

March 18, 2004

NVEC possesses no valuable MRAM technology.

Does any one believe that Motorola, Inc. (NYSE: MOT, \$17.22) has incorporated NVE Corporation's (NASDAQ: NVEC, \$45.75) intellectual property ("IP") patents into Motorola's prototype "toggle" 4MBIT Magnetoresistive Random Memory ("MRAM") chip? If so, does any one believe that NVE can successfully claim Motorola has infringed on its patents? And, last but not at all least, does any one really believe that NVE's IP contribution is important enough to the development of Motorola's MRAM product that it will receive compensation material to NVE? Not us. Or any of the expert opinions we have obtained and reviewed. And judging by their enormous stock selling, NVE's own inside experts also do not believe.

NVE insiders have dumped almost all of their shares. NVE founder James M. Daughton and Daniel A Baker, NVE's Chief Executive Officer and lead stock promoter, sold 78% and 89% of their shares. NVE's lead investor sold 1.4 million of its 1.5 million shares and three out of five NVE directors have sold stock. Robert Irish, an NVE Director, sold all his NVE shares. Insiders had been stuck in NVE, which had only raised \$4.7 million before it merged with the shell of a defunct public company, until the Motorola story became a stock promotion.

And what a successful promotion! So successful in fact that even the dumping insiders were caught by surprise. NVE's stock promotion seems to have officially started on June 3, 2003 at \$6.48 per share. The insiders started selling in June and sold as low as \$18 per share only to see the stock rise to \$69 per share on January 20, 2004. Only one waited long enough to get the highest prices. And that was Daniel Baker who sold 65,400 shares at an average price of \$57.51 on January 28 and 30, 2004.

On May 30, 2003 the public only held 24% of NVE's outstanding shares. The insiders have dumped so many of their shares on the public that now the public is left holding 90% of the company. And the insiders? On May 30, 2003 the group of sellers combined owned 73% of the company. Today they own 6%.

NVE is one of those "the more you know the sillier it becomes" stock promotions. Not that we would ever let a set of circumstantial facts lead us to a conclusion. But, brother what a set of circumstances. Before we tell you the story, let us reiterate that we do not believe NVE's IP is included in Motorola's MRAM product. In fact, we believe that NVE's MRAM IP has no commercial value. And we think that NVE's insider selling indicates that they agree with us.

Now, you might ask: How did these fellows out in Eden Prairie, MN get this done? Well they had an assist. Peter Hebert, the Publisher, and Josh Wolfe, 26, the Editor, of the Forbes/Wolfe Nanotech Report seem to be Daniel Baker's lead proponents. Let's call this pair "H&W." H&W have promoted themselves everywhere from Investor's Business Daily to Men's Health Magazine.

The Daily Deal wrote on March 15, 2004 H&W "have an outsized capacity for publicity" yet no capacity to buy and hold NVE's stock. Rarely does an individual whose only known accomplishment is getting Forbes to hype his

newsletter, manage to be called a short (5'5") "hype-artist" and "wannabe scientist" in the press. Unfortunately, Wolfe's due diligence is also short, but not the hype. H&W promoted NVE in their newsletter in June 2003, and July, August, September, October, November, December 2003, and January 2004.

But giving H&W too much credit for this stock's climb would be a mistake. There exists a set of facts that could be easily used to wrongly lead anyone to believe NVE was materially involved in Motorola's MRAM development. You see, Motorola was just beginning to explore MRAM possibilities, back in 1990, when Motorola made a small investment in NVE. Then in 1995 Motorola entered into a licensing agreement with NVE covering NVE's patents related to MRAM. And then, on June 4, 2003, coinciding almost exactly with NVE's stock blast-off and the beginning of NVE's insider dumping, an article titled "IBM, Infineon two years behind Motorola in MRAM" was published in Silicon Strategies stating that Motorola was 2 years ahead of Altis Semiconductor SA, the International Business Machines Corporation (NYSE: IBM, \$93.39) and Infineon Technologies AG (NYSE: IFX, \$13.45) joint venture, in bringing an MRAM sample to the market. NVE's first stock promotion gimmick was distributing copies of this article with a stamp indicating that Motorola was an NVE licensee. And sure enough, on October 27, 2003 Motorola announced that it had delivered MRAM samples to customers. Wow. H&W did not have to do too much work spinning facts like these, especially since NVE only had 987,394 shares in the public float when they started their promotion.

