Novellus Systems Reports Third Quarter 2004 Results

SAN JOSE, Calif., October 13, 2004--Novellus Systems, Inc. (Nasdaq: NVLS) today reported net sales and results of operations for its third quarter ended September 25, 2004. Net sales for the quarter were $415.9 million, up 23.0 percent from $338.2 million in the second quarter of 2004 and up 88.1 percent from the third quarter 2003 net sales of $221.1 million. Net income for the quarter was $64.7 million or $0.45 per diluted share, up $26.9 million or 71.0 percent from the second quarter 2004 net income of $37.8 million or $0.25 per diluted share compared with a third quarter 2003 net loss of $97.6 million or ($0.64) per diluted share.

The current quarter results include, in other income, net, a cash receipt of $8.0 million and, in selling, general and administrative, the reversal of $8.1 million previously accrued as a result of the settlement of litigation with Applied Materials, Inc. The quarter results also include a pre-tax charge of $2.9 million related to the settlement of litigation with Semitool, Inc. and the reversal of a previously recorded restructuring accrual of $0.9 million. Without these net benefits, third quarter net income would have been $54.7 million, or $0.38 per diluted share. In comparison, results for the second quarter of 2004 included a $6.1 million charge for acquired in-process research and development associated with the acquisition of Angstron Systems, Inc. Without this charge, second quarter net income would have been $43.9 million, or $0.29 per diluted share.

Last year's third quarter results included an after-tax charge of $62.8 million for a cumulative effect of a change in accounting principle related to the consolidation of certain properties previously accounted for as synthetic leases, a $59.8 million charge for restructuring and inventory write-down and a litigation settlement of $2.7 million. Without these charges, net income for the third quarter of 2003 would have been $6.1 million, or $0.04 per diluted share.

Shipments of $382.2 million in the current quarter represent an increase of $16.2 million or 4.4 percent from $366.1 million reported in the second quarter of 2004. Deferred revenue at the end of the quarter was $147.4 million, a decrease of $33.7 million or 18.6 percent from $181.1 million at the end of the second quarter of 2004.

The financial measures set forth above, which present net income excluding unusual charges and benefits and revenue on a shipments basis, are not in accordance with U.S. generally accepted accounting principles (GAAP). The Company believes that these non-GAAP financial measures provide further insight into the results of ongoing operations and enhance the comparability of those results to results in prior periods because they assist shareholder understanding of the effects of unusual charges and benefits on the quarter's results and allow comparability to revenue recognition on a shipments basis.

Cash, cash equivalents, restricted cash and short-term investments as of September 25, 2004 were $688.0 million, a decrease of $194.3 million or 22.0 percent from the second quarter 2004 ending balance of $882.3 million. During the third quarter of 2004, approximately $219.2 million was used to repurchase common shares.

"We saw a significant weakening in our bookings outlook in the month of September. We believe this is a direct result of customer cautiousness stemming from the well-discussed inventory correction that is occurring in the semiconductor industry," said Richard S. Hill, chairman and chief executive officer of Novellus Systems, Inc. "Despite this near term choppiness, we remain confident in our relative product positioning within the semiconductor equipment industry as well as in the longer term prospects for our industry."

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

The statements regarding the Company's (i) belief that its weakening bookings outlook results from customer cautiousness related to the semiconductor industry inventory correction, (ii) confidence in its product positioning relative to that of its competitors, and (iii) confidence in the longer term prospects of the semiconductor equipment industry, as well as other matters discussed in this 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, misattribution of the Company's weakening bookings outlook to an industry inventory correction, inaccurate assessment of the product needs of semiconductor manufacturers, a long-term downturn in the semiconductor industry, and other risks indicated 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, please refer to our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2003, our Quarterly Reports on Form 10-Q for the quarters ended March 27, 2004 and June 26, 2004, and our Current Reports on Form 8-K filed July 12, 2004, September 10, 2004 and September 24, 2004.

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, Italy, 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

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