NOVELLUS SYSTEMS REPORTS SECOND QUARTER RESULTS

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San Jose, Calif. -- Jul. 16, 1998 -- Novellus Systems, Inc. (Nasdaq NM: NVLS) today reported net sales and results of operations for its second quarter ended June 27, 1998. Net sales for the quarter were $142.8 million, an increase of 25 percent over second quarter 1997 net sales of $114.5 million. Net income of $16.1 million and $0.46 per share was recorded for the quarter as compared to the net loss posted in the second quarter of 1997 of $153.7 million and $4.66 per share. Without the one-time pre-tax charges of $235.2 million recorded during the second quarter of 1997, net income would have been $17.2 million and $0.50 per share. 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 on October 13, 1997.

Cash and short term investments at June 27, 1998 were $107.4 million, up 7 percent over first quarter 1998 balances of $100.7 million. Bookings fell short of achieving a 1:1 book to bill ratio for the second quarter of 1998.

"Novellus' net sales for the quarter reflect the reduction of capital spending by semiconductor manufacturers, particularly for capacity expansion," said Richard Hill, Chairman and Chief Executive Officer. "During the quarter, Novellus announced a cost reduction program, including an acceleration of the consolidation of its thin film system operations together with approximately a ten percent reduction of our overall workforce, in response to the current industry slowdown. During this time of limited visibility as to strength in capital spending, Novellus is committed to continue its research and development investment for the future, while looking at all alternatives for keeping expenditures at a minimum in the near term."

Hill continued, "During the quarter, Novellus introduced Damascus™ Complete Copper™, a full spectrum of production-worthy products designed to deliver advanced copper interconnect structures for integrated circuit fabrication. Damascus includes industry-leading chemical vapor deposition (CVD), advanced physical vapor deposition (PVD) for depositing the barrier and seed layers, and a revolutionary copper electrofill system called SABRE™. In addition, Novellus announced agreements with Lam Research and IPEC for the development of an integrated copper dual damascene solution. With the announcements of our cross-industry alliances, Damascus encompasses not only metal and dielectric deposition technologies, but also equipment and processes from other leading suppliers in etch and Chemical Mechanical Planarization (CMP)."

"While capacity purchases by semiconductor manufacturers have slowed considerably, strong interest in emerging, advanced technology products continues," Hill added. "The ability of Novellus to provide innovative, cost-effective solutions such as a complete dual damascene solution to our customers is a result of our strong commitment to invest in new product development. Continued execution by Novellus on its product strategy will enable the Company to ensure that it is well positioned to take advantage of the long-term growth potential for the thin film deposition market."

Hill concluded, "There has been a significant slowdown in capital spending by the semiconductor manufacturers over the last several weeks. If this trend persists, we will continue to tightly control our expenditures in order to manage a return to our shareholders."

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements regarding (i) the Company's commitment to continuing its research and development investment for the future, (ii) the Company's intention to tightly control and keep expenditures at a minimum, (iii) the semiconductor manufacturers' interest in emerging, advanced technology products, (iv) the Company's ability to continue to invest in new product development, (v) the Company's ability to take advantage of the long-term growth prospects for the thin film deposition market, 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, a possible continuing slowdown in new orders, the difficulty of curtailing expenses to necessary levels and the inability of the Company's product development efforts to continue its position as an industry leader in deposition technologies, and other risks indicated in filings with the Securities and Exchange Commission (SEC). Actual results could 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, leading-edge semiconductors at the lowest overall cost. The Company's stock trades on the Nasdaq Stock Market's National Market under the symbol "NVLS". Additional information about the company is available on the Novellus Systems home page on the World Wide Web, located at http://www.novellus.com.

NOVELLUS SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)	Three Months Ended		Six Months Ended	
(Unaudited)	June 27	June 28	June 27	June 28
	1998	1997	1998	1997
Net Sales	$142,844	$114,466	$306,057	$216,094
Cost of Sales	64,278	51,510	137,560	97,242
Gross Profit	78,566	62,956	168,497	118,852
Operating Expenses				
Research and Development	28,783	19,655	59,655	36,497
Selling, General and Administrative	25,752	18,595	53,099	36,126
In-Process Research & Development	--	119,246	--	119,246
Restructuring & Other Costs	--	14,243	--	14,243
Litigation Settlement & Related Legal Costs	--	84,021	--	84,021
Bad Debt Write-off	--	17,700	--	17,700
Total Operating Expenses	54,535	273,460	112,754	307,833

Income (Loss) from Operations		24,031	(210,504)		55,743	(188,981)
Interest Income, Net		386	1,370		417	3,503
Income (Loss) before Income Taxes		24,417	(209,134)		56,160	(185,478)
Provision (Benefit) for Income Taxes		8,302	(55,395)		19,094	(47,352)
Net Income (Loss)		$16,115	($153,739)		$37,066	($138,126)
Basic Net Income (Loss) Per Share		$0.47	($4.66)		$1.09	($4.20)
Diluted Net Income (Loss) Per Share		$0.46	($4.66)		$1.06	($4.20)
Shares Used in Basic Calculation		33,932	33,020		33,874	32,890
Shares Used in Diluted Calculation		35,047	33,020		34,952	32,890

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)			
	June 27		December 31
	1998		1997
	(Unaudited)		
Assets			
Current Assets:			
Cash and Short-Term Investments	$107,439		$98,089
Accounts Receivable, Net	171,538		133,925
Inventories	83,790		82,133
Deferred Taxes and Other Current Assets	33,125		36,862
Total Current Assets	395,892		351,009
Property and Equipment, Net	111,913		93,340
Other Assets	51,070		48,951
Total Assets	$558,875		$493,300

Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts Payable	$42,843		$22,865	
Short-Term Obligations	10,263		11,652	
Other Accrued Liabilities	97,817		92,782	
Total Current Liabilities	150,923		127,299	
Long Term Debt	65,000		65,000	
Total Liabilities	215,923		192,299	
Shareholders' Equity:				
Common Stock	160,648		154,167	
Retained Earnings and Accumulated Other Comprehensive Income	182,304		146,834	
Total Shareholders' Equity	342,952		301,001	
Total Liabilities and Shareholders' Equity	$558,875		$493,300	

NOVELLUS SYSTEMS, INC.

SUPPLEMENTAL FINANCIAL INFORMATION (1)

(in thousands except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 27	June 28	June 27	June 28
	1998	1997	1998	1997
Pro forma operating income	$24,031	$24,706	$55,743	$46,229
Pro forma income before income taxes	$24,417	$26,076	$56,160	$49,732
Pro forma provision for income taxes	8,302	8,865	19,094	16,908
Pro forma net income	$16,115	$17,211	$37,066	$32,824
Pro forma Basic Net Income per Share	$0.47	$0.52	$1.09	$1.00
Pro forma Diluted Net Income per Share	$0.46	$0.50	$1.06	$0.96

Shares used in Basic Calculation		33,932	33,020		33,874	32,890
Shares used in Diluted Calculation		35,047	34,280		34,952	34,280

(1) The Company's reported loss of $153.7 million or $4.66 per share for the quarter ended June 28, 1997 includes pre-tax one-time charges totaling $235.2 million. 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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