All those facts are old news now. Investors have caught up to Daniel Baker and his say-one-thing-but-do-another stock promotion. NVE's stock began its wholly-deserved return to oblivion. Then surprise. Two days ago H&W used a cameo appearance by Daniel Baker on a Wall Street MRAM research call and an absurd claim that the stock's decline was due to a now-solved problem with Cypress Semiconductor Corporation (NYSE: CY, \$21.10) to rekindle NVE's dying flame.

On March 16, 2004 Credit Swiss First Boston ("CSFB") hosted a conference call titled "Next Generation Memory Drivers - Part 2." The conference call featured Cypress Executive Vice President of Sales and Marketing, Ralph Schmitt and NVE front man Daniel Baker. NVE's stock rose \$3.63, or 9.8%, on March 16 to close at \$40.83. Yesterday NVE's stock closed at \$45.75, up another 12.1%. Perhaps NVE traders believe that NVE would share in Cypress' MRAM success. This is not the case. The Cypress-NVE License and Joint Ownership Agreement states that "NVE hereby grants to Cypress a worldwide, nontransferable, nonexclusive, *royalty free* license." Cypress holds no NVE stock. But we can see why Cypress might want NVE to join them on the CSFB conference call. You see Cypress holds three warrants covering 408,000 NVE shares exercisable between \$7.345 and \$21.99 per share.

We believe that Motorola licensed NVE's patents while forming an MRAM patent portfolio early in Motorola's MRAM development program. This was nine (9) years ago. Motorola has advanced well beyond NVE's early design. Furthermore, NVE's patents describe a one-transistor per bit read addressing scheme that have been used in DRAM chips for a very long time. Therefore, we seriously question their enforceability against any chip design.

There are clear and material differences between the NVE and Motorola designs. Even under the best scenario NVE's patents are hardly the "key inventions" in MRAM development. In fact, other than being early (one could also say dated and underdeveloped) we found no other distinguishing credit to NVE's IP.

Motorola has its own very strong MRAM patent portfolio containing over 30 patents by at least eight Motorola scientists who are major IP contributors to Motorola's MRAM development. In addition, Hewlett-Packard Company (NYSE: HPQ, \$22.10), Intel Corporation (NASDAQ: INTC, \$27.79), Micron Technology, Inc. (NYSE: MU, \$15.47), National Semiconductor Corporation (NYSE: NSM, \$41.98), SanDisk Corporation (NASDAQ: SNDK, \$26.94) and STMicroelectronics N.V. (NYSE: STM, \$24.11) all have important patents pertaining to MRAM development. Among Motorola's inventors is the late Leonid Savtchenko, a Russian-educated magnetism theoretician, who is credited with solving a major MRAM development challenge known as "flipping" with his "togglng" patent.

As written above, this is a "the more you know the sillier it becomes" stock promotion. It all began in 1989 when Mr. Daughton founded a small private company called Nonvolatile Electronics, Incorporated. In its 11 year history Nonvolatile managed to raise all of \$4.7 million and lose \$3.7 million of the money it raised. On November 21, 2000 Nonvolatile merged with a defunct public company. The public shell changed its name to NVE Corporation. Nonvolatile had a total of \$670,115 in cash in the bank before its merger with the shell. The defunct company had \$1.1 million in cash prior to the merger. Little wonder the long-suffering insiders dumped so quickly. Immediately after the merger the public held 823,725 NVE shares and the insiders held 2,537,205 NVE shares. Today, thanks to the success of NVE's Motorola stock promotion and the voracity of NVE's insider selling, the public now holds 3,948,160 NVE shares and the insiders hold just 421,175 shares.

We don't know why the company's management is fomenting half-baked theories of how much NVE will receive from Motorola and the value of its IP. We don't know why they are promoting their stock in such a questionable manner. It might matter that these things have gone on while they sold their shares to the public. But what is important is whether NVE's stock will one day soon be the low-volume, forgotten reverse-merger, penny-stock it was less than one year ago. And to this, we answer yes definitely. We see no other possible outcome to this otherwise insignificant stock promotion scheme.

NVE's attraction faded long before its 2000 shell deal. By then Motorola had invested a tiny amount in NVE privately in return for a look and a call on NVE's MRAM work and NVE had failed to generate any material interest in its development program. Even starting with the benefit of the IBM and Infineon MRAM programs, Altis is scheduled to spend about \$200 million to develop MRAM. Only the wildest of dreamers could possibly believe NVE and its \$4 million technology can compete in the MRAM field. For this reason and many others, we initiate coverage of shares of NVE publicly traded stock with a Strong Sell and Short Sell opinion.

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