

## Josh Wolfe Maintains Buy

Dear Subscriber,

In an unexpected announcement yesterday, NVE-licensee Cypress said it intends to divest its Silicon Magnetic Systems (SMS) subsidiary, founded to commercialize MRAM. While CY recently announced successful MRAM sampling with several of its clients, the company expressed doubts about MRAM's ability to serve as an economically-viable replacement to discrete, commodity-like SRAM memory.

While this announcement is a net-negative for NVE, it by no means signals the death knell for the company or the future of MRAM. NVE-licensee Motorola's [MOT] chip spin-off Freescale [FSL], Toshiba and NEC [NIPNY] are all focused on commercializing embedded-MRAM for high-end applications.

Motorola was sampling 4Mb MRAM chips with select clients at the end of 2004. With Cypress, NVE has proved its MRAM technology can serve as the basis for a fully-functional product. According to Cypress CEO T.J. Rodgers said, "After a three-year effort, Cypress sampled fully functional MRAMs to seven key OEM customers in January. Three of those customers are still in the validation phase of their assessment and four of them have already confirmed with us that they have found the product fully functional, as we announced in our quarterly earnings conference call on January 27."

The Cypress announcement places an even higher priority on NVE's ability to sign licensing deals in the next year. In 2005, NVE must sign new licensing deals with Freescale (today planning to operate under have-made rights granted by Motorola until the end of 2005) and whatever corporation buys CY's MRAM unit. There are significant risks, but we contend there is far greater upside.

The Cypress deal in particular was a unique technology-sharing agreement, and any new agreement could become a far more lucrative royalty-bearing deal. Motorola's royalty agreement with NVE (estimated at 1%) is generally perceived as below market, and a new FSL deal could come at a higher rate. While the CY news complicates the NVE-story, the company is healthy and profitable with adequate cash reserves to see it through any delays in MRAM development. With a market cap of just north of \$100 million, NVE Corporation remains an extremely attractive investment opportunity. We maintain our Buy rating.