

# NOVELLUS SYSTEMS REPORTS RESULTS FOR THE THIRD QUARTER 2003

SAN JOSE, Calif., October 14, 2003--Novellus Systems, Inc. (Nasdaq NM: NVLS) today reported the results of operations for its third quarter ended September 27, 2003. Third quarter 2003 net sales were \$221.1 million, down 7.5 percent from \$239.1 million in the previous quarter, and down 4.1 percent from third quarter 2002 net sales of \$230.5 million. The net loss for the quarter was \$97.6 million, or \$0.64 per basic share, compared with second quarter 2003 net income of \$7.4 million, and third quarter 2002 net income of \$4.1 million.

As previously announced, the Company implemented a restructuring plan to align its cost structure with current business conditions. The restructuring plan resulted in a pre-tax charge of \$59.8 million in the third quarter, which is composed of \$44.0 million for inventory, \$7.9 million for asset write-offs (including fixed assets and purchased technology), \$4.1 million for facilities, and \$3.8 million for severance. The inventory charge is included in cost of goods sold and the other restructuring charges are included in operating expenses.

Under new accounting guidelines adopted by the Company on June 29, 2003, the Company is required to consolidate certain properties, previously accounted for as synthetic leases, onto its balance sheet. Accordingly, in the third quarter, the Company recorded a non-cash, after-tax charge of \$62.8 million as a cumulative effect of change in accounting principle. The gross charge represents \$95.8 million of pre-tax depreciation that would have been recorded had the Company owned these properties from inception of the leases. As a result of the consolidation and subsequent purchase of the properties previously accounted for as synthetic leases, property and equipment, net of accumulated depreciation, increased by \$360.6 million and other non-current assets decreased by \$456.4 million. The accounting change and purchase of these properties had no impact on the Company's liquidity.

Without restructuring charges of \$59.8 million, a non-cash charge of \$62.8 million from the consolidation of properties previously accounted for as synthetic leases, and legal settlements of \$2.7 million, net income for the third quarter would have been \$6.1 million, or \$0.04 per diluted share, down \$1.3 million, or 17.4 percent, from the second quarter net income of \$7.4 million, and down \$10.0 million, or 62.0 percent, from the third quarter 2002 net income of \$16.1 million. These third quarter 2002 results do not include a \$17.0 million pre-tax charge for the unamortized issuance costs related to the retirement of \$880.0 million Liquid Yield Option Notes. There were no unusual charges in the second quarter of 2003. The financial measures presented above, which exclude certain unusual charges, are not in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). The Company believes that these non-GAAP financial measures provide further insight into the results of ongoing operations and enhances the comparability of those results to prior quarters.

Shipments of \$210.3 million in the third quarter of 2003 represent a decrease of \$16.2 million, or 7.2 percent, from \$226.5 million reported in the prior quarter. Deferred revenue at the end of the third quarter was \$103.5 million, a decrease of \$10.9 million, or 9.5 percent, from \$114.4 million at the end of the second quarter.

Cash, cash equivalents and short-term investments as of September 27, 2003 were \$977.5 million, an increase of \$26.8 million, or 2.8 percent, from the second quarter 2003 ending balance of \$950.7 million.

"The pace of both the recovery in the semiconductor equipment industry and the crossover to 300 millimeter tool sets required us to restructure the company in the third quarter. We believe our actions will improve our earnings performance as the industry upturn continues to firm," said Richard S. Hill, chairman and chief executive officer of Novellus Systems, Inc. "With only modestly improved macroeconomic conditions, semiconductor manufacturers are continuing to invest in the most advanced 300 millimeter copper technology to improve chip performance and reduce manufacturing costs. Novellus' product portfolio is solidly positioned to benefit from this trend and our market penetration in copper continues to strengthen," said Hill.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995:

The statements regarding (i) the positive impact of the Company's restructuring activities on its future earnings performance, (ii) continued firming of the industry upturn, (iii) continued investment by semiconductor manufacturers in the most advanced 300 millimeter copper technology, (iv) the solid position of the Company's product portfolio with regard to the most advanced 300 millimeter copper technology, (v) the continued strengthening of the Company's market penetration in copper, as well as other matters discussed in this news release that do not concern purely historical data, are forward-looking statements. The forward-looking statements involve risks and uncertainties, including, but not limited to, unexpected difficulties caused by the

Company's restructuring activities, a slowdown in the rate of capital investment by semiconductor manufacturers, a shift in demand from expensive high-performance products to lower priced products, competitor product introductions that undermine the Company's position in advanced 300 millimeter copper technology and the Company's lack of success in selecting, developing, manufacturing and marketing new products or enhancing existing products in copper, and other risks and uncertainties discussed in our filings with the Securities and Exchange Commission (SEC). Actual results could differ materially. We assume no obligation to update this information. For more details relating to risks and uncertainties that could cause actual results to differ from those anticipated in our forward-looking statements, and risks to our business in general, please refer to our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2002 and our Quarterly Report on Form 10-Q for the quarter ended June 28, 2003.

#### About Novellus:

Novellus Systems, Inc., an S&P 500 company, manufactures, markets and services advanced deposition, surface preparation and chemical mechanical planarization equipment for today's advanced integrated circuits. Our products are designed for high-volume production of advanced, leading-edge semiconductor devices at the lowest possible cost. Headquartered in San Jose, Calif., with subsidiaries throughout the United States, as well as in the United Kingdom, France, Germany, the Netherlands, Ireland, Israel, India, China, Japan, Korea, Malaysia, Singapore and Taiwan, we are a publicly traded company on the Nasdaq stock exchange (Nasdaq: NVLS) and a component of the Nasdaq-100 Index®. Additional information about Novellus is available on our home page at [www.novellus.com](http://www.novellus.com).

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