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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

OR

[ ] 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 BLVD.
PETALUMA, CALIFORNIA 94954
(Address of Principal Executive Offices)

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

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange List. Yes [ ] No [X]

As of July 25, 2003, there were 16,099,949 shares of our common stock outstanding.

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TEGAL CORPORATION AND SUBSIDIARIES

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PART I -- FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

<TABLE>
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ASSETS

<S>	JUNE 30, 2003 <C>	MARCH 31, 2003 <C>
Current assets:		
Cash and cash equivalents	$ 1,162	$ 912
Trade receivables, net	3,975	2,681
Other receivable	505	--
Inventories	6,163	7,032
Prepaid expenses and other current assets	880	465
Total current assets	12,685	11,090
Property and equipment, net	4,628	4,916
Intangible assets, net	927	959
Other assets	218	244
Total assets	$ 18,458	$ 17,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 472	$ 389
Convertible debentures, net	215	--
Accounts payable	2,198	1,923
Product warranty	751	734
Customer deposits	700	--
Accrued expenses and other current liabilities	2,873	2,679

Deferred revenue	535	324
	---------	---------
Total current liabilities	7,744	6,049
Long-term portion of capital lease obligation	36	37
	---------	---------
Total liabilities	7,780	6,086
	---------	---------
Stockholders' equity:		
Common stock	161	161
Additional paid-in capital	69,651	68,806
Accumulated other comprehensive income	428	465
Accumulated deficit	(59,562)	(58,309)
	---------	--------
Total stockholders' equity	10,678	11,123
	---------	--------
	$ 18,458	$ 17,209
	=========	========

</TABLE>

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
	----	----
Revenue:		
<S>	<C>	<C>
Product	$ 3,542	$ 3,295
Services	343	427
	---------	-------
Total revenue	3,885	3,722
Cost of sales:		
Cost of product	2,492	2,855
Cost of services	356	664
	---------	--------
Total cost of sales	2,848	3,519
	---------	-------
Gross profit	1,037	203
	---------	-------
Operating expenses:		
Research and development	703	1,276
Sales and marketing	612	659
General and administrative	1,036	1,053
	--------	-------
Total operating expenses	2,351	2,988
	--------	-------
Operating loss	(1,314)	(2,785)
Other income (expense), net	60	(61)
	--------	-------
Net loss	$ (1,254)	$ (2,846)
	========	=======
Net loss per share, basic and diluted	$ (0.08)	$ (0.20)
	========	=======
Shares used in per share computations:		

Basic	16,092	14,311
Diluted	16,092	14,311

See accompanying notes.
</TABLE>

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED JUNE 30, 2003 <C>	THREE MONTHS ENDED JUNE 30, 2002 <C>
Cash flows from operating activities:		
Net loss	$ (1,254)	$ (2,846)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	338	180
Allowance for doubtful accounts and sales return allowances	60	(19)
Issuance of options for services rendered	32	--
Changes in operating assets and liabilities:		
Receivables	(1,411)	(11)
Inventories	905	1,035
Prepaid expenses and other assets	(166)	507
Accounts payable	275	(2)
Accrued expenses and other liabilities	835	(95)
Deferred revenue	209	(724)
Net cash used in operating activities	(177)	(1,975)
Cash flows from investing activities:		
Purchases of property and equipment	(17)	(18)
Net cash used in investing activities	(17)	(18)
Cash flows from financing activities:		
Proceeds from the issuance of convertible debentures	424	--
Borrowings under lines of credit	178	2,127
Repayment of borrowings under lines of credit	(92)	(2,499)
Payments on capital lease financing	(2)	(21)
Net cash (used in) provided by financing activities	508	(393)
Effect of exchange rates on cash and cash equivalents	(64)	35
Net decrease in cash and cash equivalents	250	(2,351)
Cash and cash equivalents at beginning of period	912	8,100
Cash and cash equivalents at end of period	$ 1,162	$ 5,749

</TABLE>

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

1. BASIS OF PRESENTATION:

In the opinion of management, the unaudited condensed consolidated interim financial statements have been prepared on the same basis as the March 31, 2003 audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the information set forth herein. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the "SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles. These interim financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Annual Report on Form 10-K of Tegal Corporation (the "Company") for the fiscal year ended March 31, 2003. The results of operations for the three months ended June 30, 2003 are not necessarily indicative of results to be expected for the entire year.

The consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of $1.3 million and $2.8 million for the periods ended June 30, 2003 and 2002, respectively, generated negative cash flows from operations of $0.2 million and $2.0 million in these periods, and has a cash and cash equivalents balance of $1.2 million at June 30, 2003, which raises substantial doubt about its ability to continue as a going concern. Management believes that its responses to the unfolding business climate, including the recent staff reduction, and the Company's currently available financial resources, including cash on hand, will be adequate to fund operations through fiscal year 2004. The Company raised $0.9 million from the first stage of a private placement of convertible debentures and warrants on June 30, 2003. In addition, the Company expects to complete the second stage of this convertible debt financing in September 2003, contingent upon stockholder approval. The second stage of the financing, involving the private placement of additional convertible debentures and warrants to the same investors as the first stage, if completed, will result in gross proceeds to the Company of $6.2 million. (See Note 9.) However, there is no assurance that the stockholders of Tegal will approve the second stage of this financing, and there is no assurance, that additional financing, if required, will be available on reasonable terms or at all.

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 highly liquid 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 June 30, 2003 and June 30, 2002 one customer accounted for approximately 49 percent and 15 percent, respectively, of the accounts receivable balance.

During the quarter ended June 20, 2003 one customer accounted for 49 percent of total revenues. During the quarter ended June 20, 2002 two customers accounted for 21 percent and 10 percent of total revenues.

2. INVENTORIES:

Inventories consisted of:

	JUNE 30, 2003	MARCH 31, 2003
Raw materials....................................	$ 3,072	$ 3,218
Work in progress.................................	1,466	1,937
Finished goods and spares........................	1,625	1,877

	$ 6,163	$ 7,032

3. PRODUCT WARRANTY:

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. Should actual product failure rates, material usage rates and labor efficiencies differ from estimates, revisions to the estimated warranty liability may be required.

Warranty activity for the three-month period ended June 30, 2003 and 2002 was:

<TABLE>
<CAPTION>

	WARRANTY ACTIVITY FOR THE THREE MONTHS ENDED JUNE 30, 2003	WARRANTY ACTIVITY FOR THE THREE MONTHS ENDED JUNE 30, 2002
<S>	<C>	<C>
Balance at the beginning of the period..	$ 734	$ 1,205
Additional warranty accruals for warranties issued during the period............	120	167
Accruals related to pre-existing warranties.....................................	--	--
Settlements made during the period..	(103)	(234)
Balance at the end of the period..	$ 751	$ 1,138

</TABLE>

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.

4. NET LOSS PER COMMON SHARE:

Basic earnings per share ("EPS") is calculated by dividing net income (loss) for the period by the weighted average common shares outstanding for that period. Diluted EPS takes into account the number of additional common shares that would have been outstanding if the dilutive potential common shares ("common stock equivalents") had been issued.

Common stock equivalents for the three months ended June 30, 2003 and 2002 were 3,235,736 and 31,898, respectively, and have been excluded from shares used in calculating diluted loss per share because their effect would be antidilutive. The common stock equivalents for the three months ended June 30, 2003 included 3,186,657 of potential dilutive shares arising from the first step of the convertible debenture financing, assuming conversion of the debentures into common shares and exercise of related warrants. (See Note 9.)

5. STOCK-BASED COMPENSATION:

The Company accounts for stock-based employee compensation under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and related interpretations. Under APB No. 25, compensation cost is equal to the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. SFAS No. 123, Accounting for Stock-based Compensation, established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123 and related SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure.

