2009 |
| /s/ STEPHEN BARTHELMES JR.<br>**Stephen Barthelmes Jr.** | Director | June 29, 2009 |

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Micronetics, Inc.

We have audited the accompanying consolidated balance sheets of Micronetics, Inc. (a Delaware Corporation) and subsidiaries (collectively, the "Company") as of March 31, 2009 and 2008 and the related statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2009 and 2008 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Boston, Massachusetts
June 29, 2009

## MICRONETICS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | March 31, 2009 | March 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 620,259 | $ 3,163,415 |
| Short-term investment | — | 400,000 |
| Accounts receivable, net of allowance for doubtful accounts of $449,799 and $364,981 in March 31, 2009 and March 31, 2008, respectively | 4,980,924 | 4,861,780 |
| Inventories, net | 9,436,210 | 7,316,246 |
| Deferred tax asset | 1,464,958 | 576,170 |
| Prepaid income taxes | 1,068,832 | — |
| Prepaid expenses and other current assets | 276,222 | 306,159 |
| Total current assets | 17,847,405 | 16,623,770 |
| Property, plant and equipment, net | 4,703,529 | 4,159,963 |
| Other assets: | | |
| Security deposits | 86,839 | 24,659 |
| Long-term investment | — | 250,000 |
| Other long-term assets | 26,791 | 35,034 |
| Intangible assets, net | 1,744,691 | 3,361,200 |
| Goodwill | 1,117,197 | 8,931,944 |
| Total other assets | 2,975,518 | 12,602,837 |
| TOTAL ASSETS | $25,526,452 | $33,386,570 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 1,588,175 | $ 1,434,193 |
| Line of credit | 3,502,620 | — |
| Accounts payable | 1,070,831 | 1,284,567 |
| Accrued expenses | 3,141,424 | 2,707,769 |
| Total current liabilities | 9,303,050 | 5,426,529 |
| Long-term debt, net of current portion | 3,085,290 | 4,226,342 |
| Other long-term liability | 6,200 | 80,000 |
| Deferred tax liability | 901,722 | 1,245,052 |
| Total liabilities | 13,296,262 | 10,977,923 |
| Shareholders' equity: | | |
| Preferred stock, $0.10 par value; 100,000 shares authorized; no shares issued or outstanding | — | — |
| Common stock, $0.01 par value; 10,000,000 shares authorized; 5,391,217 issued, 4,553,635 and 5,007,742 shares outstanding at March 31, 2009 and March 31, 2008, respectively | 53,912 | 53,912 |
| Additional paid-in capital | 12,242,320 | 11,608,536 |
| Retained earnings | 2,914,471 | 12,478,398 |
| | 15,210,703 | 24,140,846 |
| Treasury stock at cost, 837,582 and 383,475 shares at March 31, 2009 and March 31, 2008, respectively | (2,980,513) | (1,732,199) |
| Total shareholders' equity | 12,230,190 | 22,408,647 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $25,526,452 | $33,386,570 |

The accompanying notes are an integral part of these consolidated financial statements.

## MICRONETICS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Fiscal Years Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Net sales | $ 30,347,285 | $32,624,946 |
| Cost of sales | 21,163,552 | 19,705,886 |
| Gross profit | 9,183,733 | 12,919,060 |
| Operating expenses: | | |
| Research and development | 1,869,142 | 1,018,010 |
| Selling, general and administrative | 7,898,753 | 7,589,390 |
| Goodwill impairment charge | 7,964,916 | — |
| Intangible asset impairment charge | 1,295,000 | — |
| Amortization of intangible assets | 565,503 | 733,160 |
| Gain on sale of property and equipment | — | (90,352) |
| Total operating expenses | 19,593,314 | 9,250,208 |
| (Loss) income from operations | (10,409,581) | 3,668,852 |
| Other (expense) income | | |
| Interest income | 33,285 | 106,684 |
| Interest expense | (380,323) | (485,356) |
| Unrealized gain (loss) on interest rate swap | 215 | (280,865) |
| Miscellaneous income | 18,593 | 4,004 |
| Total other expense | (328,230) | (655,533) |
| (Loss) income before provision for income taxes | (10,737,811) | 3,013,319 |
| (Benefit) provision for income taxes | (1,173,884) | 1,350,936 |
| Net (loss) income | $ (9,563,927) | $ 1,662,383 |
| (Loss) earnings per common share | | |
| Basic | $ (1.98) | $ 0.34 |
| Diluted | $ (1.98) | $ 0.34 |
| Weighted average common shares outstanding | | |
| Basic | 4,836,052 | 4,932,545 |
| Diluted | 4,836,052 | 4,951,195 |

The accompanying notes are an integral part of these consolidated financial statements.

# MICRONETICS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Common shares | Stock par value | Additional paid-in capital | Retained earnings | Treasury stock | Total |
|---|---|---|---|---|---|---|
| Balance at March 31, 2007 | 4,666,916 | $50,255 | $ 8,541,274 | $10,912,458 | $(1,527,014) | $17,976,973 |
| Exercise of stock options | 92,625 | 926 | 329,053 | — | — | 329,979 |
| Issuance of common stock for MICA acquisition | 248,135 | 2,481 | 1,997,487 | — | — | 1,999,968 |
| Issuance of restricted stock | 25,000 | 250 | — | — | — | 250 |
| Cumulative effect of the recognition of uncertain income tax positions | — | — | — | (96,443) | — | (96,443) |
| Purchase of treasury stock | (24,934) | — | — | — | (205,185) | (205,185) |
| Stock based compensation | — | — | 740,722 | — | — | 740,722 |
| Net income | — | — | — | 1,662,383 | — | 1,662,383 |
| Balance at March 31, 2008 | 5,007,742 | $53,912 | $11,608,536 | $12,478,398 | $(1,732,199) | $22,408,647 |
| Purchase of treasury stock | (454,107) | — | — | — | (1,248,314) | (1,248,314) |
| Stock based compensation | — | — | 633,784 | — | — | 633,784 |
| Net loss | — | — | — | (9,563,927) | — | (9,563,927) |
| Balance at March 31, 2009 | 4,553,635 | $53,912 | $12,242,320 | $ 2,914,471 | $(2,980,513) | $12,230,190 |

The accompanying notes are an integral part of these consolidated financial statements.

