UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

For Annual and Transition Reports Pursuant to Sections 13 or #15D of the Securities and Exchange Act of 1934

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2007

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 0-26824

Tegal Corporation

(Exact name of registrant as specified in its charter)

Delaware	**68-0370244**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2201 South McDowell Boulevard	
Petaluma, California	**94954**
(Address of principal executive offices)	*(Zip Code)*

Registrant's Telephone Number, Including Area Code: (707) 763-5600

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $0.01 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ]   Accelerated Filer [ ]   Non-Accelerated Filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.
Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing sale price of the common stock on September 30, 2006 as reported on the NASDAQ Smallcap Market, was $21,671,909. As of June 27, 2007, 7,111,867 shares of the registrant's common stock were outstanding.

The number of shares outstanding reflects a 1-for-12 reverse stock split effected by the Registrant on July 25, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for registrant's 2007 Annual Meeting of Stockholders to be held September 18, 2007 will be filed with the Commission within 120 days after the close of the registrant's fiscal year and are incorporated by reference in Part III.

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PART I

Item 1. *Business*

Information contained or incorporated by reference in this report contains forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology which constitutes projected financial information. These forward-looking statements are subject to risks, uncertainties and assumptions about the Company including, but not limited to, industry conditions, economic conditions, acceptance of new technologies and market acceptance of the Company's products and service. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the "Part I, Item 1A—Risk Factors" and the "Financial Condition" section set forth in "Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," beginning on page 17 below and such other risks and uncertainties as set forth below in this report or detailed in our other SEC reports and filings. We assume no obligation to update forward-looking statements.

All dollar amounts are in thousands unless specified otherwise.

The Company

Tegal Corporation, a Delaware corporation ("Tegal" or the "Company"), designs, manufactures, markets and services plasma etch and deposition systems that enable the production of integrated circuits ("ICs"), memory and related microelectronics devices used in personal computers, wireless voice and data telecommunications, contact-less transaction devices, radio frequency identification devices ("RFIDs"), smart cards, data storage and micro-level actuators. Etching and deposition constitute two of the principal IC and related device production process steps and each must be performed numerous times in the production of such devices.

We were formed in December 1989 to acquire the operations of the former Tegal Corporation, a division of Motorola, Inc. Our predecessor company was founded in 1972 and acquired by Motorola, Inc. in 1978. We completed our initial public offering in October 1995.

On August 30, 2002, we acquired all of the outstanding common stock of Sputtered Films, Incorporated ("SFI"), a privately held California corporation. SFI is a leader in the design, manufacture and service of high performance physical vapor deposition sputtering systems for the semiconductor and semiconductor packaging industry. SFI was founded in 1967 with the development of its core technology, the S-Gun.

On November 11, 2003, we acquired substantially all of the assets and certain liabilities of Simplus Systems Corporation, ("Simplus"), a development stage company. Simplus had developed a deposition cluster tool and certain patented processes for barrier, copper seed and high-K dielectric applications. Simplus had coined the term "nano-layer deposition" or "NLD" to describe its unique approach to molecular organic chemical vapor deposition ("MOCVD"). We are continuing to develop these NLD processes and related tools, and are in the process of marketing them to a limited number of key customers and joint development partners.

On May 28, 2004, we purchased substantially all of the assets and assumed certain liabilities of First Derivative Systems, Inc. ("FDSI"). FDSI, a privately held development stage company, was founded in 1999 as a spin-off of SFI. FDSI had developed a high-throughput, low cost-of-ownership physical vapor deposition ("PVD") system with highly differentiated technology for leading edge memory and logic device production on 200 and 300 millimeter wafers.

Semiconductor Industry Background

Over the past twenty years, the semiconductor industry has experienced significant growth. This growth has resulted from the increasing demand for ICs from traditional IC markets, such as personal computers, telecommunications, consumer electronics, automotive electronics and office equipment, as well as developing markets, such as wireless communications, multimedia and portable and network computing. As a result of this increased demand, semiconductor device manufacturers have periodically expended significant amounts of capital to build new semiconductor fabrication facilities ("fabs") and to expand existing fabs. More recently, growth has slowed, and the industry is maturing as the cost of building new wafer fabs has increased dramatically. While unit demand for semiconductor devices continue to rise, the average selling prices of chips continue to decline. There is growing pressure on semiconductor device manufacturers to reduce manufacturing costs while increasing the value of their products. The semiconductor industry has also been historically cyclical, with periods of rapid expansion followed by periods of over-capacity.

Growth in the semiconductor industry has been driven, in large part, by advances in semiconductor performance at a decreasing cost per function. Advanced semiconductor processing technologies increasingly allow semiconductor manufacturers to produce ICs with smaller features, thereby increasing processing speed and expanding device functionality and memory capacity. As ICs have become more complex, however, both the number and price of state of the art process tools required to manufacture ICs have increased significantly. As a result, the cost of semiconductor manufacturing equipment has become an increasingly large part of the total cost of producing advanced ICs.

To create an IC, semiconductor wafers are subjected to a large number of complex process steps. The three primary steps in manufacturing ICs are (1) deposition, in which a layer of insulating or conducting material is deposited on the wafer surface, (2) photolithography, in which the circuit pattern is projected onto a light sensitive material (the photoresist), and (3) etch, in which the unmasked parts of the deposited material on the wafer are selectively removed to form the IC circuit pattern.

Each step of the manufacturing process for ICs requires specialized manufacturing equipment. Today, plasma-based systems are used for the great majority of both deposition and etching processes. During physical vapor deposition (also known as “PVD”), the semiconductor wafer is exposed to a plasma environment that forms continuous thin films of electrically insulating or electrically conductive layers on the semiconductor wafer. During a plasma etch process (also known as “dry etch”), a semiconductor wafer is exposed to a plasma composed of a reactive gas, such as chlorine, which etches away selected portions of the layer underlying the patterned photoresist layer.

Business Strategy

Our business objective is to utilize the technologies that we have developed internally or acquired externally in order to increase our market share in process equipment for both semiconductor manufacturing and nanotechnology device fabrication. In the recent past, we have attempted to “leap frog” more established competitors by being “designed-in” to the advanced device fabrication plans of our customers. We have done so primarily by engaging in research and development activities on behalf of our customers that our more established competitors were unwilling or unable to perform. Many of these advanced devices promise substantial returns as consumer demand for certain functions grows and new markets are created. However, the timing of the emergence of such demand, such as broadband wireless communications and RFID tags is highly uncertain. In addition, the successful integration by our customers of all of the various technical processes required to manufacture a device at an acceptable cost is also highly uncertain. As a result of our inability to accurately predict the timing of the emergence of these markets, our sales have declined over the past few years, while our costs for maintaining our research and development efforts, service and manufacturing infrastructure have remained constant or in some cases increased.

At the present time, we are transitioning Tegal from a dependence on these highly unpredictable markets to more established equipment markets, where our success is dependent more on our ability to apply successfully our engineering capabilities to solving existing manufacturing problems. We aim to carefully manage this transition by limiting our research and development efforts to the most promising near-term sales opportunities, while at the same time redirecting all our available resources toward new products aimed at established equipment markets. Because of our relatively small size, our ability to meet the needs of individual customers is far more important to our success than either macro economic factors or industry-wide factors such as cyclicality, although both of these areas have some effect on our performance as well. As a result, our methods of evaluating our progress will continue to be highly customer-focused.

In order to achieve our business strategy, we are focused on the following key elements:

Maintaining our Technology Leadership Position in New Materials Etch - We have become a leading provider of etch process solutions for a set of new materials central to the production of an array of advanced semiconductor and nanotechnology devices in emerging markets. Incorporation of these new materials is essential to achieving the higher device densities, lower power consumption and novel functions exhibited by the newest generation of cell phones, computer memories, fiber optic switches and remote sensors. Currently, we are a leading supplier of etch solutions to makers of various advanced “non-volatile” memories, as well as to device makers incorporating compound metals and certain high-K dielectric materials into their devices. Our new materials expertise also includes the etching of so-called “compound-semi” materials, such as gallium arsenide, gallium nitride and indium phosphide, widely used in telecom device production. In addition, we are known for our capability to etch certain noble metals, such as gold and platinum, as well as certain proprietary compound metals. This capability is increasingly important in advanced memory development and in the production of Micro-Electrical Mechanical Systems (“MEMS”), a type of commercially produced nanotechnology device, especially useful to the automotive industry.

Strengthening our Position in Deposition Process Equipment - Since 2002, we have completed two acquisitions of deposition products incorporating the same unique “sputter-up” technology. In December 2006, as a result of the settlement of our litigation with Advanced Modular Systems (“AMS”) and others, we also acquired the assets and know-how of a similar deposition system. These deposition tools enable the production of highly-oriented, thin piezoelectric films composed of aluminum nitride. Such films are incorporated into high frequency filters called Bulk Acoustic Wave (BAW) and Film Bulk Acoustic Resonators (FBARs) used in cellular telephony and wireless communications. In addition our PVD products are well-suited for applications within so-called “back-end” semiconductor manufacturing processes, including backside metallization of ultra-thin wafers and underbump metal processes. These processes are important to power devices, as well as certain advanced, wafer-level packaging schemes, which are increasingly being used for high-pin-count logic and memory devices.

Introducing a New Product into Established Equipment Market - The continued development of our recently acquired NLD technology represents our belief that we have a compelling solution to a critical process need in present-day and future semiconductor device fabrication. As device geometries continue to shrink, conventional chemical vapor deposition ("CVD") process equipment is increasingly incapable of depositing thin conformal films in high-aspect ratio trenches and vias. Atomic Level Deposition ("ALD") is one technology for satisfying this deposition requirement. However, ALD has several shortcomings, including low throughput and limitations on film type and quality, which we believe our NLD technology overcomes.

Maintaining our Service Leadership Position -- Tegal has been consistently recognized by our customers for providing a high level of customer support, a fact that has been noted by our top rankings for several consecutive years in the annual survey conducted by VLSI Research, Inc. We expect to maintain and build on this reputation as we seek new customers in both emerging and established markets.

Products

Etch Technologies

Tegal's historical strength has been in plasma etch technologies. We currently offer products that address widely divergent needs of semiconductor and nanotechnology device manufacturers.

As ICs become increasingly complex, certain etch steps required to manufacture a state of the art IC demand leading edge etch technology, where the ability to perform the etch is more important than the cost of the tool. In other applications, low cost-of-ownership and high performance in routine process steps are essential.

Today, the semiconductor industry is faced with the need to develop and adopt an unprecedented number of new materials as conventional films are running out of the physical properties needed to support continuing shrinks in die size and to provide improved performance. Certain of these new materials present unique etch production problems. For example, the use of certain films, such as platinum, iridium and Lead Zirconium Titanate ("PZT"), currently being used in the development of non-volatile memories and integrated passive devices, is presenting new challenges to semiconductor manufacturers. Magnetic random access memory devices incorporate unique magnetic materials in the device structures, as do certain proposed resistive random access memory devices. While these new films contribute to improved device performance and reduced die size, their unique properties make them particularly difficult to etch and, therefore, require more advanced etch process technologies.

6500 Series Etch Products

We offer several models of our 6500 series etch products configured to address film types and applications desired by our customers. We introduced the 6500 series tool in 1994 and since that time have extended the product line to address new applications including:

• new high-K dielectrics and associated materials used in capacitors at sub-0.5 micron for non-volatile memories and integrated passive devices;
• shallow trench isolation used to isolate transistors driven by increased packing densities used in memory devices employing design rules at or below 0.25 micron;
• sub-0.5 micron multi-layer metal films composed of aluminum/copper/silicon/titanium alloys;
• sub-0.5 micron polysilicon;
• compound semiconductor III-V materials; and
• leading edge thin film head materials.

All 6500 Series Plasma Etch systems feature either Tegal's patented dual-frequency HRe™ CCP or Spectra™ ICP process module technology. The production tested cluster platform design incorporated on all 6500 systems accommodates either one or two etch process modules for processing of 100 to 200mm wafers. Each module can be configured to run independent processes-optimizing flexibility, minimizing downtime and maximizing wafer throughput. The 6500 system comes standard with one vacuum cassette elevator for wafer input/output. Optionally, a second vacuum cassette elevator or patented Rinse-Strip-Rinse™ corrosion passivation station may be added within the standard frame. Each system incorporates full cluster tool technology with the latest innovations in contamination control and factory automation. We believe our 6500 Series systems have demonstrated their effectiveness in addressing the challenges of etching new materials in a production environment.

900 Series Etch Products

We introduced our 900 series family of etch systems in 1984 as the advanced etch tool of that era. Over the years, we have enhanced the 900 series family as systems capable of performing certain routine etch steps required in the production of silicon-based IC devices and, more recently, as etch tools for advanced specialty devices such as gallium arsenide for high-speed telecommunications devices. The 900 series etch systems are aimed at pad, zero layer, non-selective nitride, backside, planarization and small flat panel display applications, thin film etch applications used in the manufacture of read-write heads for the disk drive industry and gallium arsenide and other III-V materials used in high-speed digital wireless telecommunications applications.

The 900*ACS*Ô was introduced in July 2000. This system has enhanced the functionality of the 900 series with added features such as user-friendly GUI (graphical user interface) touch screens, better process control and an improved transport system that increase efficiency, while preserving durability.

Deposition Technologies

Certain deposition technologies or processes are better suited than others for depositing different types of films. PVD is used for both metallic thin film deposition and, in reactive PVD processes, for dielectric thin film deposition. An important application for PVD is the deposition of thin films where residual film stress must be closely controlled in order to create specific desired electrical results, as in precision thin film resistor fabrication, or to avoid physically deforming the substrate, as in the fabrication of power MOS devices on ultra-thin silicon wafers. We believe that enabling tight control of stress and other process parameters, along with minimizing overall contamination levels during PVD thin film deposition processes, is increasingly recognized by IC manufacturers as key features that differentiate PVD tool products and PVD tool makers. We also believe these capabilities will be important to device makers in the related industries of compound semiconductor device fabrication, LED fabrication, optical communication device manufacturing, in MEMS fabrication, and in the field of wafer-level packaging processes for microelectronic devices.

Our established 200mm PVD technologies and the 300mm PVD technologies that we are current developing address the following applications:

- dielectric layers for surface acoustic wave (SAW) and film bulk acoustic resonators (FBARs);
- chip packaging technologies requiring stress control in multi-layer under bump metallization (UBM);
- IC front side interconnect metallization;
- Ohmic contact formation and metallization of thinned wafers for high power transistors;
- deposition of thin film resistors with fine tuning of thermal capacitance of resistance (TCR);
- barrier and seed layer deposition in deep vias;
- encapsulating films for light emitting diodes (LED);
- dielectric layers for integrated gate bipolar transistors (IGBT); and
- automobile electronics requiring high adhesion properties of the backside metal film stacks.

Endeavor PVDÔ Products

We offer several models of our Endeavor PVD products configured to address film types and applications desired by the customer. We introduced the Endeavor series tool in 1992 and since that time have expanded the product line to address new applications. The Endeavor PVD cluster tool features our patented S-Gun™ magnetron sputtering source. The platform is designed to accept up to five process modules including a wide array of both dielectric and metal sputtering configurations in addition to plasma pre-clean modules. The transport system can accommodate 50 to 200mm wafers or 6" square reticles, in a unique "sputter-up" orientation that is extremely gentle and reliable. The unique handling system is especially advantageous for backside metallization on delicate ultra-thin silicon wafers, as it handles them without flipping or applying any mechanical pressure. Each system incorporates state-of-the-art cluster tool technology with the latest innovations in contamination control and factory automation.

***AMS* Ô PVD Products**

As a result of the settlement of our litigation with AMS and others, the assets and know-how related to a series of PVD system products were transferred to us on March 1, 2007. The AMS PVD systems are targeted specifically at the deposition of aluminum nitride for BAW and FBAR filtering devices for cell phones and other wireless devices, are the cornerstone of commercial RfMEMS fabrication today. We currently offer the AMS systems in two configurations.

Compact™ NLD

We are currently developing the Compact™ 360 NLD cluster tool as a new 200mm/300mm-capable bridge tool that will serve as the introductory platform for Tegal's patented Nano-Layer Deposition process. NLD is a unique cyclic MOCVD process for highly conformal coatings that incorporates plasma film treatment with each deposition cycle. This offers the benefits of atomic layer deposition with the potential for a much higher deposition rate. NLD also offers the benefit of utilizing common MOCVD precursor materials that are readily available for a wide variety of metal, metal oxide and metal nitride films. The Tegal Compact platform can accommodate all wafer sizes from 100 to 300mm in one, two or three process module configurations, with a wide variety of front-end loadlock options including FOUP and EFEM.

Customers

The composition of our top five customers has changed from year to year, but net system sales to our top five customers in each of fiscal 2007, 2006, and 2005 accounted for 77.8%, 68.9%, and 80.0%, respectively, of our total net system sales. ST Microelectronics and International Rectifier accounted for 43.1% and 13.4% respectively, of our total revenue in fiscal 2007. ST Microelectronics accounted for 54.3% of our total revenue in fiscal 2006. Fujitsu, Western Digital, and RF Micro Devices accounted for 38.2%, 12.8% and 10.1% respectively, of our net system sales in 2005. Other than these customers, no single customer represented more than 10% of our total revenue in fiscal 2007, 2006, and 2005. Although the composition of the group comprising our largest customers may vary from year to year, the loss of a significant customer or any reduction in orders by any significant customer, including reductions due to market, economic or competitive conditions in the semiconductor and related device manufacturing industry, would have a material adverse effect on us.

Backlog

We schedule production of our systems based upon order backlog and customer commitments. We include in our backlog only orders for which written purchase orders have been accepted and shipment dates within the next 12 months have been assigned. As of March 31, 2007 and 2006, our order backlog was approximately $1,172 and $6,138, respectively. Booked system orders are subject to cancellation by the customer, but with substantial penalties except in the case of orders for evaluation systems or for systems that have not yet incurred production costs. Orders may be subject to rescheduling with limited or no penalty. Some orders are received for systems to be shipped in the same quarter as the order is received. As a result, our backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

Marketing, Sales and Service

We sell our systems worldwide through a network of five direct sales personnel and two independent sales representatives in sales offices located throughout the world. In the United States, we market our systems through direct sales personnel located in two regional sales offices located in San Jose, California and Petaluma, California. In addition, we provide field service and applications engineers through our regional locations and our Petaluma headquarters in order to ensure dedicated technical and field process support throughout the United States on short notice.

We maintain direct sales, service and process support capabilities in the United States, Germany, and Italy as well as through third-party representatives in Japan, South Korea and Singapore. In addition to these international direct sales and support organizations, we also market our systems through independent sales representatives in Israel, India, Turkey, and China.

International sales, which consist of export sales from the United States either directly to the end user or to one of our foreign subsidiaries, accounted for approximately 67%, 76%, and 70% of total revenue for fiscal 2007, 2006, and 2005, respectively.

Revenues by region for each of the last three fiscal years were as follows:

	Years Ended March 31,		
	2007	2006	2005
United States	$ 7,398	$ 5,142	$ 4,445
Asia, excluding Japan	7,008	5,624	1,372
Japan	2,042	2,312	6,312
Germany	3,115	2,313	397
Italy	1,474	386	498
Europe, excluding Germany and Italy	1,226	5,980	1,864
Total sales	$ 22,263	$ 21,757	$ 14,888

We generally sell our systems on 30-to-60 day credit terms to our domestic and European customers. Customers in Asia, other than Japan, are generally required to deliver a letter of credit payable in U.S. dollars upon system shipment. Sales to other international customers, including Japan, are billed either in local currency or U.S. dollars. We anticipate that international sales will continue to account for a significant portion of revenue in the foreseeable future.

We generally warrant our new systems for 12 months and our refurbished systems for 6 months from shipment. Our field engineers provide customers with call-out repair and maintenance services for a fee. Customers may also enter into repair and maintenance service contracts covering our systems. We train customer service engineers to perform routine services for a fee and provide telephone consultation services generally for a fee.

The sales cycles for our systems vary depending upon whether the system is an initial design-in, reorder or used equipment. Initial design-in sales cycles are typically 12 to 18 months, particularly for 6500 and Endeavor series systems. In contrast, reorder sales cycles are typically 4 to 6 months, and used system sales cycles are generally 1 to 3 months. The initial design-in sales cycle begins with the generation of a sales lead, which is followed by qualification of the lead, an analysis of the customer's particular applications needs and problems, one or more presentations to the customer (frequently including extensive participation by our senior management), 2 to 3 wafer sample demonstrations, followed by customer testing of the results and extensive negotiations regarding the equipment's process and reliability specifications. Initial design-in sales cycles are monitored by senior management for correct strategic approach and resource prioritization. We may, in some rare instances, need to provide the customer with an evaluation system for 3 to 6 months prior to the receipt of a firm purchase order.

Research and Development

The market for semiconductor capital equipment is characterized by rapid technological change. We believe that continued and timely development of new systems and enhancements to existing systems is necessary for us to maintain our competitive position. Accordingly, we devote a significant portion of our personnel and financial resources to research and development programs and seek to maintain close relationships with our customers in order to be responsive to their system needs.

Our research and development encompasses the following areas: plasma etch, physical vapor deposition and chemical vapor deposition (especially NLD) technologies, process characterization and development, material sciences applicable to etch and deposition environments, systems design and architecture, electro-mechanical design and software engineering. We emphasize advanced plasma and reactor chamber modeling capabilities in order to accelerate bringing advanced chamber designs to market. We employ multi-discipline teams to facilitate short engineering cycle times and rapid product development.

As of March 31, 2007, we had 20 full-time employees dedicated to equipment design engineering, process support and research and development. Research and development expenses for fiscal 2007, 2006, and 2005 were $4,646, $4,753, and $5,772, respectively, and represented 20.9%, 21.8%, and 38.8% of total revenue, respectively. Such expenditures were primarily used for the development of new processes, continued enhancement and customization of existing systems, processing customer samples in our demonstration labs and providing process engineering support at customer sites. Additionally, we had in-process research and development expense ("IPR&D") of $1,653 which represented 11.1% of total revenue for fiscal 2005 that was related to the acquisition of FDSI.

Manufacturing

Both our etch and deposition systems are produced at our manufacturing facility in Petaluma, California. Our manufacturing activities consist of assembling and testing components and sub-assemblies, which are then integrated into finished systems. We have structured our production facilities to be driven either by orders or by forecasts and have adopted a modular system architecture to increase assembly efficiency and design flexibility. We have also implemented "just-in-time" manufacturing techniques in our assembly processes. Through the use of such techniques, 900 series system manufacturing cycle times take approximately 14 days and cycle times for our Endeavor systems and our 6500 series products take 2 to 3 months.

Competition

The semiconductor capital equipment industry is highly competitive. Our principal competitors are Applied Materials, Inc., Lam Research Corporation, Novellus and Tokyo Electron Limited. We believe that the principal competitive factor in the critical segments of the equipment industry is technical performance of the system, followed closely by the existence of customer relationships, the system price, the ability to provide service and technical support on a global basis and other related cost factors. We believe that the principal competitive factor in the non-critical segments of the equipment industry is system price, followed closely by the technical performance of the system, the existence of established customer relationships, the ability to provide service and technical support on a global basis and other related cost factors.

Intellectual Property

We hold an exclusive license or ownership of approximately 66 U.S. patents, including both deposition and etch products, and approximately 15 corresponding foreign patents covering various aspects of our systems. We have also applied for approximately 25 additional U.S. patents and approximately 59 additional foreign patents. Of these patents, a few expire as early as 2008, others expire as late as 2024 with the average expiration occurring in approximately 2020. We believe that the duration of such patents generally exceeds the life cycles of the technologies disclosed and claimed therein. We believe that although the patents we have exclusively licensed or hold directly will be of value, they will not determine our success, which depends principally upon our engineering, marketing, service and manufacturing skills. However, in the absence of patent protection, we may be vulnerable to competitors who attempt to imitate our systems, processes and manufacturing techniques. We have signed a non-exclusive field of use license to two of our patents, relating to our strategic application sets. In addition, other companies and inventors may receive patents that contain claims applicable to our systems and processes. The sale of our systems covered by such patents could require licenses that may not be available on acceptable terms, if at all. We also rely on trade secrets and other proprietary technology that we seek to protect, in part, through confidentiality agreements with employees, vendors, consultants and other parties. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known to or independently developed by others.

The original version of the system software for our 6500 series systems was jointly developed by us and Realtime Performance, Inc., a third-party software vendor. We hold a perpetual, non-exclusive, non-royalty-bearing license to use and enhance this software. The enhanced version of the software currently used on our 6500 series systems has undergone multiple releases of the original software, and such enhancements were developed exclusively by us. Neither the software vendor nor any other party has any right to use our current release of the system software. However, we cannot make any assurances that this software will not be illegally copied or reverse-engineered by either customers or third parties.

Employees

As of March 31, 2007 we had a total of 70 regular employees, 9 part-time contract personnel and 8 full-time contract personnel. Of our regular employees, 20 are in engineering, and research and development, 17 are in manufacturing and operations, 22 are in marketing, sales and customer service and support and 11 are in executive and administrative positions. Many of our employees are highly skilled, and our success will depend in part upon our ability to attract, retain and develop such employees. Skilled employees, especially employees with extensive technological backgrounds, remain in demand. There can be no assurance we will be able to attract or retain the skilled employees that may be necessary to continue our research and development, manufacturing or marketing programs. The loss of any such persons, as well as the failure to recruit additional key personnel in a timely manner, could have a material adverse effect on us.

None of our employees are represented by a labor union or covered by a collective bargaining agreement. We consider our employee relations to be good.

Item 1A. ***Risk Factors***

We wish to caution you that there are risks and uncertainties that could affect our business. These risks and uncertainties include, but are not limited to, the risks described below and elsewhere in this report, particularly in "Forward-Looking Statements." The following is not intended to be a complete discussion of all potential risks or uncertainties, as it is not possible to predict or identify all risk factors.

The semiconductor industry is cyclical and may experience periodic downturns that may negatively affect customer demand for our products and result in losses such as those experienced in the past.

Our business depends upon the capital expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for ICs. The semiconductor industry is highly cyclical and historically has experienced periodic downturns, which often have had a detrimental effect on the semiconductor industry's demand for semiconductor capital equipment, including etch and deposition systems manufactured by us. In response to the current prolonged industry slow-down, we have initiated a substantial cost containment program and completed a corporate-wide restructuring to preserve our cash. However, the need for continued investment in research and development, possible capital equipment requirements and extensive ongoing customer service and support requirements worldwide will continue to limit our ability to reduce expenses in response to the current and any future downturns. As a result, we may continue to experience operating losses such as those we have experienced in the past, which could materially adversely affect us.

Our competitors have greater financial resources and greater name recognition than we do and therefore may compete more successfully in the semiconductor capital equipment industry than we can.

We believe that to be competitive, we will require significant financial resources in order to offer a broad range of systems, to maintain customer service and support centers worldwide and to invest in research and development. Many of our existing and potential competitors, including Applied Materials, Inc., Lam Research Corporation, Novellus and Tokyo Electron Limited, have substantially greater financial resources, more extensive engineering, manufacturing, marketing and customer service and support capabilities, larger installed bases of current generation etch, deposition and other production equipment and broader process equipment offerings, as well as greater name recognition than we do. We cannot assure you that we will be able to compete successfully against these companies in the United States or worldwide.

Our customers are concentrated and therefore the loss of a significant customer may harm our business.

The composition of our top five customers has changed from year to year, but net system sales to our top five customers in each of fiscal 2007, 2006, and 2005 accounted for 77.8%, 68.9%, and 80.0% respectively, of our total net system sales. ST Microelectronics and International Rectifier accounted for 43.1% and 13.4%, respectively, of our total revenue in fiscal 2007. ST Microelectronics accounted for 54.3% of our total revenue in fiscal 2006. Fujitsu, Western Digital, and RF Micro Devices accounted for 38.2%, 12.8% and 10.1%, respectively, of our net system sales in 2005. Other than these customers, no single customer represented more than 10% of our total revenue in fiscal 2007, 2006, and 2005. Although the composition of the group comprising our largest customers may vary from year to year, the loss of a significant customer or any reduction in orders by any significant customer, including reductions due to market, economic or competitive conditions in the semiconductor and related device manufacturing industry, would have a material adverse effect on us.

Our potential customers may not adopt our products because of their significant cost or because our potential customers are already using a competitor's tool.

A substantial investment is required to install and integrate capital equipment into a semiconductor production line. Additionally, we believe that once a device manufacturer has selected a particular vendor's capital equipment, that manufacturer generally relies upon that vendor's equipment for that specific production line application and, to the extent possible, subsequent generations of that vendor's systems. Accordingly, it may be extremely difficult to achieve significant sales to a particular customer once that customer has selected another vendor's capital equipment unless there are compelling reasons to do so, such as significant performance or cost advantages. Any failure to gain access and achieve sales to new customers will adversely affect the successful commercial adoption of our products and could have a material adverse effect on us.

We depend on sales of our advanced products to customers that may not fully adopt our product for production use.

We have designed our advanced etch and deposition products for customer applications in emerging new films, polysilicon and metal which we believe to be the leading edge of critical applications for the production of advanced semiconductor and other microelectronic devices. Revenue from the sale of our advanced etch and deposition systems accounted for 69%, 69%, and 30% of total revenue in fiscal 2007, 2006, and 2005, respectively. Our advanced systems are currently being used primarily for research and development activities or low volume production. For our advanced systems to achieve full market adoption, our customers must utilize these systems for volume production. We cannot assure you that the market for devices incorporating emerging films, polysilicon or metal will develop as quickly or to the degree we expect. If our advanced systems do not achieve significant sales or volume production due to a lack of full customer adoption, we will be materially adversely affected.

