

## NOVELLUS SYSTEMS, INC.

### CHARTER OF THE AUDIT COMMITTEE

February 14, 2006

#### **AUTHORITY AND PURPOSE:**

The Audit Committee (the "Committee") of Novellus Systems, Inc. and its subsidiaries (collectively, the "Company") is appointed by the Company's Board of Directors (the "Board") to oversee the accounting and financial reporting processes of the Company and audits of the financial statements of the Company and the Company's internal control over financial reporting. In so doing, the Committee shall endeavor to maintain free and open means of communication between the members of the Board, the Company's independent registered public accounting firm and the financial management of the Company.

The Committee has the authority to undertake the specific duties and responsibilities listed below and will have the authority to undertake such other specific duties as the Board from time to time prescribes.

#### **MEMBERSHIP:**

The Committee members (the "Members") will be appointed by the Board based on the recommendation of the Governance and Nominating Committee, and will serve at the discretion of the Board. The Committee will consist of at least three (3) members of the Board. The following membership requirements shall apply:

1. Each Member must be "independent" as defined in NASD Marketplace Rule 4200(a)(15). Each Member must meet the criteria for independence set forth in Rule 10A-3(b)(1) promulgated under the Securities and Exchange Act of 1934, as amended (the "Act"), subject to the exemptions provided in Rule 10A-3(c) under the Act.
2. Each Member must be able to read and understand fundamental financial statements, in accordance with the NASD Marketplace Rule 4350-1(d)(2)(A).
3. Each Member must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three (3) years.
4. At least one (1) Member must have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in such Member's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

Notwithstanding subparagraph 1. above, one director who: (a) is not independent as defined in NASD Marketplace Rule 4200; (b) meets the criteria set forth in Section 10A(m)(3) under the Act and the rules promulgated thereunder; and (c) is not a current officer or employee of the Company or Family Member (as defined in NASD Marketplace Rule 4200(a)(14)) of such an officer or employee, may be appointed to the Committee if the Board, under exceptional and limited circumstances, determines that membership on the Committee by the individual is required by the best interests of the Company and its shareholders, and

the Board discloses, in the Company's next annual proxy statement subsequent to such determination, the nature of the relationship and the reasons for that determination. A Member appointed under the exception set forth in the preceding sentence must not serve longer than two (2) years and must not serve as chairperson of the Committee.

If a current Member of the Committee ceases to be independent under the requirements of subparagraphs (1) and (2) above for reasons outside the Member's reasonable control, the affected Member may remain on the Committee until the earlier of the Company's next annual shareholders meeting or one (1) year from the occurrence of the event that caused the failure to comply with those requirements; provided, however, that when relying on the exception set forth in this sentence, the Committee shall cause the Company to provide notice to Nasdaq immediately upon learning of the event or circumstance that caused the non-compliance. Further, if the Committee fails to comply with the requirements set forth in this "Membership" section of this charter (the "Charter") due to one (1) vacancy on the Committee, and the cure period set forth in the preceding sentence is not otherwise being relied upon for another Member, the Company will have until the earlier of its next annual shareholders meeting or one (1) year from the occurrence of the event that caused the failure to comply with the requirements to rectify such non-compliance; provided, however, that when relying on the exception set forth in this sentence the Committee shall cause the Company to provide notice to Nasdaq immediately upon learning of the event or circumstance that caused the non-compliance.

The chairperson of the Committee shall be designated by the Board or, in the absence of such a designation, by a majority of the Members. The designated chairperson shall preside at each meeting of the Committee and, in consultation with the other Members, shall set the frequency and length of each meeting and the agenda of items to be addressed at each meeting. In the absence of the designated chairperson at any meeting of the Committee, the Members present at such meeting shall designate a chairperson *pro tem* to serve in that capacity for the purposes of such meeting (not to include any adjournment thereof) by majority vote. The chairperson (other than a chairperson *pro tem*) shall ensure that the agenda for each meeting is distributed to each Member in advance of the applicable meeting.