The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation (in thousands, except per share data):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
<S>	<C>	<C>
Net loss as reported..	$ (1,254)	$ (2,846)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects......................	--	--
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of tax.......	(36)	(101)
Proforma net loss...	$ (1,290)	$ (2,947)
Basic net loss per share:..		
As reported..	(0.08)	(0.20)
Proforma...	(0.08)	(0.21)

</TABLE>

The Company accounts for stock-based employee compensation arrangements in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and related interpretations, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-based Compensation and SFAS No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure. The disclosure provisions of SFAS No. 123 and SFAS No. 148 require judgments by management as to the estimated lives of the outstanding options. Management has based the estimated life of the options on historical option exercise patterns. If the estimated life of the options increases, the valuation of the options will increase as well.

In June 2003, the Company issued stock options to purchase 300,000 shares of the Company's common stock to the landlord of its Petaluma facility, as part of a new lease agreement, and options to purchase 60,000 shares of the Company's common stock to a service provider for services rendered. The options to the landlord were valued at $0.1 million (included in other assets as of June 30, 2003) using the Black-Scholes model and the value of the option was expensed immediately. The deferred charge associated with the landlord's options is being amortized to operating expense over the life of the new lease of seven years. Expense related to both of these transactions for the quarter ended June 30, 2003 amounted to thirty-two thousand dollars.

6. LINES OF CREDIT:

On June 30, 2003 the Company entered into an Amended Letter Agreement and Subordination Agreement with Silicon Valley Bank, which subordinated the bank's interest in Tegal's intellectual property to the investors in the Convertible Debt Financing (See Note 9). The Company agreed not to request, until such time as the investors' security interest in the intellectual property was terminated, any loan, letter of credit, foreign exchange forward contract, cash management service or credit accommodation under the Company's current line of credit with Silicon Valley Bank. At June 30, 2003, the Company had no amounts outstanding under this domestic line of credit, which had been collateralized by substantially all of the Company's domestic assets and which was further limited by the amounts of accounts receivable and inventories on the balance sheet. The facility had a maximum borrowing capacity of $10.0 million, and bore interest at prime plus 1.0 percent, or 5.25 percent as of June 30, 2003. The Company is currently negotiating with Silicon Valley Bank to modify this line of credit to allow renewed borrowing at substantially the same terms and conditions, but including the receivables of its Japanese subsidiary.

As of June 30, 2003, the Company's Japanese subsidiary had approximately $0.2 million outstanding under its bank line of credit which is collateralized by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts

receivable. The Japanese bank line bears interest at Japanese prime (1.375 percent as of June 30, 2003) plus 1.0 percent, has a renewal date of September 30, 2003, and has a total capacity of 150 million yen (approximately $1.3 million at exchange rates prevailing on June 30, 2003).

Notes payable as of June 30, 2003 consisted of two outstanding notes, including one to the California Trade and Commerce Agency and another to a retiring officer of Sputtered Films, Inc. for $0.2 million and $0.1 million, respectively. The unsecured note from the California Trade and Commerce Agency carries an annual interest rate of 5.75 percent with monthly interest only payments of approximately forty-two hundred dollars per month. Although the payment deadlines are being met, the note is currently in technical default due to the merger of Sputtered Films and Tegal Corporation. The unsecured note from the retiring officer of Sputtered Films, Inc. carries an annual interest rate of 10.0 percent.

The Company also entered into a Convertible Debenture Financing, which is described in Note 9 to the financial statements.

7. COMPREHENSIVE INCOME (LOSS):

The components of comprehensive loss for the three-month periods ended June 30, 2003 and 2002 are as follows:

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED JUNE 30, 2003 <C>	2002 <C>
Net loss...	$ 1,254	$ 2,846
Foreign currency translation adjustment..................................	37	(62)
	$ 1,291	$ 2,784

</TABLE>

8. ACQUISITION:

On August 30, 2002, the Company acquired Sputtered Films, Inc., a California corporation ("Sputtered Films") pursuant to an Agreement and Plan of Merger Agreement dated August 13, 2002. Sputtered Films is a leader in the design and manufacture of sputtering equipment for semiconductor, photomask, advanced packaging (including flip chip) and compound semiconductor applications. The acquisition of Sputtered Films secured a source for a complementary deposition technology for The Company's new materials strategy.