We have incurred operating losses and may not be profitable in the future and our plans to maintain and increase liquidity may not be successful.

We incurred net losses of $13.2 million, $8.9 million, and $15.4 million for the years ended March 31, 2007, 2006, and 2005, respectively, and generated (used) cash flows from operations of $12.8 million, ($11.6) million, and ($7.5) million in these respective years. We have raised approximately $18.4 million from the sale of stock and warrants to institutional investors in fiscal 2006. While we believe that these proceeds, combined with a projected increase in sales, consolidation of certain operations and continued cost containment will be adequate to fund operations through fiscal year 2008, if the projected sales do not materialize, we will need to reduce expenses further and raise additional capital through the issuance of debt or equity securities. If additional funds are raised through the issuance of preferred stock or debt, these securities could have rights, privileges or preferences senior to those of our common stock, and debt covenants could impose restrictions on our operations. Moreover, such financing may not be available to us on acceptable terms, if at all. Failure to raise any needed funds would materially adversely affect us.

Our quarterly operating results may continue to fluctuate.

Our revenue and operating results have fluctuated and are likely to continue to fluctuate significantly from quarter to quarter, and we cannot assure you that we will achieve profitability in the future.

Our 900 series etch systems typically sell for prices ranging between $250,000 and $600,000, while prices of our 6500 series critical etch systems and our Endeavor deposition system typically range between $1.8 million and $3.0 million. To the extent we are successful in selling our 6500 and Endeavor series systems, the sale of a small number of these systems will probably account for a substantial portion of revenue in future quarters, and a transaction for a single system could have a substantial impact on revenue and gross margin for a given quarter.

Other factors that could affect our quarterly operating results include:

- our timing of new systems and technology announcements and releases and ability to transition between product versions;
- seasonal fluctuations in sales;
- changes in the mix of our revenues represented by our various products and customers;
- adverse changes in the level of economic activity in the United States or other major economies in which we do business;
- foreign currency exchange rate fluctuations;
- expenses related to, and the financial impact of, possible acquisitions of other businesses; and
- changes in the timing of product orders due to unexpected delays in the introduction of our customers' products, due to lifecycles of our customers' products ending earlier than expected or due to market acceptance of our customers' products.

Some of our sales cycles are lengthy, exposing us to the risks of inventory obsolescence and fluctuations in operating results.

Sales of our systems depend, in significant part, upon the decision of a prospective customer to add new manufacturing capacity or to expand existing manufacturing capacity, both of which typically involve a significant capital commitment. We often experience delays in finalizing system sales following initial system qualification while the customer evaluates and receives approvals for the purchase of our systems and completes a new or expanded facility. Due to these and other factors, our systems typically have a lengthy sales cycle (often 12 to 18 months in the case of critical etch and deposition systems) during which we may expend substantial funds and management effort. Lengthy sales cycles subject us to a number of significant risks, including inventory obsolescence and fluctuations in operating results over which we have little or no control.

Because technology changes rapidly, we may not be able to introduce our products in a timely enough fashion.

The semiconductor manufacturing industry is subject to rapid technological change and new system introductions and enhancements. We believe that our future success depends on our ability to continue to enhance our existing systems and their process capabilities, and to develop and manufacture in a timely manner new systems with improved process capabilities. We may incur substantial unanticipated costs to ensure product functionality and reliability early in our products' life cycles. We cannot assure you that we will be successful in the introduction and volume manufacture of new systems or that we will be able to develop and introduce, in a timely manner, new systems or enhancements to our existing systems and processes which satisfy customer needs or achieve market adoption.

Our financial performance may adversely affect the morale and performance of our personnel and our ability to hire new personnel.

Our common stock has declined in value below the exercise price of many options granted to employees pursuant to our stock option plans. Thus, the intended benefits of the stock options granted to our employees, the creation of performance and retention incentives, may not be realized. As a result, we may lose employees whom we would prefer to retain and may have difficulty in hiring new employees to replace them. As a result of these factors, our remaining personnel may seek employment with larger, more established companies or companies perceived as having less volatile stock prices. The loss of any significant employee or a large number of employees over a short period of time could have a material adverse effect on us.

We may not be able to protect our intellectual property or obtain licenses for third parties' intellectual property and therefore we may be exposed to liability for infringement or the risk that our operations may be adversely affected.

Although we attempt to protect our intellectual property rights through patents, copyrights, trade secrets and other measures, we may not be able to protect our technology adequately and competitors may be able to develop similar technology independently. Additionally, patent applications that we may file may not be issued and foreign intellectual property laws may not protect our intellectual property rights. There is also a risk that patents licensed by or issued to us will be challenged, invalidated or circumvented and that the rights granted thereunder will not provide competitive advantages to us. Furthermore, others may independently develop similar systems, duplicate our systems or design around the patents licensed by or issued to us.

Litigation to protect our intellectual property could result in substantial cost and diversion of effort by us, which by itself could have a material adverse effect on our financial condition, operating results and cash flows. Further, adverse determinations in such litigation could result in our loss of proprietary rights, subject us to significant liabilities to third parties, require us to seek licenses from third parties or prevent us from manufacturing or selling our systems. In addition, licenses under third parties' intellectual property rights may not be available on reasonable terms, if at all.

We are exposed to additional risks associated with international sales and operations.

International sales accounted for 67%, 76%, and 70% of total revenue for fiscal 2007, 2006, and 2005 , respectively. International sales are subject to certain risks, including the imposition of government controls, fluctuations in the U.S. dollar (which could increase the sales price in local currencies of our systems in foreign markets), changes in export license and other regulatory requirements, tariffs and other market barriers, political and economic instability, potential hostilities, restrictions on the export or import of technology, difficulties in accounts receivable collection, difficulties in managing representatives, difficulties in staffing and managing international operations and potentially adverse tax consequences. We cannot assure you that any of these factors will not have a detrimental effect on our operations, financial results and cash flows.

We cannot assure you that our future results of operations and cash flows will not be adversely affected by foreign currency fluctuations. In addition, the laws of certain countries in which our products are sold may not provide our products and intellectual property rights with the same degree of protection as the laws of the United States.

Evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission ("SEC") regulations and Nasdaq Market rules are creating uncertainty for public companies. We continually evaluate and monitor developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs. These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we have invested resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and we may be materially adversely affected.

Our stock price is volatile and could result in a material decline in the value of your investment in Tegal.

We believe that factors such as announcements of developments related to our business, fluctuations in our operating results, sales of our common stock into the marketplace, failure to meet or changes in analysts' expectations, general conditions in the semiconductor industry or the worldwide economy, announcements of technological innovations or new products or enhancements by us or our competitors, developments in patents or other intellectual property rights, developments in our relationships with our customers and suppliers, natural disasters and outbreaks of hostilities could cause the price of our common stock to fluctuate substantially. In addition, in recent years the stock market in general, and the market for shares of small capitalization stocks in particular, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. We cannot assure you that the market price of our common stock will not experience significant fluctuations in the future, including fluctuations that are unrelated to our performance.

The exercise of outstanding warrants, options and other rights to obtain additional shares will dilute the value of our shares of common stock and could cause the price of our shares of common stock to decline.

As of March 31, 2007, there were 7,106,867 shares of our common stock issued and outstanding, approximately 3,394,204 shares of our common stock reserved for issuance of shares issuable upon exercise of outstanding warrants, and shares underlying equity awards created or available for grant under our equity incentive plans, and shares available under our stock purchase plan.

The exercise of these warrants and options and the issuance of the common stock pursuant to our equity incentive plans will result in dilution in the value of the shares of our outstanding common stock and the voting power represented thereby. In addition, the exercise price of the warrants may be lowered under the price adjustment provisions in the event of a "dilutive issuance," that is, if we issue common stock at any time prior to their maturity at a per share price below such conversion or exercise price, either directly or in connection with the issuance of securities that are convertible into, or exercisable for, shares of our common stock. A reduction in the exercise price may result in the issuance of a significant number of additional shares upon the exercise of the warrants.

The outstanding warrants do not establish a "floor" that would limit reductions in such conversion price or exercise price. The downward adjustment of the exercise price of these warrants could result in further dilution in the value of the shares of our outstanding common stock and the voting power represented thereby.

No prediction can be made as to the effect, if any, that future sales of shares of our common stock, or the availability of shares for future sale, will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur, may adversely affect the market price of our common stock and may make it more difficult for us to sell our equity securities in the future at a time and price which we deem appropriate.

To the extent our stockholders and the other holders of our warrants and options exercise such securities and then sell the shares of our common stock they receive upon exercise, our stock price may decrease due to the additional amount of shares available in the market. The subsequent sales of these shares could encourage short sales by our securityholders and others, which could place further downward pressure on our stock price. Moreover, holders of these warrants and options may hedge their positions in our common stock by shorting our common stock, which could further adversely affect our stock price.

Potential disruption of our supply of materials required to build our systems could have a negative effect on our operations and damage our customer relationships.

Materials delays have not been significant in recent years. Nevertheless, we procure certain components and sub-assemblies included in our systems from a limited group of suppliers, and occasionally from a single source supplier. For example, we depend on MECS Corporation, a robotic equipment supplier, as the sole source for the robotic arm used in all of our 6500 series systems. We currently have no existing supply contract with MECS Corporation, and we currently purchase all robotic assemblies from MECS Corporation on a purchase order basis. Disruption or termination of certain of these sources, including our robotic sub-assembly source, could have an adverse effect on our operations and damage our relationship with our customers.

Any failure by us to comply with environmental regulations imposed on us could subject us to future liabilities.

We are subject to a variety of governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process. We believe that we are currently in compliance in all material respects with these regulations and that we have obtained all necessary environmental permits generally relating to the discharge of hazardous wastes to conduct our business. Nevertheless, our failure to comply with present or future regulations could result in additional or corrective operating costs, suspension of production, alteration of our manufacturing processes or cessation of our operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. *Properties*

We maintain our headquarters, encompassing our executive office, manufacturing, engineering and research and development operations, in one leased 39,717 square foot facility in Petaluma, California. We have a primary lease which expires in 2008 with an option to extend for an additional two years. Other than certain large pieces of capital equipment leased by us, we own substantially all of the machinery and equipment used in our facilities.

We have office space in a leased 13,300 square foot facility in San Jose, California. We have a sublease agreement for the premises, signed on December 30, 2005, which expires on January 31, 2008. In addition, we have a primary lease for the same premises which commences on February 1, 2008 and expires on January 31, 2010.

We lease a 2,400 square foot facility in Goleta, California for technical support related to our Sputtered Films deposition tools which expired on April 30, 2007.

We lease sales, service and process support space in Munich, Germany.

Item 3. ***Legal Proceedings***

Sputtered Films, Inc. v. Advanced Modular Sputtering, et al., filed in Santa Barbara County Superior Court.

On December 22, 2003, Sputtered Films, Inc. ("SFI"), a wholly owned subsidiary of the Company, filed an action against two former employees, Sergey Mishin and Rose Stuart-Curran, and a company they formed after leaving their employment with SFI named Advanced Modular Sputtering, Inc. ("AMS"). Sergey Mishin and Rose Stuart-Curran had each signed confidentiality and non-disclosure agreements regarding information obtained while employed by SFI. The action contains causes of action for specific performance, breach of contract, breach of the covenant of good faith and fair dealing, misappropriation of trade secrets, unfair competition, unfair business practices, interference with prospective economic advantage, conversion, unjust enrichment, and declaratory relief. These claims arise out of information SFI received evidencing that AMS possessed and used SFI's confidential, proprietary and trade secret drawings, specifications and technology to manufacture the sputtering tool marketed by AMS.

During 2004 and 2005, this litigation was largely stalled while AMS and Agilent Technologies, Inc. contested SFI's right to conduct discovery. This dispute was resolved in late 2005 when the California Court of Appeal affirmed SFI's trade secret identification as statutorily sufficient. On November 18, 2005, SFI requested leave to add Agilent Technologies, Inc. ("Agilent") as a defendant based on evidence that Agilent and AMS co-developed the machines which SFI contends were built using SFI proprietary information. The Court granted SFI's request and Agilent was served as a Doe defendant on December 12, 2005. In early December, SFI learned that Agilent transferred its Semiconductor Products Group to a number of Avago entities effective December 1, 2005, and accordingly SFI sought and received court approval to add Avago Technologies U.S., Inc. and Avago Technologies Wireless (U.S.A.) Manufacturing, Inc (collectively the "Avago Entities") as defendant in this action. On April 25, 2006, the Avago Entities filed a Cross-Complaint against SFI and Tegal Corporation alleging causes of action for breach of contract, trade secret misappropriation, unfair competition, conversion, unjust enrichment and declaratory relief. The Cross-Complaint alleges on information and belief that SFI misused information obtained from Hewlett-Packard in connection with Hewlett-Packard's request to purchase SFI machines or to upgrade SFI machines Hewlett-Packard already owned.

On November 13, 2006, following commencement of the trial, all the parties in the litigation agreed on terms of a settlement, which was filed with the court. Among other things, the settlement called for the transfer of assets related to PVD technology from AMS to SFI and the dissolution of AMS as of March 1, 2007. The Avago Cross-Complaint was also dismissed as part of the settlement. A final confidential settlement and release of claims was executed among the parties on December 21, 2006.

The two law firms representing SFI in this matter claim they are entitled, as a result of the settlement, to receive contingent fees from us and SFI. Keker & Van Nest LLP (“KVN”) claims fees in the amount of $6,717; Gonzalez & Leigh LLP (“G&L”) claims fees in the amount of $2,249. We have initiated proceedings with the Bar Association of San Francisco (“BASF”), pursuant to California statutes, to dispute the claims of both firms. KVN has filed suit against us and SFI in San Francisco Superior Court, the action is stayed pending completion of the BASF proceedings. G&L has not filed suit. We have identified legal and factual defenses to substantial elements of both claims and are vigorously contesting the claims.

As a result of the dispute described above, as of March 31, 2007, we had placed $19,500, representing the gross cash proceeds from the recent settlement of this litigation into suspense. Since the amount in dispute cannot be determined with reasonable certainty until the dispute is resolved, we have elected to suspend the entire amount, in accordance with Statement of Financial Accounting Standards No *5, “Accounting for Contingencies.”*

Other

We are involved in other legal proceedings in the normal course of business and do not expect them to have a material adverse effect on our business.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matter was submitted to a vote of security holders during the fourth quarter of fiscal year 2007.

PART II

Item 5. ***Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Since May 6, 2003, our common stock has traded on the Nasdaq Capital Market under the symbol TGAL. Prior to this date, our common stock traded on the NASDAQ National Market since October 19, 1995. The following table sets forth the range of high and low sales prices for our common stock for each quarter during the prior two fiscal years. The stock price gives effect to a 1-for-12 reverse stock split that we effected on July 25, 2006.

	High	Low
FISCAL YEAR 2006		
First Quarter	$ 16.20	$ 12.00
Second Quarter	11.64	7.68
Third Quarter	9.00	6.24
Fourth Quarter	7.92	6.00
FISCAL YEAR 2007		
First Quarter	$ 8.52	$ 4.32
Second Quarter	4.80	3.68
Third Quarter	6.47	3.69
Fourth Quarter	6.13	4.65

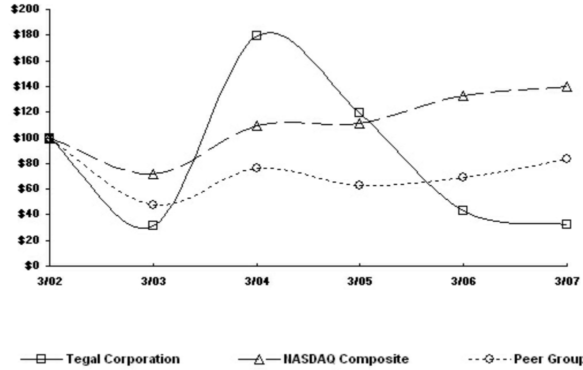
The approximate number of holders on record of our common stock as of March 31, 2007 was 173. We have not paid any cash dividends since our inception and do not anticipate paying cash dividends in the foreseeable future.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options and restricted stock awards (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation Plans approved by security holders:			
Equity Incentive Plan	1,041	$ 55.56	—
1990 Stock Option Plan	4,490	62.22	—
1998 Equity Participation Plan	871,165	11.00	619,236
Directors Stock Option Plan	131,029	9.87	199,388
Total	1,007,725	10.80	818,624

Warrants Outstanding

	Year Ended March 31,		
	2007	2006	2005
Number of securities to be issued upon exercise of outstanding warrants	1,527,784	1,647,633	359,413
Weighted-average exercise price of outstanding warrants	$ 12.60	$ 13.44	$ 19.44



Item 6. ***Selected Financial Data***

	Year Ended March 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue	$ 22,263	$ 21,757	$ 14,888	$ 16,528	$ 14,100
Gross profit (loss)	5,527	6,016	3,267	4,647	(66)
Operating loss	(13,375)	(8,839)	(13,522)	(7,180)	(12,617)
Net loss	(13,213)	(8,880)	(15,363)	(12,602)	(12,625)
Net loss per share: (1)					
Basic and Diluted	$ (1.87)	$ (1.50)	$ (3.93)	$ (6.74)	$ (9.89)
Shares used in per share computation:					
Basic and Diluted	7,065	5,903	3,907	1,870	1,276

	March 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 25,776	$ 13,787	$ 7,093	$ 7,049	$ 912
Working capital	11,729	22,579	8,056	8,823	5,041
Total assets	41,656	31,491	20,092	22,658	17,209
Debt obligations (excluding capital leases, and litigation suspense, convertible debentures)	13	13	159	2,450	426
Stockholders’ equity	14,417	26,040	13,300	14,955	11,123

(1) See Note 3 of our Consolidated Financial Statements for an explanation of the computation of earnings per share.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

All dollar amounts are in thousands unless specified otherwise.
Share and per share amounts give effect to the 1-for-12 reverse stock split effected on July 25, 2006

Company Overview

Tegal Corporation designs, manufactures, markets and services plasma etch and deposition systems that enable the production of micro-electrical mechanical systems ("MEMS"), memory devices, integrated circuits ("ICs"), memory and other related microelectronics devices used primarily in wireless voice and data telecommunications, power devices, contact-less transaction devices, radio frequency identification devices ("RFIDs"), smart cards, data storage and micro-level actuators. Etching and deposition constitute two of the principal IC and related device production process steps and each must be performed numerous times in the production of such devices.

Our business objective is to utilize the technologies that we have developed internally or acquired externally in order to increase our market share in process equipment for both semiconductor manufacturing and nanotechnology device fabrication. In the recent past, we have focused on etching new materials that are especially important to the miniaturization of certain types of capacitors and the precise deposition processes required for certain filtering devices, both driven primarily by cell phones and wireless applications. We have implemented this strategy primarily by engaging in research and development activities on behalf of our customers that our more established competitors were unwilling or unable to perform. Many of these advanced devices promise substantial returns as consumer demand for certain functions grows and new markets are created. However, the timing of the emergence of such demand, and the adaptation of the devices by consumer product companies is highly uncertain. In addition, the successful integration by our customers of all of the various technical processes required to manufacture a device at an acceptable cost is also highly uncertain. As a result of our inability to accurately predict the timing of the emergence of these markets, our sales have declined since the mid-1990's and have increased only recently. Nevertheless, our costs for maintaining our research and development efforts, service and manufacturing infrastructure have remained relatively constant or in some cases have increased.

At the present time, we are transitioning Tegal from a dependence on these highly unpredictable markets to more established equipment markets, where our success is dependent more on our ability to apply successfully our engineering capabilities to solving existing manufacturing problems. We are carefully managing this transition by limiting our research and development efforts to the most promising near-term sales opportunities, while at the same time redirecting all our available resources toward new products aimed at established equipment markets. Because of our relatively small size, our ability to meet the needs of individual customers is far more important to our success than either macro economic factors or industry-wide factors such as cyclicality, although both of these areas have some effect on our performance as well. As a result, our methods of evaluating our progress are highly customer focused.

With our current products, we believe that we have sufficient opportunities in both emerging and existing markets to allow us to continue a sales growth pattern in the coming year. Equally important is the reduction of operating costs. In the coming year, as in the past 12 months, we are aiming to achieve savings in operating costs by focusing on the most promising opportunities while limiting our exposure to others, consolidating our operating facilities, outsourcing non-critical activities, and reducing our headcount as we strive to improve operational efficiency.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, sales returns allowance, inventory, intangible and long lived assets, warranty obligations, restructure expenses, deferred taxes and freight charged to customers. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies are the most significant to the presentation of our consolidated financial statements:

Revenue Recognition

Each sale of our equipment is evaluated on an individual basis in regard to revenue recognition. We have integrated in our evaluation the related interpretative guidance included in Topic 13 of the codification of staff accounting bulletins, and recognize the role of the Emerging Issue Task Force ("EITF") consensus on Issue 00-21. We first refer to EITF 00-21 in order to determine if there is more than one unit of accounting and then we refer to SAB104 for revenue recognition topics for the unit of accounting. We recognize revenue when persuasive evidence of an arrangement exists, the seller's price is fixed or determinable and collectibility is reasonably assured.

For products produced according to our published specifications, where no installation is required or installation is deemed perfunctory and no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally upon shipment. Installation is not deemed to be essential to the functionality of the equipment since installation does not involve significant changes to the features or capabilities of the equipment or the building of complex interfaces and connections. In addition, the equipment could be installed by the customer or other vendors and generally the cost of installation approximates only 1% of the sales value of the related equipment.

For products produced according to a particular customer's specifications, revenue is recognized when the product has been tested and it has been demonstrated that it meets the customer's specifications and title passes to the customer. The amount of revenue recorded is reduced by the amount (generally 10%), which is not payable by the customer until installation is completed and final customer acceptance is achieved.

For new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting customer specifications at the customer site, 100% of revenue is recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passes to the customer upon shipment and 90% of the contract amount becomes payable at that time, inventory is relieved and accounts receivable is recorded for the entire contract amount. The revenue on these transactions is deferred and recorded as deferred revenue. As of March 31, 2007 and 2006 deferred revenue as related to systems was $1,039 and $455. We reserve for warranty costs at the time the related revenue is recognized.

Revenue related to sales of spare parts is recognized upon shipment. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts. Unearned maintenance and service revenue is included in deferred revenue. As of March 31, 2007 and 2006 $25 and $22 of deferred revenue was related to service contracts.

Our return policy is for spare parts and components only. A right of return does not exist for systems. Customers are allowed to return spare parts if they are defective upon receipt. The potential returns are offset against gross revenue on a monthly basis. Management reviews outstanding requests for returns on a quarterly basis to determine that the reserves are adequate.

Accounts Receivable - Allowance for Sales Returns and Doubtful Accounts

We maintain an allowance for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make required payments. We consider the aging of individual customer accounts and determine, according to corporate policy, which accounts should be included in the reserve for doubtful accounts. If the financial condition of our customers were to deteriorate, or even a single customer was otherwise unable to make payments, additional allowances may be required and may materially affect our consolidated financial position.

Inventories

Inventories are stated at the lower of cost or market, reduced by provisions for excess and obsolescence. Cost is computed using standard cost, which approximates actual cost on a first-in, first-out basis and includes material, labor and manufacturing overhead costs. We estimate the effects of excess and obsolescence on the carrying values of our inventories based upon estimates of future demand and market conditions. We establish provisions for related inventories in excess of production demand. Should actual production demand differ from our estimates, additional inventory write-downs may be required. Any excess and obsolete provision is released only if and when the related inventories is sold or scrapped.

We periodically analyze any systems that are in finished goods inventory to determine if they are suitable for current customer requirements. At the present time, our policy is that, if after approximately 18 months, we determine that a sale will not take place within the next 12 months and the system would be useable for customer demonstrations or training, it is transferred to fixed assets. Otherwise, it is expensed.

The carrying value of systems used for demonstrations or training is determined by assessing the cost of the components that are suitable for sale. Any parts that may be rendered unsaleable as a result of such use are removed from the system and are not included in finished goods inventory. The remaining saleable parts are valued at the lower of cost or market, representing the system's net realizable value. The depreciation period for systems that are transferred to fixed assets is determined based on the age of the system and its remaining useful life (typically five to eight years).

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These indicators may include, but are not limited to, significant decreases in the market value of an asset and significant changes in the extent or manner in which an asset is used. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. No impairment charge has been recorded for the years ended 2007, 2006, and 2005, respectively.

Warranty Obligations

We provide for the estimated cost of our product warranties at the time revenue is recognized. Our warranty obligation is affected by product failure rates, material usage rates and the efficiency by which the product failure is corrected. The warranty reserve is based on historical cost data related to warranty. Should actual product failure rates, material usage rates and labor efficiencies differ from our estimates, revisions to the estimated warranty liability may be required.

Accounting for Restructure Expenses

There were no severance charges and no outstanding liability during fiscal year ended March 31, 2007.

During the fiscal year ended March 31, 2006, we recorded a severance charge of approximately $271 related to staff reductions of 17 employees, of which approximately $168 was classified as cost of sales, $81 as engineering, process and development and $22 sales, marketing and general and administrative expenses. We had an outstanding severance liability of approximately $15 as of March 31, 2006.

During the fiscal year ended March 31, 2005, we recorded a severance charge of approximately $129 related to staff reductions of 19 employees, of which approximately $19 was classified as cost of sales, $18 as research and development and $92 as sales, marketing and general and administrative expenses. We had an outstanding severance liability of approximately $63 as of March 31, 2005.

Deferred Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Based on the uncertainty of future taxable income, we have fully reserved our deferred tax assets as of March 31, 2007 and 2006. In the event we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such determination was made.

Accounting for Freight Charged to Customers

Spares and systems are typically shipped “freight collect,” therefore no shipping revenue or cost is associated with the sale. When freight is charged, it is booked to revenue and offset for the cost of that freight in the cost of revenue accounts pursuant to Financial Accounting Standard Board's ("FASB") EITF 00-10.

Results of Operations

The following table sets forth certain financial items for the years indicated:

	Year Ended March 31,		
	2007	2006	2005
		(In thousands)	
Revenue	$ 22,263	$ 21,757	$ 14,888
Cost of revenue	16,736	15,741	11,621
Gross profit	5,527	6,016	3,267
Operating expenses:			
Research and development expenses	4,646	4,753	5,772
Sales and marketing expenses	3,909	2,963	2,905
General and administrative expenses	10,347	7,139	6,459
In-process research and development	—	—	1,653
Total operating expenses	18,902	14,855	16,789
Operating loss	(13,375)	(8,839)	(13,522)
Interest income (expense), net	643	291	(2,064)
Other income (expense), net	(481)	(864)	223
Total other income (expense) net	162	(573)	(1,841)
Income taxes	—	532	—
Net loss	$ (13,213)	$ (8,880)	$ (15,363)

The following table sets forth certain financial data for the years indicated as a percentage of revenue:

	Year ended March 31,		
	2007	2006	2005
Revenue	100.0%	100.0%	100.0%
Cost of revenue	75.2	72.3	78.1
Gross profit	24.8	27.7	21.9
Operating expenses:			
Research and development expenses	20.9	21.8	38.8
Sales and marketing expenses	17.6	13.6	19.5
General and administrative expenses	46.5	32.8	43.3
In-process research and development	—	—	11.1
Total operating expenses	85.0	68.2	112.7
Operating loss	(60.2)	(40.5)	(90.8)
Interest income (expense), net	3.0	1.3	(13.9)
Other income (expense), net	(2.1)	(3.9)	1.5
Income taxes	—	2.3	—
Net loss	(59.3)%	(40.8)%	(103.2)%

Years Ended March 31, 2007, 2006 and 2005

Revenue

Our revenue is derived from sales of new and refurbished systems, spare parts and non-warranty service. Revenue increased 2.3% in fiscal 2007 from fiscal 2006 (to $22,263 from $21,757). The revenue increase was principally due to the product mix in the current year compared to the prior year. Revenue increased 46.1% in fiscal 2006 from fiscal 2005 (to $21,757 from $14,888). The revenue increase was principally due to the higher volume of critical etch systems as compared to the systems sold in the previous year. Spares and service sales were flat year to year.

International sales accounted for approximately 67%, 76% and 70% of total revenue in fiscal 2007, 2006 and 2005, respectively. We expect that international sales will continue to account for a significant portion of our revenue.

Gross Profit

Our gross profit as a percentage of revenue (gross margin) decreased to 24.8% in fiscal 2007 compared to 27.7% in fiscal 2006. The decrease in the gross margin in fiscal 2007 compared to 2006 was principally due to the write off of inventory for the 300mm PVD tool in the amount of $1.7 million.

Our gross profit as a percentage of revenue has been, and will continue to be, affected by a variety of factors, including the mix and average selling prices of systems sold and the costs to manufacture, service and support new product introductions and enhancements. Gross margins for our 6500 series systems are typically lower than those of our more mature 900 series systems due to the inefficiencies and lower vendor discounts associated with lower order volumes and increased service, installation and warranty support. However, gross profit improvement is one of our highest priorities. We believe that the results of our expense reduction efforts will begin to exhibit themselves in gross profit improvements, especially as we expect our sales volume to increase.

Research and Development

Research and development expenses consist primarily of salaries, prototype material and other costs associated with our research and development efforts. Research and development expenses decreased to $4,646 in fiscal 2007 from $4,753 in fiscal 2006. The decrease was due primarily to cuts in payroll and expenses within non-essential programs.