## MICRONETICS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Fiscal Years Ended March 31, 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities | | |
| Net (loss) income | $(9,563,927) | $ 1,662,383 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities, net of acquisition: | | |
| Depreciation and amortization | 1,665,862 | 1,731,919 |
| Goodwill impairment charge | 7,964,916 | — |
| Intangible asset impairment charge | 1,295,000 | — |
| Stock-based compensation | 633,784 | 740,722 |
| Gain on sale of property and equipment | — | (90,352) |
| Unrealized (gain) loss on interest rate swap | (215) | 280,865 |
| Provision for allowances on accounts receivable | 84,818 | 67,095 |
| Provision for inventory obsolescence and losses | 1,070,169 | 312,394 |
| Deferred taxes | (1,316,017) | (652,221) |
| Changes in operating assets and liabilities, net of acquisition: | | |
| Accounts receivable | (203,962) | (320,938) |
| Inventories | (3,143,697) | (771,370) |
| Other long term assets | 8,243 | 103,458 |
| Prepaid income taxes | (1,256,449) | — |
| Prepaid expenses, other current assets, and other assets | (5,215) | 353,774 |
| Accounts payable | (213,734) | 211,968 |
| Accrued expenses and deferred revenue | 414,435 | 258,341 |
| Net cash (used in) provided by operating activities | (2,565,989) | 3,888,038 |
| Cash flows from investing activities: | | |
| Purchase of investments | — | (650,000) |
| Proceeds from sale of investments | 650,000 | — |
| Purchase of equipment | (1,033,145) | (1,086,643) |
| Proceeds from sale of property and equipment | — | 518,398 |
| RFID acquisition | (400,000) | — |
| MICA acquisition, net of cash acquired | 20,522 | (3,120,833) |
| Earnout payment related to Stealth acquisition | — | (1,500,000) |
| Net cash used in investing activities | (762,623) | (5,839,078) |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 3,502,620 | 728,528 |
| Repayments on line of credit | — | (728,528) |
| Repayments on mortgages and term loan | (1,430,837) | (1,418,769) |
| Repayment of the MICA debt | — | (646,820) |
| Repayments of capital leases | (38,013) | (3,524) |
| Purchase of treasury shares | (1,248,314) | — |
| Proceeds from the issuance of common stock | — | 125,044 |
| Net cash provided by (used in) financing activities | 785,456 | (1,944,069) |
| Net change in cash and cash equivalents | (2,543,156) | (3,895,109) |
| Cash and cash equivalents at beginning of period | 3,163,415 | 7,058,524 |
| Cash and cash equivalents at end of period | $ 620,259 | $ 3,163,415 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 375,586 | $ 435,312 |
| Income taxes | $ 1,459,000 | $ 2,704,899 |
| Supplemental disclosure of non-cash financing activities: | | |
| Property and equipment acquired under capital leases | $ 481,780 | $ — |
| Treasury stock purchase from stock option exercise | $ — | $ 205,185 |
| Shares issued to MICA stockholders | $ — | $ 1,999,968 |
| Recognition of uncertain tax positions | $ — | $ 96,443 |

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2009 AND 2008**

## Note 1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Summary of operations and basis of consolidation*—Micronetics, Inc. and subsidiaries (collectively the "Company" or "Micronetics") are engaged in the design, development, manufacturing and marketing of a broad range of high performance wireless components and test equipment and integrated multifunction subassemblies used in cellular, microwave, satellite, radar and communication systems around the world.

The consolidated financial statements include the accounts of Micronetics, Inc. ("Micronetics") and its wholly-owned subsidiaries, Microwave & Video Systems, Inc. ("MVS"), Enon Microwave, Inc. ("Enon"), Microwave Concepts, Inc. ("MicroCon") Stealth Microwave, Inc. ("Stealth") and MICA Microwave Corporation ("MICA"). The operating results of MICA have been included in the Company's consolidated financial statements since June 5, 2007, the date of acquisition (See Note 2). In December 2007, the Enon subsidiary was dissolved and its operations were merged with and into the Micronetics' operations. All material intercompany balances and transactions have been eliminated in consolidation.

*Use of estimates*—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments include revenue recognition, assumptions used in stock option and goodwill valuations, reserves for accounts receivable and inventories, useful lives of property, plant and equipment, purchase price allocation, intangibles, accrued liabilities, and deferred income taxes and various other assumptions that it believes are reasonable under the circumstances. Actual results could differ from those estimates.

*Investments*—The Company's investments at March 31, 2008 consisted of auction rate securities ("ARS") with varying maturities. These ARS were redeemed in full during Fiscal 2009.

*Revenue recognition*—The Company generates revenue from the sale of products, technology development, and licensing. Revenue is recognized when persuasive evidence of an arrangement exists, delivery of product has occurred or services have been rendered, the price to the customer is fixed or determinable, collection is reasonably assured, and no future services are required. The Company's products are primarily hardware components, and to a lesser extent integrated assembly which includes microwave hardware and embedded software, that are delivered to original equipment manufacturers (OEMs) of telecommunication and networking products who are considered to be end users.

The Company enters into contracts for production of highly customized microwave and radio frequency components and integrated sub-assemblies which it accounts for in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type of Contracts." For these types of contracts, the Company records revenue based on the percentage of completion method (assuming all other requirements for revenue recognition have been satisfied) typically using labor hours to measure progress toward completion of the contract as the Company has determined this methodology best reflects the fundamentals of the contract. If estimates to complete the contract change materially from one period to the next, profit levels could significantly vary. Deferred revenue represents billings in excess of revenue recognized.

The Company sells its products using a direct sales force and sales representatives. Contracts with customers do not include product return rights or price protection. The estimated cost of product warranties are accrued based on historical experience at the time the revenue is recognized. The Company offers a one-year warranty unless customers purchase an extended warranty.

*Shipping and handling fees*—The Company records shipping and handling fees billed to customers as revenue. Shipping and handling costs are reported as a component of cost of sales.

*Cash and cash equivalents*—The Company considers certificates of deposit, money market funds, and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. As of March 31, 2009, substantially all the Company's cash and cash equivalents consisted of money market investments guaranteed by the federal government under the Treasury Temporary Guarantee Program for Money Market Funds. This program expires on September 18, 2009.

*Concentration of credit risk*—Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, investments, interest rate swap and accounts receivable. The Company may invest in high-quality money market funds that invest in securities of the U.S. government, and other high-quality corporate issues. Accounts receivable are generally unsecured and are derived from the Company's customers located around the world. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential credit losses.

*Fair value of financial instruments*—The carrying amounts reported in the consolidated balance sheet for cash, investments, trade receivables, accounts payable, and accrued expenses approximate fair value because of the relatively short maturity of these instruments. ARS's were valued based upon prices received from third parties. The interest rate swap is at fair value and is arrived at by discounting the present value of the difference between the contractual swap rate and the current market swap rates on March 31, 2009, utilizing the notional amounts and the remaining terms of the swap agreement. The fair value of the swap was recorded as a liability in the amount of $280,650 and $280,865, at March 31, 2009 and March 31, 2008, respectively. The fair value of the Company's long-term debt approximates fair value as it bears interest at variable market rates.

*Accounts receivable, net of allowance for doubtful accounts*—Accounts receivable are customer obligations due under normal trade terms, carried at face value less an allowance for doubtful accounts. The Company regularly monitors collections and payments from their customers and maintains a provision for estimated credit losses based upon the review of the aging of outstanding accounts, loss experiences, factors related to specific customers' ability to pay, current economic trends and any specific customer collection issues that have been identified. While such credit losses have historically been within our expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that have been experienced in the past. The Company writes off accounts receivable against the allowance in the period that a receivable is determined to be uncollectible. Recovery of amounts previously written off are recorded when received.

*Inventories*—Inventories are valued at the lower of cost or market (net realizable value), determined using the first-in, first-out method. Inventory items are reviewed regularly for excess and obsolete inventory based on an estimated forecast of product demand. Demand for the Company's products can be forecasted based on current backlog, customer options to reorder under existing contracts, the need to retrofit older units and parts needed for general repairs. Inventories that are in excess of future requirements are written down their estimated value based upon projected demand. Although management makes every effort to insure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have an impact on the level of obsolete material in the company's our inventories and operating results could be affected accordingly.

*Property, plant and equipment*—Property, plant and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and improvements | Up to 40 years |
| Machinery and equipment | 3-10 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | lesser of the lease term or useful life |

*Goodwill and intangible assets*—Intangible assets consist of certain identifiable assets resulting from business combinations, including intellectual property, customer relationships, backlog and non-compete covenants. These assets are being amortized over their estimated useful lives.

Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. In accordance with Statement of Financial Accounting Standards No. 142 ("SFAS 142") "Goodwill and Other Intangible Assets", goodwill is not amortized, but rather, is tested annually for impairment.

*Impairment of long-lived assets*—Goodwill and other indefinite lived intangible assets are tested for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), which requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but rather, be tested annually for impairment. Goodwill is tested for impairment using a two step process. The first step is to determine if there is an impairment based on the fair value of the reporting units compared to the carrying value and the second step is to determine the amount of the impairment.

The Company assesses goodwill, by reporting unit, for impairment at least once each year by applying a direct value-based fair value test. Goodwill could be impaired due to market declines, reduced expected future cash flows, or other factors or events. Should the fair value of goodwill at the measurement date fall below its carrying value, a charge for impairment of goodwill would occur in that period. SFAS 142 requires a two-step impairment testing approach. Companies must first determine whether goodwill is impaired and if so, they must value that impairment based on the amount by which the book value exceeds the estimated fair value. As of December 27, 2008 the Company recorded a goodwill impairment charge of $8.0 million. Please see Footnote 3, Intangible Assets and Goodwill below for further description. At March 31, 2009 the Company updated its goodwill impairment assessment for the remaining $1.1 million of goodwill on its books and determined that no impairment charge was required at this date. There can be no assurance that goodwill will not become impaired in future periods.

On an on-going basis, the Company reviews the value and period of amortization or depreciation of long-lived assets. During this review, we evaluate the significant assumptions used in determining the original cost of long- lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. The Company then determines whether there has been an impairment of the value of long-lived assets based upon events or circumstances that have occurred since the acquisition. The impairment policy is consistently applied in evaluating impairment for each of the Company's wholly-owned subsidiaries and investments. As of December 27, 2008 the Company recorded a long lived asset impairment charge of approximately $1.3 million. Please see Footnote 3. Intangible Assets and Goodwill below for further description. March 31, 2009 the Company determined that no new triggering events had occurred warranting a further impairment assessment of our long-lived assets.

*Research and development*—Research and development costs are charged to expense when incurred. Amounts expended for the years ended March 31, 2009 and 2008 were $1,869,142 and $1,018,010, respectively. R&D expenses consists of salaries, materials and third party costs.

*Advertising costs*—Advertising costs are expensed as incurred and are reported as a component of "Sales, general and administrative" expenses in the Company's consolidated statements of operation. Advertising expense was $107,165 in Fiscal 2009 and $125,601 in Fiscal 2008.

*Income taxes*—The Company calculates its provision for federal and state income taxes based on current tax law and recognizes income taxes under the asset and liability method. Under this method deferred tax assets and liabilities are established for temporary differences. Temporary differences occur when income and expenses are recognized in different periods for financial reporting purposes and for purposes for computing income taxes currently payable. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. No valuation allowance was required at March 31, 2009 and 2008.

*Earnings per share*—Basic earnings per share is computed by dividing net (loss) income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Potential dilutive common shares represent the dilutive effect of the assumed exercise of certain outstanding stock options.

Restricted shares of common stock that vest based on the satisfaction of certain conditions are treated as contingently issuable shares until the conditions are satisfied. These shares are excluded from the basic earnings per share calculation and included in the diluted earnings per share calculation.

*Stock-based Compensation*—The Company accounts for share-based compensation in accordance with Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), and related interpretations. SFAS 123(R) requires the measurement and recognition of compensation expense based on estimated fair value for all share-based payment awards including stock options, employee stock purchases under employee stock purchase plans, non-vested share awards (restricted stock) and stock appreciation rights. The Company uses the Black-Scholes pricing model as the most appropriate method for determining the estimated fair value of all applicable awards. For all awards the Company has recognized compensation expense using the straight-line amortization method over the vesting period of the award. As SFAS 123(R) requires that share-based compensation expense be based on awards that ultimately vest, estimated share-based compensation for 2009 and 2008 has been reduced for estimated forfeitures.

*Recent accounting pronouncements*—The Provisions of SFAS 157, as issued, are effective for the fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. 157-2, "*Effective Date of FASB Statement No. 157*", ("FSP 157-2") that amended SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope. The Company is in the process of analyzing the potential impact of SFAS No. 157 relating to its planned April 1, 2009 adoption of the remainder of the standard.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) 07-03, "*Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*" ("EITF 07-03"). EITF 07-03 requires companies to defer and capitalize prepaid nonrefundable advance payments for goods or services that will be used for future research and development activities over the period that the research and development activities are performed or the services are provided, subject to an assessment of recoverability. The provisions of EITF 07-3 were effective beginning April 1, 2008. The adoption of EITF 07-03 did not have any effect on the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(Revised), "*Business Combinations*" ("SFAS 141R"), which replaces Statement of Financial Accounting Standards No. 141, "*Business Combinations*" ("SFAS 141"). SFAS 141R requires the assets acquired, liabilities assumed, and any non-controlling interest to be measured at their fair values as of the acquisition date. SFAS 141R also requires expensing of acquisition related costs and restructuring costs, and re-measurement of earn out provisions at fair value. SFAS 141R is effective for any of the Company's business combinations on or after April 1, 2009. SFAS 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at the time.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*" ("SFAS 160"). SFAS 160 clarifies the accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of equity. SFAS 160 is effective for the Company on April 1, 2009. The Company is currently evaluating the effect that the adoption of SFAS 160 will have on its consolidated results of operations and financial condition.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "*Disclosures About Derivative Instruments and Hedging Activities, an Amendment of Statement No. 133*" ("SFAS 161"). SFAS 161 expands the disclosure requirements in Statement 133 about an entity's derivative instruments and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the effect that the adoption of SFAS 161 will have on its consolidated financial statements.

In April 2008, the FASB issued Staff Position No. FAS 142-3, "*Determination of the Useful Life of Intangible Assets*" ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets ("SFAS 142"). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(Revised) and other applicable accounting literature. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the effect that the adoption of FSP FAS 142-3 will have on its consolidated results of operations and financial condition.

In November 2008, the FASB ratified Emerging Issues Task Force Issue No. 08-7, *Accounting for Defensive Intangible Assets*. EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

## 2. ACQUISITIONS

On March 18, 2009, the Company purchased the assets of a Radio Frequency Identification product line ("RFID") for approximately $400,000, which has been accounted for as a business acquisition under SFAS No. 141 "Business Combination" (SFAS No. 141). This product line includes forklift, wall and floor mount radio frequency identification systems for inventory management and other applications. It also adds antennas to our component product line.

The following table summarizes the fair value assigned to the assets acquired and liabilities assumed at the date of acquisition:

| | (in thousands) |
|---|---|
| Inventory | $ 47 |
| Property, plant and equipment | 129 |
| Development technology drawings | 123 |
| Customer relationships | 121 |
| Accounts payable | (20) |
| Net purchase price | $400 |

On June 5, 2007, the Company entered into an Agreement of Merger and Plan of Reorganization (the "Merger Agreement") with MICA, a California corporation whereby MICA became a wholly-owned subsidiary of Micronetics. Pursuant to the terms and conditions of the Merger Agreement, the Company acquired all of the common stock of MICA for $3.0 million in cash and $2.0 million in shares of Micronetics' common stock (248,135 shares). A post-closing adjustment of $20,522 was recorded during the thirteen weeks ended June 28, 2008 based upon MICA's net worth on the closing date.

The acquisition of MICA provides a broader range of RF/Microwave products, including high performance mixers and ferrites to the Company, and will provide the Company with further integrated microwave sub-systems and systems solutions.

