

# NOVELLUS SYSTEMS REPORTS FOURTH QUARTER AND TOTAL YEAR 1997 EARNINGS

## NOVELLUS SYSTEMS REPORTS FOURTH QUARTER AND TOTAL YEAR 1997 EARNINGS

San Jose, Calif. -- Jan. 19, 1998 -- Novellus Systems, Inc. (Nasdaq NM: NVLS) today reported record bookings, backlog, and revenue for its year and fourth quarter ended December 31, 1997. For the fourth quarter of 1997, net sales were \$162.8 million, an increase of 56 percent over fourth quarter 1996 net sales of \$104.6 million. Net income of \$22.4 million or \$0.64 per share was recorded for the fourth quarter of 1997, up 33 percent as compared to the fourth quarter 1996 net income of \$16.9 million or \$0.51 per share.

Net sales for the year were \$534.0 million, an increase of 16 percent over 1996 net sales of \$461.7 million. The net loss for the year was \$95.7 million or \$2.88 per share, compared to net income of \$94.0 million or \$2.85 per share for 1996. Backlog on December 31, 1997 was \$224.0 million, an increase of 43 percent from the \$156.4 million reported at December 31, 1996.

As previously reported, Novellus took an aggregate one-time pre-tax charge of \$133.5 million in the second quarter of 1997 in connection with the acquisition of the PVD division of Varian Associates, Inc. Other one-time charges in the second quarter of 1997 included charges attributable to the write-off of \$17.7 million due from Submicron Technology, Inc. and charges totaling \$84.0 million in conjunction with the May 5, 1997 settlement of the TEOS patent litigation.

Before the one-time charges recorded in the second quarter of 1997, the year ended December 31, 1997 would have shown net income of \$75.3 million or \$2.17 per share, a decrease of 20 percent and 24 percent respectively as compared to the year ended December 31, 1996.

The per share amounts are stated on a diluted basis and are adjusted for the 2-for-1 split that was announced on September 22, 1997 and was effective at the close of the market on October 13, 1997.

Richard Hill, President and CEO said, "We were very pleased with the record bookings, backlog, and revenue achieved by the Company for 1997, and with the 5% and 12% sequential increases in net sales and net income over the prior quarter. We were able to achieve this growth despite the delay of shipments experienced by the Company during the last two weeks of the fourth quarter. The delays were related to the inability of Korean customers to open letters of credit required for the import of shipments into Korea."

Hill added, "1997 was marked by several significant events for the Company. First, Novellus entered the \$1.5 billion PVD market through the strategic acquisition of the Thin Films Systems division from Varian Associates. Second, we were very successful in our new product development efforts. We announced our Concept 3 platform for CVD Dielectric and Tungsten applications on 300mm wafers, and announced a suite of products for both dielectrics and barriers to be used in the fabrication of advanced 0.18 micron multi-level semiconductors, kicking off the Vertical Reality Revolution. Our efforts during the year have provided the foundation for Novellus to lead the emerging market transition to copper damascene processing, maintaining our role as the industry innovation leader for deposition technologies."

Robert Smith, Executive Vice President and Chief Financial Officer noted, "In addition to our sequential quarterly growth in revenue and net income, we have been able to continue to generate cash with our year-end cash and short-term investments balance increasing 45% from \$67.6 million at September 27, 1997 to \$98.1 million at December 31, 1997."

Smith continued, "During the fourth quarter, we became one of the first companies in the industry to achieve ISO 9001 Quality certification. As our company continues to grow, our business practices for developing, manufacturing, and servicing our products need to also keep pace. The ISO 9001 process was an excellent verification of Novellus' ability to maintain operational excellence as we enter 1998."

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements regarding (i) the delay of shipments during the fourth quarter, (ii) the Company's ability to lead market transitions in deposition technologies, and (iii) the Company's ability to maintain operational excellence, as well as other matters discussed in the news release that are not purely historical data, are forward-looking statements. The forward-looking statements involve risks and uncertainties including, but not limited to, possible continuing credit uncertainties in Korea and elsewhere in Asia, the inability of the Company's product development efforts to continue its position as an industry leader in deposition technologies, the Company's inability to continue to perform to ISO 9001 standards, and other risks indicated in filings with the Securities and Exchange Commission (SEC). Actual results may differ materially. Novellus assumes no obligation to update this information. For more details, please refer to Novellus' SEC filings, including its most recent Annual Report on Form 10-K and quarterly reports on Form 10-Q.