Research and development expenses decreased to $4,753 in fiscal 2006 from $5,772 in fiscal 2005. The decrease was due primarily to cuts in expenses with non-essential programs.

Sales and Marketing

Sales and marketing expenses primarily consist of salaries, commissions, trade show promotion and advertising expenses. Sales and marketing expenses increased to $3,909 in fiscal 2007 from $2,963 in fiscal 2006 due to payroll and other increased costs. Sales and marketing expenses remained flat in fiscal 2006 compared to fiscal 2005. As sales continue to increase, we anticipate an increase in sales and marketing expenses due to increased commission expense and travel related expenses.

General and Administrative

General and administrative expenses consist of salaries, legal, accounting and related administrative services and expenses associated with general management, finance, information systems, human resources and investor relation's activities. General and administrative cost increased to $10,347 in fiscal 2007 from $7,139 in fiscal 2006 primarily due to increased legal fees. General and administrative expenses increased $680 to $7,139 from fiscal 2005. The increase in spending in fiscal 2006 was primarily due to non cash and cash expenses in the amount of $1.5 million related to the Petaluma buyout provision of the current lease. In addition, there was a non cash expense related to the granting of restricted stock units to management.

In-Process Research & Development

The fair value underlying the $1,653 assigned to acquired in-process research and development ("IPR&D") in the FDSI acquisition was charged to our results of operations during the quarter ended June 30, 2004, and was determined by identifying research projects in areas for which technological feasibility had not been established and there was no alternative future use.

The IPR&D value of $1,653 was determined by an income approach where fair value is the present value of projected free cash flows that will be generated by the products incorporating the acquired technologies under development, assuming they are successfully completed. The estimated net free cash flows generated by the products over a seven-year period were discounted at a rate of 35% in relation to the stage of completion and the technical risks associated with achieving technological feasibility. The net cash flows for such projects were based on management's estimates of revenue, expenses and asset requirements. Any delays or failures in the completion of these projects could impact expected return on investment and future results of operations. In addition, our operating results would be adversely affected if the value of other intangible assets acquired became impaired.

Interest Income (Expense), net

Interest income (expense), net, consists principally of interest earned on money market funds offset by interest paid on capital leases. In fiscal year 2007, interest income (expense), net increased to $643 from $291 in fiscal 2006. In fiscal year 2006, interest income (expense) increased to $291 from ($2,064) in fiscal 2005. The expense in fiscal 2005 was due to interest on the convertible debentures.

Other Income (Expense), Net

Other income (expense), net, consists principally of gains and losses on foreign exchange, and retirement of fixed assets. We recorded net non-operating expense of ($481) in fiscal 2007. We recorded net non-operating expense of ($864) in fiscal 2006 and income of $223 in fiscal 2005.

In connection with the settlement of our litigation with Advanced Modular Sputtering (AMS), Agilent Technologies and the Avago Entities, we agreed to make a donation of at least $350 to the University of California at Santa Barbara. The donation will endow the Director of the California Nano Systems Institute, a position currently occupied by Professor Evelyn Hu. The position will be known as the Peter A. Clarke Professor and Director of the California Nano Systems Institute, in honor of Peter Clarke, the founder of Sputtered Films, Inc., which Tegal acquired in August 2002. At March 31, 2007, $350 has been expensed to other income (expense), net. This is expected to be paid in September 2007.

Income Taxes

Our effective tax rate was 0% in all three fiscal years. No tax benefit was recorded for the losses incurred in fiscal 2007, 2006 and 2005 due to uncertainty related to the realization of such benefits. All deferred tax assets have been fully reserved.

During fiscal 2006, the contingency reserve in the amount of $532 was reversed. This reserve was recorded in prior fiscal years for the possibility of an audit of our transfer pricing policy for sales in foreign countries. After review of this reserve, we believe the probability of such an audit is less than 70%, therefore, the reserve was reversed.

Liquidity and Capital Resources

Net cash provided by operations was $12,772 in fiscal 2007, due primarily to the lawsuit settlement amount of $19,500 partially offset by a net loss of $13,213 partially offset by non cash expense from depreciation and amortization, stock compensation expense, and a write-off of inventory provisions. Additionally, the net loss is increased by a net increase in accounts receivable, a net decrease in accounts payable offset by an increase in inventory, an increase in accrued liabilities, and an increase in deferred revenue.

As of March 31, 2007, we placed $19,500, representing the gross cash proceeds from the recent settlement of our litigation with AMS, Agilent, and Avago Technologies, into suspense. The two law firms representing SFI in this matter claim that they are entitled as a result of the settlement to receive contingent fees from us and our subsidiary, SFI. Keker & Van Nest LLP claims fees in the amount of $6,717; Gonzalez & Leigh LLP claims fees in the amount of $2,249. We have initiated proceedings with the Bar Association of San Francisco ("BASF"), pursuant to California statutes, to dispute the claims of both firms. KVN has filed suit against us and SFI in San Francisco Superior Court, the action is stayed pending completion of the BASF proceedings. G&L has not filed suit. We have identified legal and factual defenses to substantial elements of both claims and are vigorously contesting the claims. Since the amount in dispute cannot be determined with reasonable certainty until the dispute is resolved, we have elected to suspend the entire amount, in accordance with Statement of Financial Accounting Standards ("SFAS") 5, "Accounting for Contingencies."

Net capital expenditures totaled $691, $231 and $315 in fiscal 2007, 2006 and 2005, respectively. Capital expenditures in all three years were incurred principally for demonstration equipment, leasehold improvements and to acquire design tools, analytical equipment and computers.

Cash proceeds from financing activities totaled $18,425 for fiscal 2006 and were primarily from the sale of stock through the 2005 PIPE transaction and partially offset by repayment of the Japanese lines of credit and the domestic note payable. Cash proceeds from financing activities totaled $7,904 for fiscal 2005 and were primarily from the sale of stock and the exercise of common stock warrants by service providers and debenture holders partially offset by repayment of the domestic and Japanese lines of credit

On February 11, 2004, we signed a $25 million equity facility with Kingsbridge Capital, a firm that specializes in the financing of small to medium sized technology-based companies. The arrangement allowed us to sell shares of our common stock to Kingsbridge at its sole discretion over a 24-month period on a "when and if needed" basis. Kingsbridge was required under the terms of the arrangement to purchase Tegal's stock following the effectiveness of a registration statement. The price of the common shares issued under the agreement was based on a discount to the volume-weighted average market price during a specified drawdown period.

During fiscal 2005, we issued to Kingsbridge a total of 708,861 shares of our common stock. Gross proceeds from the sale of stock were $10,380. The discount to the volume-weighted average market price was $1,153 and charged against equity as stock issuance cost. In addition to $623 in cash payments, we issued warrants to purchase 1,977, 1,807, 2,007 and 1,295 shares of common stock at $17.40, $18.72, $23.04 and $16.20, respectively, to advisors, in connection with the sale of stock to Kingsbridge which were charged against equity as stock issuance costs. Pursuant to our agreement, broker fees of 6% in cash and 1% of stock in the form of warrants were paid upon each drawdown of the facility. Additionally, warrants issued at the time of the agreement were held in current assets. These warrants are being amortized on a prorated basis at the time of the drawdown and also charged against equity as stock issuance costs.

In connection with the Kingsbridge transaction, we issued fully vested warrants to Kingsbridge to purchase 25,000 shares our common stock at an exercise price of $49.32 per share. The fair value of such options, which amounted to approximately $756 was capitalized as a transaction cost and included in other assets. The following variables were used to determine the fair value of such instruments under the Black-Scholes option pricing model: volatility of 114%, term of five years, risk free interest of 3.91% and underlying stock price equal to fair market value at the time of grant.

On July 6, 2005, we entered into agreements with investors to raise up to $22,500 in a private placement to institutional investors through the sale of (i) an aggregate of 2,884,615 shares of common stock at a purchase price of $7.80 per share, and (ii) warrants to purchase an aggregate of 1,442,308 shares of our common stock, exercisable at $12.00 per share. The first tranche of approximately $4,095 of the private placement was completed on July 12, 2005, and the second tranche of approximately $15,951 was completed on September 19, 2005 following shareholder approval. One investor elected not to participate in the second tranche, so approximately $2,454 of the offering, comprising 314,615 shares and 157,307 warrants remain unsold. This transaction was effected in reliance on Rule 506 of Regulation D.

As of March 31, 2007, our Japanese subsidiary had $8 outstanding under its lines of credit which is collateralized by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable. The two credit lines have a total borrowing capacity of 150 million yen (approximately $1,271 at exchange rates prevailing on March 31, 2007), which are secured by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable. The two Japanese bank lines bear interest at Japanese prime (1.375% as of March 31, 2007) plus 0.875% and 1.5%, respectively.

Notes payable also consisted of capital lease obligations on fixed assets totaling $2 at March 31, 2007.

Our consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. We incurred net losses of $13,213, $8,880, and $15,363 for fiscal 2007, 2006, and 2005, respectively. We generated (used) cash flows from operations of $12,772, ($11,576), and ($7,519) for fiscal 2007, 2006, and 2005, respectively. To finance our operations, we raised approximately $18,410 in net proceeds from the sale of our common stock and warrants to institutional investors in fiscal 2006. We believe that these proceeds, combined with the effects of the consolidation of operations and continued cost containment, will be adequate to fund operations through fiscal year 2008. However, projected sales may not materialize and unforeseen costs may be incurred**.** If the projected sales do not materialize, we will need to reduce expenses further and raise additional capital through the issuance of debt or equity securities. If additional funds are raised through the issuance of preferred stock or debt, these securities could have rights, privileges or preferences senior to those of common stock, and debt covenants could impose restrictions on our operations. The sale of equity or debt could result in additional dilution to current stockholders, and such financing may not be available to us on acceptable terms, if at all.

The following summarizes our contractual obligations at March 31, 2007, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands).

Contractual obligations:	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Non-cancelable capital lease obligations	$ 2	$ 2	$ —	$ —	$ —
Non-cancelable operating lease obligations	1,252	642	556	34	20
Notes payable and bank lines of credit	8	8	—	—	—
Total contractual cash obligations	$ 1,262	$ 652	$ 556	$ 34	$ 20

Certain of our sales contracts include provisions under which customers would be indemnified by us in the event of, among other things, a third-party claim against the customer for intellectual property rights infringement related to our products. There are no limitations on the maximum potential future payments under these guarantees. We have accrued no amounts in relation to these provisions as no such claims have been made and we believe we have valid, enforceable rights to the intellectual property embedded in its products

Item 7A. ***Quantitative and Qualitative Disclosure about Market Risk***

Market Risk Disclosure

Foreign Exchange Risk

Our exposure to foreign currency fluctuations is primarily related to sales of our products in Europe, which are denominated in the Euro. Changes in the exchange rate between the Euro and the U.S. dollar could adversely affect our operating results. Exposure to foreign currency exchange rate risk may increase over time as our business evolves and our products continue to be sold into international markets. Currently, we do not hedge against any foreign currencies and, as a result, could incur unanticipated gains or losses. For the year ended March 31, 2007, fluctuations of the U.S. dollar in relation to the Euro were immaterial to our financial statements.

Interest Rate Risk

We have been exposed to interest rate risk through interest earned on holdings of available-for-sale marketable securities. Interest rates that may affect these items in the future will depend on market conditions and may differ from the rates we have experienced in the past. The fair value of our investment portfolio or related income would not be significantly impacted by changes in interest rates since we reduce the sensitivity of our results of operations to these risks by maintaining an investment portfolio, which is primarily comprised of highly rated, marketable securities. We do not hold or issue derivatives, commodity instruments or other financial instruments for trading purposes.

Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Tegal Corporation:

We have audited the accompanying consolidated balance sheet of Tegal Corporation and its subsidiaries as of March 31, 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule for the year ended March 31, 2007 listed in the Index at Item 15(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor have we been engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tegal Corporation as of March 31, 2007 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the information presented in the related financial statement schedule as of and for the year ended March 31, 2007, when considered in relation to the March 31, 2007 consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective April 1, 2006, the Company changed its method of accounting for stock-based compensation arrangements as a result of adopting Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* applying the modified prospective method.

/s/Burr, Pilger & Mayer LLP
San Francisco, California
June 27, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Tegal Corporation

We have audited the accompanying consolidated balance sheet of Tegal Corporation as of March 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended March 31, 2006 and 2005. We have also audited the information presented in Schedule II that is listed in the index and appearing under Item 15(a)(2), for the years ended March 31, 2006 and 2005. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tegal Corporation as of March 31, 2006, and the consolidated results of its operations and cash flows for the years ended March 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the information presented in Schedule II for the years ended March 31, 2006 and 2005, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Moss Adams LLP

Santa Rosa, California
June 9, 2006

TEGAL CORPORATION

CONSOLIDATED BALANCE SHEETS

March 31,	2007	2006
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,776	$ 13,787
Accounts receivable, net of allowances for sales returns and doubtful accounts of $413 and $205 at March 31, 2007 and 2006, respectively	6,634	5,265
Inventories, net	5,567	7,700
Prepaid expenses and other current assets	991	1,270
Total current assets	38,968	28,022
Property and equipment, net	1,351	1,849
Intangible assets, net	1,161	1,474
Other assets	176	146
Total assets	$ 41,656	$ 31,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and bank lines of credit	$ 10	$ 27
Accounts payable	1,974	2,458
Accrued product warranty	1,101	506
Deferred revenue	1,064	477
Litigation suspense	19,500	—
Accrued expenses and other current liabilities	3,590	1,975
Total current liabilities	27,239	5,443
Long-term portion of capital lease obligations	—	2
Other long term obligations	—	6
Total long term liabilities	—	8
Total liabilities	27,239	5,451
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock; $0.01 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock; $0.01 par value; 200,000,000 shares authorized; 7,106,867 and 7,021,088 shares issued and outstanding at March 31, 2007 and 2006, respectively	71	70
Additional paid-in capital	122,473	120,592
Accumulated other comprehensive income (loss)	240	532
Accumulated deficit	(108,367)	(95,154)
Total stockholders' equity	14,417	26,040
Total liabilities and stockholders' equity	$ 41,656	$ 31,491

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	2007	2006	2005
	(In thousands, except per share data)		
Revenue	$ 22,263	$ 21,757	$ 14,888
Cost of revenue	16,736	15,741	11,621
Gross profit	5,527	6,016	3,267
Operating expenses:			
Research and development expenses	4,646	4,753	5,772
Sales and marketing expenses	3,909	2,963	2,905
General and administrative expenses	10,347	7,139	6,459
In-process research and development	—	—	1,653
Total operating expenses	18,902	14,855	16,789
Operating loss	(13,375)	(8,839)	(13,522)
Interest income (expense), net	643	291	(2,064)
Other income (expense), net	(481)	(864)	223
Total other income (expense), net	162	(573)	(1,841)
Income taxes	—	532	—
Net loss	$ (13,213)	$ (8,880)	$ (15,363)
Net loss per share:			
Basic and diluted	$ (1.87)	$ (1.50)	$ (3.93)
Weighted average shares used in per share computations:			
Basic and diluted	7,065	5,903	3,907

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stock Holders' Equity	Comprehensive Loss
	Shares	Amount					
			(In thousands, except share and per share data)				
Balances at March 31, 2004	3,048,654	$ 30	$ 85,712	$ 124	$ (70,911)	$ 14,955	
Common stock issued under option and stock purchase plans	7,432	1	97	—	—	98	
Common stock issued for acquisition	117,553	1	2,341	—	—	2,342	
Warrants and options to purchase common stock issued for services rendered	—	—	339	—	—	339	
Debentures - value of Beneficial conversion feature	—	—	1,811	—	—	1,811	
Debentures - converted to shares	398,805	4	(4)	—	—	—	
Debentures - interest converted to shares	3,288	—		—	—	—	
Debentures - investor & advisor warrants exercised	118,893	1	351	—	—	352	
Private Institutional Offering December 2001 - warrants exercised	141	—	—	—	—	—	
Common stock issued to Kingsbridge Capital	708,861	7	8,993	—		9,000	
Net loss		—	—		(15,363)	(15,363)	$ (15,363)
Cumulative translation adjustment	—	—	—	(234)	—	(234)	(234)
Total comprehensive loss	—	—	—	—	—	—	$ (15,597)
Balances at March 31, 2005	4,403,627	44	99,640	(110)	(86,274)	13,300	
Common stock issued under option and stock purchase plans	9,498	—	96	—	—	96	
Common stock issued in PIPE	2,570,000	26	20,020	—	—	20,046	
Common stock issued for services rendered	14,697		103	—	—	103	
Warrants and options to purchase common stock issued for services rendered	—	—	953	—	—	953	
Restricted stock units - Granted/Vested	23,266	—	1,231	—	—	1,231	
Deferred Compensation	—	—	(224)	—	—	(224)	
Cost of Equity	—	—	(1,662)	—	—	(1,662)	
Valuation of Warrants in 2005 PIPE	—	—	435	—	—	435	
Net loss	—	—	—	—	(8,880)	(8,880)	$ (8,880)
Cumulative translation adjustment	—	—	—	642	—	642	642
Total comprehensive loss	—	—	—	—	—	—	$ (8,238)
Balances at March 31, 2006	7,021,088	70	120,592	532	(95,154)	26,040	
Common stock issued under option and stock purchase plans	2,664	—	10	—	—	10	
Warrants and options to purchase common stock issued for services rendered	—	—	69	—	—	69	
Repurchase of fractural shares	(219)						
Restricted stock units - distributed	83,334	1	138	—	—	139	
Stock compensation expense	—	—	1,664	—	—	1,664	
Net loss	—	—	—	—	(13,213)	(13,213)	$ (13,213)
Cumulative translation adjustment	—	—	—	(292)	—	(292)	(292)
Total comprehensive loss	—	—	—	—	—	—	$ (13,305)
Balances at March 31, 2007	7,106,867	$ 71	$ 122,473	$ 240	$ (108,367)	$ 14,417	

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:		**(In thousands)**	
Net loss	$ (13,213)	$ (8,880)	$ (15,363)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	840	1,193	1,452
Stock compensation expense	1,664	—	—
Stock issued under stock purchase plan	10	—	—
Stock distribution	139	—	—
In-process research and development	—	—	1,653
Provision for doubtful accounts and sales returns allowances	208	(338)	273
Loss on disposal of property and equipment	663	128	—
Non cash interest expense - accretion of debt discount and amortization of debt issuance costs	—	—	2,019
Fair value of warrants and options issued for services rendered	69	1,958	381
Non cash mark to market warrants	—	435	—
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(1,524)	(2,718)	2,402
Inventories	1,951	(1,764)	(1,315)
Prepaid expenses and other assets	239	(532)	24
Accounts payable	(508)	(1,112)	1,916
Accrued expenses and other current liabilities	1,582	(601)	(470)
Accrued product warranty	565	300	(173)
Litigation suspense	19,500	—	—
Deferred revenue	587	355	(318)
Net cash provided by (used in) operating activities	12,772	(11,576)	(7,519)
Cash flows from investing activities:			
Purchases of property and equipment	(691)	(231)	(315)
Net cash used in investing activities	(691)	(231)	(315)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	—	18,583	10,206
Borrowings under notes payable and bank lines of credit	(14)	—	1,303
Repayments of notes payable and bank lines of credit	—	(134)	(3,594)
Payments on capital lease financing	(2)	(24)	(11)
Net cash provided by (used in) financing activities	(16)	18,425	7,904
Effect of exchange rates on cash and cash equivalents	(76)	76	(26)
Net increase in cash and cash equivalents	11,989	6,694	44
Cash and cash equivalents at beginning of year	13,787	7,093	7,049
Cash and cash equivalents at end of year	$ 25,776	$ 13,787	$ 7,093
Supplemental disclosures of cash paid during the year for:			
Interest	$ 6	$ 10	$ 27
Supplemental disclosure of non-cash investing and financing activities			
Transfer of demo lab equipment between inventory and fixed assets	$ 314	$ 725	$ —

Supplemental Schedule of Non Cash Investing Activities (amounts in thousands, except shares):

On May 28, 2004, Tegal purchased substantially all of the assets and assumed certain liabilities of First Derivative Systems, Inc. ("FDSI"), a development stage company, for 1,410,632 shares of common stockvalued at $2,342, $150 in debt forgiveness, approximately $50 in assumed liabilities, and $158 in acquisition costs, pursuant to a purchase agreement dated April 28, 2004. The following table representstheallocation of the purchase price for FDSI. In estimating the fair value of assets acquired and liabilities assumed management considered various factors, including an independent appraisal.

Fair value fixed assets acquired	$	111
Non compete agreements		203
Patents		733
In-process research and development		1,653
Debt forgiveness		(150)
Assumed liabilities		(50)
	$	2,500

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except per share data and share data, unless otherwise noted)

Note 1. ***Description of Business and Summary of Significant Accounting Policies***

Description of Business

Tegal Corporation, a Delaware corporation ("Tegal" or the "Company"), designs, manufactures, markets and services plasma etch and deposition systems that enable the production of integrated circuits ("ICs"), memory and related microelectronics devices used in personal computers, wireless voice and data telecommunications, contact-less transaction devices, radio frequency identification devices ("RFIDs"), smart cards, data storage and micro-level actuators. Etching and deposition constitute two of the principal IC and related device production process steps and each must be performed numerous times in the production of such devices.

The Company was formed in December 1989 to acquire the operations of the former Tegal Corporation, a division of Motorola, Inc. The predecessor company was founded in 1972 and acquired by Motorola, Inc. in 1978. Tegal completed it's initial public offering in October 1995.

On August 30, 2002, the Company acquired all of the outstanding common stock of Sputtered Films, Incorporated ("SFI"), a privately held California corporation. SFI is a leader in the design, manufacture and service of high performance physical vapor deposition sputtering systems for the semiconductor and semiconductor packaging industry. SFI was founded in 1967 with the development of its core technology, the S-Gun.

On November 11, 2003, the Company acquired substantially all of the assets and certain liabilities of Simplus Systems Corporation, ("Simplus"), a development stage company. Simplus had developed a deposition cluster tool and certain patented processes for barrier, copper seed and high-K dielectric applications. Simplus had coined the term "nano-layer deposition" or "NLD" to describe its unique approach to molecular organic chemical vapor deposition ("MOCVD"). The Company is continuing to develop these NLD processes and related tools, and are in the process of marketing them to a limited number of key customers and joint development partners.

On May 28, 2004, the Company purchased substantially all of the assets and assumed certain liabilities of First Derivative Systems, Inc. ("FDSI"). FDSI, a privately held development stage company, was founded in 1999 as a spin-off of SFI. FDSI had developed a high-throughput, low cost-of-ownership physical vapor deposition ("PVD") system with highly differentiated technology for leading edge memory and logic device production on 200 and 300 millimeter wafers.

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Intercompany transactions and balances are eliminated in consolidation. Accounts denominated in foreign currencies are translated using the foreign currencies as the functional currencies. Assets and liabilities of foreign operations are translated to U.S. dollars at current rates of exchange and revenues and expenses are translated using weighted average rates. The effects of translating the financial statements of foreign subsidiaries into U.S. dollars are reported as accumulated other comprehensive income, a separate component of stockholders' equity. Gains and losses from foreign currency transactions are included in the statements of operations as a component of other income (expense), net.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could vary from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments having a maturity of three months or less on the date of purchase to be cash equivalents.

At March 31, 2007 and 2006 all of the Company's investments are classified as cash equivalents in the consolidated balance sheets. The investment portfolio at March 31, 2007 and 2006 is comprised of money market funds. At March 31, 2007 and 2006, the fair value of the Company's investments approximated cost.

Financial Instruments

The carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, bank lines of credit, notes payable, accrued expenses and other liabilities approximates fair value due to their relatively short maturity. The Company has foreign subsidiaries, which operate and sell the Company's products in various global markets. As a result, the Company is exposed to changes in foreign currency exchange rates. The Company does not hold derivative financial instruments for speculative purposes. Foreign currency gains and losses included in other income (expense), net were not significant for the years ended March 31, 2007, 2006, and 2005.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of temporary cash investments and accounts receivable. Substantially all of the Company's temporary investments are invested in money market funds. The Company's accounts receivable are derived primarily from sales to customers located in the U.S., Europe and Asia. The Company performs ongoing credit evaluations of its customers and generally requires no collateral. The Company maintains reserves for potential credit losses. Write-offs during the periods presented have been insignificant. As of March 31, 2007, three customers accounted for approximately 86.3% of the accounts receivable balance. As of March 31, 2006, one customer accounted for approximately 63.4% of the accounts receivable balance.

Inventories

Inventories are stated at the lower of cost or market, reduced by provisions for excess and obsolescence. Cost is computed using standard cost, which approximates actual cost on a first-in, first-out basis and includes material, labor and manufacturing overhead costs. The Company estimates the effects of excess and obsolescence on the carrying values of our inventories based upon estimates of future demand and market conditions. The Company establishes a provision for inventories in excess of production demand. Should actual production demand differ from the Company's estimates, additional inventory provision may be required. The excess and obsolete provision is only released if and when the related inventory is sold or scrapped. The inventory provision balance at March 31, 2007 and 2006 was $3,908 and $7,136, respectively. The inventory provision write down for the years ended March 31, 2007 and 2006 was ($3,227) and ($1,146), respectively.

The Company periodically analyze any systems that are in finished goods inventory to determine if they are suitable for current customer requirements. At the present time, the company's policy is that, if after approximately 18 months, it determines that a sale will not take place within the next 12 months and the system would be useable for customer demonstrations or training, it is transferred to fixed assets. Otherwise, it is expensed.

The carrying value of systems used for demonstrations or training is determined by assessing the cost of the components that are suitable for sale. Any parts that may be rendered unsaleable as a result of such use are removed from the system and are not included in finished goods inventory. The remaining saleable parts are valued at the lower of cost or market, representing the system's net realizable value. The depreciation period for systems that are transferred to fixed assets is determined based on the age of the system and its remaining useful life (typically five to eight years).

Warranty Costs

The Company provides warranty on all system sales based on the estimated cost of product warranties at the time revenue is recognized. The warranty obligation is effected by product failure rates, material usage rates, and the efficiency by which the product failure is corrected. Should actual product failure rates, material usage rates and labor efficiencies differ from estimates, revisions to the estimated warranty liability may be required (see Note 2 to accompanying notes to the consolidated financial statements).

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are stated at cost and are amortized using the straight-line method over the shorter of the estimated useful life of the improvements or the lease term. Significant additions and improvements are capitalized, while repairs and maintenance are charged to expense as incurred. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in the results of operations. The Company generally depreciates its assets over the following periods:

	Years
Furniture and machinery and equipment	7
Computer and software	3 - 5
Leasehold improvements	5 or remaining lease life

Identified Intangible Assets

Acquisition-related intangibles include non-compete agreements, patents, unpatented technology, and trade name that are amortized on a straight-line basis over periods ranging from 5 years to 15 years. Also included in acquisition-related intangibles is workforce-in-place related to acquisitions that did not qualify as business combinations. The Company performs an ongoing review of its identified intangible assets to determine if facts and circumstances exist that indicate the useful life is shorter than originally estimated or the carrying amount may not be recoverable. If such facts and circumstances exist, the Company assesses the recoverability of identified intangible assets by comparing the projected undiscounted net cash flow associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. No impairment charge has been recorded for the years ended 2007, 2006, and 2005, respectively.

Accounts Receivable - Allowance for Sales Returns and Doubtful Accounts

The Company maintains an allowance for doubtful accounts receivable for estimated losses resulting from the inability of the Company's customers to make required payments. If the financial condition of the Company's customers were to deteriorate, or even a single customer was otherwise unable to make payments, additional allowances may be required.

The Company's return policy is for spare parts and components only. A right of return does not exist for systems. Customers are allowed to return spare parts if they are defective upon receipt. The potential returns are offset against gross revenue on a monthly basis. Management reviews outstanding requests for returns on a quarterly basis to determine that the reserves are adequate.

Revenue Recognition

Each sale of our equipment is evaluated on an individual basis in regard to revenue recognition. The Company has integrated in its evaluation the related interpretative guidance included in Topic 13 of the codification of staff accounting bulletins, and recognize the role of the EITF consensus on Issue 00-21. The Company first refers to EITF 00-21 in order to determine if there is more than one unit of accounting and then the Company refers to SAB104 for revenue recognition topics for the unit of accounting. The Company recognizes revenue when persuasive evidence of an arrangement exists, the seller's price is fixed or determinable and collectibility is reasonably assured.

For products produced according to our published specifications, where no installation is required or installation is deemed perfunctory and no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally upon shipment. Installation is not deemed to be essential to the functionality of the equipment since installation does not involve significant changes to the features or capabilities of the equipment or the building of complex interfaces and connections. In addition, the equipment could be installed by the customer or other vendors and generally the cost of installation approximates only 1% of the sales value of the related equipment.

For products produced according to a particular customer's specifications, revenue is recognized when the product has been tested and it has been demonstrated that it meets the customer's specifications and title passes to the customer. The amount of revenue recorded is reduced by the amount (generally 10%), which is not payable by the customer until installation is completed and final customer acceptance is achieved.

For new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting customer specifications at the customer site, 100% of revenue is recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passes to the customer upon shipment and 90% of the contract amount becomes payable at that time, inventory is relieved and accounts receivable is recorded for the entire contract amount. The revenue on these transactions is deferred and recorded as deferred revenue. As of March 31, 2007 and 2006, deferred revenue as related to systems was $1,039 and $455, respectively. We reserve for warranty costs at the time the related revenue is recognized.