The following table summarizes the fair value assigned to the assets acquired and liabilities assumed at the date of acquisition:

| | (in thousands) |
|---|---|
| Cash and accounts receivable | $ 773 |
| Inventory | 1,308 |
| Property, plant and equipment | 483 |
| Other assets | 41 |
| Development technology drawings | 220 |
| Customer relationships | 1,180 |
| Order backlog | 90 |
| Trade name | 260 |
| Goodwill | 2,930 |
| Debt | (647) |
| Deferred taxes | 101 |
| Deferred taxes on acquired intangible assets | (700) |
| Income taxes payable | (137) |
| Accounts payable and accrued expenses | (704) |
| Subtotal | 5,198 |
| Less: cash assumed | (97) |
| Net purchase price | $5,101 |

The acquisition of MICA was accounted for as a purchase under SFAS No. 141. Accordingly, the operating results of MICA have been included in the Company's consolidated financial statements since the June 5, 2007 acquisition date. The Company estimated the useful lives of the acquired other intangible assets to be one to ten years and has included them in intangible assets, net, in the accompanying consolidated balance sheet as of June 28, 2008. The values and useful lives assigned to intangible assets were based on management estimates and guidance from an independent appraisal.

The following table sets forth certain pro forma results for the year ended March 31, 2008 if the acquisition of MICA had taken place on April 1, 2007:

| | 2008 |
|---|---|
| | (in thousands, except earnings per share) |
| Pro forma revenue | $33,439 |
| Pro forma net income (1) | $ 1,698 |
| Pro forma earnings per share: | |
| Basic | $ 0.34 |
| Diluted | $ 0.34 |

(1) Amortization costs of approximately $231,000 related to the purchase price in fiscal year 2008 were assessed to the fiscal year 2008 income. Management believes that including these adjustments in the above periods allow investors to better compare results in the future periods.

## 3. INTANGIBLE ASSETS AND GOODWILL

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, (SFAS No. 142) the Company tests goodwill for impairment annually and when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

During the thirteen weeks ended December 27, 2008, we experienced a significant decline in our stock price and we experienced a decline in the commercial market for high performance analog amplifiers necessary for wireless applications, which is having an adverse affect on our high performance amplifier sales. Lastly, the recent dramatic downturn in the liquidity and economic outlook has caused us to re-evaluate our business outlook. We now believe we are in a one to two year period of slow growth which is driven by the global liquidity crisis and resultant economic decline. Accordingly, at December 27, 2008, we performed a step 1 assessment of goodwill for impairment. The results of our step 1 assessment indicated that a step 2 was required for two of our three reporting units. As a result of our step 2 analysis, the Company recorded a goodwill impairment charge of $4.9 million and $3.1 million for the high performance amplifier and mixer/ferrite reporting units, respectively. The impairment charge is the result of the assumptions described above. There remains approximately $1.1 million of goodwill associated with our power amplifier, noise module, phase shifter, switches and attenuator reporting unit. The estimated fair value of this reporting unit exceeded its carry value as of March 31, 2009 and therefore no step 2 was required. In preparing the goodwill impairment test for this reporting unit we assumed operating margin performance consistent with historical performance and revenue growth between 3% and 5%. If actual results are significantly different than these assumptions, the associated goodwill may be subject to an impairment charge.

In connection with completing the goodwill impairment analysis, the Company reviewed its customer relationship intangible assets associated with the impaired reporting units and determined that triggering events had occurred related to this intangible asset under SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" as of December 27, 2008. The Company determined that the forecasted undiscounted cash flows related to the customer relationship intangible assets with the Company's high performance amplifier business was less than its carrying value. As a result, the Company recorded an impairment charge of approximately $1.3 million to reduce the carrying value of the customer relationship to its estimated fair value, which is based on a discounted cash flow analysis. The forecasted undiscounted cash flows related to the customer relationship intangible assets with our mixer/ferrite business exceeded its carrying value and therefore this asset was not impaired. In the fourth quarter of Fiscal 2009 the Company determined that no triggering event had occurred to warrant an impairment assessment. No assurance can be given that the underlying estimates and assumptions utilized in our determination of an asset's undiscounted future cash flows will materialize as anticipated.

The following table presents details of the Company's finite-lived intangible assets as of March 31, 2009 and March 31, 2008 (in thousands):

| | | March 31, 2009 | | | | March 31, 2008 | | |
|---|---|---|---|---|---|---|---|---|
| **Intangible Assets** | **Useful Life (years)** | **Gross Value** | **Accumulated Amortization** | **Impairment Charge** | **Net Value** | **Gross Value** | **Accumulated Amortization** | **Net Value** |
| Customer relationships (non-contractual) | 3-10 | $4,251 | $1,728 | $1,295 | $1,228 | $4,130 | $1,282 | $2,848 |
| Covenants not to compete | 2 | 480 | 480 | | — | 480 | 480 | — |
| Order backlog | 1 | 380 | 380 | | — | 380 | 364 | 16 |
| Trade Name | 10 | 260 | 47 | | 213 | 260 | 21 | 239 |
| Developed technology-drawings | 3-5 | 513 | 209 | | 304 | 390 | 132 | 258 |
| Total intangibles | | $5,884 | $2,844 | $1,295 | $1,745 | $5,640 | $2,279 | $3,361 |

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets. The following is a summary of estimated aggregate amortization expense for each of the five succeeding fiscal years:

| | (in thousands) |
|---|---|
| 2010 | $ 348 |
| 2011 | 321 |
| 2012 | 314 |
| 2013 | 163 |
| 2014 | 144 |
| Thereafter | 455 |
| Total | $1,745 |

Changes in the carrying amount of goodwill at March 31, 2009 and March 31, 2008 are as follows:

| | 2009 | 2008 |
|---|---|---|
| Balance at the beginning of the period | $ 8,931,944 | $5,982,709 |
| Acquisitions | — | 2,949,235 |
| Impairment charge | (7,964,916) | — |
| Purchase accounting adjustments | 150,169 | — |
| Balance at the end of the period | $ 1,117,197 | $8,931,944 |

During Fiscal 2008, the Company determined to consolidate its Enon reporting unit located in Topsfield, MA into its Hudson, NH facility to provide operational and financial efficiencies. As a result, the assets and liabilities of the Enon reporting unit were combined and are being used in the consolidated entity and were used to determine the fair value of the combined new reporting unit in the testing of goodwill impairment at March 31, 2009 and March 31, 2008.

Approximately $1.1 million of goodwill is deductible for income tax purposes at March 31, 2009 and March 31, 2008.

## 4. ACCOUNTS RECEIVABLE, NET

At March 31, 2009 and 2008 accounts receivable, net of allowances consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Accounts receivable | $5,430,723 | $5,226,761 |
| Less allowances | (449,799) | (364,981) |
| | $4,980,924 | $4,861,780 |

The activity related to the Company's allowances for doubtful accounts on accounts receivable for Fiscal 2009 and Fiscal 2008 is as follows:

| | 2008 | 2008 |
|---|---|---|
| Balance at beginning of period | $364,981 | $297,886 |
| Charged to costs and expenses | 84,818 | 67,095 |
| Deductions and write-offs | — | — |
| Balance at end of period | $449,799 | $364,981 |

## 5. INVENTORIES, NET

At March 31, 2009 and 2008 inventories consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Raw materials | $ 6,222,709 | $4,549,171 |
| Work in process | 3,588,857 | 2,346,513 |
| Finished goods | 1,164,901 | 885,650 |
| | 10,976,467 | 7,781,334 |
| Less: | | |
| allowance for obsolescence | (1,540,257) | (465,088) |
| | $ 9,436,210 | $7,316,246 |

## 6. PROPERTY, PLANT AND EQUIPMENT

At March 31, 2009 and 2008, property, plant and equipment consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Land | $ 162,000 | $ 162,000 |
| Buildings and leasehold improvements | 1,317,657 | 1,105,745 |
| Machinery and equipment | 10,409,567 | 8,979,161 |
| Furniture and fixtures, and other | 244,171 | 242,563 |
| | 12,133,395 | 10,489,469 |
| Less accumulated depreciation | (7,429,866) | (6,329,506) |
| | $ 4,703,529 | $ 4,159,963 |

Assets held under capital leases are classified as property, plant and equipment and amortized over their useful lives. Lease amortization is included in depreciation expense.

