

Netlist Reports Second Quarter 2013 Results

August 13, 2013

IRVINE, CA -- (Marketwired) -- 08/13/13 -- Netlist, Inc. (NASDAQ: NLST), a leading provider of high performance and hybrid memory solutions for the cloud computing and storage markets, today reported financial results for the second quarter ended June 29, 2013.

Revenues for the three months ended June 29, 2013, were \$5.1 million, compared to revenues of \$10.6 million for the second quarter ended June 30, 2012. Gross profit for the three months ended June 29, 2013, was \$0.2 million, or 4.9 percent of revenues, compared to a gross profit of \$2.7 million, or 25.9 percent of revenues, for the three months ended June 30, 2012.

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) loss after adding back net interest expense, benefit of income taxes, depreciation, amortization, stock-based compensation and net other income was (\$2.0) million for the three month period ended June 29, 2013, compared to an adjusted EBITDA loss of (\$2.9) million for the prior year period.

Net loss for the three months ended June 29, 2013, was (\$2.9) million, or (\$0.09) loss per share, compared to a net loss in the prior year period of (\$4.0) million, or (\$0.14) loss per share. These results include stock-based compensation expense of \$369,000 for the second quarter of 2013, compared to \$482,000 for the second quarter of 2012.

"During the second quarter, we continued our focus on the introduction of our industry-leading products to the high performance server market, while laying the groundwork to maximize our related IP assets," said C.K. Hong, Chief Executive Officer of Netlist. "Our financial results reflect the transitional process underway in our business, combined with our focus on managing costs and preserving liquidity. In July, we announced the qualification of 32GB HyperCloud® on the world's best-selling server, HP's ProLiant DL380p Gen8. We also strengthened our financial resources through a strategic financing arrangement backed by our patent portfolio with Fortress Investment Group LLC. Looking ahead, we are committed to unlocking the value of our patent portfolio for the current and future generations of server memory."

Revenues for the six months ended June 29, 2013, were \$11.0 million, compared to revenues of \$24.5 million for the six months ended June 30, 2012. Gross profit for the six months ended June 29, 2013, was \$0.8 million, or 7.4 percent of revenues, compared to a gross profit of \$8.2 million, or 33.3 percent of revenues, for the six months ended June 30, 2012.

Net loss for the six months ended June 29, 2013, was (\$6.0) million, or (\$0.20) loss per share, compared to a net loss in the prior year period of (\$5.1) million, or (\$0.18) loss per share. These results include stock-based compensation expense of \$803,000 and \$1 million for the six month periods ended June 29, 2013 and June 30, 2012, respectively.

As of June 29, 2013, cash and cash equivalents were \$6.8 million, total assets were \$16.6 million, working capital was \$9.5 million, total debt was \$2.9 million, and stockholders' equity was \$8.5 million.

Conference Call Information

As previously announced, Netlist is conducting a conference call today to be broadcast live over the Internet at 5:00 pm Eastern Time to discuss and to review the financial results for the second quarter ended June 29, 2013. The dial-in number for the call is 1-412-858-4600. The live webcast and

archived replay of the call can be accessed in the Investors section of Netlist's website at www.netlist.com.

Note Regarding Use of Non-GAAP Financial Measures

Certain of the information set forth herein, including EBITDA and adjusted EBITDA, may be considered non-GAAP financial measures. Netlist believes this information is useful to investors because it provides a basis for measuring Netlist's available capital resources, the operating performance of Netlist's business and Netlist's cash flow, excluding net interest expense, provisions for income taxes, depreciation, amortization, share-based compensation and non-operating net income and expense that would normally be included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Netlist's management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating Netlist's operating performance, capital resources and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-financial measures as reported by Netlist may not be comparable to similarly titled amounts reported by other companies.

About Netlist:

Netlist, Inc. designs and manufactures high-performance, logic-based memory subsystems for server and storage applications for cloud computing. Netlist's flagship products include HyperCloud®, a patented memory technology that breaks traditional memory barriers, NVvault™ and EXPRESSvault™ family of products that significantly accelerate system performance and provide mission critical fault tolerance, and a broad portfolio of industrial Flash and specialty memory subsystems including VLP (very low profile) DIMMs and Planar-X RDIMMs.

Netlist develops technology solutions for customer applications in which high-speed, high-capacity, small form factor and heat dissipation are key requirements for system memory. These customers include OEMs that design and build tower, rack-mounted, and blade servers, high-performance computing clusters, engineering workstations and telecommunications equipment. Founded in 2000, Netlist is headquartered in Irvine, CA with manufacturing facilities in Suzhou, People's Republic of China. Learn more at www.netlist.com.