Revenue related to sales of spare parts is recognized upon shipment. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts. Unearned maintenance and service revenue is included in deferred revenue. At March 31, 2007 and 2006, respectively, $25 and $22 of deferred revenue was related to service contracts.

Accounting for Freight Charged to Customers

Spares and systems are typically shipped "freight collect," therefore no shipping revenue or cost is associated with the sale. When freight is charged, it is booked to revenue and offset for the cost of that freight in the cost of revenue accounts pursuant to FASB's Emerging Issues Task Force ("EITF") 00-10.

Income Taxes

Deferred income taxes are recognized for the differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding plus any potentially dilutive securities, except when the effect of including such changes is antidilutive.

Stock-Based Compensation

The Company has adopted several stock plans that provide equity instruments to the Company's employees and non-employee directors. The Company's plans include incentive and non-statutory stock options and restricted stock awards. Stock options and restricted stock awards generally vest ratably over a four-year period on the anniversary date of the grant, and expire ten years after the grant date. On occasion restricted stock awards may vest on the achievement of specific performance targets. The Company also has employee stock purchase plans that allow qualified employees to purchase Company shares at 85% of the fair market value on specified dates. The difference between the purchase value and the market value is expensed as compensation.

Prior to April 1, 2006 the Company accounted for these stock-based employee compensation plans under the measurement and recognition provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" or APB 25, and related interpretations, as permitted by SFAS No. 123, "Accounting for Stock Based Compensation," or SFAS 123. With the exception of grants of restricted stock awards, the Company generally recorded no stock-based compensation expense during periods prior to April 1, 2006 as all stock-based grants had exercise prices equal to the fair market value of the Company's common stock on the date of grant. The Company also recorded no compensation expense in connection with the Company's employee stock purchase plans as they qualified as non-compensatory plans following the guidance provided by APB 25.

Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004) "Accounting for Stock Based Compensation" (SFAS 123R) using the modified prospective transition method. Under that transition method, the Company recognized compensation expense of $1,664 for the fiscal year 2007, which included: (a) compensation expense for all share-based payments granted prior to but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payments granted or modified on or after April 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Compensation expense is recognized only for those awards that are expected to vest, whereas prior to the adoption of SFAS 123R, the Company recognized forfeitures as they occurred. In addition, the Company elected the straight-line attribution method as our accounting policy for recognizing stock-based compensation expense for all awards that are granted on or after April 1, 2006. Results in prior periods have not been restated.

The total compensation expense related to non-vested awards not yet recognized is $3,256. The weighted average period for which it is expected to be recognized is 2 years.

The following assumptions are included in the estimated grant date fair value calculations for the Company's stock option awards and Employee Qualified Stock Purchase Plan ("Employee Stock Purchase Plan"):

	2007	2006	2005
Expected life (years):			
Stock options	4.0	4.0	4.0
Employee stock purchase plan	0.5	0.5	0.5
Volatility:			
Stock options	96%	63%	90%
Employee stock purchase plan	96%	63%	90%
Risk-free interest rate	4.5%	4.61%	2.84%
Dividend yield	0%	0%	0%

Had the Company recorded compensation costs based on the estimated grant date fair value (as defined by SFAS 123) for awards granted under its stock option plans and Employee Plan, the Company's net loss and loss per share would have been increased to the proforma amounts below for the years ended March 31, 2006 and 2005:

	2006	2005
Net loss as reported	$ (8,880)	$ (15,363)
Proforma compensation expense at fair value	$ (1,770)	$ (1,244)
Proforma net loss	$ (10,650)	$ (16,607)
Net loss per share as reported - basic and diluted	$ (1.50)	$ (3.93)
Proforma net loss per share:		
Basic and diluted	$ (1.80)	$ (4.32)

Comprehensive Loss

Comprehensive loss is defined as the change in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. The primary difference between net loss and comprehensive loss for the Company is attributable to foreign currency translation adjustments. Comprehensive loss is shown in the statement of stockholders' equity.

Note 2. ***Balance Sheet and Statement of Operations Detail***

Inventories, net consisted of:

	March 31, 2007	March 31, 2006
Raw materials	$ 1,315	$ 1,692
Work in process	2,928	4,173
Finished goods and spares	1,324	1,835
	$ 5,567	$ 7,700

The inventory provision at March 31, 2007 and 2006 was $3,908 and $7,136, respectively.

Property and equipment, net, consisted of:

	March 31, 2007	March 31, 2006
Machinery and equipment	$ 2,605	$ 3,481
Demo lab equipment	1,295	2,028
Computer and software	1,152	1,623
Leasehold improvements	3,198	3,528
	8,250	10,660
Less accumulated depreciation and amortization	(6,899)	(8,811)
	$ 1,351	$ 1,849

Machinery and equipment at March 31, 2007 and 2006, includes approximately $43 and $56, respectively, of assets under leases that have been capitalized. Accumulated amortization for such equipment approximated $42 and $42, respectively. Depreciation expense for years ended March 31, 2007, 2006, and 2005 were $526, $871, and $1,123, respectively.

A summary of accrued expenses and other current liabilities follows:

	March 31,	
	2007	2006
Accrued compensation costs	$ 1,089	$ 1,261
Income taxes payable	27	13
Customer deposits	1,063	2
Sales tax payable	302	79
Other	1,109	620
	$ 3,590	$ 1,975

Product warranty and guarantees:

The Company provides warranty on all system sales based on the estimated cost of product warranties at the time revenue is recognized. The warranty obligation is affected by product failure rates, material usage rates, and the efficiency by which the product failure is corrected. Warranty activity for the years ended March 31, 2007 and 2006 is as follows:

	Year ended March 31,	
	2007	2006
Balance at the beginning of the period	$ 506	$ 252
Additional warranty accruals for warranties issued during the year	1,140	496
Settlements made during the year	(545)	(242)
Balance at the end of the year	$ 1,101	$ 506

Certain of the Company's sales contracts include provisions under which customers would be indemnified by the Company in the event of, among other things, a third-party claim against the customer for intellectual property rights infringement related to the Company's products. There are no limitations on the maximum potential future payments under these guarantees. The Company has accrued no amounts in relation to these provisions as no such claims have been made and the Company believes it has valid, enforceable rights to the intellectual property embedded in its products.

Note 3. ***Earnings Per Share***

SFAS No. 128, "Earnings Per Share," requires dual presentation of basic and diluted net loss per share on the face of the statement of operations. Basic EPS is computed by dividing loss available to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) for the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period. The computation of diluted EPS uses the average market prices during the period. All amounts in the following table are in thousands except per share data.

Basic net loss per common share is computed using the weighted-average number of shares of common stock outstanding.

The following table represents the calculation of basic and diluted net loss per common share (in thousands, except per share data):

	Year Ended March 31,		
	2007	2006	2005
Net loss applicable to common stockholders	$ (13,213)	$ (8,880)	$ (15,363)
Basic and diluted:			
Weighted-average common shares outstanding	7,065	5,903	3,907
Less weighted-average common shares subject to repurchase	—	—	—
Weighted-average common shares used in computing basic and diluted net loss per common share	7,065	5,903	3,907
Basic and diluted net loss per common share	$ (1.87)	$ (1.50)	$ (3.93)

Outstanding options, warrants and restricted stock equivalent of 2,537,429; 2,410,772; and 997,017 shares of common stock at a weighted-average exercise price of $11.36, $13.92, and $25.80, per share on March 31, 2007, 2006 and 2005 respectively, were not included in the computation of diluted net loss per common share for the periods presented as a result of their anti-dilutive effect. Such securities could potentially dilute earnings per share in future periods.

Note 4. ***Notes Payable and Bank Lines of Credit***

As of March 31, 2007, the Company's Japanese subsidiary had $8 used on lines of credit which are collateralized by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable. The two credit lines have a total borrowing capacity 150 million yen (approximately $1,271 at exchange rates prevailing on March 31, 2007), which are secured by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable. The two Japanese bank lines bear interest at Japanese prime 1.375% as of March 31, 2007, plus 0.875% and 1.5%, respectively.

Notes payable at March 31, 2007, consisted of capital lease obligations of $2 excluding the interest portion.

Note 5. ***Income Taxes***

Components of income (loss) before income taxes are as follows:

Year ended March 31,	**2007**	**2006**	**2005**
Domestic	$ (15,261)	$ (6,884)	$ (14,478)
Foreign	2,048	(2,528)	(885)
	$ (13,213)	$ (9,412)	$ (15,363)

Components of the provision for income taxes are as follows:

Year ended March 31	**2007**	**2006**	**2005**
Current:			
U.S. Federal	$ —	$ —	$ —
State & Local	—	—	—
Foreign (credit)	—	(532)	—
$ —		$ (532)	$ —
Deferred			
U.S. Federal	—	—	—
State & Local	—	—	—
Foreign (credit)	—	—	—
	—	—	—
Total	$ —	$ (532)	$ —

The income tax provision differs from the amount computed by applying the statutory U.S. federal income tax rate as follows:

Year ended March 31,	**2007**	**2006**	**2005**
Income tax provision at U.S. Statutory Rate	$ (4,493)	$ (3,200)	$ (4,651)
State taxes net of federal benefit	(534)	(295)	(303)
Foreign differential	(696)	860	301
Current year tax credits	(48)	(441)	—
Transfer price reserve no longer required	—	(532)	—
Change in valuation allowance	5,681	2,080	4,739
Change in deferred state tax rate	—	600	—
Other	90	396	(86)
Income tax expense/(income)	$ —	$ (532)	$ —

Components of deferred taxes are as follows:

Year ended March 31,	**2007**	**2006**	**2005**
Revenue recognition for tax and deferred for book	$ —	$ 57	$ 45
Non-deductible accruals and reserves	3,194	3,459	4,322
Net operating loss carryforward	32,656	26,997	24,356
Credits	3,597	3,549	3,004
Uniform cap adjustment	721	457	566
Other	140	108	254
Total	40,308	34,627	32,547
Valuation allowance	(40,308)	(34,627)	(32,547)
Net deferred tax asset	$ —	$ —	$ —

We have recorded no net deferred tax assets for the years ended March 31, 2007 and 2006, respectively. The Company has provided a valuation allowance of $40.3 million and $34.6 million at March 31, 2007 and 2006, respectively. The valuation allowance fully reserves all net operating loss carryforwards, credits and non-deductible accruals and reserves, for which realization of future benefit is uncertain. The realization of net operating losses may be limited due to change of ownership rules. The valuation allowance increased by $5.7 million and $2.1 million during the years ended March 31, 2007 and 2006, respectively.

At March 31, 2007, the Company has net operating loss carryforwards of approximately $88.8 million and $42.3 million for federal and state tax purposes, respectively, which will begin to expire in the year ended March 31, 2008.

At March 31, 2007, the Company also has research and experimentation credit carryforwards of $2.6 million and $1.4 million for federal and state income tax purposes, respectively, which will begin to expire in the year ended March 31, 2010.

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carry-forwards in certain situations where changes occur in the stock ownership of a corporation during a certain time period. In the event the company had incurred a change in ownership, utilization of the carry-forwards could be significantly restricted.

Note 6. ***Accounting for Restructure Expense***

During the fiscal year ended March 31, 2007, there were no severance charges and no outstanding liability.

During the fiscal year ended March 31, 2006, we recorded a severance charge of approximately $271 related to staff reductions of 17 employees, of which approximately $168 was classified as cost of sales, $81 as engineering, process and development and $22 sales, marketing and general and administrative expenses. We had an outstanding severance liability of approximately $15 as of March 31, 2006.

During the fiscal year ended March 31, 2005, we recorded a severance charge of approximately $129 related to staff reductions of 19 employees, of which approximately $19 was classified as cost of sales, $18 as research and development and $92 as sales, marketing and general and administrative expenses. We had an outstanding severance liability of approximately $63 as of March 31, 2005.

Note 7. ***Commitments and Contingencies***

The Company has several non-cancelable operating leases and capital leases, primarily for general office, production and warehouse facilities, that expire over the next five years. Future minimum lease payments under these leases are as follows:

Year Ending March 31, 2007	Capital Leases	Operating Leases
	As of March 31, 2007	
2008	$ 5	$ 642
2009	—	344
2010	—	212
2011	—	34
2012	—	20
Thereafter	—	—
Total minimum lease payments	$ 5	$ 1,252
Less amount representing interest	3	
Present value of minimum lease payments	2	
Less current portion	2	
Long term capital lease obligation	—	

Most leases provide for the Company to pay real estate taxes and other maintenance expenses. Rent expense for operating leases, net of sublease income, was $1,636, $2,671, and $1,426, during the years ended March 31, 2007, 2006, and 2005, respectively.

The Company maintains our headquarters, encompassing our executive office, manufacturing, engineering and research and development operations, in one leased 39,414 square foot facility in Petaluma, California. We have office space in a leased 13,300 square foot facility in San Jose, California.

Sputtered Films, Inc. v. Advanced Modular Sputtering, et al., filed in Santa Barbara County Superior Court.

On December 22, 2003, Sputtered Films, Inc. ("SFI"), a wholly owned subsidiary of the Company, filed an action against two former employees, Sergey Mishin and Rose Stuart-Curran, and a company they formed after leaving their employment with SFI named Advanced Modular Sputtering, Inc. ("AMS"). Sergey Mishin and Rose Stuart-Curran had each signed confidentiality and non-disclosure agreements regarding information obtained while employed by SFI. The action contains causes of action for specific performance, breach of contract, breach of the covenant of good faith and fair dealing, misappropriation of trade secrets, unfair competition, unfair business practices, interference with prospective economic advantage, conversion, unjust enrichment, and declaratory relief. These claims arise out of information SFI received evidencing that AMS possessed and used SFI's confidential, proprietary and trade secret drawings, specifications and technology to manufacture the sputtering tool marketed by AMS.

During 2004 and 2005, this litigation was largely stalled while AMS and Agilent Technologies, Inc. contested SFI's right to conduct discovery. This dispute was resolved in late 2005 when the California Court of Appeal affirmed SFI's trade secret identification as statutorily sufficient. On November 18, 2005, SFI requested leave to add Agilent Technologies, Inc. ("Agilent") as a defendant based on evidence that Agilent and AMS co-developed the machines which SFI contends were built using SFI proprietary information. The Court granted SFI's request and Agilent was served as a Doe defendant on December 12, 2005. In early December, SFI learned that Agilent transferred its Semiconductor Products Group to a number of Avago entities effective December 1, 2005, and accordingly SFI sought and received court approval to add Avago Technologies U.S., Inc. and Avago Technologies Wireless (U.S.A.) Manufacturing, Inc (collectively the "Avago Entities") as defendant in this action. On April 25, 2006, the Avago Entities filed a Cross-Complaint against SFI and Tegal Corporation alleging causes of action for breach of contract, trade secret misappropriation, unfair competition, conversion, unjust enrichment and declaratory relief. The Cross-Complaint alleges on information and belief that SFI misused information obtained from Hewlett-Packard in connection with Hewlett-Packard's request to purchase SFI machines or to upgrade SFI machines Hewlett-Packard already owned.

On November 13, 2006, following commencement of the trial, all the parties in the litigation agreed on terms of a settlement, which was filed with the court. The settlement also calls for the transfer of assets related to PVD technology from AMS to SFI and the dissolution of AMS as of March 1, 2007. The Avago Cross-Complaint was also dismissed as part of the settlement. A final confidential settlement and release of claims was executed among the parties on December 21, 2006.

The two law firms representing SFI in this matter claim they are entitled as a result of the settlement to receive contingent fees from the Company and SFI. Keker & Van Nest LLP (“KVN”) claims fees in the amount of $6,717; Gonzalez & Leigh LLP (“G&L”) claims fees in the amount of $2,249. The Company has initiated proceedings with the Bar Association of San Francisco (“BASF”), pursuant to California statutes, to dispute the claims of both firms. KVN has filed suit against the Company and SFI in San Francisco Superior Court, the action is stayed pending completion of the BASF proceedings. G&L has not filed suit. The Company has identified legal and factual defenses to substantial elements of both claims and is vigorously contesting the claims.

As a result of the dispute described above, as of March 31, 2007, the Company placed $19,500, representing the gross cash proceeds from the recent settlement of this litigation into suspense. Since the amount in dispute cannot be determined with reasonable certainty until the dispute is resolved, the Company has elected to suspend the entire amount, in accordance with *SFAS 5, "Accounting for Contingencies."*

Note 8. 2% *Convertible Debentures*

On June 30, 2003, the Company signed definitive agreements with investors to raise up to $7,165 in a private placement of convertible debt financing to be completed in two tranches. The first tranche closed on June 30, 2003 and the second tranche closed on September 9, 2003. The transaction was a sale of convertible debentures with warrants attached, that accrued interest at the rate of 2% payable in-kind. In addition, the Company paid a fee to certain financial advisors, both in cash and in warrants.

On both closing dates of the transaction, the market price of the Company's common stock exceeded the conversion price of the debentures as well as the strike price of the warrants, giving rise to a "beneficial conversion" feature of the transaction which was accounted for under the provisions of EITF 00-27, *Application of Issue 98-5 to Certain Convertible Instruments.* A beneficial feature also existed in connection with the conversion of the interest on the debentures into shares of common stock.

As of June 30, 2004, debenture holders had converted all the debentures in the principal amount of $7,165 into 1,705,952 shares of the Company's common stock. Of the 295,203 shares that were registered for payment of interest in-kind, 12,255 shares had been issued for such interest payments, and the interest obligation to the debenture holders had been satisfied in full.

The debenture holders had also exercised warrants to purchase 186,652 shares (plus 14,058 warrants remitted as payments for stock under a cash-less exercise provision of the warrant agreement) of the Company's common stock. As of March 31, 2007, there remained unexercised warrants held by the debenture holders for 126,245 shares of the Company's common stock. The relative fair value of the warrants has been classified as equity with the beneficial conversion feature because it meets all the equity classification criteria of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.*

Also in connection with this transaction, the Company was required to pay a cash fee of up to 6.65% of the gross proceeds of the debentures to certain financial advisors, who were also granted warrants to purchase additional shares of the Company's common stock. During fiscal years ended on both March 31, 2006 and March 31, 2007, no financial advisors exercised their warrants, leaving advisor warrants for 16,344 shares unexercised at the end of the year.

The value of the beneficial conversion feature, warrants and debt issuance costs were amortized as interest expense over the life of the debt using the effective interest method. Related interest expense for fiscal 2005 amounted to $2,019. This amount is comprised of nominal interest, amortization of beneficial conversion feature and amortization of debt issuance costs.

During fiscal 2005, the principal and interest amount of the debentures converted was $1,688, which converted into 402,093 shares of the Company's common stock. All debt issuance costs were fully amortized at March 31, 2005.

Note 9. *Acquisition and Intangible Assets*

<u>*First Derivative Systems, Inc:*</u>

On May 28, 2004, Tegal purchased substantially all of the assets and assumed certain liabilities of First Derivative Systems, Inc. ("FDSI"), a development stage company, for 117,552 shares of common stock valued at $2,342, $150 in debt forgiveness, approximately $50 in assumed liabilities, and $158 in acquisition costs,. All of the shares of common stock were registered with the Securities and Exchange Commission through the filing of a S-3 in October 2004. In addition, the Company entered into employment agreements with key FDSI personnel. FDSI, a development stage company, had developed a high-throughput, low cost-of-ownership physical vapor deposition ("PVD") system with highly differentiated technology for leading edge memory and logic device production on 200 and 300 millimeter wafers. This transaction was accounted for as a purchase of assets in accordance with EITF Issue No. 98-3, "*Determining whether a nonmonetary transaction involves receipt of productive assets or of a business*."

The following table represents the allocation of the purchase price for FDSI. The purchase price of this acquisition has been allocated to the acquired assets and assumed liabilities on the basis of their fair values as of the date of the acquisition. In estimating the fair value of the assets acquired and liabilities assumed, management considered various factors, including an independent appraisal.

Fair value of fixed assets acquired	$	111
Non compete agreements		203
Patents		733
In-process research and development ("IPR&D")		1,653
Debt forgiveness		(150)
Assumed liabilities		(50)
	$	2,500

The assets will be amortized over a period of years shown on the following table:

Fixed assets acquired	3 to 5 years
Non compete agreements	3 years
Patents	15 years

The fair value underlying the $1,653 assigned to acquired IPR&D in the FDSI acquisition was charged to the Company's results of operations during the quarter ended June 30, 2004, and was determined by identifying research projects in areas for which technological feasibility had not been established and there was no alternative future use. Projects in the IPR&D category were primarily certain design change improvements, software integration and hardware modifications, which are estimated to cost approximately $1 - $2 million.

The IPR&D value of $1,653 was determined by an income approach where fair value is the present value of projected free cash flows that will be generated by the products incorporating the acquired technologies under development, assuming they are successfully completed. The estimated net free cash flows generated by the products over a seven-year period were discounted at a rate of 35% in relation to the stage of completion and the technical risks associated with achieving technological feasibility. The net cash flows for such projects were based on management's estimates of revenue, expenses and asset requirements. Any delays or failures in the completion of these projects could impact expected return on investment and future results of operations. In addition, the Company's operating results would be adversely affected if the value of other intangible assets acquired became impaired.

All of these projects have completion risks related to functionality, architecture, performance, process technology, continued availability of key technical personnel, product reliability and software integration. To the extent that estimated completion dates are not met, the risk of competitors' product introductions is greater and revenue opportunity may be permanently lost.

Intangibles:

As of March 31, 2007, intangible assets, net consisted of the following:

		Gross		Accumulated Amortization		Net
Technology	$	782	$	(448)	$	334
Trade name		253		(145)		108
Non compete agreements		254		(242)		12
Patents		1,072		(365)		707
Total	$	2,361	$	(1,200)	$	1,161

As of March 31, 2006, intangible assets, net consisted of the following:

		Gross		Accumulated Amortization		Net
Technology	$	782	$	(350)	$	432
Trade name		253		(114)		139
Workforce		254		(175)		79
Patents		1,072		(248)		824
Total	$	2,361	$	(887)	$	1,474

The estimated future amortization expense of intangible assets as of March 31, 2007 is as follows:

2008	$	257
2009		223
2010		178
2011		103
2012		49
Thereafter		351
	$	1,161

Note 10. ***Sale of Common Stock and Warrants***

Effective July 6, 2005, the Company entered into a Purchase Agreement with certain accredited investors pursuant to which it sold to them an aggregate of 2,570,000 shares of our common stock at a purchase price of $7.80 per share and warrants to purchase an aggregate of 1,285,000 shares of our common stock at an exercise price of $12.00 per share. All of these securities were sold in a private placement pursuant to Regulation D of the Securities Act of 1933, as amended, solely to accredited investors, as defined in Rule 501 of the Act. This financing transaction is referred to herein as the "2005 PIPE".

In the initial closing of the 2005 PIPE on July 12, 2005, the Company sold 525,000 shares at a purchase price of $7.80 per share and five-year warrants to purchase an aggregate of 262,500 shares of common stock at an exercise price of $12.00 per share to the investors at an aggregate purchase price of $4,095. In connection with the 2005 PIPE, the Company granted to the investors registration rights. The effective date of the Form S-3 registration statement registering the shares issued in the initial closing was August 25, 2005.

In the second closing of the 2005 PIPE on September 19, 2005, the Company sold 2,045,000 shares at a purchase price of $7.80 per share and five-year warrants to purchase an aggregate of 1,022,500 shares of common stock at an exercise price of $12.00 per share to the investors at an aggregate purchase price of $15,951. The effective date of the Form S-3 registration statement registering the shares issued in the second closing was October 24, 2005.

In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In a Company's Own Stock," the fair value of the warrants in the second closing of the 2005 PIPE on the date of grant was estimated to be $6,621 using the Black-Scholes option-pricing model with the following assumptions: no dividends; risk-free interest rate of 3.5%, the contractual life of 5 years and volatility of 115%. The warrants' fair value was reported as a contingent liability at the time of grant, with a corresponding charge to common stock. At September 30, 2005, the fair value of the warrants was estimated to be $6,295 using the Black-Scholes option pricing model with the same assumptions. At March 31, 2006, the impact of this transaction was $435 recorded as other income (expense) and there is no longer a contingent liability.

The Company paid a placement fee of $1,453 (equal to 7% of the Company's gross proceeds for both transactions) to Dahlman Rose & Company LLC, the Company's financial advisor for the 2005 PIPE.

On September 13, 2005 the Company issued 41,666 warrants at $8.28 as consideration for an amendment to the current lease of the Company's headquarters to reduce the termination fee. The value of the warrants of $655 was based on the fair value of the termination penalty reduction offset by the exercise price of the warrant and recorded as rent expense.

During fiscal year 2006, the Company entered into a contract with certain consultants of the Company pursuant to which the Company will issue warrants on a monthly basis in lieu of cash payments for two years, dependant upon the continuation of the contract and the achievement of certain performance goals. These warrants are valued and expensed on a monthly basis upon issuance. During the fiscal year March 31, 2006, the Company issued warrants to purchase 40,267 shares of the Company's common stock to service providers for services rendered. During the fiscal year ended March 31, 2006, the warrants were valued at $253 using the Black-Scholes model with an exercise price at the market value on the day of the grant and an average interest rate of 3.99% and 3.11% respectively. The life of the warrants is five and seven years with the volatility of 115% and 118%, respectively.

During fiscal year 2007, the Company issued 9,996 warrants valued at $69 using the Black Scholes model with an exercise price at the market value on the day of the grant and an average interest rate of 4.51% and a 5 year life.

On February 11, 2004, the Company signed a $25 million equity facility with Kingsbridge Capital, a firm that specializes in the financing of small to medium sized technology-based companies. The arrangement allowed the Company to sell shares of its common stock to Kingsbridge at its sole discretion over a 24-month period on a "when and if needed" basis. Kingsbridge Capital was required under the terms of the arrangement to purchase Tegal's stock following the effectiveness of a registration statement. The price of the common shares issued under the agreement was based on a discount to the volume-weighted average market price during a specified drawdown period. The Company had no obligation to draw down all or any portion of the commitment.

In connection with the agreement, the Company issued fully vested warrants to Kingsbridge Capital to purchase 25,000 shares of the Company's common stock at an exercise price of $49.32 per share. The fair value of such options, which amounted to approximately $756 was capitalized as a transaction cost. The following variables were used to determine the fair value of such instruments under the Black-Scholes option pricing model: volatility of 114%, term of five years, risk free interest of 3.91% and underlying stock price equal to fair market value at the time of grant. All warrants in connection to this transaction were outstanding at March 31,2007.

During the fiscal year end March 31, 2005, the Company issued to Kingsbridge Capital, Ltd. a total of 708,861 shares of its common stock. Gross proceeds from the sale of stock were $10,380. The discount to the volume-weighted average market price was $1,153 that was charged against equity as stock issuance cost. In addition to $623 in cash payments, the Company issued warrants to purchase 1,977, 1,807, 2,007 and 1,295 shares of common stock at $17.40, $18.72, $23.04 and $16.20 respectively, to advisors, in connection with the sale of stock to Kingsbridge which were charged against equity as stock issuance costs. Pursuant to our agreement, broker fees of 6% in cash and 1% of stock in the form of warrants were paid upon each drawdown of the facility. Additionally, warrants issued at the time of the agreement were held in current assets and have been fully amortized as of March 31, 2005 and charged against equity as stock issuance costs. The Company does not anticipate any further sales of shares to Kingsbridge.

The selling price of the stock was negotiated as a function of market price based on a specific formula. The discount was accounted for as a cost of capital and netted against additional paid-in capital. Since the transaction was related to the sale of our own common stock, it was excluded from the determination of net income.

At March 31, 2007 there were 1,527,784 warrants outstanding.

Note 11. ***Employee Benefit Plans***

Equity Incentive Plan

Pursuant to the Amended and Restated Equity Incentive Plan (“Equity Incentive Plan”), options and stock purchase rights to purchase 291,666 shares of common stock could be granted to management and consultants. The exercise price of options and the purchase price of stock purchase rights generally has been the fair value of the Company’s common stock on the date of grant. At the date of issuance of the stock options, all options are exercisable; however the Company has the right to repurchase any stock acquired pursuant to the exercise of stock options upon termination of employment or consulting agreement at the original exercise price for up to four years from the date the options were granted, with the repurchase rights ratably expiring over that period of time. Incentive stock options are exercisable for up to ten years from the grant date of the option. Nonqualified stock options are exercisable for up to 15 years from the grant date of the option. The Equity Incentive Plan expired in December 1999. As of March 31, 2007, 1,041 shares were available for issuance under the Equity Incentive Plan as of March 31, 2007.

1990 Stock Option Plan

Pursuant to the terms of the Company’s 1990 Stock Option Plan (“1990 Option Plan”), options and stock purchase rights to purchase 45,833 shares of common stock could be granted to employees of the Company or its affiliates. Incentive stock options are exercisable for a period of up to ten years from the date of grant of the option and nonqualified stock options are exercisable for a period of up to ten years and two days from the date of grant of the option. At the date of issuance of the stock options, all options are exercisable; however, the Company has the right to repurchase any stock acquired pursuant to the exercise of stock options upon termination of employment at the original exercise price for up to four years from the date the options were granted, with the repurchase rights ratably expiring over that period of time. The 1990 Option Plan expired on March 10, 2000. As of March 2007, 4,490 shares were available for issuance under the 1990 Option Plan as of March 31, 2007.