In May 2007, the Company sold commercial condominium housing Micronetics' Enon division. The proceeds from the sale were $461,898. The Company recorded a gain on the sale of the building of $69,609.

## 7. ACCRUED EXPENSES

At March 31, 2009 and 2008 accrued expenses consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Unbilled payables | $1,125,365 | $ 570,187 |
| Professional fees | 7,607 | 30,000 |
| Payroll, benefits and related taxes | 1,373,688 | 1,453,369 |
| Warranty | 136,763 | 119,252 |
| Unrealized loss on interest rate swap | 280,650 | 280,865 |
| Miscellaneous | 217,351 | 254,096 |
| | $3,141,424 | $2,707,769 |

Included in accrued payroll are bonuses of $403,322 and $646,630 for Fiscal 2009 and Fiscal 2008, respectively.

## 8. ACCRUED WARRANTY

The Company provides one-year warranties on all of its products covering both parts and labor. Micronetics, at its option, repairs or replaces products that are defective during the warranty period if the proper preventative maintenance procedures have been followed by the customer.

Product warranty activity in Fiscal 2009 and Fiscal 2008 are as follows:

| | 2009 | 2008 |
|---|---|---|
| Balance at beginning of period | $119,252 | $100,178 |
| Accruals for warranties | 93,453 | 80,309 |
| Charges to accrual for warranty costs | (75,942) | (61,235) |
| Balance at end of period | $136,763 | $119,252 |

## 9. LONG-TERM DEBT

At March 31, 2009 and 2008 long-term debt consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Term loan | $4,225,000 | $5,525,000 |
| Mortgage payable, NH | — | 130,837 |
| Capital leases | 448,465 | 4,698 |
| Total | 4,673,465 | 5,660,535 |
| Less current portion | 1,588,175 | 1,434,193 |
| Long-term debt net of current portion | $3,085,290 | $4,226,342 |

*Term Loan and Revolver*

In March 2007, the Company entered into a credit facility which consists of a $6.5 million five year secured term loan and a $5.0 million three year revolving line of credit. In the third quarter of Fiscal 2009, the revolving line of credit was extended by two years and now expires in March 2012. The term loan is guaranteed by the Company's subsidiaries and secured by substantially all of the Company's assets. The term loan is payable in quarterly principal installments of $325,000 plus accrued interest at the rate of 5.2% plus the applicable margin at March 31, 2009. The final payment for the term loan is in April 2012.

The Company entered into an interest rate swap agreement with a notional amount of $6.5 million in April 2007 to mitigate the effect of interest rate fluctuations on the term loan. The interest rate swap was not designated as a hedging instrument at the initiation of the swap, and therefore the Company has not applied hedge accounting. As a result, at the end of each reporting period, the change in value of the interest rate swap is recorded on the consolidated balance sheet, with any related gains or losses charged to earnings. For the year ended March 31, 2009, the Company recorded an unrealized gain of $215 in the statement of operations to reflect the change in estimated fair value for the interest rate swap in the consolidated statement of operations. The net unrealized loss on the interest rate swap amounted to approximately $280,000 at March 31, 2009.

The revolving line of credit bears interest at the current prime rate, which at March 31, 2009 was 3.25%. The Company had $1.5 million available under the line at March 31, 2009. Under the terms of the term loan and the revolver, we are required to maintain certain financial covenants on a quarterly and annual basis, including total funded debt to EBITDA not exceeding 2.25:1, minimum debt service coverage of 1.25:1, and minimum tangible net worth of $7.5 million. We obtained an amendment to the term loan and revolver agreements to include the goodwill and intangible asset impairment charges as an add-back to its EBITDA covenants. The Company also obtained an Amendment and Waiver Agreement to the term loan and revolver agreements to waive the Company's EBITDA covenants for the thirteen weeks ended March 31, 2009 and to substitute modified quarterly EBITDA covenants through March 31, 2010. Under the terms of the amendment, the Company's interest rate will increase from a maximum of LIBOR plus 2.5% to a maximum of LIBOR plus 4.25% for the revolving line of credit and a maximum adjusted LIBOR plus 3.75% for the term loan. The rate decreases to a minimum of LIBOR plus 2.5% based upon the Company's performance.

*Mortgage payable, NH*

In February 2004, Micronetics refinanced the mortgage on its headquarters by entering into a new five-year mortgage payable for $630,000. The note bears interest at 5.75% per annum and is payable in monthly installments, including interest, of $12,107. This loan was paid in full in February 2009.

*Mortgage payable, MA*

In March 2003, in connection with the purchase of a portion of a commercial condominium housing Micronetics' Enon division, Micronetics entered into a mortgage payable for $352,750. In May 2007, the commercial condominium was sold and the remaining mortgage was settled.

*Capital leases*

Commercial capital leases payable are reflected at their present value based upon interest rates that range from 6.4% to 10.6% per annum, and are secured by the underlying assets. The assets are depreciated over their estimated useful lives. Included in the current portion of long-term debt is $288,175 for capital lease obligations. Included in long-term debt net of current portion is $160,290 for capital lease obligations. Interest associated with our capital lease obligations amounts to approximately $33,000 over the lease terms.

Aggregate annual maturities of long-term debt, capital lease obligations and the line of credit, are as follows:

| Fiscal year ending March 31, | Line of Credit | Capital Lease Obligation | Mortgages and notes payable | Total |
|---|---|---|---|---|
| 2010 | $3,502,620 | $288,175 | $1,300,000 | $5,090,795 |
| 2011 | — | 77,450 | 1,300,000 | 1,377,450 |
| 2012 | — | 82,840 | 1,300,000 | 1,382,840 |
| 2013 | — | — | 325,000 | 325,000 |
| 2014 | — | — | — | — |
| Thereafter | — | — | — | — |
| | $3,502,620 | $448,465 | $4,225,000 | $8,176,085 |

## 10. STOCK OPTION PLANS AND STOCK-BASED COMPENSATION

At March 31, 2009, the Company had two stock option plans under which grants were outstanding. The stock options outstanding are for grants issued under the Company's 2003 Stock Option Plan and the 2006 Equity Incentive Plan.

### The 2003 Stock Incentive Plan

During the fiscal year ended March 31, 2004, the Company adopted a stock option plan entitled "The 2003 Stock Incentive Plan" (the "2003 Plan") under which the Company may grant options to purchase up to 900,000 shares of common stock plus any shares of common stock remaining available for issuance as of July 22, 2003 under the 1996 Stock Option Plan. In July 2006 the Board of Directors determined that it would not issue any new option awards under the 2003 Plan. As of March 31, 2009, there were 397,125 options outstanding under the 2003 Plan.

