NOVELLUS SYSTEMS REPORTS THIRD QUARTER RESULTS

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San Jose, Calif. -- Oct. 12, 1998 -- Novellus Systems, Inc. (Nasdaq NM: NVLS) today reported net sales and results of operations for its third quarter ended September 26, 1998. Net sales for the quarter were $106.7 million, a decrease of 31 percent over third quarter 1997 net sales of $155.1 million. Net income of $7.6 million and $0.22 per share was recorded for the quarter, down 62 percent as compared to the third quarter 1997 net income of $20.1 million or $0.57 per share. The per share amounts are stated on a diluted basis.

For the nine months ended September 26, 1998, net sales were $412.8 million, which includes nine months of net sales of PVD products from the June 1997 Varian Thin Film Systems division acquisition, an increase of 11 percent from net sales of $371.2 million in the same period of 1997. Net income for the nine months ended September 26, 1998 was $44.7 million or $1.28 per share as compared to the net loss posted in the comparable period in 1997 of $118.0 million or $3.57 per share. Without the one-time pre-tax charges of $235.2 million recorded during the second quarter of 1997, net income for the comparable period would have been $52.9 million or $1.53 per share.

Cash and short term investments at September 26, 1998 were $111.3 million, up 4 percent over second quarter 1998 balances of $107.4 million. Bookings fell short of achieving a 1:1 book to bill ratio for the third quarter of 1998.

"Given the severity of the current industry downturn, we are proud of the Company performance during the quarter," said Robert Smith, Executive Vice President and Chief Financial Officer. "The execution of our aggressive cost control measures, as reflected in the 18 percent decrease in operating expenses from the second quarter of 1998, is a tribute to the efforts of our employees worldwide. These efforts allowed us to post a sequential increase in cash and short-term investment balances for the fifth consecutive quarter."

"The Company's net sales is a result of the continued slowdown during the quarter of capital spending by semiconductor manufacturers, especially for capacity expansion," said Richard Hill, Chairman and Chief Executive Officer. "During the quarter, we announced cost reduction measures across all areas of the Company in response to the current industry slowdown. Despite these reductions, we have maintained our expenditures and staffing levels for key new product development projects. The Company remains committed to strengthening its market position through investments in new products, which will further advantage the Company when economic conditions become more favorable."

"While capacity purchases by semiconductor manufacturers have continued to be slow, strong interest in emerging, advanced technology products continues," Hill added. "The ability of Novellus to provide innovative, leading-edge technologies for production, such as Damascus™ Complete Copper™, a full spectrum of production-worthy products delivering advanced copper interconnect structures for integrated circuit fabrication, has enabled Novellus to better weather this downturn."

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements regarding (i) the Company's commitment to its investment in new products in order to strengthen its market position, (ii) the advantage provided by the Company's new product investment, and (iii) the Company's ability to weather the current industry downturn, 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		Nine Months Ended	
(Unaudited)	Sept 26 1998	Sept 27 1997	Sept 26 1998	Sept 27 1997
Net Sales	$106,704	$155,080	$412,761	$371,174
Cost of Sales	50,622	72,888	188,182	170,130
Gross Profit	56,082	82,192	224,579	201,044
Operating Expenses				
Research and Development	23,392	25,199	83,047	61,696
Selling, General and Administrative	21,478	25,991	74,577	62,117
In-Process Research & Development	--	--	--	119,246
Restructuring & Other Costs	--	--	--	14,243
Litigation Settlement & Related Legal Costs	--	--	--	84,021
Bad Debt Write-off	--	--	--	17,700
Total Operating Expenses	44,870	51,190	157,624	359,023

Income (Loss) from Operations		11,212	31,002		66,955	(157,979)
Interest Income (Expense), Net		342	(580)		759	2,923
Income (Loss) before Income Taxes		11,554	30,422		67,714	(155,056)
Provision (Benefit) for Income Taxes		3,931	10,343		23,025	(37,008)
Net Income (Loss)		$7,623	$20,079		$44,689	($118,048)
Basic Net Income (Loss) Per Share		$0.22	$0.60		$1.32	($3.57)
Diluted Net Income (Loss) Per Share		$0.22	$0.57		$1.28	($3.57)
Shares Used in Basic Calculation		34,095	33,546		33,948	33,108
Shares Used in Diluted Calculation		34,659	35,276		34,854	33,108

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)			
	Sept 26		December 31
	1998		1997
	(Unaudited)		
Assets			
Current Assets:			
Cash and Short-Term Investments	$111,294		$98,089
Accounts Receivable, Net	158,963		133,925
Inventories	81,731		82,133
Deferred Taxes and Other Current Assets	32,860		36,862
Total Current Assets	384,848		351,009
Property and Equipment, Net	104,502		93,340
Other Assets	55,528		48,951
Total Assets	$544,878		$493,300

Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts Payable	$27,201		$22,865	
Short-Term Obligations	11,318		11,652	
Other Accrued Liabilities	86,503		92,782	
Total Current Liabilities	125,022		127,299	
Long Term Debt	65,000		65,000	
Total Liabilities	190,022		192,299	
Shareholders' Equity:				
Common Stock	164,519		154,167	
Retained Earnings and Accumulated Other Comprehensive Income	190,337		146,834	
Total Shareholders' Equity	354,856		301,001	
Total Liabilities and Shareholders' Equity	$544,878		$493,300	

NOVELLUS SYSTEMS, INC.

SUPPLEMENTAL FINANCIAL INFORMATION (1)

(in thousands except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept 26	Sept 27	Sept 26	Sept 27
	1998	1997	1998	1997
Pro forma operating income	$11,212	$31,002	$66,955	$77,231
Pro forma income before income taxes	$11,554	$30,422	$67,714	$80,152
Pro forma provision for income taxes	3,931	10,343	23,025	27,252
Pro forma net income	$7,623	$20,079	$44,689	$52,900
Pro forma Basic Net Income per Share	$0.22	$0.60	$1.32	$1.60
Pro forma Diluted Net Income per Share	$0.22	$0.57	$1.28	$1.53

Shares used in Basic Calculation		34,095	33,546		33,948	33,109
Shares used in Diluted Calculation		34,659	35,276		34,854	34,610

(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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