1998 Equity Participation Plan

Pursuant to the terms of the Company’s Amended 1998 Equity Participation Plan (“Equity Plan”), which was authorized as a successor plan to the Company’s Equity Incentive Plan and 1990 Option Plan, 1,666,666 shares of common stock may be granted upon the exercise of options and stock appreciation rights or upon the vesting of restricted stock awards. The exercise price of options generally will be the fair value of the Company’s common stock on the date of grant. Options are generally subject to vesting at the discretion of the Compensation Committee of the Board of Directors (the “Committee”). At the discretion of the Committee, vesting may be accelerated when the fair market value of the Company’s stock equals a certain price established by the Committee on the date of grant. Incentive stock options will be exercisable for up to ten years from the grant date of the option. Non-qualified stock options will be exercisable for a maximum term to be set by the Committee upon grant. As of March 31, 2007, 1,490,401 shares were available for issuance under the Equity Plan.

Directors Stock Option Plan

Pursuant to the terms of the Stock Option Plan for Outside Directors, as amended, ("Directors Plan"), up to 333,333 shares of common stock may be granted to outside directors. Under the Directors Plan, each outside director who was elected or appointed to the Board on or after September 15, 1998 shall be granted an option to purchase 8,333 shares of common stock and on each second anniversary after the applicable election or appointment shall receive an additional option to purchase 4,166 shares, provided that such outside director continues to serve as an outside director on that date. For each outside director, $1/12^{th}$ of the total number of shares will vest on the first day of each calendar month following the date of Option grant, contingent upon continued service as a director. Vesting may be accelerated, at the discretion of the Board, when the fair market value of the Company's stock equals a certain price set by the Board on the date of grant of the option. The Directors Plan allows for additional grants at the discretion of the Compensation Committee. As of March 31, 2007, 330,417 shares were available for issuance under the Directors Plan.

Employee Qualified Stock Purchase Plan

The Company has offered an Employee Qualified Stock Purchase Plan ("Employee Plan") under which rights are granted to purchase shares of common stock at 85% of the lesser of the market value of such shares at the beginning of a six month offering period or at the end of that six month period. The difference between the market price of the stock and the purchase price is expensed as compensation. Under the Employee Plan, the Company is authorized to issue up to 83,333 shares of common stock. 2,664 common stock shares were purchased in fiscal 2007 and 2,779 common stock shares were purchased in fiscal 2006. Shares available for future purchase under the Employee Plan were 40,071 at March 31, 2007.

Savings and Investment Plan

The Company has established a defined contribution plan that covers substantially all U.S. employees. Employee contributions of up to 4% of each U.S. employee's compensation will be matched by the Company based upon a percentage to be determined annually by the Board. Employees may contribute up to 15% of their compensation, not to exceed a prescribed maximum amount. The Company made contributions to the plan of $13, $13, and $15 in the years ended March 31, 2007, 2006, and 2005, respectively.

Note 12. Stock Based Compensation

A summary of stock option and warrant activity during the year ended March 31, 2007 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in yrs.)	Aggregate Intrinsic Value
Beginning outstanding	2,001,337	$ 13.70		
Granted				
Price = market value	414,563	$ 4.62		
Total	414,563	$ 4.62		
Exercised	—	$ 0.00		
Cancelled				
Forfeited	(74,109)	$ 5.00		
Expired	(290,045)	$ 19.45		
Total	(364,154)	$ 16.51		
Ending outstanding	2,051,746	$ 11.36	4.75	$ 23
Ending vested and expected to vest	1,994,135	$ 11.55	4.75	$ 20
Ending exercisable	1,750,421	$ 12.48	3.98	$ 10

The aggregate intrinsic value of options and warrants outstanding at March 31, 2007 is calculated as the difference between the exercise price of the underlying options and the market price of our common stock as of March 31, 2007.

The weighted average estimated grant date fair value, as defined by SFAS No.123, for stock option awards granted during fiscal 2007, 2006 and 2005 was $3.20, $4.92, and $10.20 per option, respectively.

The following table summarizes information with respect to stock options and warrants outstanding as of March 31, 2007

Range of Exercise Prices		Number Outstanding As of March 31, 2007	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable As of March 31, 2007	Weighted Average Exercise Price As of March 31, 2007
$4.20	$4.20	16,344	1.44	$4.20	16,344	$4.20
4.60	4.60	304,653	9.43	4.60	45,000	4.60
4.68	7.08	223,943	5.49	6.15	186,026	6.16
7.20	8.28	75,412	7.67	8.19	75,412	8.19
12.00	12.00	1,284,990	3.43	12.00	1,284,990	12.00
12.36	73.50	137,662	4.46	26.11	133,907	26.46
92.26	92.26	416	2.94	92.26	416	92.26
92.52	92.52	4,165	2.88	92.52	4,165	92.52
99.00	99.00	2,498	2.99	99.00	2,498	99.00
105.00	105.00	1,663	1.73	105.00	1,663	105.00
$4.20	$105.00	2,051,746	4.75	$11.37	1,750,421	$12.48

The weighted average estimated grant date fair values per share, for rights granted under the employee stock purchase plan during fiscal 2007, 2006 and 2005 were $3.82, $4.80, and $9.84 respectively.

Restricted Stock Units

The following table summarizes the Company’s restricted stock award activity for the period ended March 31, 2007:

	Number of Shares	Weighted Avg. Grant Date Fair Value
Balance March 31, 2006	106,248	$ 9.68
Granted	694,752	$ 5.09
Vested	—	—
Forfeited	(231,985)	—
Released	(83,332)	$ 9.96
Balance, March 31, 2007	485,683	$ 4.73

Unvested restricted stock at March 31, 2007

As of March 31, 2007 there was $3,256 of total unrecognized compensation cost related to restricted stock which is expected to be recognized over a weighted average period of 2 years.

Unvested stock options at March 31, 2007

As of March 31, 2007 there was $1,360 of total unrecognized compensation cost related to stock options which is expected to be recognized in the over the next 4 years.

Note 13. ***Geographical Information***

Tegal operates in one segment for the manufacture, marketing and servicing of integrated circuit fabrication equipment. In accordance with SFAS No. 131 ("SFAS 131") "Disclosures About Segments of an Enterprise and Related Information," Tegal's chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. All material operating units qualify for aggregation under SFAS 131 due to their identical customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since Tegal operates in one segment and in one group of similar products and services, all financial segment and product line information required by SFAS 131 can be found in the consolidated financial statements.

For geographical reporting, revenues are attributed to the geographic location in which the customers' facilities are located. Long-lived assets consist of property, plant and equipment and intangible assets, and are attributed to the geographic location in which they are located. Net sales and long-lived assets by geographic region were as follows:

Revenues:	Years Ended March 31,		
Sales to customers located in:	**2007**	**2006**	**2005**
United States	$ 7,398	$ 5,142	$ 4,445
Asia, excluding Japan	7,008	5,624	1,372
Japan	2,042	2,312	6,312
Germany	3,115	2,313	397
Italy	1,474	386	498
Europe, excluding Germany and Italy	1,226	5,980	1,864
Total sales	$ 22,263	$ 21,757	$ 14,888

	March 31,	
	2007	**2006**
Long-lived assets at year-end:		
United States	$ 2,502	$ 3,296
Europe	10	16
Japan	0	8
Asia, excluding Japan	0	3
Total long-lived assets	$ 2,512	$ 3,323

The Company's sales are primarily to domestic and international semiconductor manufacturers. The composition of the Company's top five customers has changed from year to year, but net system sales to its top five customers in each of fiscal 2007, 2006, and 2005 accounted for 77.8%, 68.9%, and 80.0%, respectively, of total net system sales. ST Microelectronics and International Rectifier accounted for 43.1% and 13.4% respectively, of our total revenue in fiscal 2007. ST Microelectronics accounted for 54.3% of the Company's total revenue in fiscal 2006. Fujitsu, Western Digital, and RF Micro Devices accounted for 38.2%, 12.8% and 10.1% respectively, of the Company's net system sales in 2005. Other than the previously listed customers, no single customer represented more than 10% of the Company's total revenue in fiscal 2007, 2006, and 2005.

Note 14. ***Recent Accounting Pronouncements***

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 155 *"Accounting for Certain Hybrid Financial Instruments"* - an amendment of FASB Statements No. 133 and 140 ("SFAS 155"). SFAS 155 will be effective for the Company beginning in the first quarter of fiscal 2008. SFAS 155 permits interests in hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation, to be accounted for as a single financial instrument at fair value, with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. The Company is assessing the impact of the adoption of SFAS 155.

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue No. 06-3, *"How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)"*. The scope of EITF Issue No. 06-3 includes any transaction-based tax assessed by a governmental authority that is imposed concurrent with or subsequent to a revenue-producing transaction between a seller and a customer. The scope does not include taxes that are based on gross receipts or total revenues imposed during the inventory procurement process. Gross versus net income statement classification of that tax is an accounting policy decision and a voluntary change would be considered a change in accounting policy requiring the application of SFAS No. 154, *"Accounting Changes and Error Corrections."* The following disclosures will be required for taxes within the scope of this issue that are significant in amount: (1) the accounting policy elected for these taxes and (2) the amounts of the taxes reflected gross (as revenue) in the income statement on an interim and annual basis for all periods presented. The EITF Issue No. 06-3 ratified consensus is effective for interim and annual periods beginning after December 15, 2006. The Company does not expect the adoption of EITF Issue No. 06-3 to have a material impact on the Company's Condensed Consolidated Financial Statements.

In June 2006, the FASB issued FASB Interpretation No. 48 *"Accounting For Uncertainty in Income Taxes."* An interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No.109 *"Accounting for Income Taxes."* It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 to its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS 157 are to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007; therefore, the Company anticipates adopting SFAS 157 as of April 1, 2008. The Company is assessing the impact of the adoption of SFAS 157.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), *"Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements."* SAB 108 is effective for fiscal years ending on or after November 15, 2006 and addresses how financial statement errors should be considered from a materiality perspective and corrected. The literature provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Historically, there have been two approaches commonly used to quantify such errors: (i) the "rollover" approach, which quantifies the error as the amount by which the current year income statement is misstated, and (ii) the "iron curtain" approach, which quantifies the error as the cumulative amount by which the current year balance sheet is misstated. The SEC Staff believes that companies should quantify errors using both approaches and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 was effective for us as of March 31, 2007. The adoption of SAB 108 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In November 2006, the FASB ratified EITF Issue No. 06-6, *Application of EITF Issue No. 05-7, 'Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues*' ("EITF 06-6"). EITF 06-6 addresses the modification of a convertible debt instrument that changes the fair value of an embedded conversion option and the subsequent recognition of interest expense for the associated debt instrument when the modification does not result in a debt extinguishment pursuant to EITF 96-19. We do not expect the adoption of EITF 06-6 to have a material impact on our consolidated financial position, results of operations or cash flows.

In November 2006, the FASB ratified EITF Issue No. 06-7, *Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities* ("EITF 06-7"). At the time of issuance, an embedded conversion option in a convertible debt instrument may be required to be bifurcated from the debt instrument and accounted for separately by the issuer as a derivative under FAS 133, based on the application of EITF 00-19. Subsequent to the issuance of the convertible debt, facts may change and cause the embedded conversion option to no longer meet the conditions for separate accounting as a derivative instrument, such as when the bifurcated instrument meets the conditions of Issue 00-19 to be classified in stockholders' equity. Under EITF 06-7, when an embedded conversion option previously accounted for as a derivative under FAS 133 no longer meets the bifurcation criteria under that standard, an issuer shall disclose a description of the principal changes causing the embedded conversion option to no longer require bifurcation under FAS 133 and the amount of the liability for the conversion option reclassified to stockholders' equity. EITF 06-7 should be applied to all previously bifurcated conversion options in convertible debt instruments that no longer meet the bifurcation criteria in FAS 133 in interim or annual periods beginning after December 15, 2006, regardless of whether the debt instrument was entered into prior or subsequent to the effective date of EITF 06-7. Earlier application of EITF 06-7 is permitted in periods for which financial statements have not yet been issued. We do not expect the adoption of EITF 06-7 to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2006, the FASB issued FSP EITF 00-19-2, *Accounting for Registration Payment Arrangements* ("FSP 00-19-2") which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, *Accounting for Contingencies.* FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Liabilities*" ("SFAS 159"). SFAS 159 provides entities with the option to report selected financial assets and liabilities at fair value. Business entities adopting SFAS 159 will report unrealized gains and losses in earnings at each subsequent reporting date on items for which fair value option has been elected. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 requires additional information that will help investors and other financial statement users to understand the effect of an entity's choice to use fair value on its earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. We are currently assessing the impact that the adoption of SFAS 159 may have on our consolidated financial position, results of operations or cash flows.

Quarterly Results of Operations (Unaudited)

The following table sets forth our unaudited selected financial data for each of the eight quarterly periods in the two-year period, ended March 31, 2007:

	Three Months Ended							
	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005
	(In thousands, except per share data)							
Quarterly Financial Data:								
Revenue	$ 6,197	$ 4,377	$ 5,113	$ 6,576	$ 6,053	$ 6,246	$ 6,406	$ 3,052
Gross profit	1,955	(1,326)	2,400	2,498	1,217	1,681	2,443	675
Net loss	(2,005)	(6,125)	(3,281)	(1,802)	(1,788)	(1,904)	(2,681)	(2,507)
Net loss per share*								
Basic and diluted	(0.28)	(0.86)	(0.47)	(0.26)	(0.26)	(0.27)	(0.51)	(0.57)

• Net loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share may not equal the annual net loss per share.

• The number of shares outstanding reflects a 1-for-12 reverse stock split effected by the Registrant on July 25, 2006.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

On August 19, 2006, the Company changed independent registered public accounting firms from Moss Adams LLP to Burr, Pilger & Mayer LLP. During the period from July 9, 2004 through August 18, 2006 when Moss Adams served as the Company's independent registered public accounting firm, there were no reportable events, as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

Item 9A. ***Controls and Procedures***

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting. As required by Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

Limitations of the effectiveness of internal control. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Notwithstanding these limitations, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are, in fact, effective at the "reasonable assurance" level.

Item 9B. ***Other Information***

None.

PART III

Certain information required by Part III is omitted from this Report in that we will file a definitive proxy statement pursuant to Regulation 14A (the “Proxy Statement”) no later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference. Such incorporation does not include the Compensation Committee Report or the Audit Committee Report included in the Proxy Statement.

Item 10. ***Directors and Executive Officers of the Registrant***

The information concerning our directors and executive officers required by this Item is incorporated by reference to our Proxy Statement under the caption “Election of Directors” and “Executive Officers of the Registrant”.

The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference to the Company’s Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance.”

The additional information required by this Item is incorporated by reference to our Proxy Statement.

Item 11. ***Executive Compensation***

The information required by this Item is incorporated by reference to our Proxy Statement under the caption “Executive Compensation.”

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information required by this Item is incorporated by reference to our Proxy Statement under the captions “Principal Stockholders” and “Ownership of Stock by Management.”

Item 13. ***Certain Relationships and Related Transactions***

The information required by this Item is incorporated by reference to our Proxy Statement under the caption “Certain Transactions.”

Item 14. ***Principal Accountant Fees and Services***

The information required by this Item is incorporated by reference to our Proxy Statement under the caption “Independent Registered Public Accounting Firm”.

PART IV

Item 15. ***Exhibits, Financial Statement Schedule***

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements

The Company's Financial Statements and notes thereto appear in this Form 10-K according to the following Index of Consolidated Financial Statements:

	Page
Reports of Independent Registered Public Accounting Firms	24
Consolidated Balance Sheets as of March 31, 2007 and 2006	26
Consolidated Statements of Operations for the years ended March 31, 2007, 2006 and 2005	27
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2007, 2006 and 2005	28
Consolidated Statements of Cash Flows for the years ended March 31, 2007, 2006 and 2005	29
Notes to Consolidated Financial Statements	31

(2) Financial Statement Schedule

	Page
Schedule II — Valuation and Qualifying Accounts	50

Schedules other than those listed above have been omitted since they are either not required, not applicable, or the required information is shown in the consolidated financial statements or related notes.

(b) Exhibits

The following exhibits are referenced or included in this report:

Exhibit Number	Description
3.1	Certificate of Incorporation of the Registrant, as amended
3.2	Restated By-laws of Registrant (incorporated by reference to Exhibit 3.2 included in Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 2006)
10.1	Form of Unit Purchase Agreement dated December 31, 2001 (incorporated by reference to Exhibit (i) to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 13, 2002)
10.2	Form of Warrant (incorporated by reference to Exhibit (ii) to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 13, 2002)
10.3	Form of Unit Subscription Agreement dated June 30, 2003 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003)
10.4	Form of Warrant dated June 30, 2003 (incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003)
10.5	Form of Security Agreement between the Registrant and Orin Hirschmann dated June 30, 2003 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003)
**10.6	Fifth Amended and Restated Stock Option Plan for Outside Directors (incorporated by reference to the Registrant's Quarterly Report on 10-Q, for the quarter ended June 30, 2006, filed with the Securities and Exchange Commission on August 14, 2006
**10.7	Eighth Amended and Restated 1998 Equity Participation Plan of Tegal Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission on August 14, 2006.
**10.8	Second Amended and Restated Employee Qualified Stock Purchase Plan (incorporated by reference to Appendix C to the Registrant's revised definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on July 29, 2004)
**10.9	1990 Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-84702) declared effective by the Securities and Exchange Commission on October 18, 1995)
**10.10	Form of Non-Qualified Stock Option Agreement for Employees from the Seventh Amended and Restated 1998 Equity Participation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2004)
**10.11	Form of Restricted Stock Unit Aware Agreement from the Eighth Amended and Restated 1998 Equity Participation (incorporated by reference to Exhibit 10.5.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005)
**10.12	Employment Agreement between the Registrant and Thomas Mika dated as of August 12, 2002 (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2003 filed with the Securities and Exchange Commission on June 27, 2003)
**10.13	Employment Agreement between the Registrant and Steve Selbrede dated as of May 3, 2004 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2005 filed with the Securities and Exchange Commission on June 29, 2005)
10.14	Stock Purchase agreement between Tegal and the investor parties there to (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005)
10.15	Form of Warrant Agreement between Tegal and the investor parties there to (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.16	Lease, dated December 21, 2005, by and between BRE/PCCP Orchard LLC, as Landlord, and Tegal Corporation, as Tenant (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the Securities and Exchange Commission on February 10, 2006).
10.17	Sublease Agreement, dated December 30, 2005, by and between Silicon Genesis Corporation, as Sublandlord, and Tegal Corporation, as Subtenant (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the Securities and Exchange Commission on February 10, 2006).
**10.18	Restricted Stock Unit Award Agreement between Tegal Corporation and Brad Mattson, dated July 5, 2005 (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on July 11, 2005).
**10.19	Letter Agreement, dated July 5, 2005, between Tegal Corporation and Brad Mattson (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
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10.23†	Exclusive Distributor Agreement, dated as of October 1, 2006, between Tegal Corporation and Noah Corporation.
16.1	Letter of Moss Adams LLP to the Securities and Exchange Commission dated August 25, 2006 (incorporated by reference to Exhibit 16.1 to the Registrant's Current Report on Form 8-K

	filed with the Securities and Exchange Commission on August 28, 2006).
21.1	List of Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm - Burr, Pilger & Mayer LLP.
23.2	Consent of Independent Registered Public Accounting Firm - Moss Adams LLP.
24.1	Power of Attorney (included on signature page hereto).
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

† Registrant has requested confidential treatment pursuant to Exchange Act Rule 24b-2 for portions of this exhibit.

** Management contract for compensatory plan or arrangement.

TEGAL CORPORATION

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
Years Ended March 31, 2005, 2006, 2007

Description	Balance At Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance At End of Year
Year ended March 31, 2005:					
Allowances for doubtful accounts	(210)	(335)	—	3	(542)
Sales returns and allowances	(59)	69	—	—	10
Cash discounts	(1)	(6)	—	6	(1)
Year ended March 31, 2006:					
Allowances for doubtful accounts	(542)	(18)	—	381	(179)
Sales returns and allowances	(10)	(15)	—	—	(25)
Cash discounts	1	(3)	—	—	(2)
Year ended March 31, 2007:					
Allowances for doubtful accounts	(179)	(134)	—	33	(280)
Sales returns and allowances	(25)	(102)	—	—	(127)
Cash discounts	(2)	(7)	—	1	(6)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Tegal Corporation

By: ____/s/_____THOMAS R. MIKA_________
Thomas R. Mika
President, Chief Executive Officer and Chairman of the Board

Dated: June 29, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS R. MIKA Thomas R. Mika	President, CEO, and Chairman of the Board (Principal Executive Officer)	June 29, 2007
/s/ CHRISTINE T. HERGENROTHER* Christine T. Hergenrother	Chief Financial Officer (Principal Financial and Accounting Officer)	June 29, 2007
/s/ EDWARD A. DOHRING* Edward A. Dohring	Director	June 29, 2007
/s/ JEFFREY M. KRAUSS* Jeffrey M. Krauss	Director	June 29, 2007
/s/ DUANE WADSWORTH* Duane Wadsworth	Director	June 29, 2007
*By: /s/ THOMAS R. MIKA Thomas R. Mika Attorney-in-fact		

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32.1	Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

† Registrant has requested confidential treatment pursuant to Exchange Act Rule 24b-2 for portions of this exhibit.

** Management contract for compensatory plan or arrangement.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in Registration Statements on Form S-8 (Nos. 333-128953, 333-12473, 333-66781, 333-88373, 333-51294, 333-110650, and 333-119272), Form S-2 (No. 333-83840), and Form S-3 (Nos. 333-127494, 333-128943, 333-38086, 333-94093, 333-52265, 333-107422, 333-108921, 333-113045, 333-116980, and 333-118641) of Tegal Corporation of our report dated June 27, 2007 relating to the audit of the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2007 which appears in this 10-K.

/s/ Burr Pilger & Mayer LLP

San Francisco, California
June 27, 2007

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Tegal Corporation's Registration Statement on Form S-8 (Nos. 333-128953, 333-12473, 333-66781, 333-88373, 333-51294, 333-110650, and 333-119272), Form S-2 (No. 333-83840), and Form S-3 (Nos. 333-127494, 333-128943, 333-38086, 333-94093, 333-52265, 333-107422, 333-108921, 333-113045, 333-116980, and 333-118641) of our report on the audit of the consolidated financial statements of Tegal Corporation as of March 31, 2006, and for the years ended March 31, 2006 and 2005. Our report, which is dated June 9, 2006, appears in Tegal Corporation's Annual Report on Form 10-K for the year ended March 31, 2007.

/s/ Moss Adams LLP

Santa Rosa, California
June 26, 2007

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas R. Mika, certify that:

1. I have reviewed this annual report on Form 10-K of Tegal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-14(e)) for the registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 29, 2007

/s/ _____ Thomas R. Mika_____
Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christine Hergenrother, certify that:

1. I have reviewed this annual report on Form 10-K of Tegal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-14(e)) for the registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 29, 2007

/s/ ______Christine Hergenrother _____

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the amended Annual Report of Tegal Corporation, a Delaware corporation (the "Company"), on Form 10-K for the year ending March 31, 2006 as filed with the Securities and Exchange Commission (the "Report"), I, Thomas R. Mika, President and Chief Executive Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Thomas R. Mika
Chief Executive Officer and President
June 29, 2007

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the amended Annual Report of Tegal Corporation, a Delaware corporation (the "Company"), on Form 10-K for the year ending March 31, 2006 as filed with the Securities and Exchange Commission (the "Report"), I, Christine Hergenrother, Chief Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Christine Hergenrother
Chief Financial Officer
June 29, 2007

10.23

EXCLUSIVE DISTRIBUTOR AGREEMENT

This Exclusive Distributor Agreement (“Agreement”), made and effective this **October 1, 2006**, by and between **Tegal Corporation and its subsidiaries** (“Tegal”) located at **2201 S. McDowell Blvd. Petaluma, CA USA** and **Noah Corporation** (“Noah”) located at **4th Floor, 1-19-19 Ebisu, Shibuya, Tokyo, 150-0013 Japan.**

WHEREAS, Tegal desires to appoint Noah, and Noah desires to accept appointment, as Tegal’s exclusive distributor of certain Tegal products in Japan.

NOW, THEREFORE, in consideration of the mutual agreements and promises set forth herein, the parties agree as follows:

1. **Appointment.**

1.1 Appointment. Subject to the terms and conditions of this Agreement, Tegal hereby appoints Noah as its exclusive distributor of the Products (defined below) solely in the country of Japan (the “Territory”). Noah shall purchase Products from Tegal, inventory such Products, promote, distribute, sell and provide warranty and technical support for the Products it sells to its customers in the Territory (“Customers”). Noah agrees that it shall not market, promote, distribute, sell or provide services for the Products outside of the Territory and Tegal agrees that it shall not market, promote, distribute, sell or provide services for the Products within the Territory except through Noah pursuant to this Agreement. Noah shall promptly submit to Tegal, for Tegal’s attention and handling, the originals of all inquiries received by Noah from potential customers outside the Territory.

1.2 Acceptance. Noah accepts the foregoing appointment and agrees, at all times, to use its best efforts to market, promote, distribute and maximize the sales of the Products in the Territory only and to fully perform all of its obligations under this Agreement in accordance with all applicable laws, decrees, regulations and other legal requirements.

2. **Products.**

2.1 Products Defined. As used in this Agreement, the term “Products” shall mean the Systems Products, Spare Parts, related service parts and accessories manufactured and/or sold by Tegal listed in **Exhibit A** attached hereto. Tegal may update Exhibit A from time to time in its sole discretion upon notice to Noah.

2.2 **Commencement Dates.** Except for those specific Systems Products opportunities listed in **Exhibit B** attached hereto, all Systems Product sales in the Territory shall be made by Noah no earlier than October 1, 2006. Noah may not begin the sale of Spare Parts to its Customers until January 1, 2007.

*Confidential treatment has been requested for portions of this exhibit by Tegal Corporation. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as *****. A complete version of the exhibit has been filed seperately with the Securities and Exchange Commission*

2.3 Product Discontinuance. Tegal will provide Noah with at least six (6) months prior written notice of any intention to discontinue production of any Product. During such six (6) month period, Noah shall have the right to make a one time buy of such Product. Noah shall have the right to schedule shipment of such one time buy prior to the end of the notice period. The one time buy amount shall be no more than fifty percent (50%) over the forecasted amount for such period.

3. Process and Terms of Sale and Supply.

3.1 Cooperation. Noah and Tegal shall cooperate and work together to develop relationships within the Territory with Noah Customers and prospective customers.

3.2 Forecasts. Noah will provide Tegal, on a calendar quarter basis, written, rolling, non-binding, 12 month forecasts for the quantities of Products it anticipates purchasing.

3.3 Purchase Orders and Product Supply. Noah shall submit to Tegal written purchase orders for the Products. All purchase orders shall reference this Agreement and shall be consistent with established Tegal Product lead times and the terms and conditions of this Agreement. All orders by Noah are subject to acceptance by Tegal, and Tegal will provide an acknowledgement of its acceptance or rejection of each order within five (5) business days of receipt of Noah's purchase orders. Tegal will use reasonable efforts to deliver Products at the times specified in its acceptance of Noah's purchase orders, provided that Tegal has the right not to carry out an order for reasons of manufacturing or regulatory constraints or financial impracticability, as determined by Tegal in its sole discretion. Tegal reserves the right to allot available inventories among all of its distributors at its discretion. Tegal shall promptly notify Noah if any order, or any portion of any order, cannot be filled, or of any delays in delivery. Tegal shall have no liability to Noah with respect to purchase orders that are not accepted.

3.4 Shipment, Title and Risk of Loss. Tegal agrees to ship the Products to Noah or directly to the Customers, as agreed upon by the parties on a case-by-case basis. Delivery shall be *ex works (Incoterms 2000)* Tegal's shipping point. Title and risk of loss for the Products will transfer to Noah at the shipping point. Tegal shall select the shipper in its reasonable judgment. Noah shall bear all costs associated with shipment of the Products and insurance of the Products during shipment. All Products shall be deemed accepted upon delivery.

3.5 Cancellation. Noah must submit in writing to Tegal any cancellation request. Cancellation fees will be assessed based upon the length of time from the date a written notice is received by Tegal to the first scheduled shipment date and in accordance with Tegal's then standard cancellation fees. Notwithstanding the foregoing, customized orders of Systems Products may not be cancelled. In addition, no cancellations will be accepted less than thirty (30) days prior to the scheduled delivery date.

3.6 Rescheduling. Re-schedule requests must be made in writing at least thirty (30) days prior to the scheduled shipment date. Any order may be re-scheduled only once. Requests to delay shipments may not exceed ninety (90) days from the original acknowledged delivery date. Any re-scheduled order may not thereafter be canceled or further modified, and is subject to full payment by Noah of the selling price.

3.7 Tegal's Standard Terms and Conditions. All sales of Products to Noah during the term of this Agreement shall be subject to the terms and conditions of this Agreement and to Tegal's Standard Terms and Conditions of Sale in effect at the time of each such purchase. A copy of Tegal's current Standard Terms and Conditions of Sale is attached as **<u>Exhibit C.</u>** Tegal may update its Standard Terms and Conditions of Sale from time to time in its sole discretion by providing written notice to Noah. Tegal will use reasonable efforts to provide such notice at least sixty (60) days in advance of their effectiveness. In the event of any conflict between the terms of this Agreement and the Standard Terms and Conditions of Sale then in effect, this Agreement shall control.