### The 2006 Equity Incentive Plan

During the fiscal year ended March 31, 2007, the Company adopted a stock option plan entitled "The 2006 Equity Incentive Plan" (the "2006 Plan") under which the Company may grant shares of restricted stock or options to purchase up to 1,000,000 shares of common stock. As of March 31, 2009 there were 302,000 options outstanding under the 2006 Plan.

The 2003 Plan and the 2006 Plan are administered by the Board of Directors or a Committee of the Board of Directors which has the authority to determine the persons to whom the options may be granted, the number of shares of common stock to be covered by each option grant, and the terms and provisions of each option grant. Options granted under the 2003 Plan and the 2006 Plan may be incentive stock options or non-qualified options, and may be issued to employees, consultants, advisors and directors of the Company and its subsidiaries. The exercise price of options granted under the 2003 Plan and the 2006 Plan may not be less than the fair market value of the shares of common stock on the date of grant, and may not be granted more than ten years from the date of adoption of each respective plan or exercised more than ten years from the date of grant.

The following table sets forth the Company's stock option activity during the year ended March 31, 2009:

| | Shares Underlying options | Weighted Average Exercise price | Weighted Average Remaining Contractual life | Aggregate Intrinsic value |
|---|---|---|---|---|
| Outstanding at March 31, 2008 | 755,825 | $7.75 | | |
| Granted | 21,000 | 7.44 | | |
| Exercised | — | — | | |
| Canceled | (77,700) | 7.37 | | |
| Outstanding at March 31, 2009 | 699,125 | $7.78 | 4.10 | — |
| Exercisable at March 31, 2009 | 384,625 | $7.62 | 1.81 | — |

There was no aggregate intrinsic value for outstanding and exercisable options at March 31, 2009 based on the Company's closing stock price of Common Stock on that date of $2.35.

The following table sets forth the status of the Company's non-vested stock options as of March 31, 2009:

| | Number of Options | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Non-vested as of March 31, 2008 | 433,475 | $4.30 |
| Granted | 21,000 | 3.89 |
| Forfeited | (6,100) | 3.50 |
| Vested | (133,875) | 3.56 |
| Non-vested as of March 31, 2009 | 314,500 | $4.61 |

During the year ended March 31, 2008, the Company granted options to purchase 10,000 shares of common stock with an exercise price of $8.40 to a former employee. In the fourth quarter of Fiscal 2008, 5,000 options vested and the remaining options vested on July 31, 2008. The options have a contractual life of 10 years. The Company valued the options under SFAS 123(R) at the fair value on the date of grant using the Black-Scholes options-pricing model. The Company recorded $32,150 in compensation expense for the year ended March 31, 2009 related to the non-employee options.

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

| Range of exercise prices | Options outstanding | Weighted average remaining contractual life | Weighted average exercise price of options outstanding | Options exercisable | Weighted average exercise price of options exercisable |
|---|---|---|---|---|---|
| $ 5.18 – $ 6.89 | 10,875 | 2.90 yrs | $6.61 | 7,875 | $6.60 |
| $ 6.90 – $ 8.61 | 668,250 | 4.20 yrs | $7.77 | 361,750 | $7.59 |
| $ 8.62 – $ 10.33 | 20,000 | 1.56 yrs | $8.89 | 15,000 | $8.89 |
| | 699,125 | 4.10 yrs | $7.78 | 384,625 | $7.62 |

Total stock-based compensation reported in the consolidated statements of operations for Fiscal 2009 and Fiscal 2008:

| | 2009 | 2008 |
|---|---|---|
| Cost of sales | $ 58,573 | $ 65,967 |
| Selling, general and administrative | 575,211 | 647,535 |
| Research and development | — | 27,220 |
| Stock-based compensation | $633,784 | $740,722 |

Unrecognized stock-based compensation expense related to the unvested options is approximately $.8 million, and will be recorded over the remaining vesting periods of 3.35 years. This estimate is based on the number of unvested options currently outstanding and could change based on the number of options granted or forfeited in the future.

The Company granted 25,000 shares of restricted stock to an employee under the 2006 Equity Incentive Plan on November 14, 2007. The shares were issued at a purchase price of $.01 per share. The fair value of the restricted stock was determined based on the fair value of the Company's common stock on the grant date. Upon issuance of the restricted stock 10,000 shares were vested, with the remaining 15,000 shares to vest twenty percent upon the completion of each quarterly period thereafter. The stock fully vested on August 14, 2008. As a result of the issuance of the restricted stock, the Company recognized $197,500 of stock compensation costs, $138,250 of which was expensed in Fiscal 2008 and $59,250 in Fiscal 2009.

During the fiscal year ended March 31, 2009, the Company used the Black-Scholes option-pricing model to value option grants and to determine the related compensation expense. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates.

The Company based its expected volatility on the historical volatility of the Company's stock price with consideration given to the expected life of the award. The Company intends to continue to consistently use its historical stock price to determine volatility in the future.

The risk-free interest rate used for each grant is equal to the U.S. Treasury yield in effect at the time of grant for instruments with a similar expected life.

The expected term of options granted was determined based on the historical exercise behavior of similar peer groups. For Fiscal 2009 and Fiscal 2008 the expected term was calculated based upon the simplified method as permitted by the Securities Exchange Commission Staff Accounting Bulletin ("SAB") 107, Share-Based Payments as the Company issued options with a longer contractual term and did not have sufficient history of exercises under these terms.

The Company has not declared or paid a cash dividend, and has no current plans to pay a cash dividend in the future.

SFAS 123(R) also requires that the Company recognize compensation expense for only the portions that are expected to vest. Therefore, the Company has estimated expected forfeitures of stock options with the adoption of SFAS 123(R). In developing a forfeiture rate estimate, the Company considered its historical experience. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

The fair value of options issued during Fiscal years 2009 and 2008 were estimated at the date of grant with the following weighted-average assumptions:

| | 2009 | 2008 |
|---|---|---|
| Risk Free Interest Rate | 2.93 – 3.55% | 3.89 – 4.98% |
| Expected Life | 6.13 years | 6.75 – 7.57 years |
| Expected Volatility | 57 – 60% | 55 – 60% |
| Expected Dividend Yield | 0% | 0% |

The per share weighted average fair value of stock options granted for the fiscal years ended March 31, 2009 and 2008 was $3.89 and $4.22, respectively.

## 11. PREFERRED STOCK

Pursuant to the Company's Certificate of Incorporation, the Board of Directors has the authority, without further action by the stockholders, to issue up to 100,000 shares of preferred stock, par value $.10 per share, in one or more series and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the common stock.

## 12. SHAREHOLDERS' EQUITY

In November 2008 in accordance with a stock repurchase plan approved by our Board of Directors the Company repurchased a total of 454,107 shares of our common stock for $1,248,314. Under the plan the Company may purchase up to 500,000 shares of the Company's common stock. We have no plans at this time to make additional repurchases under the plan.

## 13. INCOME TAXES

The following sets forth the provision for income taxes at March 31, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Current: | | |
| Federal | $ (79,266) | $1,563,270 |
| State | 210,919 | 556,161 |
| Deferred: | | |
| Federal | (891,142) | (612,663) |
| State | (414,395) | (155,832) |
| Provision for income tax | $(1,173,884) | $1,350,936 |

The Company and its subsidiaries file a consolidated federal income tax return. Tax benefits from the early disposition of stock by optionees under incentive stock options and from exercises of non-qualified options are credited to additional paid-in capital, to the extent that the benefit exceeds stock compensation recorded for book purposes.

