NOVELLUS SYSTEMS REPORTS FOURTH QUARTER AND YEAR-END RESULTS

SAN JOSE, Calif., January 25, 2006-Novellus Systems, Inc. (Nasdaq: NVLS) today reported net sales and results of operations for its fourth quarter and year ended December 31, 2005. Net sales for the fourth quarter were $332.3 million, down $6.6 million or 2.0 percent from the third quarter 2005 net sales of $338.9 million and down $8.0 million or 2.4 percent from the fourth quarter 2004 net sales of $340.3 million. Net income for the fourth quarter was $23.0 million or $0.17 per diluted share, similar to net income for the third quarter 2005 of $23.4 million or $0.17 per diluted share. Net income for the fourth quarter 2005 decreased by $14.5 million or 38.8 percent from the fourth quarter 2004 net income of $37.5 million or $0.27 per diluted share.

The fourth quarter results reflect net pre-tax restructuring and other charges of $5.9 million. These charges include a pre-tax restructuring of $8.8 million related to the relocation of certain operations activities from Chandler, Arizona to San Jose, California, which was partially offset by a $2.9 million pre-tax reversal of a previously recorded restructuring accrual resulting from a change in estimated sublease income over the remaining lease term. Without the restructuring charges, net income would have been $26.6 million, or $0.20 per diluted share. The third quarter 2005 results included net pre-tax restructuring and other charges of $3.4 million and, within cost of sales, a pre-tax inventory write-down of $5.2 million. Without these charges, the third quarter 2005 net income would have been $28.7 million, or $0.21 per diluted share.

Net sales for the fiscal year 2005 were $1.34 billion, down $16.8 million or 1.2 percent compared with net sales of $1.36 billion in fiscal year 2004. Net income for the year was $110.1 million, or $0.80 per diluted share, compared with the fiscal year 2004 net income of $156.7 million, or $1.06 per diluted share.

The fiscal year 2005 results include net pre-tax restructuring and other charges of $9.2 million and, within cost of sales, a pre-tax inventory write-down of $5.2 million. Without the restructuring charges and inventory write-down, net income for fiscal year 2005 would have been $118.9 million, or $0.86 per diluted share. In comparison, the fiscal year 2004 results include net pre-tax restructuring and other charges of $1.5 million, pre-tax acquired in-process research and development write-offs of $6.1 million, net pre-tax recovery from legal settlements of $2.6 million and the pre-tax reversal of previously accrued royalty payments of $8.1 million. Without these charges and benefits, net income for fiscal year 2004 would have been $156.3 million, or $1.06 per diluted share.

Bookings were $351.0 million in the fourth quarter, up 22.3% over third quarter bookings of $286.9 million. Shipments of $316.6 million in the fourth quarter were essentially flat with third quarter 2005 shipments of $316.4 million. Deferred revenue at the end of the quarter was $143.0 million, a decrease of $15.7 million or 9.9 percent from $158.7 million at the end of the third quarter 2005.

The financial measures set forth above, which present net income excluding unusual charges and benefits, revenue on a shipments basis and bookings, 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 and the year's results and allow comparability to revenue recognition on a shipments basis.

Cash, cash equivalents, restricted cash and short-term investments as of December 31, 2005 were $789.4 million, a decrease of $90.2 million or 10.3 percent from the third quarter 2005 ending balance of $879.5 million.

"2005 finished with strong bookings momentum in the fourth quarter. We are pleased with this improved momentum on orders which was driven primarily by increased demand from both memory and logic customers," said Richard S. Hill, chairman and chief executive officer of Novellus Systems, Inc. "We also believe we have reached a low water mark on gross margins in the fourth quarter, and we expect to improve margins and earnings going forward."

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

The statement regarding the Company's expectation that margins and earnings will improve, 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, the Company's inability to keep cost of services down and ineffective pricing techniques, 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 and 10K/A for the year ended December 31, 2004, our Quarterly Reports on Form 10-Q and 10Q/A for the quarters ended October 1, 2005, July 2, 2005 and April 2, 2005, and our Current Reports on Form 8-K.

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). Additional information about Novellus is available on our home page at www.novellus.com.

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