3.8 **Terms and Conditions Applicable to Customers.** Noah agrees to include in all Product sales agreements with its Customers provisions consistent in all material respects with the following provisions of Tegal's Standard Terms and Conditions of Sale set forth in **<u>Exhibit C</u>**: Confidential Information, Warranty Disclaimer, Limitation of Liability, Software and No License by Implication provisions.

3.9 No Additional Terms and Conditions. All Products shall be sold pursuant to the provisions of this Agreement. In the event of any inconsistency between this Agreement and Noah's purchase order or Noah's additional or different terms and conditions, if any, the terms of this Agreement shall prevail and Noah's terms are hereby rejected. Neither Tegal's commencement of performance, acceptance of an order or delivery of Products shall be deemed or construed as acceptance of Noah's additional or different terms and conditions, if any. Except as set forth in this Agreement, no other terms (including, but not limited to, any and all terms set forth on Noah's purchase orders) control the sale of the Products to Noah.

3.10 Return of Products. Except for Section 5.4 and except for the warranty remedy obligations set forth in Section 11 below, Tegal shall not be obligated to accept any Products that are returned. In the event such returns are accepted, Tegal may impose a reasonable restocking charge.

4. <u>Duties of Noah.</u>

4.1 Place of Business. Noah shall maintain a place of business in the Territory.

4.2 Marketing and Promotion

a. Marketing Plan. On the first day of November of each calendar year, Noah will submit to Tegal for Tegal's approval a marketing plan outlining Noah's planned marketing and promotional activities for the Products for the coming year. Noah shall work in good faith to revise or modify the marketing plan in accordance with Tegal's reasonable requests. If the parties disagree regarding the elements of the marketing plan, the parties agree to discuss in good faith and resolve any issues prior to implementation of Noah's Product marketing plan.

*Confidential treatment has been requested for portions of this exhibit by Tegal Corporation. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as *****. A complete version of the exhibit has been filed seperately with the Securities and Exchange Commission*

b. Policies. Noah shall implement and carry out its marketing plans as approved by Tegal. Noah will cooperate with Tegal in providing for continuous and effective advertising and promotion of Products throughout the Territory, and Noah agrees at Noah's expense to use its best efforts to actively promote the Products and participate in, and faithfully comply with, the terms and conditions of such cooperative advertising programs as Tegal may establish and offer to Noah from time to time. Nothing herein shall prevent Noah from independently advertising and marketing the Products within the Territory, provided the form and content of the advertising or marketing materials are approved by Tegal in advance. Notwithstanding any of the foregoing, Noah shall comply with all advertising, marketing promotional and sales policies of Noah in its activities hereunder.

c. Events. Noah will participate in relevant exhibitions and trade shows in the Territory.

d. Sales Personnel. Noah shall hire sales personnel to introduce, promote, market and sell Products in the Territory. Such sales personnel shall be adequately trained by Noah. Noah shall at all times employ a minimum of two full-time sales personnel dedicated exclusively to promoting, marketing, and selling the Systems Products and Spare Parts in the Territory.

e. Press Releases. All press and media releases, public announcements and public disclosures by either party relating to this Agreement must be coordinated with and approved by Tegal prior to the release thereof.

4.3 Installation and Warranty Services.

a. Scope of Services. Noah shall have the responsibility to install, service, and maintain the Products sold to its Customers, subject to service policies reasonably satisfactory to Tegal, and in doing so shall use qualified personnel. Noah shall perform all necessary warranty work for the Products pursuant to Tegal's warranty obligations to Customers and provide installation and other related services to the Customer at no charge to the Customer during the warranty periods applicable for each Product. Noah represents and warrants that its provision of such services shall be prompt and of the highest quality and shall be performed only by properly trained personnel of Noah. Noah shall be responsible for any and all training and instruction of those of its personnel providing technical support for the Products, unless otherwise agreed by Tegal. Noah shall at all times employ a minimum of ***** (*****) full-time ***** dedicated exclusively to supporting the Systems Products in the Territory, unless otherwise agreed in writing between Tegal and Noah. In addition, Noah shall employ a minimum of ***** full-time *****, qualified to develop and support applications on the Systems Products and ***** part-time *****, qualified to develop and support PVD applications, and such support shall be performed on the Systems Products at either Noah's or Customer's facilities, as determined by Noah in its reasonable judgment.

b. Warranty Service Scope. Noah shall provide warranty service for the entire warranty period applicable to each Product sold to Customers, as required by the Tegal. Noah shall be available to Customers for warranty or technical support service twenty-four (24) hours per day, seven (7) days a week. Noah hereby acknowledges that the standard warranty period for Systems Products is one year after Systems Product deliver and ninety (90) days from delivery for Spare Parts. Noah shall be solely responsible for any warranty services that it offers in excess of the foregoing warranty period, unless expressly agreed by Tegal in writing on a case-by-case basis.

4.4 Former Tegal Employees. As partial consideration for the grant of territorial exclusivity as a distributor of Tegal Products, Noah shall, upon entering into this Agreement and in accordance with the schedule set forth in **Exhibit D**, employ personnel previously employed by Tegal Japan Inc. in the Territory. Noah agrees to use all reasonable efforts to employ such personnel for ***** following the date of their employment by Noah, with salaries and benefits consistent with the salaries and benefits provided to such employees in the six month period immediately preceding this Agreement.

4.5 Maintenance of Inventory. Noah shall, at all times and at its expense, maintain adequate warehousing, equipment, transport facilities, training facilities and other facilities to ensure proper storage and transport of Products shipped to Noah. All Products must be stored in a suitable warehouse, in line with industry storage standards for like products in order to ensure their preservation. Noah undertakes to ensure that the quality of the Products shall not be altered by the storage conditions. In order to comply with Tegal's quality control standards, Noah shall: (i) when providing technical and warranty support, use the Products in compliance with applicable laws, decrees, regulations and other legal requirements; (ii) permit Tegal to inspect Noah's storage and support facilities during normal business hours, without advance notice but in a manner that is not unreasonably disruptive to the business of Noah, to confirm that Noah's handling and use of such Products is in compliance with this Agreement. Noah must secure and maintain all necessary governmental permits, licenses, registrations and customs clearances required in connection with the importation, resale and support of the Products in the Territory.

4.6 Records. Noah shall maintain during the term of this Agreement and for a period of three (3) years thereafter accurate books and records of its sales, service and promotional activities pursuant to this Agreement.

4.7 Reporting Requirements.

a. Sales Reports. Noah shall submit written sales reports to Tegal within five (5) days after the end of each calendar quarter, setting forth net sales of the Products in value and units and stock levels for the prior quarter.

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b. Marketing Reports. Within five (5) days after the end of each calendar quarter, Noah shall also submit a written marketing report to Tegal setting forth information on market conditions and marketing activities undertaken by Noah, its Customer and prospective customer responses concerning the Products and activities of competitors within the Territory during the preceding quarter.

4.8 No Competitive Products. Noah represents and warrants that it does not currently and will not, during the term of this Agreement, manufacture or otherwise produce, market, promote, distribute or sell, in any manner, directly or indirectly, any products in the Territory which are similar to, in competition with, or that might interfere with the sale of the Products. If, at any time, Noah or any of its affiliates is reasonably deemed by Tegal to be in competition with the Products in the Territory, Tegal may terminate this Agreement immediately by written notice to Noah.

4.9 Non-Solicitation. Except as set forth in Section 4.4 above and to the maximum extent permitted by applicable law, for the duration of this Agreement, and for a period of one year from the date of termination thereof, Noah will not solicit for hire any employee of Tegal or any former employee of Tegal who has been employed by Tegal within the previous twelve (12) months.

4.10 Expenses. Noah will pay and is responsible for all expenses incurred in connection with its activities under this Agreement.

5. Duties of Tegal

5.1 Training and Materials. Tegal agrees to provide training courses to Noah, which will include training for the operation, installation and maintenance of the Products. Noah shall attend such training prior to the installation of the first Systems Product sold by Noah within the Territory and will obtain additional training as recommended and offered by Tegal. Tegal, in its sole discretion, will provide Noah promotional literature, reprints of technical references, and other materials to facilitate Noah's efforts in promoting the sale of and servicing the Products in the Territory. Tegal will furnish such materials without charge. In the event that Noah desires to modify the foregoing materials, or to develop its own such materials for use within the Territory regarding the Products, any such materials produced by Noah in relation to the Products (including, where necessary, any language translation thereof) shall first be submitted to Tegal for Tegal's written approval. Noah shall not use such materials without Tegal's prior written approval. Tegal will not unreasonably withhold or delay such approval.

5.2 Assistance. Tegal will respond promptly and constructively to requests by Noah for technical or application assistance.

5.3 Referrals. Tegal will refer all potential purchasers of the Products in the Territory to the Noah.

5.4 Consignment Stock. Tegal will supply to Noah Spare Parts on a consignment basis (the "Consignment Stock") to meet Tegal's projected warranty and certain routine service parts requirements for Customers in the Territory. The Consignment Stock shall be held by Noah at no charge and shall be subject, with reasonable notice by Tegal, to inspection, audit, removal and replacement by Tegal, as may from time to time be required. Noah shall promptly notify Tegal of any removal of Spare Parts from the Consignment Stock so that Tegal may invoice Noah and replace the Spare Part. Noah hereby agrees that no Spare Parts will be loaned to Customers or to any third party for any reason.

6. Pricing and Payment

6.1 Systems Products Pricing. For reference purposes only, Tegal will supply Noah with a confidential Tegal price list for Systems Products. The initial price list for Systems Products and Spare Parts is attached hereto as **Exhibit E**. Tegal may change the price list and the prices set forth therein from time to time in its sole discretion upon at least sixty (60) days prior written notice to Noah. Noah acknowledges and agrees that the price list for the Territory may differ from price lists Tegal provides for different regions. Given the nature of the sales process for Systems Products, the parties will have to work together in all sales efforts for System Products in the Territory. All prices and discounts offered to Noah are net of and do not include the costs for shipping, insurance and any additional services or products offered by Noah to a Customer. Unless Tegal agrees to a different discount rate for a particular sale of System Products to a Customer, Tegal agrees to sell System Products to Noah at a ***** percent (*****%) discount from the listed price on the Tegal price list. Tegal agrees to consider in good faith deviations from the standard discount rate upon request from Noah for particular Customer opportunities but shall not be obligated to offer greater discount rates.

6.2 Spare Parts Pricing. Noah may purchase Spare Parts from Tegal at a discount of ***** percent (*****%) off of the prices set forth in the price list attached hereto as **Exhibit E.**

6.3 Pricing of Products to Customers. Noah shall have full discretion to set its own prices for the Products it sells to Customers.

6.4 Invoicing; Payment. If agreed upon in advance by Tegal on a case-by-case basis, Tegal may invoice Noah for sales of Systems Products based on a payment plan of ***** percent (*****%) of the discounted sales price payable upon delivery and ***** percent (*****%) payable upon Customer acceptance. Noah shall pay all charges due hereunder within thirty (30) days after the date of Tegal's invoice. If Noah fails to meet its payment obligations when due or if Noah's financial condition, in the reasonable opinion of Tegal, becomes impaired, then Tegal shall have the right to refuse any orders placed by Noah, in whole or in part. In addition, if Noah shall fail to make any payment due hereunder on the date such payment is due and payable, then such portion that remains outstanding shall bear simple interest until paid in full at a rate equal to the lesser of (i) *****% per month and (ii) the maximum interest rate permitted under applicable law. Noah shall not be entitled to set off any amount owed by Noah to Tegal against any amount owed by Tegal to Noah pursuant to this Agreement or otherwise. Noah shall reimburse Tegal for any costs or expenses incurred by Tegal in seeking recovery from Noah of any amounts due hereunder.

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6.5 Taxes. The prices specified in this Agreement are exclusive of any sales, use, excise, or similar taxes, and of any export and import duties, which may be levied upon or collectible by Tegal as a result of the licensing or shipment of Products to Noah or its Customers, or any services performed by Tegal in connection herewith, or any commissions earned by Noah. Noah agrees to pay and otherwise be fully responsible for, and indemnify and hold Tegal harmless from any such taxes and duties, unless in lieu thereof Noah provides Tegal with an exemption certificate acceptable to the relevant governmental authorities. Tegal shall have the right, but shall not be obligated, to pay any such taxes or duties directly, in which event Noah shall immediately reimburse Tegal in the amount thereof upon presentation by Tegal of evidence of payment.

6.6 Tax Withholding. In the event that Noah is required to withhold taxes imposed upon Tegal for any payment under this Agreement by virtue of the statutes, laws, codes or governmental regulations of a country in which the Products are provided, then the payment then due to Tegal and remitting such taxes to the proper authorities on a timely basis, and the payments provided for under this Agreement will be adjusted appropriately, provided that Noah supplies Tegal with official documentation and/or tax receipts on such withholdings supporting such taxes and such payments as may be required by Tegal for its tax records on or before the date on which such payment is due Tegal under this Agreement.

6.7 Currency. All payments due hereunder shall be made in United States Dollars.

6.8 Billable Services. Notwithstanding any other provision herein, Tegal shall continue to invoice its customers within the Territory for any billable service performed by Tegal's employees through December 31, 2006. As of January 1, 2007, Noah shall invoice Customers for any billable service performed by its employees. As of January 1, 2007, Tegal will no longer offer services to customers in the Territory, provided, however, that Noah complies with its service obligations hereunder.

7. Financial Obligations and Policies

7.1 Sufficient Capital. Noah will maintain and employ in connection with Noah's business and operations under this Agreement such working capital and net worth as may be reasonably required to enable Noah to properly and fully to carry out and perform all of Noah's duties, obligations and responsibilities under this Agreement.

7.2 Financial Statements. Noah will furnish Tegal with financial statements in such form as Tegal may reasonably require from time to time for credit purposes.

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7.3 Audit Rights. On not less than seven (7) days written notice to Noah and no more often than twice annually, Tegal and its certified public accountants and other auditors shall have full access to the books and records of Noah pertaining to activities under this Agreement. Tegal, its certified public accountants and other auditors shall have such access during normal business hours during the term of this Agreement and for a period of two (2) years after its expiration or termination. Whilst on Noah's premises, Tegal, its certified public accountants and other auditors shall conduct their audit review in a manner that is not unreasonably disruptive to the business of Noah. Tegal agrees and shall require its certified public accountants and other auditors to agree to hold confidential all information learned in the course of any examination of Noah's books and records hereunder, except when it is necessary for Tegal, its certified public accountants or other auditors to reveal such information in order to enforce Tegal's rights under this Agreement in court, or similar dispute resolution or enforcement proceedings or action, or except when compelled by law. In the event that such audit reveals an underpayment by Noah of five percent (5%) or more, Noah shall bear the costs of such audit and promptly pay the underpayment revealed.

7.4 Suspension of Shipments. In addition to any other right or remedy to which Tegal may be entitled, shipments of Products to Noah or its Customers may be suspended at Tegal's discretion in the event that Noah fails to promptly and faithfully discharge each and every obligation in this Section 7.

8. Intellectual Property and Software

8.1 License. Subject to the terms and conditions of this Agreement, Tegal hereby grants to Noah an exclusive (except as to Tegal as set forth in this Agreement) non-transferable license, without right to sublicense, to import, offer to sell and sell Products in the Territory and to distribute any software or firmware in the Territory solely as incorporated therein.

8.2 License Restrictions. The license granted to Noah under Section 8.1 shall be subject to the following restrictions:

(A) Noah shall not modify or alter the Products in any way, or offer the Products in combination with any other products or services of Noah or any third party, except as may be expressly set forth in this Agreement, without the prior written consent of Tegal. All such requests shall be in English.

(B) Noah agrees that except as may be expressly permitted by applicable law, Noah will not cause or permit the reverse engineering, translation or disassembly of the Products. If a jurisdiction in the Territory expressly permits by applicable law any of the foregoing activities regardless of contractual restriction, then Noah agrees that prior to engaging in any such activity Noah will first notify Tegal of its desire to reverse engineer the Products, and Tegal may, in its discretion, either provide such information to Noah or impose reasonable terms and conditions on such use of the Products to ensure that Tegal proprietary rights are protected.

(C) The license granted in Section 8.1 above is granted solely to Noah, and not, by implication or otherwise, to any parent, subsidiary or affiliate of Noah.

(D) Noah shall not remove, obscure, or alter any Tegal or other proprietary rights notice affixed to or contained within the Products or associated documentation.

8.3 Intellectual Property Protection. Noah will immediately bring to the attention of Tegal any improper or wrongful use of Tegal's trade marks, emblems, designs, models or other intellectual property rights which come to the notice of Noah and will in the performance of its duties under this Agreement use every effort to safeguard the property rights and interests of Tegal.

8.4 Trademark License. Subject to the terms and conditions of this Agreement, Tegal hereby grants to Distributor a limited, non-exclusive, non-transferable, royalty-free license to use Tegal's trademarks, trade names, designs, trade dress, copyrights, copyrightable works, markings, insignias, logos, slogans, and legends that Tegal uses in connection with the Products (collectively, the "Marks") for marketing the Products in the Territory. Tegal may from time to time use other or additional Marks to the Products. Noah agrees to state in appropriate places on all materials using the Marks that the Marks are trademarks of Tegal and to include the appropriate trademark symbols. Noah's use of the Marks must be in strict conformity with all applicable laws, decrees, regulations and other legal requirements as well as all applicable Tegal usage guidelines. Tegal grants no other rights than expressly granted hereunder, and Noah acknowledges Tegal's exclusive ownership of the Marks and the renown of Tegal's Marks worldwide. Noah agrees not to take any action inconsistent with such ownership and further agrees to take, at Tegal's expense, any action, including the conduct of legal proceedings, which Tegal deems necessary to establish and preserve Tegal's exclusive rights in and to its Marks. Noah shall not adopt, use or attempt to register any trademarks or trade names that are confusingly similar to the Marks or in such a way as to create combination marks with the Marks. Noah shall provide Tegal with samples of all materials that use the Marks prior to their public use or display for Tegal's quality control purposes. Tegal may suspend or terminate, in whole or in part, Noah's license to use the Marks if, in Tegal's reasonable judgment, Noah's use of the Marks does not meet Tegal's then current trademark usage policy. Tegal agrees to provide Noah in advance any updates to Tegal's trademark usage policy and provide Noah reasonable time, not to exceed 60 days, to make changes to marketing and other materials that incorporate the Marks. Tegal agrees to notify Noah of any failure to meet the Tegal trademark usage policy and Noah shall have a grace period of no more than ten days to rectify any such failure unless Tegal agrees to extend such grace period in Tegal's sole discretion.

8.5 Ownership. Noah acknowledges that any and all intellectual property rights in or related to the Products are and shall remain the property of Tegal or Tegal's licensors, and Noah shall not at any time during or after the expiration or termination of this Agreement in any way question or dispute the ownership thereof by Tegal. All software, even if embedded in the Products, is licensed not sold by Tegal. All rights not expressly granted under this Agreement are reserved.

8.6 **Software Licensed.** Without limiting any of the foregoing, any software Tegal provides to Noah for its own use or for sublicensing to Customers ("Software") will be licensed, not sold, pursuant to the terms of Tegal's standard Master Software License Agreement. Such agreement contains provisions, under which Noah agrees to be bound, relating to software ownership, protection and conditions for sublicensing the software to Customers. Such Software shall be considered Proprietary Information pursuant to Section 9.

9. Confidential Information

9.1 Confidential Information Defined. "Confidential Information" means any and all technical and non-technical information either party provides the other hereunder that is marked or otherwise identified at the time of disclosure as confidential or proprietary, including trade secrets, know-how, firmware, designs, schematics, techniques, software code, technical documentation, specifications, plans or any other information relating to any research project, work in process, future development, scientific, engineering, manufacturing, marketing or business plan, financial and pricing information, customer information, or financial or personnel matter relating to either party, its present or future products, sales, suppliers, customers, employees, investors or business, whether in written, oral, graphic or electronic form. Notwithstanding the foregoing, any pricing or technical information regarding the Products or their components shall be deemed the Confidential Information of Tegal, regardless of marking or identification.

9.2 Nondisclosure and Nonuse. All Confidential Information exchanged between the parties pursuant to this Agreement shall not be distributed, disclosed, or disseminated in any way or form by the receiving party to anyone except its own employees, subcontractors or advisors who have a reasonable need to know such Confidential Information and who have been advised of the confidential nature and required to observe the terms and conditions hereof; nor shall Confidential Information be used by the receiving party for its own purpose, except for the purposes of exercising its rights or fulfilling its obligations under this Agreement. The restriction on disclosure will not apply to Confidential Information which is required to be disclosed by a court, government agency or regulatory requirement, provided that recipient shall first notify the disclosing party of such disclosure requirement or order and use reasonable efforts to obtain confidential treatment or a protective order.

9.3 Exclusions. The obligations of Section 9.2 shall not apply, however, to any information which:

(A) is already in the public domain or becomes available to the public through no breach of this Agreement or other confidentiality obligation by the receiving party;

(B) was in the receiving party's possession prior to receipt from the disclosing party as proven by the receiving party's written records; or

(C) is received independently on a non-confidential basis from a third party free to disclose such information to the receiving party.

10. Relationship of the Parties

10.1 No Authority to Bind. Noah shall have no power or authority to bind or to obligate Tegal to any contract or any other commitment with any third party, including but not limited to Customers, prospective customers, or any person who contemplates any business relationship with Tegal or Noah.

10.2 Independent Contractor. Noah shall be and act under this Agreement solely as an independent contractor, and shall not be an agent of Tegal. Nothing contained in this Agreement shall be construed to (i) give either party the power to direct and control the day-to-day activities of the other or (ii) constitute the parties as partners, joint ventures, co-owners or otherwise as participants in a joint or common undertaking. Neither Noah nor its agents or employees are the agents of Tegal for any purpose except as expressly set forth in this Agreement.

10.3 Noah's Obligations. All financial obligations associated with the business of Noah are its sole responsibility. All sales, service and other agreements between Noah and its Customers are Noah's exclusive responsibility and shall have no binding effect on Tegal.

10.4 Acts of Noah. Noah shall be solely responsible for, and shall indemnify and hold Tegal free and harmless from, any and all claims, damages, expenses, including reasonable attorney's fees, and any other liability arising out of or in connection with the acts of Noah, its employees, servants, agents or any of them.

11. Representations and Warranties

11.1 General Representations. The parties hereby represent and warrant:

a. Corporate Power. It is duly organized and validly existing under the laws of the state of its incorporation and has full corporate power and authority to enter into this Agreement and to carry out the provisions hereof.

b. Due Authorization. It is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder.

c. Binding Agreement. This Agreement is a legal and valid obligation binding upon it and enforceable in accordance with its terms. The execution, delivery and performance of this Agreement by such party does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate and law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

11.2 Limited Performance Warranty. Tegal represents and warrants that the Products will perform substantially in accordance with the specifications set forth in the applicable Tegal documentation for a period of one year after delivery for Systems Products and ninety (90) days after delivery for Spare Parts. Noah's sole and exclusive remedy and Tegal's sole and exclusive obligations in the event of a breach of the foregoing warranty will be that Tegal will repair or replace any defective Products per Tegal's standard Return Material Authorization (RMA) and warranty repair or replacement process.

11.3 Warranty Disclaimer. EXCEPT AS EXPRESSLY SET FORTH IN SECTION 11.2, TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, TEGAL EXPRESSLY DISCLAIMS ALL WARRANTIES AND CONDITIONS REGARDING THE PRODUCTS, WHETHER EXPRESS, IMPLIED OR STATUTORY, AND INCLUDING BUT NOT LIMITED TO ALL WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE AND NON-INFRINGEMENT OF THIRD PARTY RIGHTS. NOAH UNDERSTANDS AND AGREES THAT THE DISCLAIMER OF WARRANTIES IN THIS AGREEMENT IS A FUNDAMENTAL PART OF THIS AGREEMENT AND THAT TEGAL WOULD NOT AGREE TO ENTER THIS AGREEMENT WITHOUT SUCH DISCLAIMERS.

11.4 No Warranty Pass Through. Except for the limited warranty expressly set forth in Section 11.2 above, Noah shall not be entitled to make or pass through any warranties to any third parties regarding the Products unless specifically authorized in writing by Tegal on a case-by-case basis. Noah shall be responsible for all representations and warranties it makes to Customers. Noah indemnifies and holds Tegal harmless from and against any and all liabilities, losses, damages, costs and expenses, including without limitation attorney's fees and costs, incurred by Tegal resulting from any claims based on or related to any representation or warranty made by Noah regarding the Products that was not specifically authorized in writing in advance by Tegal.

11.5 No Illegal Activity. The parties represent and warrant that each shall at all times refrain from engaging in any illegal, unfair, deceptive or unethical business practices whatsoever, whether with respect to the Products or otherwise.

11.6 No Agency. Noah further represents and warrant that it will not incur any liability on behalf of Tegal nor in any way pledge or purport to pledge Tegal's credit or purport to make any contract binding upon Tegal.

12. Limited Liability

IN NO EVENT SHALL TEGAL SHALL BE LIABLE TO NOAH, OR TO ANY PARTY CLAIMING THROUGH OR UNDER NOAH, FOR ANY LOST PROFITS, LOSS OF DATA, LOSS OF GOODWILL, OR FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OF ANY KIND, EVEN IF TEGAL HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, ARISING OUT OF OR RELATED TO THE SALE OF PRODUCTS TO OR BY NOAH. TEGAL'S TOTAL CUMULATIVE LIABILITY UNDER THIS AGREEMENT EXCEPT FOR AMOUNTS PAYABLE PURSUANT TO ITS INDEMNITY OBLIGATIONS UNDER SECTION 13 OR WITH RESPECT TO THE PRODUCTS SHALL NOT EXCEED THE AMOUNTS PAID BY NOAH TO TEGAL DURING THE 12 MONTHS PRECEDING THE CLAIM. Noah acknowledges that the foregoing limitations are an essential element of the Agreement between the parties and that in the absence of such limitations the pricing and other terms set forth in this Agreement would be substantially different.

13. <u>Indemnification</u>

13.1 Indemnity. Tegal shall defend Noah against any third party suits, actions, claims or proceedings alleging that the Products infringe such third party's patent rights, copyrights or trademarks, or misappropriates such third party's trade secrets, and Tegal agrees to indemnify Noah and hold it harmless from and against any damages finally awarded against Noah by a court of competent jurisdiction that may result from any such third party claim; provided that (i) Noah notifies Tegal promptly in writing of the claim; (ii) Tegal has sole control of the defense and all related settlement negotiations; and (iii) Noah provides Tegal with all necessary assistance, information, and authority to perform these duties. To the extent that any delay by Noah in notifying Tegal results in any cost, expense, or liability to Tegal which would otherwise have been avoided, Tegal shall be relieved of its obligation to indemnify and shall be entitled to deduct such amount from sums paid or collect such amount from Noah.

13.2 Exclusions. Tegal shall have no liability for any claim of infringement based on or arising from (i) use of any version other than the latest commercially available version of the Products made available to Noah, to the extent the infringement would have been avoided by use of such version; (ii) modification of the Products by Noah or any third party; or (iii) the combination or use of the Products furnished hereunder with materials not furnished by Tegal to the extent such infringement would have been avoided by use of the Tegal materials alone.

13.3 Alternatives. In the event a Product is held to, or Tegal believes is likely to be held to infringe or misappropriate, Tegal shall have the right at its sole option and expense to (i) substitute or modify the Product so that it is non-infringing, while retaining substantially equivalent features and functionality as set forth in the documentation; or (ii) obtain for Noah a license to continue offering the Product under commercially reasonable terms; or (iii) if (i) and (ii) are not reasonably practicable as determined by Tegal, terminate this Agreement or cease sale of the infringing Product.

13.4 Sole Obligation. The foregoing Tegal indemnity states the sole obligation and exclusive liability of Tegal, and Noah's sole recourse and remedy for any claim of infringement or misappropriation of an intellectual property right or proprietary right by the Products.

*Confidential treatment has been requested for portions of this exhibit by Tegal Corporation. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as *****. A complete version of the exhibit has been filed seperately with the Securities and Exchange Commission*

14. Term and Termination

14.1 Term. This Agreement shall become effective as the date first shown above and shall continue for a period of three (3) years thereafter. This Agreement may be renewed for additional one year periods solely upon the mutual written agreement of the parties.

14.2 Termination for Convenience. Either party may terminate this Agreement at any time by written notice given to the other party not less than one hundred and eighty (180) days prior to the effective date of such termination.

14.3 Termination for Cause. Either party may terminate this Agreement upon notice to the other party, upon any material failure of the other party to fulfill or perform any one of the duties, obligations or responsibilities of in this Agreement, which failure is not cured within thirty (30) days of notice from the party. In addition, Tegal may terminate this Agreement upon notice to Noah upon (i) any assignment or attempted assignment by Noah of any interest in this Agreement or delegation of Noah's obligations without Tegal's written consent; (ii) any sale, transfer or relinquishment, voluntary or involuntary, by operation of law or otherwise, of any material interest in the direct or indirect ownership or any change in the management of Noah; (iii) failure of Noah for any reason to function in the ordinary course of business; (iv) conviction in a court of competent jurisdiction of Noah, or a manager, partner, principal officer or major stockholder of Noah for any violation of law tending, in Tegal's opinion, to affect adversely the operation or business of Noah or the good name, goodwill, or reputation of Tegal, products of Tegal; or (vi) submission by Noah to Tegal of false or fraudulent reports or statements, including, without limitation, claims for any refund, credit, rebate, incentive, allowance, discount, reimbursement or other payment by Tegal.