At March 31, 2009 and 2008 the difference between the income tax provision computed at the Federal statutory rate and the actual tax provision is accounted for as follows:

| | 2009 | 2008 |
|---|---|---|
| Taxes computed at the federal statutory rate | $(3,650,855) | $1,024,528 |
| Goodwill impairment | 2,708,071 | — |
| State income tax (net of federal benefit) | (134,294) | 264,217 |
| Effect of permanent differences | 80,607 | 141,641 |
| Research and development tax credits | (103,967) | (63,007) |
| FIN 48 Settlements | (73,446) | (16,443) |
| Income tax provision | $(1,173,884) | $1,350,936 |

At March 31, 2009 and 2008 deferred tax assets (liabilities) are comprised of:

| | 2009 | 2008 |
|---|---|---|
| Current deferred tax asset: | | |
| Accrued expenses | $ 334,749 | $ 408,135 |
| Inventory reserve | 760,501 | 68,313 |
| Bad debt reserve | 150,215 | 39,526 |
| Warranty reserve | 56,394 | 47,629 |
| Sales return reserve | 35,260 | 34,152 |
| UNICAP | 136,473 | — |
| Prepaid expenses | (8,634) | (21,585) |
| | $1,464,958 | $ 576,170 |
| Long term deferred tax liability: | | |
| Stock compensation | $ 372,426 | $ 211,126 |
| State operating loss carryforward | 192,096 | — |
| Intangible amortization | (44,957) | (22,984) |
| Depreciation | (606,274) | (111,658) |
| Purchase price adjustment | (597,207) | (1,321,536) |
| Section 481(a) adjustment | (217,806) | — |
| | $ (901,722) | $(1,245,052) |

As of March 31, 2009, the Company has state net operating loss carryforwards of approximately $1,055,000 which will expire in 2016.

In June 2007, the Company acquired MICA Microwave, Inc. as noted in Note 2. In conjunction with this acquisition, the company recorded certain intangible assets which have an associated deferred tax liability of $700,000. These intangibles are being amortized for book purposes over various lives. The current year deferred tax benefit includes the current year recognition of $77,583 of that deferred tax expense.

The Company's effective tax rate was 11% and 45% for the year ended March 31, 2009 and 2008, respectively. In Fiscal 2009 the Company recorded a discrete item of $3.1 million related to a goodwill impairment charge that is non-tax deductible. In addition, approximately $75,000 of uncertain tax benefits were recognized due to statute of limitations expiring for previously filed tax returns.

The Company's adoption of FIN No. 48 on April 1, 2007 resulted in the recognition of $96,443 of previously uncertain tax benefits which, in accordance with FIN No. 48, the cumulative amount was accounted for as an adjustment to the April 1, 2007 retained earnings balance in the first quarter of Fiscal 2008.

The amount of uncertain tax benefits as of March 31, 2009 was $6,200, which, if ultimately recognized, will reduce the Company's annual effective tax rate. The Company does not expect any material change in uncertain tax benefits within the next twelve months.

The change in uncertain tax benefits for the twelve months ended March 31, 2009 is as follows:

| | 2009 |
|---|---|
| Balance at beginning of period | $ 80,000 |
| Change in tax positions related to prior years | 1,000 |
| Change in tax positions related to the current year | — |
| Settlements | (74,800) |
| Reductions for expiration of statute of limitations | — |
| Balance at end of period | $ 6,200 |

As of March 31, 2009, the Company is subject to tax in the U.S. and various state jurisdictions. The Company is open to examination for tax years March 31, 2006 through 2009.

During Fiscal 2008, the Company was under an IRS audit for its Fiscal 2006 tax returns. The IRS did not make any changes to the federal taxable income for Fiscal 2006. The Company is no longer under IRS examination for the Fiscal 2006 tax returns.

The Company's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense, if any. As of March 31, 2009, the Company has accrued interest and penalties for uncertain tax benefits in its statement of operations of $1,300.

## 14. EARNINGS PER SHARE

Basic (loss) earnings per share, or EPS, is computed based on the net loss or income for each period divided by the weighted average actual shares outstanding during the period. Diluted (loss) earnings per share is computed based on the net loss or income per period divided by the weighted average number of common shares and common equivalent shares outstanding during each period unless the effect would be anti-dilutive. Common stock equivalents represent the dilutive effect of the assumed exercise of certain outstanding stock options using the treasury stock method. The computations of basic and diluted earnings per share at March 31, 2009 and 2008 are:

| | 2009 | 2008 |
|---|---|---|
| Net (loss) income | $(9,563,927) | $1,662,383 |
| Weighted average shares outstanding: | 4,836,052 | 4,932,545 |
| Basic (loss) earnings per share | $ (1.98) | $ .34 |
| Common stock equivalents | — | 18,650 |
| Weighted average common and common equivalent shares outstanding | 4,836,052 | 4,951,195 |
| Diluted (loss) earnings per share | $ (1.98) | $ .34 |

## 15. COMMITMENTS AND CONTINGENCIES

**Leases:**

The Company is obligated under various non-cancelable operating leases for manufacturing facilities and equipment, which expire through January 2014.

The aggregate future minimum lease payments, are as follows:

| | March 31, |
|---|---|
| 2010 | $ 665,226 |
| 2011 | 614,633 |
| 2012 | 609,783 |
| 2013 | 595,308 |
| 2014 | 425,770 |
| | $2,910,720 |

Rental expense for the years ended March 31, 2009 and 2008 was $751,973 and $519,546 respectively.

Rental income for the year ended March 31, 2008 was $5,572. The sub-lease on this facility expired in May 2007.

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted the provisions of SFAS 157 for financial assets and liabilities effective April 1, 2008. SFAS 157 clarifies the definition of fair value as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes, in descending order, the inputs used in measuring fair value as follows:

Level 1 — Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 — Inputs used to measure fair value, other than quoted prices included in Level 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3 — Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Assets and liabilities measured at fair value on a recurring basis, consistent with SFAS 157, include the following as of March 31, 2009.

| | Fair Value Measurements at March 31, 2009 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value as of March 31, 2009 |
| Money market fund | — | $555,000 | — | $550,000 |
| Interest rate swap | — | $280,000 | — | $280,000 |

As of March 31, 2008, the Company's short-term and long-terms investments consisted of $400,000 and $250,000, respectively of auction rate securities which were issued by a closed-end fund. Since March 31, 2008, the issuer of the auction rate securities redeemed 100% of the funds' outstanding auction preferred shares that were held by the Company at cost.

## 17. RELATED PARTY TRANSACTION

On September 4, 2008, Micronetics, Inc. entered into a lease with SBJ Development, LLC (the "Landlord") for a new headquarters for Stealth Microwave, Inc, its subsidiary. The property is located in the Township of Ewing, New Jersey. The lease has an initial term of five years and contains three options to extend the lease, each for a term of five years. The annual rent for the initial term of the lease is $225,600.

Both Stephen N. Barthelmes, Jr., a director of Micronetics and President of Micronetics' subsidiary Stealth Microwave, Inc., and Kevin Beals, President of Micronetics, are members of the Landlord. Mr. Barthelmes and Mr. Beals own twenty-one percent and sixteen percent, respectively, of the outstanding units of membership interest of the Landlord.

The Audit Committee of the Board of Directors of Micronetics reviewed and approved the terms of the lease prior to its execution.