The following unaudited proforma financial results of Tegal Corporation and Sputtered Films for the three months ended June 30, 2002 give effect to the acquisition of Sputtered Films as if the acquisition had occurred on the first day of the quarter ended June 30, 2002 and includes adjustments such as amortization of intangible assets directly attributable to the acquisition, and expected to have a continuing impact on the combined company.

The unaudited proforma financial results for the quarter ended June 30, 2002 are provided for comparative purposes only and are not necessarily indicative of what the Company's actual results would have been had the forgoing transaction been consummated on April 1, 2002, nor does it give effect to the synergies, cost savings and other charges expected to result from the acquisition. Accordingly, the proforma financial results do not purport to be indicative of the Company's results of operations as of the date hereof or for any period ended on the date hereof or for any other future date or period.

Unaudited actual and proforma financial Information (in thousands, except share and per share amounts):

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED JUNE 30, 2003 <C>	THREE MONTHS ENDED JUNE 30, 2002 (PROFORMA) <C>
Revenue..	$ 3,885	$ 5,306
Net loss..	(1,254)	(2,990)
Net loss per share, basic and diluted.....................	(0.08)	(0.19)
Shares used in per share computations:		
Basic & diluted..	16,092	15,811

</TABLE>

9. CONVERTIBLE DEBENTURE FINANCING:

On June 30, 2003, the Company signed definitive agreements with investors to raise up to $7.2 million in a private placement of convertible debt financing to be completed in two steps. The first step, which closed on June 30, 2003, involved the sale of debentures in the principal amount of $0.9 million. The Company received $0.4 million in cash on June 30, 2003 and the remaining balance of $0.5 million on July 1, 2003 which was recorded as other receivable as of June 30, 2003. The closing of the second step, which will make available the balance of the financing of approximately $6.2 million, is contingent upon stockholder approval.

The debentures agreement includes a Material Adverse Change ("MAC") clause, which allows the debenture holders to demand the immediate payment of all outstanding balances upon the debenture holders' determination of the occurrence of deemed material adverse changes to the Company's financial condition, business or operations as determined by the debenture holders. Potential material adverse changes that may cause the Company to default on the debentures include any significant adverse effect on the Company's financial condition arising from an event not previously disclosed in the Company's filings with the Securities and Exchange Commission ("SEC") such as a significant litigation judgment against the Company, bankruptcy, termination of the majority of the Company's customer relationships or failure to obtain stockholder approval for the second step of the debenture financing. The MAC clause is effective until the conversion of all outstanding debentures.

As a result of the MAC clause, the debentures are classified as a current liability.

The Company is obligated to use reasonable efforts to register the shares issuable upon the conversion of the debentures and exercise of warrants. The Company would be subject to liquidated damages equal to a monthly 1.5% of the aggregate amount of the debentures in case the Company did not use reasonable efforts to cause a registration statement to be filed with the SEC by July 30, 2003. Such registration statement was filed with the SEC on July 29, 2003.

The Company is required to pay a cash fee of up to 6.65% of the gross proceeds of the debentures to certain financial advisors upon the closing of the second step of the debenture financing which is contingent upon stockholder approval.

The debentures accrue interest at the rate of 2% per annum and are convertible at the rate of $0.35 per share. The first step financing of $0.9 million is convertible into 2,655,554 shares of the Company's common stock. The closing price of the Company's common stock on June 30, 2003, the closing date for the first step, was $0.55. Therefore, a beneficial conversion feature exists which has been accounted for under the provisions of EITF 00-27, Application of Issue 98-5 to Certain Convertible Instruments.

In addition, the debenture holders were granted warrants to purchase 531,103 shares of the Company's common stock at an exercise price of $0.50. The warrants expire after eight years. The warrants were valued using the Black-Scholes model with the following variables: fair value of common stock of $0.35, volatility of 37% and risk-free interest rate of 2.5%.

The relative fair value of the warrants of $0.06 million has been classified as equity 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.