14.4 Effect of Termination. On termination of this Agreement, Noah shall cease to be an authorized distributor of Tegal and:

a. *Amounts Due.* All amounts owing by Noah to Tegal shall, notwithstanding prior terms of sale, become immediately due and payable.

b. Unshipped Orders. All unshipped confirmed orders shall be fulfilled with the obligations of the purchase contract and enforceable on the both parties. Noah and Tegal may come to mutual agreement to alter this provision on execution of a termination.

c. Resale of Products to Tegal. Noah will resell to Tegal on demand, free and clear of liens and encumbrances, all Products in Noah's inventory as Tegal shall elect to repurchase, at a mutually agreed price, but not in excess of Tegal's current price to distributors for such products and materials, and deliver to Tegal all materials bearing Tegal's name. Notwithstanding the foregoing, Noah shall be required to deliver to Tegal and Tegal shall not be obligated to pay Noah for any item originally provided to Noah by Tegal free of charge, including, but not limited to Consignment Stock.

d. No Liability Due to Termination. Neither party shall be liable to the other because of such termination for compensation, reimbursement or damages on account of the loss of prospective profits or anticipated sales, or on account of expenditures, investments, lease or commitments in connection with the business or goodwill of Tegal or Noah or for any other reason whatsoever growing out of such termination.

e. Use of Materials. Noah will cease use of any materials containing any Marks, and will immediately destroy all stationery, advertising matter and other printed matter in its possession or under its control containing such Marks. Noah will not at any time after such termination use or permit any such Marks to be used in any manner in connection with any business conducted by it or in which it may have an interest, or otherwise whatsoever as descriptive of or referring to anything other than merchandise or products of Tegal. Regardless of the cause of termination, Noah will immediately take all appropriate steps to remove and cancel its listings in telephone books, and other directories, and public records, or elsewhere that contain the Tegal's name, logos or trademarks. If Noah fails to obtain such removals or cancellations promptly, Tegal may make application for such removals or cancellations on behalf of Noah and in Noah's name, and in such event Noah will render every assistance required to implement the intention of this Section 14.4(e).

f. Survival. The provisions of Sections 4.6, 4.9, 6, 7.3, 8.5, 9, 10, 11, 12, 14.4, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24 and 25 shall survive any termination or expiration of this Agreement.

15. Compliance with Law.

15.1 Legal Compliance. In performing its duties under this Agreement, Noah shall at all times comply with all applicable international, federal, state and local laws and shall not engage in any illegal or unethical practices. Noah agrees that any sums paid to Noah under this Agreement are for Noah's own account, and that except as appropriate to carry out Noah's duties set forth herein in a legal manner, Noah has not, has no obligation to and shall not, directly or indirectly, give, offer, pay, promise to pay, or authorize the payment of money or any thing of value to any other person in connection with the transactions for which commissions hereunder are to be paid. Noah agrees not to take any actions that would cause it or Tegal to violate the U.S. Foreign Corrupt Practices Act of 1977, as amended. Noah further agrees that no officer, director, employee, or agent of Noah is an "official" of any government located within the Territory as that term is defined in such Act, nor shall Noah employ any such "official". Noah agrees that Noah shall not download, export, or re-export any software or technical data received hereunder, regardless of the manner in which received, (i) into, or to a national or resident of, any country to which the United States has embargoed goods, or (ii) to anyone in the United States Treasury Department's list of Specially Designated Nationals or the U.S. Commerce Department's Table of Denial Orders. Noah shall indemnify and hold Tegal harmless from and against any liabilities, damages, costs and expenses, including without limitation attorneys' fees and costs, resulting from any breach by Noah of this Section 15.

15.2 Legal Obligations. If this Agreement, any form of contract or license, or any other document, transaction or act contemplated herein is required by the law of any nation or other jurisdiction within the Territory to be registered, approved, notified, or recorded with or by any government agency, Noah shall assume all such legal obligations and shall indemnify and hold Tegal harmless from any and all liability, damages or expenses, including reasonable attorneys fees, from any failure of Noah so to comply. Tegal shall, without limitation, cooperate with and assist Noah by furnishing all information reasonably necessary for such registration, approval, notification, or recording. Tegal shall have the right, at its option, to participate in any such proceeding and to examine prior to submission any documents prepared by Noah for submission to any government agency, including, without limitation, any correspondence to or from such agency. If this Section 15.2 applies in any respect, Noah shall take no other action under this Agreement unless and until it has so complied, and Noah shall give Tegal prompt written notice when such compliance has been completed.

16. Acknowledgments

Each party acknowledges that no representation or statement, and no understanding or agreement, has been made, or exists, and that in entering into this Agreement each party has not relied on anything done or said or on any presumption in fact or in law, (i) with respect to this Agreement, or to the duration, termination or renewal of this Agreement, or with respect to the relationship between the parties, other than as expressly set forth in this Agreement; (ii) that in any way tends to change or modify the terms of this Agreement or to prevent this Agreement from becoming effective; or (iii) that in any way affects or relates to the subject matter hereof. Noah also acknowledges that the terms and conditions of this Agreement, and each of them, are reasonable and fair and equitable.

17. Final Agreement

This Agreement and the Exhibits attached hereto and by this reference incorporated herein represent the entire agreement between the parties with respect to the subject matter hereof, and supersedes all prior understandings or agreements with respect to the subject matter hereof. This Agreement may be modified, amended or supplemented only by a further writing that is duly executed by both parties.

18. Assignment

Neither this Agreement nor any interest in this Agreement may be assigned by Noah without the prior express written approval of Tegal, which may be withheld by Tegal at Tegal's absolute discretion. Notwithstanding the foregoing, this Agreement is binding upon and shall inure to the benefit of its successors and assigns. Any assignment in violation of the foregoing shall be null and void.

19. Force Majeure

Except for the obligation to make payment when due, each party shall be excused from liability for the failure or delay in performance of any obligation under this Agreement by reason of any event beyond such party's reasonable control including but not limited to acts of God, fire, flood, explosion, earthquake, or other natural forces, war, civil unrest, accident, destruction or other casualty, any act, inaction or delay of any government or government agency, any lack or failure of transportation facilities, any lack or failure of supply of raw materials, any strike or labor disturbance, or any other event whether similar or dissimilar to those enumerated above. Such excuse from liability shall be effective only to the extent and duration of the event(s) causing the failure or delay in performance and provided that the party has not caused such event(s) to occur. All delivery dates in this Agreement that have been affected by force majeure shall be tolled for the duration of such force majeure.

20. No Implied Waivers

The failure of a party to insist upon strict performance of any provision of this Agreement or to exercise any right arising out of this Agreement neither impairs that provision or right nor constitutes a waiver of that provision or right, in whole or in part, in that instance or in any other instance. Any waiver must be in writing expressly stated for such purpose and signed by the parties to this Agreement.

21. Notices

Any notice required by this Agreement or given in connection with it, shall be in writing and shall be given to the appropriate party by personal delivery or by certified mail, postage prepaid, or recognized overnight delivery services as set forth below:

If to Tegal:

Tegal Corporation
Attn: President & CEO
2201 S. McDowell Blvd.
Petaluma, CA 94954 USA

If to Noah:

Noah Corporation
1-19-19 Ebisu, Shibuya
Tokyo
Japan

*Confidential treatment has been requested for portions of this exhibit by Tegal Corporation. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as *****. A complete version of the exhibit has been filed seperately with the Securities and Exchange Commission*

22. Governing Law

The rights and obligations of the parties under this Agreement shall not be governed by the provisions of the 1980 United Nations Convention on Contracts for the International Sale of Goods or the United Nations convention on the Limitation Period in the International Sale of Goods, as amended; rather, this Agreement shall be governed by and construed under the laws of the State of California, USA, without regard to conflicts of law principles. Upon Tegal's request, Noah hereby expressly consents to: (i) the personal jurisdiction of the federal and state courts within California and (ii) service of process being effected upon it by registered mail sent to the address set forth at the beginning of this Agreement.

23. Governing Language.

The official text of this Agreement shall be in the English language, and any interpretation or construction of this Agreement shall be based solely on the English-language text.

24. Severability

If any term of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, then this Agreement, including all of the remaining terms, will remain in full force and effect as if such invalid or unenforceable term had never been included.

25. Headings; Construction

The headings to the clauses, sub-clause and parts of this Agreement are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement. Any ambiguity in this Agreement shall be interpreted equitably without regard to which party drafted the Agreement or any provision thereof. The terms "this Agreement," "hereof," "hereunder" and any similar expressions refer to this Agreement and not to any particular Section or other portion hereof. The parties hereto agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party will not be applied in the construction or interpretation of this Agreement. As used in this Agreement, the words "include" and "including," and variations thereof, will be deemed to be followed by the words "without limitation" and "discretion" means sole discretion.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Tegal Corporation ("Tegal")

By: /s/ Thomas R. Mikas Date: October 20, 2006
Thomas R. Mika, President and CEO

Noah Corporation ("Noah")

By: /s/ Hiroshi Tabira Date: October20, 2006
Hiroshi Tabira, President & CEO

List of Subsidiaries of Tegal Corporation

Corporate Name	Jurisdiction of Incorporation
Tegal Germany	Germany
Tegal Japan, Inc.	Japan
Tegal Italy Srl	Italy
Sputtered Films, Inc.	California

24.1
POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas R. Mika and Christine T. Hergenrother, jointly and severally, his attorneys-in-fact, each with the powers of substitution, for him in any and all capacities, to sign this annual Report of Form 10-Kand any ammendments thereto, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ Thomas R. Mika Thomas R. Mika	President, CEO, and Chairman of the Board (Principal Executive Officer)	June 25, 2007
/s/ Christine T. Hergenrother Christine T. Hergenrother	Chief Financial Officer (Principal Financial and Accounting Officer)	June 25, 2007
/s/ Edward A. Dohring Edward A. Dohring	Director	June 25, 2007
/s/ Jeffrey M. Krauss Jeffrey M. Krauss	Director	June 25, 2007
/s/ Duane Wadsworth Duane Wadsworth	Director	June 25, 2007

EXHIBIT 3.1

CERTIFICATE OF DOMESTICATION
OF
TEGAL CORPORATION LIMITED

Tegal Corporation Limited (the "Company"), a company organized and existing under the laws of Bermuda, does hereby certify as follows:

FIRST: The Company was formed on the 20th day of December, 1989 at Hamilton, Bermuda;

SECOND: The name of the Company immediately prior to the filing of this Certificate of Domestication was Tegal Corporation Limited;

THIRD: The name of the Company under which it is filing a Certificate of Incorporation is Tegal Corporation;

FOURTH: The principal place of business of the Company immediately prior to the filing of this Certificate of Domestication was Petaluma, California; and

FIFTH: A Certificate of Incorporation of Tegal Corporation is being filed contemporaneously with this Certificate of Domestication.

IN WITNESS WHEREOF, the Company has caused this Certificate to be signed by David Curtis, its Vice President-Finance and Chief Financial Officer, who is authorized to sign this Certificate on behalf of the Company, this 1st day of September, 1995.

Tegal Corporation Limited

By: /s/ David Curtis
David Curtis

CERTIFICATE OF INCORPORATION
OF
TEGAL CORPORATION

The undersigned, a natural person, for the purpose of organizing a corporation for conducting the business and promoting the purposes hereinafter stated, under the provisions and subject to the requirements of the laws of the State of Delaware (particularly Chapter 1, Title 9 of the Delaware Code and the acts amendatory thereof and supplemental thereto, and known, identified and referred to as the "General Corporation Law of the State of Delaware"), hereby certifies that:

FIRST: The name of the corporation (hereinafter the "Corporation") is

Tegal Corporation.

SECOND: The address of the registered office of the Corporation in the State of Delaware is 32 Loockerman Square, Suite L-100, City of Dover, County of Kent; and the name of the registered agent of the Corporation in the State of Delaware is The Prentice-Hall Corporation System, Inc.

THIRD: The nature of the business and of the purposes to be conducted and promoted by the Corporation shall be to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: (A) The total number of shares of all classes of capital stock which the corporation shall have authority to issue is Twenty Million (20,000,000) shares, comprised of Thirteen Million Five Hundred Thousand (13,500,000) shares of Common Stock with a par value of One Cent (US $ 0.01) per share (the "Common Stock") and Six Million Five Hundred Thousand (6,500,000) shares of Preferred Stock with a par value of One Cent (US $ 0.01) per share (the "Preferred Stock"). Subject to the preferential rights of the Preferred Stock and such restrictions as may be imposed by debtholders of the Corporation and its subsidiaries, the holders of shares of Common Stock shall be entitled to receive, when and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in property or in shares of capital stock.

(B) The Board of Directors is expressly authorized, subject to the limitations prescribed by law and the provisions hereof, to provide for the issuance of all or any shares of any wholly unissued series of Preferred Stock, each with such designations, preferences, voting powers (or no voting powers), relative, participating, optional or other special rights and privileges and such qualifications, limitations or restrictions thereof as shall be stated in the resolution or resolutions adopted by the Board of Directors to create such series. The authority of the Board of Directors with respect to each such series shall include without limitation of the foregoing the right to specify the number of shares of each such series and to authorize and increase or decrease in such number of shares and the right to provide that the shares of each such series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulativeor non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation, (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock of the Corporation at such price or prices or at such rates of exchange and with such adjustments, if any; (v) entitled to the benefit of such limitations, if any, on the issuance of additional shares of such series or shares of any other series of Preferred Stock; or (vi) entitled to such other preferences, powers, qualifications, rights and privileges, all as the Board of Directors may deem advisable and as are not inconsistent with the laws of Delaware in force from time to time. All preferences, voting powers, relative, participating, optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject and subordinate to those that are fixed and those that may be fixed with respect to any shares of the Preferred Stock.

(C) Four Million Three Hundred Fifty-Two Thousand Two Hundred Seventy-Four (4,352, 274) shares of Preferred Stock are hereby designated "Series A Preferred Stock," One Thousand (1000) shares of Preferred Stock are hereby designated "Series B Preferred Stock," Eight Hundred Seventy-Six Thousand One Hundred Ninety-One (876,191) shares of Preferred Stock are hereby designated "Series C Preferred Stock" and Eight Hundred Eighty-Six Thousand Six Hundred Twenty-Seven (886,627) shares of Preferred Stock are hereby designated "Series D Preferred Stock," each having the respective preferences, voting powers, relative, participating, optional or other special rights and privileges, and the qualifications, limitations and restrictions set forth below:

(i) The holders of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be entitled to receive, out of any funds legally available therefor, dividends on each outstanding share of Preferred Stock, payable when and as declared by the Board of Directors. The right to such dividends on the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall not be cumulative, and no right shall accrue to holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock by reason of the fact that dividends on such shares are not declared or paid in any prior year. Dividends, if paid, or if declared and set apart for payment, must be paid on, or declared and set apart for payment on all outstanding Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock contemporaneously and shall be declared and paid pro rata (a) such that the ratio of dividends being declared and paid per share of Series A Preferred Stock to dividends being declared and paid per share of Series C Preferred Stock to dividends being declared and paid per share of Series D Preferred Stock is the same as the ratio of US $2.4304 (the "Series A Issue Price") to US $5.25 (the "Series C Issue Price") to US $5.25 (the "Series D Issue Price") (as such prices may be adjusted for stock splits, combinations or similar events with respect to such series of Preferred Stock) and (b) as among the holders of each series based on the number of shares of such series so held. No shares of Common Stock shall receive any dividend at a rate which is greater than the rate at which dividends are simultaneously paid in respect of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock (based on the number of shares of Common Stock into which the Series A PreferredStock, Series C Preferred Stock and Series D Preferred Stock is convertible on the date of dividend).

(ii) The liquidation rights of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be as follows:

(a) In the event of any liquidation, dissolution or winding up of this Corporation, whether voluntary or not, the holders of the Series C Preferred Stock shall be entitled to receive an amount per share equal to the Series C Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to such series of Preferred Stock) plus all declared and unpaid dividends, if any, before any amount shall be paid to the holders of the Series D Preferred Stock, Series A Preferred Stock and Common Stock. If, upon the occurrence of a liquidation, dissolution or winding up, the assets and surplus funds distributed among the holders of the Series C Preferred Stock shall be insufficient to permit the payment to such holders of the full preferential amount then the entire assets and surplus funds legally available for distribution shall be distributed ratably among the holders of the Series C Preferred Stock.

(b) In the event of any liquidation, dissolution or winding up of this Corporation, whether voluntary or not, the holders of the Series D Preferred Stock shall be entitled to receive an amount per share equal to the Series D Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to such series of Preferred Stock) plus all declared and unpaid dividends, if any, and the holders of the Series A Preferred Stock shall be entitled to receive an amount per share equal to the Series A Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to such series of Preferred Stock) plus all declared and unpaid dividends, if any, before any amount shall be paid to the holders of the Common Stock. If, upon the occurrence of a liquidation, dissolution or winding up, the assets and surplus funds distributed among the holders of the Series D Preferred Stock and Series A Preferred Stock shall be insufficient to permit the payment to such holders of the full preferential amount then the entire assets and surplus funds legally available for distribution shall be distributed ratably among the holders of the Series D Preferred Stock and Series A Preferred Stock such that the ratio of the assets and surplus funds being distributed to holders of Series A Preferred Stock, on a per share basis, to the assets and surplus funds being distributed to holder of Series D Preferred Stock, on a per share basis, is the same as the ratio of the Series A Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to such series of Preferred Stock) plus all declared and unpaid dividends, if any, to the Series D Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to such series of Preferred Stock) plus all declared and unpaid dividends, if any.

(c) If, upon the occurrence of a liquidation, dissolution or winding up, after the payment to the holders of Series C Preferred Stock, Series D Preferred Stock and Series A Preferred Stock of the preferential amount, assets or surplus funds remain in this Corporation, the holders of Series C Preferred Stock, Series D Preferred Stock, Series A Preferred Stock and the holders of Common Stock shall be entitled to share in all such remaining assets and surplus funds in the same manner as if all shares of Series C Preferred Stock, Series D Preferred Stock and Series A Preferred Stock had been converted into Common Stock.

(d) For the purposes of this Article, a liquidation, dissolution or winding up of the Corporation shall be deemed to be occasioned by, and to include, the sale by the Corporation of substantially all of its assets or the acquisition of the Corporation by another entity by means of merger or consolidation resulting in the exchange of the outstanding shares of the Corporation for securities or consideration issued, or caused to be issued, by the acquiring company or its subsidiary.

(iii) If on each December 31, 1996, December 31, 1997, or December 31, 1998 (each of which is referred to as a "Redemption Record Date"), there shall be any shares of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock outstanding, a majority of the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock then outstanding, voting together as a single class, may elect, in accordance with the procedures set forth herein, to require the Corporation to redeem up to one-third of the shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock originally issued (as adjusted for stock splits, combinations or similar events with respect to such series of Preferred Stock) on a pro rata basis as described below. Subject to the foregoing limitation, the Corporation shall be required to redeem shares in accordance with the number of shares which any holder may and is requesting to be redeemed on each Redemption Payment Date (as defined below) pursuant to an Initiating Notice or a Subsequent Notice (each as defined below); provided, however, that any shares which are properly requested to be redeemed but are unable to be redeemed in any particular year due to the limitations set forth herein may be redeemed pursuant to written notice given on a subsequent Redemption Record Date to the extent such redemption may be accomplished within those limitations. The applicable redemption price payable on each Redemption Payment Date shall be (a) the Series A Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to the Series A Preferred Stock) plus all declared and unpaid dividends to the Redemption Payment Date, if any, with respect to each share of Series A Preferred Stock (the "Series A Redemption Price"), (b) the Series C Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to the Series C Preferred Stock) plus all declared and unpaid dividends to the Redemption Payment Date, if any, with respect to each share of Series C Preferred Stock (the "Series C Redemption Price") and (c) the Series D Issue Price (as such price may be adjusted for stock splits, combinations or similar events with respect to the Series D Preferred Stock) plus all declared and unpaid dividends to the Redemption Payment Date, if any, with respect to each share of Series D Preferred Stock (the "Series D Redemption Price"). Any shares redeemed pursuant to this provision shall be redeemed on a pro rata basis, such that the ratio of (x) the aggregate amount of cash used to redeem shares of Series A Preferred Stock to (y) the aggregate amount of cash used to redeem shares of Series C Preferred Stock to (z) the aggregate amount of cash used to redeem shares of Series D Preferred Stock is the same as the ratio of (xx) the number of shares of Series A Preferred Stock then outstanding multiplied by the Series A Redemption Price to (yy) the number of shares of Series C Preferred Stock then outstanding multiplied by the Series C Redemption Price to (zz) the number of shares of Series D Preferred Stock then outstanding multiplied by the Series D Redemption Price.

(iv) Prior to each Redemption Payment Date, the Corporation shall deposit with a bank having an aggregate capital and surplus in excess of US $50,000,000, as a trust fund for the redemption of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock (the "Redemption Fund"), the amount required for redemption of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock hereunder together with irrevocable instructions and authority to pay the Series A Redemption Price, the Series C Redemption Price and the Series D Redemption Price to the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, upon surrender of their stock certificates on or after each Redemption Payment Date. Any money so deposited which is unclaimed by a holder of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock for one year after a Redemption Payment Date shall be returned to the Corporation, after which holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock who have requested redemption shall be entitled to receive payment of the Series A Redemption Price, the Series C Redemption Price and the Series D Redemption Price directly from the Corporation. After all shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock requested to be redeemed have been converted or redeemed, any money remaining in the Redemption Fund shall be returned to the Corporation.

(v) A majority of the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock then outstanding, voting together as a single class, may make an election pursuant to Section (C)(iii) of this Article in a notice (an "Initiating Notice") to the Corporation within 60 days of each Redemption Record Date which shall be deemed delivered upon personal delivery of 14 days after deposit in the mail, registered or certified, addressed to the Corporation. Within 14 days of receipt of the Initiating Notice, the Corporation shall mail by first class, postage prepaid, to each holder of record of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, at such holders' post office address last shown on the records of the Corporation, a written notice advising such holder of the fact that a majority of the holders of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock then outstanding, voting together as a single class, have made the election described herein, specifying the date on which the redemption shall be made, which date shall be within 60 days of the delivery of the Initiating Notice (a "Redemption Payment Date") and advising such holder that it must notify the Corporation at least 10 days prior to the Redemption Payment Date if such holder wishes to have its shares redeemed thereon (a "Subsequent Notice"), provided that a Subsequent Notice shall not be required from any holder that was a party to the Initiating Notice. On or after each Redemption Payment Date, each holder shall surrender his certificate for the number of shares to be redeemed to the Corporation at the place specified by the Corporation. From and after each Redemption Payment Date, unless there have been a default in the payment of the Series A Redemption Price, the Series C Redemption Price or the Series D Redemption Price, all rights of holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock requesting redemption (except the right to receive payment of the Series A Redemption Price, the Series C Redemption Price or the Series D Redemption Price or surrender of their certificates) shall cease with respect to the shares redeemed. If less than all of the shares represented by a surrendered certificate are redeemed, a new certificate shall forthwith be issued for the unredeemed shares.

(vi) The Corporation shall not be required to expend funds for the redemption of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock to the extent such expenditure would violate any law in force in Delaware from time to time and, specifically, the Delaware General Corporation Law.

(D) Except as otherwise required by law, the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock and the holders of Common Stock shall be entitled to notice of any stockholders' meeting and to vote upon any matter submitted to the stockholders for a vote, other than the election of Directors, as follows: (a) the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall have one vote for each full share of Common Stock into which their respective shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock are convertible in the aggregate on the record date for the vote and (b) the holders of Common Stock shall have one vote per share of Common Stock. For so long as at least 50% of the shares of the Corporation's Series A Preferred Stock issued with regard to the original 14,400,000 Series A Preferred Stock issued by the Corporation's Bermuda predecessor remains outstanding, the holders of shares of Series A Preferred Stock, voting as a class, shall be entitled to elect two (2) directors; the holders of shares of Series C Preferred Stock and Series D Preferred Stock, voting together as a class, shall be entitled to elect one (1) director; the holders of shares of Common Stock, voting as a class, shall be entitled to elect one (1) director; and the remaining director or directors shall be elected by the holders of Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Common Stock, voting together on an as-if-converted basis.

(E) The Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be convertible into Common Stock of this Corporation as follows:

(i) For purposes of this Paragraph (E) of Article Fourth the following definitions shall apply:

"Common Stock Equivalents" shall mean Convertible Securities and rights entitling the holder thereof to receive directly, or indirectly, additional shares of Common Stock without the payment of any consideration by such holder for such additional shares of Common Stock or Common Stock Equivalents.

"Common Stock Outstanding" shall mean the aggregate of all Common Stock outstanding and all Common Stock issuable upon exercise of all outstanding Options and conversion of all outstanding Convertible Securities.

"Conversion Price" shall mean the price, determined pursuant to this Paragraph (E), at which shares of Common Stock shall be deliverable upon conversion of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, as applicable.

"Convertible Securities" shall mean any indebtedness or shares of stock convertible into or exchangeable for Common Stock, including Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock.

"Current Conversion Price" shall mean the applicable Conversion Price immediately before the occurrence of any event, which, pursuant to Section (E)(iv) below causes an adjustment to the applicable Conversion Price.

"Issuance Date" shall mean for the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock the first date on which the Corporation issues any shares of such Preferred Stock.

"Options" shall mean any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities.

(ii) Each holder of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock may, at any time, convert any or all of such Preferred Stock into fully-paid and non-assessable shares of Common Stock at the applicable Conversion Price. Each share of Series A Preferred Stock shall be convertible into the number of shares of Common Stock that results from dividing the Conversion Price in effect at the time of conversion for Series A Preferred Stock into US $2.4304 for each share of Series A Preferred Stock; The Conversion Price of the Series A Preferred Stock shall initially be US $2.4304 per share of Common Stock. Each share of Series C Preferred Stock shall be convertible into the number of shares of Common Stock that results from dividing the Conversion Price in effect at the tune of conversion for Series C Preferred Stock into US $5.25 for each share of Series C Preferred Stock; the Conversion Price of the Series C Preferred Stock shall initially be US $5.25 per share of Common Stock. Each share of Series D Preferred Stock shall be convertible into the number of shares of Common Stock that results from dividing the Conversion Price in effect at the time of conversion for Series D Preferred Stock into US $5.25 for each share of Series D Preferred Stock; the Conversion Price of the Series D Preferred Stock shall initially be US $5.25 per share of Common Stock. The initial applicable Conversion Price shall be subject to adjustment from time to time in certain instances as hereinafter provided. No adjustments with respect to conversion shall be made on account of any dividends that may be declared but unpaid on the Preferred Stock surrendered for conversion, but no dividends shall thereafter be paid on the Common Stock unless such unpaid dividends have first have paid to the holders entitled to payment at the time of conversion of the Preferred Stock.

(iii) Before any holder of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be entitled to convert the same into Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, to the office of the Corporation or any transfer agent for such Preferred Stock and shall give written notice to the Corporation at such office that he elects to convert the same. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, or to his nominee or nominees, certificates for the number of full shares of Common Stock to which he shall be entitled, together with cash in lieu of any fraction of a share as hereinafter provided, and, if less than all of the shares of Preferred Stock represented by such certificate are converted, a certificate representing the shares of Preferred Stock not converted. Such conversion shall be deemed to have been made as of the date of such surrender of the certificate for the Preferred Stock to be converted, and the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Stock on such date. If the conversion is in connection with an offer of securities registered pursuant to the Securities Act of 1933, as amended (the "Securities Act"), the conversion may, at the option of any holder tendering Preferred Stock for conversion, be conditioned upon the closing of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of the Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities.

(iv) Subject to Section (E), the applicable Conversion Price in effect from time to time for Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be subject to adjustment in certain cases as follows:

(a) Subject to Section (E)(xiv) with respect to the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, in case the Corporation shall at any time after the Issuance Date with respect to the Series A Preferred Stock issue or sell any Common Stock without consideration, or for a consideration per share less than the applicable Current Conversion Price for the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, the, and thereafter successively upon each such issuance or sale, the applicable Current Conversion Price for such Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall simultaneously with such issuance or sale be adjusted to a Conversion Price (calculated to the nearest cent) determined by dividing (A) an amount equal to (i) the total number of shares of Common Stock Outstanding when the applicable Current Conversion Price became effective multiplied by the applicable Current Conversion Price, plus (ii) the aggregate of the amount of all consideration, if any, received by the Corporation for the issuance or sale of Common Stock since the applicable Current Conversion Price became effective, by (B) the total number of shares of Common Stock Outstanding immediately after such issuance or sale; provided, however, that the applicable Conversion Price shall at no time exceed US $5.25 for the Series C Preferred Stock and Series D Preferred Stock and US $2.4304 for the Series A Preferred Stock (as adjusted for stock splits, combinations and similar events). For the purposes of this provision the following shall apply:

(1) In the case of the issuance or sale of additional Common Stock for cash, the consideration received by the Corporation therefor shall be deemed to be the amount of cash received by the Corporation for such shares (or, if such shares are offered by the Corporation for subscription, the subscription price, or, if such shares are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price), without deducting therefrom any compensation or discount paid or allowed to underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith.

(2) In case of the issuance (otherwise than upon conversion or exchange of Convertible Securities) or sale of additional Common Stock, Options or Convertible Securities for a consideration other than cash or a consideration a part of which shall be other than cash, the fair value of such consideration as determined by the Board of Directors of the Corporation in the good faith exercise of its business judgment, irrespective of the accounting treatment thereof, shall be deemed to be the value, for purposes of this Paragraph (E), of the consideration other than cash received by the Corporation for such securities.