## 18. MAJOR CUSTOMERS

The Company sells primarily to original equipment manufacturers of communications equipment in either the commercial or the defense electronic marketplace. Many of those customers are prime contractors for defense work or Fortune 500 companies with world-wide operations. The top three customers accounted for 22%, 5% and 5% of the Company's consolidated sales in Fiscal 2009. For Fiscal 2008, the top three customers accounted for 9%, 8% and 8% of the Company's consolidated sales.

## 19. INDUSTRY SEGMENT INFORMATION

The Company's product groups have similar characteristics such as cost to design and manufacture, applications, types of customers, and sales channels. Accordingly, Management has determined that the Company operates as a single integrated business and as such has one operating segment as a provider of RF and microwave components and subassemblies for defense and commercial customers worldwide. The Company continues to break out revenues between its commercial and defense applications.

Exports accounted for 17% and 27% of the Company's sales in the years ended March 31, 2009 and 2008, respectively. Sales representing shipments by geographical area are shown below (in thousands):

| | March 31, | |
|---|---|---|
| | 2009 | 2008 |
| United States and Canada | $25,493 | $24,286 |
| Europe | 3,445 | 6,660 |
| Asia | 1,363 | 1,605 |
| Central and South America/Other | 46 | 74 |
| | $30,347 | $32,625 |

## 20. EMPLOYEE BENEFIT PLANS

The Company has in effect a defined contribution plan under section 401(k) of the Internal Revenue Code under which it provides matching contributions of 50% up to 6% of the participant's annual salary. Effective December 31, 2004, the Company merged the existing 401K Plans of its wholly-owned subsidiaries Microwave & Video Systems, Inc., MVS Applications 401(k) and Savings Plan (the "MVS Plan") with and into the Micronetics' Plan, with the Micronetics' Plan the surviving plan. Effective January 1, 2007, the Company merged the SIMPLE retirement plan of its wholly-owned subsidiary Stealth Microwave into the Micronetics' Plan.

Company contributions to the plan for the years ended March 31, 2009 and March 31, 2008 were $137,285 and $138,984, respectively.

MICA maintains a defined contribution plan under section 401 (k) of the Internal Revenue Code under which employees may elect to contribute an amount of their eligible compensation to the plan, subject to the annual limits as defined in the plan. MICA does not provide matching contributions.

## 21. Unaudited Quarterly Financial Information (amounts in thousands)

| FISCAL 2009 | Q1 FY09 | Q2 FY09 | Q3 FY09 | Q4 FY09 |
|---|---|---|---|---|
| Net sales | $7,087 | $6,545 | $ 8,398 | $8,317 |
| Gross profit(1) | $2,978 | $2,069 | $ 2,746 | $1,390(1) |
| Gross profit % | 42% | 32% | 33% | 17% |
| Net income (loss) | $ 158 | $ (67) | $(9,384) | $ (271) |
| Earnings per common share —Basic | $ 0.03 | $(0.01) | $ (1.96) | $(0.06) |
| Basic weighted average shares | 5,000 | 5,005 | 4,788 | 4,554 |
| Earnings per common share —Diluted | $ 0.03 | $(0.01) | $ (1.96) | $(0.06) |
| Diluted weighted average shares | 5,008 | 5,005 | 4,788 | 4,554 |

| FISCAL 2008 | Q1 FY08 | Q2 FY08 | Q3 FY08 | Q4 FY08 |
|---|---|---|---|---|
| Net sales | $6,310 | $9,763 | $ 8,828 | $7,724 |
| Gross profit | $2,393 | $3,652 | $ 3,625 | $3,249 |
| Gross profit % | 38% | 37% | 41% | 42% |
| Net income | $ 185 | $ 618 | $ 556 | $ 303 |
| Earnings per common share —Basic | $ 0.04 | $ 0.12 | $ 0.11 | $ 0.06 |
| Basic weighted average shares | 4,727 | 4,975 | 4,987 | 4,995 |
| Earnings per common share —Diluted | $ 0.04 | $ 0.12 | $ 0.11 | $ 0.06 |
| Diluted weighted average shares | 4,758 | 5,012 | 4,993 | 5,013 |

(1) Includes a $638,000 inventory reserve related to a shift in customer requirements.

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**Exhibit 21**

## Subsidiaries of the Company

| Name | State of Incorporation |
|---|---|
| 1. Microwave and Video Systems, Inc. | Connecticut |
| 2. Microwave Concepts, Inc. | Delaware |
| 3. Stealth Microwave, Inc. | Delaware |
| 4. MICA Microwave Corporation | Delaware |

**Exhibit 23.1**

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated June 29, 2009, with respect to the consolidated financial statements included in the Annual Report of Micronetics, Inc. and subsidiaries on Form 10-K for the year ended March 31, 2008. We hereby consent to the incorporation by reference of said report in the Registration Statements of Micronetics, Inc. and subsidiaries on Form S-8 (File No. 333-48087, effective March 17, 2008, File No. 333-128223, effective September 9, 2005, File No. 333-46646, effective September 26, 2000 and File No. 333-138956, effective November 27, 2006).

/s/ Grant Thornton LLP
Boston, Massachusetts
June 29, 2009

**Exhibit 31.1**

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David Robbins, certify that:

1. I have reviewed this Annual Report on Form 10-K of Micronetics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 29, 2009

/s/ DAVID ROBBINS

**Name:** **David Robbins**
**Title:** **Chief Executive Officer and Treasurer**
**(Principal Executive Officer)**

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Micronetics, Inc. (the "Company") on Form 10-K for the period ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Robbins, Chief Executive Officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

June 29, 2009

/s/ DAVID ROBBINS

**Name:** **David Robbins**
**Title:** **Chief Executive Officer and Treasurer**
**(Principal Executive Officer)**

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

## BOARD OF DIRECTORS

**Gerald Y. Hattori**
Lead Director of the
Board of Directors,
Micronetics, Inc.
President & Founder, Evolution
Management, Inc.

**David Siegel**
Vice President, Great American
Electronics

**D'Anne Hurd**
Vice President for Business
Development at Gateway Park,
Vice President and General Counsel,
Worcester Polytechnic Institute

**David Robbins**
Chief Executive Officer,
Micronetics, Inc

**Stephen N. Barthelmes, Jr.**
President of Stealth Microwave, Inc.,
a wholly-owned subsidiary of
Micronetics, Inc.

## EXECUTIVE OFFICERS

**David Robbins**
Chief Executive Officer and
Treasurer

**Kevin Beals**
President and Secretary

**Carl Lueders**
Acting Chief Financial Officer

## STOCK LISTING
Micronetics' common stock is traded
on the NASDAQ Capital Market under
the symbol NOIZ

## INDEPENDENT AUDITORS
Grant Thornton LLP
116 Causeway Street, 6th Floor
Boston, MA 02114

## TRANSFER AGENT AND REGISTRAR
Computershare Trust Company, N.A.
Shareholder Services
P.O. Box 43010
Providence, RI 02940
www.computershare.com

## OUTSIDE LEGAL COUNSEL
Morse, Barnes-Brown & Pendleton, PC
1601 Trapelo Road, Suite 205
Waltham, MA 02451

## ANNUAL MEETING
The annual meeting of stockholders
will be held at 11 a.m. on Thursday,
October 22, 2009 at Morse, Barnes-
Brown & Pendleton, PC,
1601 Trapelo Road, Suite 205,
Waltham, MA 02451.

## STOCKHOLDER INQUIRIES
For more information about
Micronetics, Inc. or our common
stock, or for a copy of our Annual
Report on Form 10-K, please
contact investor relations at
603-883-2900.

MICRONETICS

www.micronetics.com

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