Safe Harbor Statement:

This news release contains forward-looking statements regarding future events and the future performance of Netlist. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expected or projected. These risks and uncertainties include, but are not limited to, risks associated with the launch and commercial success of our products, programs and technologies; the success of product partnerships; continuing development, qualification and volume production of EXPRESSvault™, NVvault™, HyperCloud® and VLP Planar-X RDIMM; the timing and magnitude of the anticipated decrease in sales to our key customer; our ability to leverage our NVvault™ technology in a more diverse customer base; the rapidly-changing nature of technology; risks associated with intellectual property, including patent infringement litigation against us as well as the costs and unpredictability of litigation over infringement of our intellectual property and the possibility of our patents being reexamined by the United States Patent and Trademark office; volatility in the pricing of DRAM ICs and NAND; changes in and uncertainty of customer acceptance of, and demand for, our existing products and products under development, including uncertainty of and/or delays in product orders and product qualifications; delays in the Company's and its customers' product releases and development; introductions of new products by competitors; changes in end-user demand for technology solutions; the Company's ability to attract and retain skilled personnel; the Company's reliance on suppliers of critical components and vendors in the supply chain; fluctuations in the market price of critical components; evolving industry standards; and the political and regulatory environment in

the People's Republic of China. Other risks and uncertainties are described in the Company's annual report on Form 10-K filed on March 29, 2013, and subsequent filings with the U.S. Securities and Exchange Commission made by the Company from time to time. Except as required by law, Netlist undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Netlist, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except par value)

	(unaudited) June 29, 2013	(audited) December 29, 2012
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,817	\$ 7,755
Investments in marketable securities	-	415
Accounts receivable, net	2,064	3,434
Inventories	5,305	7,380
Prepaid expenses and other current assets	472	723
	-----	-----
Total current assets	14,658	19,707
Property and equipment, net	1,804	2,560
Other assets	126	130
	-----	-----
Total assets	\$ 16,588	\$ 22,397
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,438	\$ 3,367
Accrued payroll and related liabilities	710	784
Accrued expenses and other current liabilities	435	497
Accrued engineering charges	450	450
Current portion of long-term debt	111	3,493
	-----	-----
Total current liabilities	5,144	8,591
Long-term debt, net of current portion	2,800	-
Other liabilities	105	94
	-----	-----
Total liabilities	8,049	8,685
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value - 90,000 shares authorized; 30,460 (2013) and 30,348 (2012) shares issued and outstanding	30	30
Additional paid-in capital	101,263	100,403
Accumulated deficit	(92,754)	(86,721)
	-----	-----
Total stockholders' equity	8,539	13,712
	-----	-----
Total liabilities and stockholders' equity	\$ 16,588	\$ 22,397
	=====	=====

Netlist, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales				
Cost of sales(1)	\$ 5,065 4,818	\$ 10,552 7,814	\$ 11,029 10,216	\$ 24,519 16,345
Gross profit	247	2,738	813	8,174
Operating expenses:				
Research and development(1)	1,457	3,770	3,299	7,612
Selling, general and administrative(1)	1,571	2,871	3,327	5,480
Total operating expenses	3,028	6,641	6,626	13,092
Operating loss	(2,781)	(3,903)	(5,813)	(4,918)
Other income (expense):				
Interest expense, net	(88)	(79)	(218)	(150)
Other income, net	7	3	1	8
Total other expense, net	(81)	(76)	(217)	(142)
Loss before provision for income taxes	(2,862)	(3,979)	(6,030)	(5,060)
Provision for income taxes	1	1	3	1
Net loss	\$ (2,863)	\$ (3,980)	\$ (6,033)	\$ (5,061)
Net loss per common share:				
Basic and diluted	\$ (0.09)	\$ (0.14)	\$ (0.20)	\$ (0.18)
Weighted-average common shares outstanding:				
Basic and diluted	30,320	28,111	30,263	27,420

(1) Amounts include stock-based compensation expense as follows:

Cost of sales	\$ 11	\$ 42	\$ 23	\$ 77
Research and development	118	153	278	345
Selling, general and administrative	240	287	502	583

Netlist, Inc. and Subsidiaries
Unaudited Schedule Reconciling GAAP Net Loss to Non-GAAP EBITDA and Adjusted EBITDA
(in thousands)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
GAAP net loss	\$ (2,863)	\$ (3,980)	\$ (6,033)	\$ (5,061)
Interest expense, net	88	79	218	150
Provision for income taxes	1	1	3	1
Depreciation and amortization	395	535	813	1,070
EBITDA	(2,379)	(3,365)	(4,999)	(3,840)
Stock-based compensation	369	482	803	1,005
Other expense (income), net	(7)	(3)	(1)	(8)
Adjusted EBITDA	\$ (2,017)	\$ (2,886)	\$ (4,197)	\$ (2,843)

For more information, please contact:

Brainerd Communicators, Inc.
Aakash Mehta / Mike Smargiassi
NLST@braincomm.com
(212) 986-6667

Netlist, Inc.
Gail M. Sasaki
Chief Financial Officer
(949) 435-0025

Source: Netlist, Inc.