#### **POWERS:**

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to engage independent legal, accounting or other advisors, as it determines necessary to carry out its duties.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles ("GAAP"). Generally, management is responsible for preparing the Company's financial statements and determining that they are complete and accurate and are in accordance with GAAP and the independent registered public accounting firm is responsible for planning and conducting the audit under the supervision of the Committee and expressing an opinion on the financial statements and internal control over financial reporting. The Board and the Committee are in place to represent the Company's shareholders. Accordingly, the independent registered public accounting firm is ultimately accountable to the Committee.

Nothing contained in this Charter is intended to alter or impair the operation of the "business judgment rule" as interpreted by the courts under the California Corporations Code. Further, nothing contained in this Charter is intended to alter or impair the right of the Members to rely, in discharging their duties and responsibilities, on the records of the Company and on other information presented to the Committee, Board or Company by its officers or employees or by outside experts and advisers such as the Company's independent registered public accounting firm.

## **RESPONSIBILITIES:**

In fulfilling its purposes as stated in this Charter, the Committee shall undertake the specific responsibilities listed below and such other responsibilities as the Board shall from time to time prescribe, and shall have all powers necessary and proper to fulfill all such responsibilities. Subject to applicable Board and shareholder approvals, the Committee shall:

### *Financial Statement and Disclosure Matters*

1. Review the policies and procedures adopted by the Company to fulfill the Company's responsibilities regarding the fair and accurate presentation of financial statements in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission and the National Association of Securities Dealers applicable to Nasdaq-listed issuers.
2. Oversee the Company's accounting and financial reporting processes.
3. Oversee audits of the Company's financial statements and internal control over financial reporting. Meet with the Company's independent registered public accounting firm prior to its audit to review the planning and staffing of the audit.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the Company's independent registered public accounting firm, internal auditors or management.
5. Review with the Company's independent registered public accounting firm, management and internal auditors any information regarding "second" opinions sought by management from an independent registered public accounting firm or with respect to the accounting treatment of a particular event or transaction. Review and discuss reports from the Company's independent registered public accounting firm regarding (a) all critical accounting policies and practices; (b) all alternative treatments of financial information within GAAP, including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the auditor; and (c) all other material written communications between the independent registered public accounting firm and management, such as any management letter or schedule of unadjusted differences.
6. Review before release the unaudited interim financial results in the Company's quarterly earnings release.
7. Review and discuss with management and the Company's independent registered public accounting firm the Company's financial statements (including disclosures made under "Management's Discussion and Analysis of Financial Condition and Results of Operations") prior to the filing with the Securities and Exchange Commission of any report containing such financial statements.
8. Confirm management's awareness that it is management's responsibility for developing and maintaining adequate internal controls and disclosure controls over financial reporting. Review all certifications provided by the Company's principal executive officer and principal financial officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.
9. Review the independent registered public accounting firm's reports on its audits of the Company's financial statements and internal control over financial reporting.

10. Prepare and approve the report in the Company's proxy statement in accordance with the requirements of Item 306 of Regulations S-K and Item 7(d)(3)(i) of Schedule 14A.
11. Review the Company's annual audited financial statements with management, including a review of major issues regarding accounting and auditing principles and practices, and evaluate the adequacy and effectiveness of internal controls that could significantly affect the Company's financial statements, as well as the adequacy and effectiveness of the Company's disclosure controls and procedures.
12. If deemed appropriate, recommend to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.

*Matters Regarding Oversight of the Company's Independent Registered Public Accounting Firm*

13. Be responsible for the appointment, compensation, retention and oversight of the work of any independent registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; provided that each such independent registered public accounting firm shall report directly to the Committee. Meet with the independent registered public accounting firm of the Company, at such times as the Committee deems appropriate, to review the independent registered public accounting firm's examination and management report.
14. Receive and review a formal written statement and letter from the Company's independent registered public accounting firm delineating all relationships between the independent registered public accounting firm and the Company consistent with Independence Board Standard 1, as may be modified or supplemented.
15. Actively engage the independent registered public accounting firm in a dialogue with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accounting firm. Take, or recommend that the Board take, appropriate action to oversee and ensure the independence of the Company's independent registered public accounting firm. Monitor the hiring of employees and former employees of the Company's independent registered public accounting firm.
16. Preapprove all audit and audit related services and permissible non-audit services (including the fees and terms thereof) to be provided by the independent registered public accounting firm to the Company, to the extent required under applicable law and the rules of the NASD applicable to Nasdaq-listed issuers; provided, however, that (a) the Committee may delegate to one (1) or more designated Committee Members the authority to grant the preapprovals required by the foregoing sentence if the decisions of any Committee Member to whom authority is delegated hereunder are presented to the Committee at its next-scheduled meeting; and (b) all approvals of non-audit services to be performed by the independent registered public accounting firm must be disclosed in the Company's applicable periodic reports.
17. Ensure that the Company's independent registered public accounting firm has registered with the Public Company Accounting Oversight Board and review any available reports on external quality control review by the Public Company Accounting Oversight Board on