The following table presents the amounts allocated to the beneficial conversion feature and warrants and remaining balance of debt after accounting for these two equity instruments (in thousands):

Debentures - principal amount.............................	$ 929
Beneficial conversion feature (included in equity)	(653)
Warrants (included in equity).............................	(61)
Net amount of debentures (classified as short term debt: ..	$ 215

The issuance costs associated with the debentures amounted to $0.13 million and have been recorded as a short-term asset to be amortized over the life of the debt.

The value of the beneficial conversion feature, warrants and debt issuance costs will be amortized as interest expense over the life of the debt using the effective interest method. Such amortization will accelerate if the Company repays the debt early, if the material adverse change clause is invoked or if it is deemed that such invocation is probable given the presence of negative factors or

if the debt is converted into common stock. The Company will assess the probability of the occurrence of the material adverse change clause on a quarterly basis.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information herein contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified 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 or which constitute projected financial information. The forward-looking statements relate to the near-term semiconductor capital equipment industry outlook, demand for our products, our quarterly revenue and earnings prospects for the near-term future and other matters contained herein. Such statements are based on current expectations and beliefs and involve a number of uncertainties and risks that could cause the actual results to differ materially from those projected. Such uncertainties and risks include, but are not limited to, the cyclicality of the semiconductor industry, impediments to customer acceptance, fluctuations in quarterly operating results, competitive pricing pressures, the introduction of competitor products having technological and/or pricing advantages, product volume and mix and other risks detailed from time to time in our SEC reports. For further information, refer to the business description and risk factors sections included in our Form 10-K for the year ended March 31, 2003 and the risk factors section included in this Form 10-Q (Part II, Item 5) as filed with the SEC.

RESULTS OF OPERATIONS

Tegal 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 ("RFID's"), 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 following table sets forth certain financial items as a percentage of revenue for the three-month period ended June 30, 2003 and 2002:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2002
Revenue:		
Product revenue	91.2%	88.5%
Services revenue	8.8	11.5
Total revenue	100.0	100.0
Cost of sales:		
Cost of product	64.1	76.7
Cost of services	9.2	17.8
Total cost of sales	73.3	94.5
Gross profit	26.7	5.5
Operating expenses:		
Research and development	18.1	34.3
Sales and marketing	15.8	17.7
General and administrative	26.8	28.3
Total operating expenses	60.7	80.3
Operating loss	(34.0)	(74.8)
Other income (expense), net	1.5	(1.7)
Net loss	(32.5)	(76.5)

</TABLE>

Product Revenue. Revenue for the three months ended June 30, 2003 was $3.5 million, an increase of $0.2 million or 7.5% over the comparable period in 2002. The increase for the three months ended June 30, 2003 was principally due to the sale of three fewer 900 series systems offset by one more 6500 series system over the same period in the prior year.

Services Revenue. Revenue from service sales was $0.3 million for the three month period ended June 30, 2003, down slightly from $0.4 million for the three month period ended June 30, 2002, which we believe is a result of customers' continued decreased utilization of Tegal's etch systems during the current industry downturn.

International sales as a percentage of our revenue were approximately 82% and 74% for the three months ended June 30, 2003 and 2002, respectively. We believe that international sales will continue to represent a significant portion of our revenue.

Gross profit. Gross profit as a percentage of revenue (gross margin) was 27% and 6% for the three months ended June 30, 2003 and 2002, respectively. The increase in gross margin for the three months ended June 30, 2003, compared to the same period in the prior year, was principally attributable to the decreased overhead spending as a result of our continued cost cutting initiatives.

Research and development. Research and development expenses consist primarily of salaries, prototype material and other costs associated with our ongoing systems and process technology development, applications and field process support efforts. Research and development expenses were $0.7 million and $1.3 million for the three months ended June 30, 2003 and 2002, respectively, representing 18% and 34% of revenue, respectively. The decrease in research and development spending is due to the completion and implementation of specific projects and the continued cost reduction efforts.

