NOVELLUS SYSTEMS REPORTS RECORD FOURTH QUARTER AND YEAR-END 2000 RESULTS AND DISCUSSES THE EFFECT OF ADOPTION OF STAFF ACCOUNTING BULLETIN 101 (SAB 101)

San Jose, Calif. -- Jan. 16, 2001 -- Novellus Systems, Inc. (Nasdaq NM: NVLS) Novellus today is reporting its transition from the Company's historical accounting method to the method required by the Securities and Exchange Commission Staff Accounting Bulletin 101 (SAB 101).

Using its historical method now called pro-forma, the Company reports that its shipments for the fourth quarter 2000 were $425.1 million. Pro-forma revenue for the fourth quarter was a record $425.1 million, an increase of 122 percent over fourth quarter 1999 reported net sales of $191.7 million. Pro-forma fourth quarter 2000 net income was $104.4 million or $0.76 per fully diluted share, an increase of 216 percent and 181 percent respectively, when compared to the fourth quarter 1999 reported net income of $33.0 million or $0.27 per fully diluted share.

Shipments for the year were $1.384 billion. Pro-forma revenue for the year was a record $1.384 billion, an increase of 134 percent from 1999 reported net sales of $592.7 million. Pro-forma net income for the year was a record $322.8 million or $2.39 per fully diluted share, an increase of 322 percent and 273 percent, respectively, when compared to reported net income in 1999 of $76.6 million or $0.64 per fully diluted share. Please see exhibit C for the detailed Pro-forma Income Statement under the Historical method.

We will now report under SAB 101.

Shipments for the fourth quarter 2000 were $425.1 million. Net sales for the fourth quarter 2000 were a record $389.9 million and net income was $94.2 million or $0.69 per fully diluted share.

Shipments for the year were $1.384 billion. Net sales for the year were a record $1.174 billion and net income for the year was a record $235.7 million or $1.75 per fully diluted share before an $84.6 million ($0.63 per share) cumulative effect of the SAB 101 change in accounting principle. This change in accounting principle results in a cumulative deferred revenue of $432 million at year-end 2000. This $432 million represents the difference between what we have shipped to date and recognizable revenue under SAB 101 new guidelines. Deferred revenue will continue to be reported in the Company results.

Backlog at December 31, 2000 reached a record $575.7 million, an increase of 75 percent from the $329.5 million reported at December 31, 1999.

Cash and short-term investments at December 31, 2000 were $1.152 billion, an increase of $48.7 million over third quarter 2000 balances of $1.103 billion. Cash generation continued in the fourth quarter despite increased working capital requirements to support revenue growth. Please see exhibit B for the Balance Sheet.

Richard Hill, Chairman and Chief Executive Officer said, "We are very proud of the efforts of everyone in the Company which produced the best year in the Company's history, with record backlog and with revenue more than double the prior year."

Hill also added, "Novellus looks back on a very successful year in which we crossed the billion dollar revenue level, introduced the Vector, the most successful product introduction in the Company's history, and made a major move into the surface preparation market with our acquisition of GaSonics International, Inc., which was initiated during the year and closed on January 10, 2001. Novellus remains committed to new product development and continuous improvement of existing products to maintain our role as the industry leader for deposition technologies."

Robert Smith, Executive Vice-President and Chief Financial Officer also commented, "During this time of transition to the requirements of SAB 101, our investors have indicated that a comparison of our results of operations under our historical method, which we refer to as the shipments method, and under SAB 101, would be both useful and informative. Accordingly, we are presenting our operating results under both SAB 101 and the shipments method." Please see exhibit D for an explanation of revenue recognition under SAB 101.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements regarding the Company's move into surface preparation and its commitment to new product development and continuous improvement, 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, the inability of the Company's product development efforts to continue its position as an industry leader in deposition technologies, the possible difficulties in integrating GaSonics' surface preparation product offerings, and other risks indicated in our 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 for the year ended December 31, 1999 and quarterly reports on Form 10-Q for the first three fiscal quarters of 2000.

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.

Note:
See exhibit A for the income statement under SAB 101.
See exhibit B for the balance sheet.
See exhibit C for Pro-forma income statement under the shipments method.
See exhibit D for an explanation of revenue recognition under SAB 101.

Exhibit A: Fourth Quarter and annual 2000 results under SAB 101*

NOVELLUS SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME UNDER SAB 101

(in thousands, except per share amounts)	Three Months Ended	Twelve months ended

	Dec 31, 2000	Dec 31, 2000
Net Sales	$389,879	$1,173,731
Cost of Sales	163,483	516,516
Gross Profit	226,396	657,215
Operating Expenses		
Research and Development	54,876	191,213
Selling, General and Administrative	52,378	178,093
Total Operating Expenses	107,254	369,306
Income from Operations	119,142	287,909
Interest Income, Net	17,342	53,680
Income before Income Taxes	136,484	341,589
Provision for Income Taxes	42,310	105,893
Income before cumulative effect of		

A change in accounting principle	94,174	235,696
Cumulative effect of change in accounting		
Principle, net of tax benefit		(84,632)
Net Income	$94,174	$151,064
Per diluted share amounts:		
Income before cumulative effect of change in accounting principle	$0.69	$1.75
Cumulative effect of change in accounting principle		$(0.63)
Net Income	$0.69	$1.12
Shares Used in Diluted Per Share Calculation	136,753	135,109

* See Exhibit D for an explanation of revenue recognition under SAB 101.