(3) In case the Corporation shall in any manner issue or grant any options or any Convertible Securities, the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities at the time such Convertible Securities first became convertible or exchangeable shall (as of the date of issue or grant of such Options or, in the case of the issue or sale of Convertible Securities other than where the same are issuable upon the exercise of Options, as of the date of such issue or sale be deemed to be issued and to be outstanding for the purpose of this Section (E)(iv) and to have been issued for the sum of the amount (if any) paid for such Options or Convertible Securities and the minimum amount (if any) payable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable; provided that, subject to the provisions of Section (E)(v) no further adjustments of the applicable Conversion Price shall be made upon the actual issuance of any such Common Stock or Convertible Securities or upon the conversion or exchange of any such Convertible Securities.

(v) If the purchase price provided for in any Option referred to in subsection (E)(iv)(a)(3), or the rate at which any Convertible Securities referred to in subsection E(iv)(a)(3) are convertible into or exchangeable for shares of Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution), the applicable Current Conversion Price for Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, as the case may be, in effect at the time of such event shall forthwith be readjusted to the applicable Conversion Price that would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchased price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. If the purchase price provided for in any such Option referred to in subsection E(iv)(a)(3) , or the additional consideration (if any) payable upon the conversion or exchange of any Convertible Securities referred to in subsection E(iv)(a)(3), or the rate at which any Convertible Securities referred to in subsection E(iv)(a)(3) are convertible into or exchangeable for shares of Common Stock shall be reduced at any time under or by reason of provisions with respect thereto designed to protect against dilution, then in case of the delivery of shares of Common Stock upon the exercise of any such Option or upon conversion or exchange of any such Convertible Security, the applicable Current Conversion Price for Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, as the case may be, then in effect hereunder shall, upon issuance of such shares of Common Stock, be adjusted to such amount as would have obtained had such Option or Convertible Security never been issued and had adjustments been made only upon the issuance of the shares of Common Stock delivered as aforesaid and for the consideration actually received for such Option or Convertible Security and the Common Stock.

(vi) In the event of the termination or expiration of any right to purchase Common Stock under any Option or of any right to convert or exchange Convertible Securities, the applicable Current Conversion Price for Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, as the case may be, shall, upon such termination, be changed to the applicable Conversion Price that would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination never been issued, and the shares of Common Stock issuable thereunder shall no longer be deemed to be Common Stock Outstanding.

(vii) If the Corporation should at any time or from time to time after the Issuance Date with respect to the Series D Preferred Stock fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or Common Stock Equivalents, then following such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed) the applicable Conversion Price for Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, as the case may be, shall be appropriately adjusted so that the number of shares of Common Stock issuable on conversion of each share of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be adjusted in proportion to such change in the number of outstanding shares of Common Stock (including for this purpose, Common Stock Equivalents) determined in accordance with Section (e)(ix).

(viii) If the Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the Corporation or other persons' assets (excluding cash dividends) or options or rights not referred to in subsection E(iv)(a)(3), then, in each such case for the purpose of this Section (E)(viii), the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of this Corporation into which their shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of this Corporation entitled to receive such distribution.

(ix) If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or a sale of assets transaction provided for elsewhere in this Paragraph (E)) provision shall be made so that the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall thereafter be entitled to receive upon conversion of shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, as the case may be, the number of shares of stock or other securities or property of the Corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case appropriate adjustment shall be made in the application of the provisions of this Paragraph (E) with respect to the rights of the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock after the recapitalization to the end that the provisions of this Paragraph (E) (including adjustment of the applicable Conversion Price then in effect and the number of shares issuable upon conversion of shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable,

(x) The above provisions of this Paragraph (E) shall similarly apply to successive issuances, changes, sales, dividends or other distributions, subdivisions and combinations on or of the Common Stock after the applicable Issuance Date.

(xi) Upon the occurrence of any event not specifically denominated in this Paragraph (E) as altering the applicable Conversion Price that, in the reasonable exercise of the business judgment of the Board of Directors of this Corporation requires, on equitable principles, the alteration of the applicable Conversion Price, the applicable Conversion Price will be equitably altered, provided that in no such event other than a reverse stock split shall the applicable Conversion Price be increased. Any alteration made to the applicable Conversion Price pursuant to this Section (E)(xi) shall be made ratably among the Series A Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock.

(xii) The Corporation will not, by amendment of Bylaws or Certificate of Incorporation, or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Paragraph (E) and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock against impairment.

(xiii) The Corporation shall at all times reserve and keep available out of its authorized but unissued Common Stock the full number of shares of Common Stock deliverable upon conversion of all of the then outstanding Preferred Stock and shall, at its own expense, take all such actions and obtain all such permits and orders as may be necessary to enable this Corporation lawfully to issue such Common Stock upon the conversion of such Preferred Stock.

(xiv) Notwithstanding anything in this Paragraph (E) to the contrary, the applicable Conversion Price shall not be adjusted by virtue of (a) the conversion of shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock into shares of Common Stock, (b) the repurchase of shares from this Corporation's employees, consultants, officers or directors at such person's cost (or at such other price as may be agreed to by this Corporation's Board of Directors), (c) the issuance of shares of Common Stock issuable in connection with warrants issued pursuant to a warrant which provides for the issuance of Fifteen Thousand (15,000) shares of Common Stock upon exercise of such warrant with an exercise price of US $3.15 per share, or (d) the issuance and sale of, or the grant of options to purchase, an aggregate of not more than One Million Six Hundred Thousand (1,600,000) shares of Common Stock to employees, advisors, directors, officers or consultants of the Corporation and its subsidiaries at a price which is less than the applicable Conversion Price for Series A Preferred Stock, Series C Preferred Stock, or Series D Preferred Stock, as the case may be, at the time of such issuance or sale (all as determined in accordance with this Paragraph (E)) as may be approved by the Board of Directors, and none of such shares shall be included in any manner in the computation from time to time of the applicable Conversion Price for Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, as the case may be, under subsection (E)(iv) or in Common Stock outstanding for purposes of such computation.

(xv) No fractional shares shall be issued upon conversion of shares of Preferred Stock and the number of shares of Common Stock to be issued shall be rounded up to the nearest whole share determined on the basis of the total number of shares of Preferred Stock the holder is at the time converting into Common Stock and the aggregate number of shares of Common Stock (including the aggregation of all fractional shares) issuable upon such aggregate conversion.

(xvi) Upon the occurrence of each adjustment or re-adjustment of a Conversion Price pursuant to this Paragraph (E), the Corporation, at its expense upon request by any holder of Preferred Stock shall compute such adjustment or re-adjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock a certificate setting forth such adjustment or re-adjustment and showing, in detail the facts upon which such adjustment or re-adjustment is based. The Corporation shall, upon the written request at any time of any holder of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (a) such adjustment and re-adjustment, (b) the Current Conversion Price at the time in effect and (c) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of any series of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock.

(F) Immediately upon any public offering of the Corporation's Common Stock pursuant to a registration statement on Form S-l under the Securities Act at a per share price of not less than US $18.20 (equitably adjusted for any stock split, combination or similar event) with an aggregate price to the public greater than US $15,000,000 each share of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall automatically be converted into shares of Common Stock at the applicable Conversion Price for such series then in effect. In addition, each share of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall automatically be converted into shares of Common Stock at the applicable Conversion Price for such series then in effect immediately preceding the closing or record date of any liquidation, dissolution or winding-up of the Corporation, including any deemed liquidation as described in Paragraph (C) if the per share distribution is not less than US $18.20 (equitably adjusted for any stock split, combination or similar event) on and after said conversion date, notwithstanding that any certificates for the shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall not have been surrendered for conversion, the shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock evidenced thereby shall be deemed to be no longer outstanding, and all rights with respect thereto shall forthwith cease and terminate, except only the rights of the holder (i) to receive the shares of Common Stock to which he shall be entitled upon conversion thereof, (ii) to receive the amount of cash payable in respect of any fractional share of Common Stock to which he shall be entitled, and (iii) with respect to dividends declared but unpaid on the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock prior to such conversion date. In the event that any holder of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock presents such holder's certificate therefor for surrender to the Corporation or its transfer agent upon such conversion, a certificate for the number of shares of Common Stock into which the shares of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock surrendered were convertible on such conversion date promptly will be issued and delivered to such holder.

(G) In addition to any other rights provided by law, so long as fifty percent (50%) of the authorized shares of Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock shall be outstanding, the Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of more than sixty-six and two-thirds percent (66 ⅔%) of the then outstanding shares of the Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, voting together as a single class (provided that to the extent the rights of holders of shares of any such series of Preferred Stock are adversely affected by any change or event described in subsections (i), (ii) or (iii) below, the Corporation shall not make any such change or allow any such event to occur without first obtaining the affirmative vote or written consent of the holders of more than sixty-six and two-thirds percent (66 ⅔%) of the then outstanding shares of such series of Preferred Stock, voting as a single series):

(i) amend or repeal any provision of, or add any provision to, the Corporation's Bylaws or Certificate of Incorporation;

(ii) authorize or issue shares of any class or series of stock not authorized herein having any preference or priority as to dividends, redemptions or distribution of assets superior to or on a parity with any such preference or priority of the Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock or which in any manner adversely affects the rights of the holders of shares of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock; authorize or issue shares of stock of any class or series or any bonds, debentures, notes or other obligations convertible into or exchangeable for, or having options rights to purchase, any shares of stock of this Corporation having any preference or priority as to dividends or assets superior to or on a parity with any such preference or priority of the Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock; or authorize or issue shares of stock of any class or series having voting rights other than voting rights required by law;

(iii) reclassify any class or series of any Common Stock into shares having any preference or priority as to dividends or assets superior to or on a parity with any such preference or priority of Series A Preferred Stock, Series C Preferred Stock or Series D Preferred Stock.

(iv) except as provided in Sections (C)(vi) or (C)(ix) apply any of its assets to the redemption, retirement, purchase or acquisition, directly or indirectly, through subsidiaries or otherwise,of any shares of any class of Common Stock, except from employees, advisors, officers, directors and consultants of, and persons performing services for the Corporation or its subsidiaries on terms approved by the board of directors upon termination of employment or association;

(v) (a) sell, lease, convey or otherwise dispose of or transfer all or a substantial portion of its assets, property or business, or (b) merge into or consolidate with any other company (other than a wholly owned subsidiary of the Corporation);

(vi) pay any dividend on the outstanding shares of Common Stock; or

(vii) dissolve, liquidate or wind up the affairs of the Corporation.

(H) The holders of the Series B Preferred Stock shall not be entitled to any dividends on the shares of Series B Preferred Stock. In the event of any liquidation, dissolution or winding up of this Corporation, whether voluntary or not, the holders of the Series B Preferred Stock shall be entitled to receive, before any amount shall be paid to the holders of the Common Stock or any other series of Preferred Stock, an amount per share equal to US $5,840 (the "Redemption Price"). If, upon the occurrence of a liquidation, dissolution or winding up, the assets and surplus funds distributed among the holders of the Series B Preferred Stock shall be insufficient to permit the payment to such holders of the full preferential amount then the entire assets and surplus funds legally available for distribution shall be distributed rateably among the holders of the Series B Preferred Stock. If, upon the occurrence of a liquidation, dissolution or winding up, after the payment to the holders of Series B Preferred Stock of the preferential amount, assets or surplus funds remain in this Corporation, the holders of the Series A Preferred Stock Series C Preferred Stock, Series D Preferred Stock and Common Stock shall be entitled to such liquidation rights as are set forth in Section (C)(iii) above. Without the consent of the holders of a majority of the outstanding shares of Series B Preferred Stock and so long as the Series B Preferred Stock remains outstanding, the Corporation shall not issue shares of any class of capital stock having a liquidation preference senior to or *pari passu* with the Series B Preferred Stock. Except as otherwise required by law, the holders of Series B Preferred Stock shall not be entitled to any voting rights with respect to the Series B Preferred Stock.

(I) Upon ten (10) days prior written notice to the holder(s) of the Series B Preferred Stock, the Corporation shall be entitled to redeem at any time all or any portion of the outstanding shares of the Series B Preferred Stock upon payment to the holder(s) of such shares of an amount equal to the Redemption Price per share multiplied by the number of shares of Series B Preferred Stock to be redeemed. If there shall be any shares of Series B Preferred Stock outstanding on October 31, 1997 (the "Mandatory Redemption Date"), the Corporation shall redeem any and all outstanding shares of Series B Preferred Stock in consideration for the payment of the Redemption Price with respect to such shares of Series B Preferred Stock; provided, however, that the Corporation shall not be required to expend funds for the redemption of Series B Preferred Stock to the extent such expenditure would violate any applicable provision of Delaware law or the relevant law of another jurisdiction. In such event, the Corporation shall redeem such shares as soon as possible to the extent that such redemption may be accomplished without violating any such law. On or after the Mandatory Redemption Date, each holder shall surrender his certificate for the shares of Series B Preferred Stock redeemed by the Corporation and such other documents as the Corporation may reasonably request at the place specified by the Corporation. Upon such surrender, the Corporation shall pay such holder the Redemption Price with respect to such shares. From and after the Mandatory Redemption Date, unless there shall have been a default in the payment of the Redemption Price, all rights of holders of Series B Preferred Stock (except the right to receive payment of the Redemption Price on surrender of their certificates) shall cease.

(J) In the event of any dissolution, liquidation or winding-up of the affairs of the Corporation after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of Common Stock shall be entitled, unless otherwise provided by law or these By-Laws, including any certificate of designations for a series of Preferred Stock, to receive all of the remaining assets of the Corporation of whatever kind available for distribution to Stockholders ratably in proportion to the number of shares of Common Stock held by them respectively.

(K) All shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock which shall have been redeemed or converted pursuant to the provisions contained herein shall be cancelled and not reissued as Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, as the case may be, but shall have the status of authorized but not issued shares of Preferred Stock.

FIFTH: The name and the mailing address of the incorporator are as follows:

NAME	MAILING ADDRESS
David Curtis	2201 South McDowell Boulevard Petaluma, California 94953-6020

SIXTH: The Corporation is to have perpetual existence.

SEVENTH: The personal liability of the directors of the Corporation is hereby eliminated to the fullest extent permitted by paragraph (7) of subsection (b) of Section 102 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented.

EIGHTH: The Corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

NINTH: From time to time any of the provisions of this certificate of incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this certificate of incorporation are granted subject to the provisions of this Article NINTH.

Signed on September 1, 1995.

/s/ David Curtis

David Curtis, Incorporator

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 03:30 PM 10/16/1995
950237895 - 2545851

CERTIFICATE OF CORRECTION
TO THE
CERTIFICATE OF INCORPORATION
OF
TEGAL CORPORATION

Tegal Corporation (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

1. The name of the Corporation is Tegal Corporation.

2. The Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on September 20, 1995 and said Certificate o f Incorporation requires correction as permitted by Section (f) of Section 103 of the General Corporation Law of the State of Delaware.

3. The Certificate of Incorporation was filed with a Certificate of Domestication domesticating Tegal Corporation Limited, a Bermuda company, in Delaware. The domestication of Tegal Corporation Limited was effected pursuant to a Plan of Reorganization of Tegal Corporation Limited which, in addition to the domestication of Tegal Corporation Limited in Delaware, provided for a 1-for 7 reverse split of the Corporation's stock to be effective upon the domestication of the Corporation in Delaware. The inaccuracy or defect of said Certificate of Incorporation to be corrected is that Article Fourth of said Certificate of Incorporation inadvertently omitted language implementing the reverse stock split which had been authorized by the directors and stockholders of Tegal Corporation Limited pursuant to the Plan of Reorganization and which was intended to become effective upon the filing of the Certificate of Incorporation and the Certificate of Domestication.

4. A new paragraph (L) is added to Article Fourth of the Certificate of Incorporation to read as follows:

"(L) Effective at the time of the filing of this Certificate of Incorporation with the Secretary of State of the State of Delaware (the "Effective Time"):

1. Each seven (7) shares of the Corporation's Common Stock, par value $0.01 per share, issued and outstanding or held in treasury immediately prior to the Effective Time shall, automatically and without any action on the part of the respective holders thereof, be reclassified into one (1) share of Common Stock, par value $0.01 per share, of the Corporation and each stock certificate that, immediately prior to the Effective Time, represented seven (7) shares of the Corporation's Common Stock, par value $0.01 per share, shall, from and after the Effective Time, represent one (1) share of Common Stock, par value $0.01 per share.

2. Each seven (7) shares of the Corporation's Series A Preferred Stock, par value $0.01 per share, issued and outstanding or held in treasury immediately prior to the Effective Time shall, automatically and without any action on the part of the respective holders thereof, be reclassified into one (1) share of Series A Preferred Stock, par value $0.01 per share, of the Corporation and each stock certificate that, immediately prior to the Effective Time, represented seven (7) shares of the Corporation's Series A Preferred Stock, par value $0.01 per share, shall, from and after the Effective Time, represent one (1) share of Series A Preferred Stock, par value $0.01 per share.

3. Each seven (7) shares of the Corporation's Series C Preferred Stock, par value $0.01 per share, issued and outstanding or held in treasury immediately prior to the Effective Time shall, automatically and without any action on the part of the respective holders thereof, be reclassified into one (1) share of Series C Preferred Stock, par value $0.01 per share, of the Corporation and each stock certificate that, immediately prior to the Effective Time, represented seven (7) shares of the Corporation's Series C Preferred Stock, par value $0.01 per share, shall, from and after the Effective Time, represent one (1) share of Series C Preferred Stock, par value $0.01 per share.

4. Each seven (7) shares of the Corporation's Series D Preferred Stock, par value $0.01 per share, issued and outstanding or held in treasury immediately prior to the Effective Time shall, automatically and without any action on the part of the respective holders thereof, be reclassified into one (1) share of Series D Preferred Stock, par value $0.01 per share, of the Corporation and each stock certificate that, immediately prior to the Effective Time, represented seven (7) shares of the Corporation's Series D Preferred Stock, par value $0.01 per share, shall, from and after the Effective Time, represent one (1) share of Series D Preferred Stock, par value $0.01 per share.

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5. Notwithstanding the foregoing, to the extent that a stockholder of the Corporation would receive fractional shares of the Corporation's stock pursuant to sub-paragraphs (1), (2), (3) and (4) hereof, such members shall instead receive a cash payment from the Corporation in an amount equal to the product of $10.00 multiplied by, in the case of fractional shares of Common Stock, such fractional amount, and in the case of shares of Preferred Stock, by the amount of fractional shares of Common Stock to which such stockholder would have been entitled had the fractional shares of Preferred Stock been converted to Common Stock prior to the proposed reverse stock split."

IN WITNESS WHEREOF; Tegal Corporation has caused this Certificate to he executed this 13th day of October, 1995.

TEGAL CORPORATION

By: /s/ David Curtis
Name: David Curtis
Title: Vice President, Secretary, Treasurer

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 10/25/1995
950247338 - 2545851

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF

TEGAL CORPORATION

It is hereby certified that:

1. The name of the Corporation (hereinafter called the "Corporation") is:

Tegal Corporation

2. The Certificate of Incorporation of the Corporation is hereby amended by striking out Article FOURTH thereof and by substituting in lieu of said Article the following new Article:

"FOURTH: The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is Forty Million shares, comprised of Thirty Five Million (35,000,000) shares of Common Stock, with a par value of One Cent (US $0.01) per share, and Five Million (5,000,000) shares of Preferred Stock, with a par value of One Cent (US $0.01) per share. The designation, powers, preferences and relative, participating, optional or other special rights, including voting rights, qualifications, limitations or restrictions of the Preferred Stock shall be established by resolution of the Board of Directors pursuant to Section 151 of the General Corporation Law of the State of Delaware."

3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware, Prompt notice of the adoption of the amendment herein certified has been given to those stockholders who have not been consented in writing thereto, as provided in Section 228 of the General Corporation Law of the State of Delaware.

4. The effective time of the amendment herein certified shall be October 26, 1995. Signed on October 24, 1995.

/s/ David Curtis

David Curtis,
Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 12/21/1995
950303514 - 2545851

CERTIFICATE OF OWNERSHIP AND MERCER

OF

TEGAL (DELAWARE) CORPORATION,
a Delaware corporation

INTO

TEGAL CORPORATION,
a Delaware corporation

(Pursuant to Section 253 or the General
Corporation Law of Delaware)

IT IS HEREBY CERTIFIED THAT:

1. TEGAL CORPORATION (hereinafter sometimes referred to as the "Corporation") is incorporated pursuant to the General Corporation Law of the State of Delaware.

2. The Corporation is the owner of all of the outstanding shares of the capital stock of TEGAL (DELAWARE) CORPORATION (hereinafter sometimes referred to as the "Subsidiary"), which is also incorporated pursuant to the General Corporation Law of the State of Delaware.

3. On December 20,1995, the Board of Directors of the Corporation adopted uk following resolutions to merge the Subsidiary into the Corporation pursuant to Section 253 of the General Corporation Law of the State of Delaware:

NOW, THEREFORE. BE IT RESOLVED, that Tegal (Delaware) Corporation (the "Subsidiary") be merged with and into this Corporation, and that all of the estate, property, rights, privileges, powers and franchises of the Subsidiary be vested in and held and enjoyed by this Corporation as fully and entirely and without change or diminution as the same were before held and enjoyed by the Subsidiary in its name.

RESOLVED FURTHER, that this Corporation shall assume all of the liabilities and obligations of the Subsidiary.

RESOLVED FURTHER, that, by virtue of the merger and without any action on the part of the holder thereof, each issued and outstanding share of capital stock of the Subsidiary shall be cancelled and no consideration issued in respect thereof.

RESOLVED FURTHER, that, by virtue of the merger and without any action on the part of the holders thereof, each issued and outstanding share of capital stock of the Corporation shall remain unchanged and continue to be such issued and outstanding share of capital stock of the Corporation.

RESOLVED FURTHER, that this Corporation shall cause to be executed and filed and/or recorded the documents prescribed by the laws of the State of Delaware and by the laws of any other appropriate jurisdiction and will cause to be performed all necessary acts within the State of Delaware and within any other appropriate jurisdiction for the purpose of effecting the foregoing resolutions.

RESOLVED FURTHER, that the proper officers of the Corporation be, and they hereby are, authorized and directed in the name and on behalf of the Corporation to execute and deliver such certificates, instruments, notices, requests, statements and such other documents and communications as they in their discretion may deem necessary or desirable in order to carry out the purpose and intent of the foregoing resolutions.

RESOLVED FURTHER, that any and all actions heretofore taken by any officer or director of the Corporation and any and all agreements or other documents executed on behalf of the Corporation by an officer or director of the Corporation in connection with the merger of the Subsidiary with and into the Corporation be, and they hereby are, ratified, confirmed and approved in all respects.

RESOLVED FURTHER, that the effective date of the Certificate of Ownership and Merger setting forth a copy of these resolutions, and the date when the merger therein provided for shall become effective, shall be January 1, 1996.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by its President as of December 21, 1995.

TEGAL CORPORATION,
a Delaware corporation

By: Robert V. Hery
Name: Robert V. Hery
Title: President

State of Delaware
Secretary of State
Division of Corporations
Delivered 01:45 PM 09/09/2003
FILED 01:45 PM 09/09/2003
SRV 030580279 - 2545851 FILE

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF TEGAL CORPORATION

It is hereby certified that:

1. The name of the Corporation (hereinafter called the "Corporation") is Tegal Corporation.

2. The Certificate of Incorporation is hereby amended by striking out the first sentence of Article FOURTH thereof and by substituting in lieu of said sentence the following new sentence:

> "FOURTH: The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is One Hundred Five Million shares, comprised of One Hundred Million (100,000,000) shares of Common Stock, with a par value of One Cent (U.S. $0.01) per share, and Five Million (5,000,000) shares of Preferred Stock, with a par value of One Cent (U.S. $0.01) per share.

3. The amendment of the Certificate of Incorporation herein certified was submitted to the stockholders of the Corporation and was duly approved by the required vote of stockholders of the Corporation in accordance with the provisions of Sections 222 and 242 of the General Corporation Law of the State of Delaware. The total number of outstanding shares entitled to vote or consent to this Amendment was 16,099,949 shares of Common Stock. A majority of the outstanding shares of Common Stock, voting together as a single class, voted in favor of this Certificate of Amendment. The vote required was a majority of the outstanding shares of Common Stock, voting together as a single class.

IN WITNESS WHEREOF, Tegal Corporation has caused this Certificate of Amendment to be signed by its Chief Executive Officer as of September 9, 2003.

/s/ Michael L. Parodi
Michael L. Parodi
President and Chief Executive Officer

State of Delaware
Secretary of State
Division of Corporations
Delivered 03:31 PM 09/13/2005
FILED 03:31 PM 09/13/2005
SRV 050749064 - 2545851 FILE

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF TEGAL CORPORATION

It is hereby certified That:

1. The name of the Corporation (hereinafter called the "Corporation") is Tegal Corporation.

2. The Certificate of Incorporation is hereby amended by striking out Article FOURTH thereof and by substituting in lieu of said Article FOURTH the following new Article FOURTH:

"FOURTH: The total number of shares of all classes of capital stock which the corporation shall have the authority to issue is Two Hundred Five Million shares, comprised of Two Hundred Million (200,000,000) shares of Common Stock, par value $0.01 per share, and Five Million (5,000,000) shares of Preferred Stock, par value $0.01 per share. The designation, powers, preferences and relative, participating, optional or other special rights, including voting rights, qualifications, limitations or restrictions of the Preferred Stock shall he established by resolution of the Board of Directors pursuant to Section 151 of the General Corporation law of the State of Delaware."

3. The Certificate of Incorporation is hereby amended by adding an Article TENTH, to read as follows:

"TENTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, (i) the Board is expressly authorized and empowered to make, amend, supplement or repeal the Bylaws in any manner, without the assent or vote of the stockholders, not inconsistent with the laws of the State of Delaware or this Certificate of Incorporation, and (ii) the stockholders may change or amend or repeal the Bylaws in any manner pursuant to a vote of a majority of the voting power of the outstanding shares of capital stock entitled to vote."

4. The amendment of the Certificate of Incorporation herein certified was submitted to the stockholders of the Corporation and was duly approved by the required vote of stockholders of the Corporation in accordance with the provisions of Sections 222 and 242 of the General Corporation Law of the State of Delaware. The total number of outstanding shares entitled to vote or consent to this Amendment was 59,404,613 shares of Common Stock. A majority of the outstanding shares of Common Stock, voting together as a single class, voted in favor of this Certificate of Amendment. The vote required was a majority of the outstanding shares of Common Stock, voting together as a single class.

IN WITNESS WHEREOF, Tegal Corporation has caused this Certificate of Amendment to be signed by its Chief Executive Officer as of September 13, 2005.

/s/ Thomas R. Mika
Thomas R. Mika
President and Chief Executive Officer

State of Delaware
Secretary of State
Division of Corporation
Delivered 03:54 PM 07/21/2006
FILED 03:54 PM 07/21/2006
SRV 060691733 - 2545851 FILE

CERTIFICATE OF AMENDMENT
TO
CERTIFICATE OF INCORPORATION
OF TEGAL CORPORATION

It is hereby certified that:

1. The name of the Corporation (hereinafter called the "Corporation") is Tegal Corporation.

2. The Certificate of Incorporation is hereby amended by striking out Article FOURTH thereof and by substituting in lieu of said Article the following new Article:

"FOURTH: The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is Two Hundred Five Million (205,000,000) shares, comprised of Two Hundred Million (200,000,000) shares of Common Stock, par value $0.01 per share, and Five Million (5,000,000) shares of Preferred Stock, par value $0.01 per share. Effective as of 5:00 p.m., Eastern time, on the date this Certificate of Amendment is filed with the Secretary of State of the State of Delaware, each twelve (12) shares of the Corporation's Common Stock, par value $0.01 per share, issued and outstanding shall, automatically and without any action on the part of the respective holders thereof, be combined, converted and changed into one (1) share of Common stock, par value $0.01 per share, of the Corporation; *provided, however,* that me Corporation shall issue no fractional shares of Common Stock, but shall instead pay to any stockholder who would be entitled to receive a fractional share as a result of the actions set forth herein a sum in cash equal to such fraction multiplied by the average of the high and low prices of the Corporation's Common Stock as reported on the Nasdaq Capital Market for the five trading-day period ending on the last business day before the date this Certificate of Amendment is filed with the Secretary of State of the State of Delaware. The designation, powers, preferences and relative, participating, optional or other special rights, including voting rights, qualifications, limitations or restrictions of the Preferred Stock shall be established by resolution of the Board of Directors pursuant to Section 151 of the General Corporation Law of the State of Delaware."

3. The amendment of the Certificate of Incorporation herein certified was submitted to me stockholders of the Corporation and was duty approved by the required vote of stockholders of the Corporation in accordance with the provisions of Sections 222 and 242 of the General Corporation Law of the State of Delaware. The total number of outstanding shares entitled to vote or consent to this Amendment was 84,253,058 shares of Common Stock. A majority of the outstanding shares of Common Stock, voting together as a single class, voted in favor of this Certificate of Amendment The vote required was a majority of the outstanding shares of Common Stock, voting together as a single class.

IN WITNESS WHEREOF, Tegal Corporation has caused this Certificate of Amendment to be signed by its President & Chief Executive Officer as of July 21, 2006.

Thomas R. Mika /s/

Thomas R. Mika
President & Chief Executive Officer