Sales and marketing. Sales and marketing expenses consist primarily of salaries, commissions, trade show promotion and travel and living expenses associated with those functions. Sales and marketing expenses were relatively flat year over year at $0.6 million and $0.7 million for the three months ended June 30, 2003 and 2002, respectively, representing 16% and 18% of revenue, respectively.

General and administrative. General and administrative expenses consist primarily of compensation for general management, accounting and finance, human resources, information systems and investor relations functions and for legal, consulting and accounting fees of the Company. General and administrative expenses remained relatively flat year-to-year at $1.0 million and $1.1 million for the three months ended June 30, 2003 and 2002, respectively, representing 27% and 28% of revenue, respectively.

Other income (expense), net. Other income (expense), net consists primarily of interest expense on the domestic line of credit offset by interest income on outstanding cash balances, and gains and losses on foreign exchange.

LIQUIDITY AND CAPITAL RESOURCES

For the three-month periods ended June 30, 2003 and 2002, we financed our operations through the use of outstanding cash balances and borrowings against our promissory note borrowing facilities in Japan, as well as our domestic line of credit.

Net cash used in operations was $0.2 million during the three months ended June 30, 2003, due principally to a net loss of $0.9 million after deduction of depreciation and amortization, an increase in accounts receivable and prepaid assets, offset in part by a decrease in inventories, and an increase in accounts payable, other accrued liabilities and deferred revenue.

Capital expenditures were negligible for the three months ended June 30, 2003 and 2002.

Net cash received from financing activities totaled $0.5 million for the three months ended June 30, 2003 and was primarily related to the proceeds from the initial sale of convertible debentures on June 30, 2003. The decrease for the three months ended June 30, 2002 was due principally to decreased borrowing against the line of credit.

On June 30, 2003 the Company entered into an Amended Letter Agreement and Subordination Agreement with Silicon Valley Bank, which subordinated the bank's interest in Tegal's intellectual property to the investors in the Convertible Debt Financing (See Note 9). The Company agreed not to request, until such time as the investors' security interest in the intellectual property was terminated, any loan, letter of credit, foreign exchange forward contract, cash management service or credit accommodation under the Company's current line of credit with Silicon Valley Bank. At June 30, 2003, the Company had no amounts outstanding under this domestic line of credit, which had been collateralized by substantially all of the Company's domestic assets and which was further limited by the amounts of accounts receivable and inventories on the balance sheet. The facility had a maximum borrowing capacity of $10.0 million, and bore interest at prime plus 1.0 percent, or 5.25 percent as of June 30, 2003. The Company is currently negotiating with Silicon Valley Bank to modify this line of credit to allow renewed borrowing at substantially the same terms and conditions, but including the receivables of its Japanese subsidiary.

As of June 30, 2003, the Company's Japanese subsidiary had approximately $0.2 million outstanding under its bank line of credit which is secured by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable. The Japanese bank line bears interest at Japanese prime (1.375 percent as of June 30, 2003) plus 1.0 percent, has a renewal date of September 30, 2003, and has a total capacity of 150 million yen (approximately $1.3 million at exchange rates prevailing on June 30, 2003).

Notes payable as of June 30, 2003 consisted of two outstanding notes, including one to the California Trade and Commerce Agency and another to a retiring officer of Sputtered Films, Inc. for $0.2 million and $0.1 million, respectively. The unsecured note from the California Trade and Commerce Agency carries an annual interest rate of 5.75 percent with monthly interest only payments of approximately forty-two hundred dollars per month. Although the payment deadlines are being met, the note is currently in technical default due to the merger of Sputtered Films and Tegal Corporation. The unsecured note from the retiring officer of Sputtered Films, Inc. carries an annual interest rate of 10.0 percent.

The Company also entered into a Convertible Debenture Financing, which is described in Note 9 to the financial statements. The convertible debentures include a material adverse change clause which allows the debenture holders to demand the immediate payment of all outstanding balances upon the debenture holders' determination of the occurrence of deemed material adverse changes to our financial condition, business or operations as determined by the debenture holders based on required financial reporting and other criteria. Potential material adverse changes causing us to default on the Debentures may include any significant adverse effect on our financial condition arising from an event not previously disclosed in our SEC filings such as a significant litigation judgment against Tegal, bankruptcy, termination of the majority of our customer relationships, or failure to obtain stockholder approval of a second closing of the sale of an additional $6.2 million principal amount of our 2% Convertible Secured Debentures Due 2011 and warrants.

The consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of $1.3 million and $2.8 million for the periods ended June 30, 2003 and 2002, respectively, generated negative cash flows from operations of $0.2 million and $2.0 million in these periods, and has a cash and cash equivalents balance of $1.2 million at June 30, 2003, which raises substantial doubt about its ability to continue as a going concern. In addition, our auditors have included a going concern uncertainty explanatory paragraph in their latest auditors' report dated June 10, 2003, which is included in our 10-K for the year ended March 31, 2003. Management believes that its responses to the unfolding business climate, including the recent staff reduction, and the Company's currently available financial resources, including cash on hand, will be adequate to fund operations through fiscal year 2004. The Company raised $0.9 million from the first stage of a private placement of convertible debentures and warrants on June 30, 2003. In addition, the Company expects to complete the second stage of this convertible debt financing in August 2003, contingent upon stockholder approval. The second stage of the financing, involving the private placement of additional convertible debentures and warrants to the same investors as the first stage, will result in gross proceeds to the Company of $6.2 million. (See Note 9.) There is no assurance, however, that the stockholders of Tegal will approve the second stage of this financing, and there is no assurance, that additional financing, if required, will be available on reasonable terms or at all.

For more information on our capital resources, see "Risk Factors" in Part II, Item 5.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our cash equivalents are principally comprised of money market accounts. As of June 30, 2003, we had cash and cash equivalents of $1.2 million. These accounts are subject to interest rate risk and may fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities having a maturity of three months or less. Due to the nature of our cash and cash equivalents, we have concluded that there is no material market risk exposure.

We have foreign subsidiaries that operate and sell our products in various global markets. As a result, our cash flow and earnings are exposed to fluctuations in interest and foreign currency exchange rates. We attempt to limit these exposures through the use of various hedge instruments, primarily forward exchange contracts and currency option contracts (with maturities of less than three months) to manage our exposure associated with firm commitments and net asset and liability positions denominated in non-functional currencies. There have been no material changes regarding market risk since the disclosures made in our Form 10-K for the fiscal year ended March 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms,

and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and, in reaching reasonable level of assurance management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 17, 1998, Tegal filed suit in the United States District Court in the Eastern District of Virginia against Tokyo Electron America, Inc. and several of its affiliated companies (the "TEA case") alleging that TEL's 65DI and 85DI IEM etch equipment infringe certain of Tegal's patents. The TEA case was tried in the District Court in May 1999, and on August 31, 1999, the Court found both patents-in-suit valid, and found that TEA had willfully infringed our `223 dual-frequency triode etcher patent. The District Court enjoined TEA from further sales or service of its IEM etchers. In addition, the District Court ordered TEA to pay attorney's fees and court costs to Tegal. On appeal, the Federal Circuit affirmed the District Court's findings of infringement and the interpretations of the `223 patent on which those findings were made, but reversed certain findings relating to TEA's defense of anticipation. As a result, the Federal Circuit vacated the judgment and the injunction and remanded the case for further consideration of the anticipation defense. Further proceedings before the District Court to address TEA's anticipation defense have yet to be scheduled. In a separate but related action against Tokyo Electron Limited (the "TEL case") concerning a later generation of etchers known as the Advanced IEM or AIEM, the United States District Court for the Eastern District of Virginia granted summary judgment of non-infringement for TEL on August 7, 2000 and entered judgment for TEL on September 11, 2000. On February 1, 2002, the Federal Circuit affirmed the District Court's decision on summary judgment that the AIEM does not infringe the `223. The Federal Circuit's decision in the TEL case is now final. Although many issues have now been fully resolved in the litigation against the Tokyo Electron entities as reported above, further proceedings in the TEA case are still pending. Thus, we cannot assure you at this stage of the ultimate outcome of these litigations or of the effect of any such outcome on our business.