whether the independent registered public accounting firm's system of quality control is in place and operating effectively and whether established policies and procedures and applicable auditing standards are being followed.

18. Discuss with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as modified or supplemented, relating to the conduct of the audit. Review and address any concerns regarding potentially illegal actions raised by the Company's independent registered public accounting firm pursuant to Section 10A(b) of the Act, and cause the Company to inform the SEC of any report issued by the Company's independent registered public accounting firm to the Board regarding such conduct pursuant to Rule 10A-1 under the Act. Obtain from the independent registered public accounting firm assurance that it has complied with Section 10A of the Securities Exchange Act of 1934. Review with the Company's independent registered public accounting firm any audit problems, difficulties or disagreements with management that the independent registered public accounting firm may have encountered, as well as any management letter provided by the independent registered public accounting firm and the Company's response to that letter, including a review of: (i) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information and (ii) any changes required in the planned scope of the audit.
19. Oversee the Company's independent registered public accounting firm's rotation of its lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit at least every five (5) years.

*Matters Regarding Oversight of the Company's Internal Audit Function*

20. Review the appointment of, and any replacement of, the Company's senior internal auditing executive.
21. Review the significant reports to management prepared by the Company's internal auditing department and management's responses.
22. Review the Company's internal audit department's responsibilities, budget and staffing.
23. Approve the annual internal audit plan and any changes thereto.

*Matters Regarding Oversight of Compliance Responsibilities*

24. When requested by the Board, advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations.
25. Review and discuss with the Company's management, senior internal auditing executive and independent registered public accounting firm the Company's subsidiaries and foreign affiliated entities' compliance with the Foreign Corrupt Practices Act.
26. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters.

27. Review all related party transactions for potential conflicts of interest on an ongoing basis and approving all such transactions (if such transactions are not approved by another independent body of the Board).

#### *Additional Responsibilities*

28. Review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
29. Review and assess the performance and effectiveness of the Committee at least annually.
30. Review with the Company's outside counsel and internal legal counsel any legal matters brought to the Committee's attention that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
31. Provide oversight and review of the Company's asset management policies, including an annual review of the Company's investment policies and performance for cash and short-term investments.
32. Take any other actions that the Committee deems necessary or proper to fulfill the purposes and intent of this Charter.

In addition to the above responsibilities, the Committee will undertake such other duties as the Board delegates to it, and will report, at least annually, to the Board regarding the Committee's examinations and recommendations.

#### **MANAGEMENT SUPPORT:**

The Company shall provide the Committee with appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for the payments of: (1) compensation to any independent registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (2) compensation to any independent advisers retained by the Committee in carrying out its duties; and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. The Committee may request any officer or employee of the Company, or the Company's outside counsel or independent registered public accounting firm, to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. Further, the Committee may request any such officer, employee, outside counsel or independent registered public accounting firm to provide any pertinent information to the Committee or to any other person or entity designated by the Committee.

#### **MEETINGS:**

The Committee shall meet as often as it determines to be necessary and appropriate, but not less than quarterly each year. The Committee may establish its own schedule which it will provide to the Board in advance. A majority of the Members of the Committee shall constitute a quorum for the transaction of business.

The Committee will meet separately with the principal executive officer and separately with the principal financial officer of the Company at least annually to review the financial affairs of the Company.

**MINUTES:**

The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

**REPORTS:**

The Committee will provide reports to the Board of the Company regarding recommendations of the Committee submitted to the Board for action, and copies of the written minutes of its meetings. The chairperson of the Committee (or other Member designated by the chairperson or the Committee in the chairperson's absence) shall regularly report to the Board on its proceedings and any actions that the Committee takes.

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