Novellus Systems, Inc. manufactures, markets, and services advanced automated wafer fabrication systems for the deposition of thin films. Novellus deposition systems are designed for high-volume production of advanced semiconductors at the lowest overall cost. The Company's stock trades on the Nasdaq Stock Market's National Market under the symbol "NVLS".

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

Three Months Ended

Year Ended

Dec 31

Dec 31

Dec 31

Dec 31

1997

1996

1997

1996

Net Sales

\$162,830

\$104,607

\$534,004

\$461,736

Cost of Sales

73,436

46,032

243,566

197,162

Gross Profit

89,394

58,575

290,438

264,574

Operating Expenses

Research and Development

28,134

15,565

89,830

53,902

Selling, General and Administrative

27,357

19,390

89,474

74,419

In-Process Research & Development

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119,246

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Restructuring & Other Costs

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14,243

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Litigation Settlement & Related Legal Costs

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84,021

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Bad Debt Write-off

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17,700

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Total Operating Expenses

55,491

34,955

414,514

128,321

Income (Loss) from Operations

33,903

23,620

(124,076)

136,253

Interest Income (Expense), Net		21	2,345		2,944	8,407
Income (Loss) before Income Taxes		33,924	25,965		(121,132)	144,660
Provision (Benefit) for Income Taxes		11,534	9,087		(25,474)	50,631
Net Income (Loss)		\$22,390	\$16,878		(\$95,658)	\$94,029
Basic Net Income (Loss) Per Share		\$0.66	\$0.52		(\$2.88)	\$2.92
Diluted Net Income (Loss) Per Share		\$0.64	\$0.51		(\$2.88)	\$2.85
Shares Used in Basic Calculation		33,700	32,378		33,257	32,156
Shares Used in Diluted Calculation		34,984	33,180		33,257	33,018

Note: the earnings per share amounts have been adjusted for the 2-for-1 split effective October 1997

## NOVELLUS SYSTEMS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

December 31,

December 31,

1997

1996

## Assets

## Current Assets:

Cash and Short-Term Investments

\$98,089

\$176,668

Accounts Receivable, Net

133,925

119,710

Inventories

82,133

55,448

Prepaid Taxes and Other Current Assets

36,862

22,143

Total Current Assets

351,009

373,969

Property and Equipment, Net

93,340

66,218

Other Assets

48,951

19,600

Total Assets

\$493,300

\$459,787

## Liabilities and Shareholders' Equity

## Current Liabilities:

Accounts Payable

\$22,865

\$26,047

Short-Term Obligations		11,652		13,153	
Other Accrued Liabilities		92,782		46,951	
Total Current Liabilities		127,299		86,151	
Long Term Debt		65,000		--	
Total Liabilities		192,299		86,151	
Shareholders' Equity:					
Common Stock		154,167		128,751	
Retained Earnings and Cumulative Translation Adjustment		146,834		244,885	
Total Shareholders' Equity		301,001		373,636	
Total Liabilities and Shareholders' Equity		\$493,300		\$459,787	

NOVELLUS SYSTEMS, INC.

SUPPLEMENTAL FINANCIAL INFORMATION (1)

(in thousands except per share amounts)

	Dec 31,	Dec 31,
	1997	1996
Pro forma operating income	\$111,134	\$136,253
Pro forma income before income taxes	\$114,078	\$144,660
Pro forma provision for income taxes	38,786	50,631
Pro forma net income	\$75,292	\$94,029
Pro forma Basic Net Income per Share	\$2.26	\$2.92
Pro forma Diluted Net Income per Share	\$2.17	\$2.85
Shares used in Basic Calculation	33,257	32,156
Shares used in Diluted Calculation	34,703	33,018

(1) The Company's reported loss of \$95.7 million or \$2.88 per share for the year ended December 31, 1997 includes pre-tax one-time charges totalling \$235.2 million as previously discussed. This supplemental financial information does not purport to be

financial statements prepared in accordance with generally accepted accounting principles. The information in the tables shows operating income, net income and net income per share excluding the one-time charges.

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