Exhibit B: Consolidated Balance Sheets

NOVELLUS SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS UNDER SAB 101 *

(in thousands)

	December 31,	December 31,
Assets	2000	1999
Current Assets:		
Cash and Short-Term Investments	$1,152,114	$385,257
Accounts Receivable, Net	366,224	213,678
Inventories	177,561	103,883
Deferred Taxes	122,728	24,521
Other Current Assets	8,659	5,327
Total Current Assets	1,827,286	732,666
Property and Equipment, Net	136,160	106,779
Other Assets	52,026	70,484
Total Assets	$2,015,472	$909,929

Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts Payable	$109,504	$43,438
Short-Term Obligations	16,056	13,521
Deferred Profit * *	185,893	-
Other Accrued Liabilities	193,306	83,271
Total Current Liabilities	504,759	140,230
Shareholders’ Equity:		
Common Stock	1,095,469	490,587
Retained Earnings and Accumulated Other Comprehensive Income	415,244	279,112
Total Shareholders’ Equity	1,510,713	769,699
Total Liabilities and Shareholders’ Equity	$2,015,472	$909,929

* See Exhibit D for an explanation of revenue recognition under SAB 101.
** Deferred profit includes deferred revenue of $432 million and related costs.

Exhibit C: Fourth Quarter and annual Pro-Forma results under the "shipments method."

NOVELLUS SYSTEMS, INC.

CONDENSED CONSOLIDATED PRO-FORMA STATEMENTS OF INCOME

(in thousands, except per share amounts)	Three Months Ended		Year Ended	
Pro-Forma	Dec 31	Dec 31	Dec 31	Dec 31
	2000	1999	2000	1999
Net Sales	$425,138	$191,716	$1,384,293	$592,741
Cost of Sales	184,117	85,122	599,476	271,710
Gross Profit	241,021	106,594	784,817	321,031
Operating Expenses				
Research and Development	54,877	32,647	191,213	119,667
Selling, General and Administrative	52,252	29,879	179,393	101,027
Total Operating Expenses	107,129	62,526	370,606	220,694

Income from Operations	133,892	44,068	414,211	100,337
Interest Income, Net	17,341	5,152	53,680	13,953
Income before Income Taxes	151,233	49,220	467,891	114,290
Provision for Income Taxes	46,882	16,243	145,046	37,716
Net Income	$104,351	$32,977	$322,845	$76,574
Basic Net Income Per Share	$0.80	$0.28	$2.53	$0.67
Diluted Net Income Per Share	$0.76	$0.27	$2.39	$0.64
Shares Used in Basic Calculation	131,234	118,183	127,731	114,817
Shares Used in Diluted Calculation	136,753	124,277	135,109	120,097

Exhibit D: Explanation of Revenue Recognition under SAB 101

Summary

SAB 101, Revenue Recognition in Financial Statements:

On December 3, 1999, the staff of the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The SEC Staff address several issues in SAB No. 101, including the timing of revenue recognition for sales that involve contractual customer acceptance provisions and installation of the product if these events occur after shipment and transfer of title. The Company's previous revenue recognition policy was to recognize revenue at the time the customer takes title to the product, generally at the time of shipment. In October 2000, the SEC issued Staff Accounting Bulleting No. 101: Revenue Recognition in Financial Statements – Frequently Asked Questions and Answers ("SAB 101 FAQ"). The SAB 101 FAQ was issued to clarify many of the implementation questions surrounding SAB No. 101.

Explanation of Revenue Recognition under SAB 101:

Novellus derives revenues from three sources – equipment sales, spare part sales and service contracts. SAB 101 has no effect on the Company's revenue recognition policy for spare parts or services. There are different revenue recognition points under SAB 101, which are described as follows:

Acceptance: For equipment sales to a new customer, existing products with new specifications and/or a new product, revenue is recognized upon customer acceptance.

Shipment and acceptance: Equipment sales to existing customers, who have purchased the same equipment with the same customer-specified acceptance provisions in the past, are accounted for as multiple-element arrangements. Upon shipment, the lesser of the fair value of the equipment or the contractual amount billable upon shipment is recorded as revenue upon title transfer. The remainder is recorded as revenue upon customer acceptance.

Revenue related to spare part sales is recognized on shipment. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts.

Cumulative Effect of Change in Accounting Principle:

As a result of the change in accounting to SAB 101, Novellus has reported a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes, by a cumulative effect adjustment. Because Novellus is a calendar year company who is adopting SAB 101 in the fourth quarter, no cumulative effect of the change is included in net income of the fourth quarter. Instead, APB 20 requires that the change be made as of the beginning of the year (January 1, 2000) and that financial information for prechange interim periods, in this case the first three quarters of 2000, be restated by applying SAB 101 to those periods.

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