On September 1, 1999, the Company filed a patent infringement action against Lam Research Corporation (the "Lam case"), asserting infringement of two of Tegal's patents directed to dual frequency plasma processing technologies (the "`618 and the `223 patents"). Tegal sought injunctive relief barring Lam from manufacturing, selling and supporting products that incorporate its patented technology. The Company further sought enhanced damages for willful infringement of its patents. The suit was initially filed in United States District Court for the Eastern District of Virginia, but was transferred by that court to the United States District Court of the Northern District of California. Following an adverse decision from the United States Court of Appeals for the Federal Circuit in a prior case against Tokyo Electron Limited, Tegal voluntarily dismissed the '223 patent from the Lam case. A Markman hearing was held on the '618 patent in July 2002, and in September 2002 the Court issued a claim interpretation ruling in which it determined that the claim term "low frequency" means "less than approximately 1Mhz." In October 2002, Lam filed a motion for summary judgment of non-infringement of the '618 patent. On January 14, 2003, after modifying its original Markman ruling and further interpreting "low frequency" to have an upper limit of 1.4 Mhz, the Court granted Lam's motion for summary judgment of noninfringement of the '618 patent. Thereafter, Lam sought to pursue a counterclaim alleging that the case ought to be deemed "exceptional" under 28 U.S.C. ss. 285, thus justifying an award of attorney's fees in its favor. On June 13, 2003, the Court issued an order finding that the case is not "exceptional" and declining to award Lam its attorney's fees. Neither party has appealed any of the rulings made by the District Court and the time to file appeals has now run. Thus, the outcome of the litigation is now final.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On June 30, 2003, the Company closed a private placement in which it sold to accredited investors $0.9 million principal amount of its 2.0% Convertible Secured Debentures Due 2011 and warrants initially exercisable for 531,111 shares of common stock. The Debentures and accrued interest thereon are convertible into shares of the Company's common stock at a price of $0.35 per share. The warrants have an exercise price of $0.50 per share and expire June 30, 2011. The sale and issuance of these securities was exempt from registration under the Securities Act pursuant to Section 4(2) thereof, on the basis that the transaction did not involve a public offering. The Company intends to use the net proceeds from these securities for general corporate purposes. In June 2003, the Company issued stock options to purchase 300,000 shares of the Company's common stock to the landlord of its Petaluma facility, as part of a new lease agreement, and options to purchase 60,000 shares of the Company's common stock to a service provider for services rendered. The options to the landlord were valued at $0.1 million included in other assets using the Black-Scholes model. The issuance of these securities was exempt from registration under the Securities Act pursuant to Section 4(2) thereof, on the basis that the transaction did not involve a public offering. The Company intends to use the net proceeds from these securities for general corporate purposes.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On April 28, 2003 at a special meeting of our stockholders, our board of directors was granted the authority to effect a reverse split of our common stock within a range of two-for-one to fifteen-for-one. Please refer to our Proxy Statement filed on Schedule 14-A on

April 3, 2003 for a description of the matter voted upon at the meeting. There were present at the meeting, in person or by proxy, the holders of 13,876,204 shares of common Stock of the Company, representing 86% of the total votes eligible to be cast, constituting a majority and more than a quorum of the outstanding shares entitled to vote. The votes were tallied as follows:

For...	12,415,043
Against...	1,440,791
Abstain...	20,370
Broker Non Vote...	0

ITEM 5. OTHER INFORMATION

In accordance with Section 10A(i)(2) of the Securities Exchange Act of

1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002 (the "Act"), we are required to disclose the non-audit services approved by our Audit Committee to be performed by PricewaterhouseCoopers LLP, our external auditor. Non-audit services are defined in the Act as services other than those provided in connection with an audit or a review of the financial statements of a company. The Audit Committee has approved the engagement of PricewaterhouseCoopers LLP for the following non-audit services: the preparation of federal and state income tax returns.

On September 6, 2002, we received notification from Nasdaq that for the 30 days prior to the notice, the price of our common stock had closed below the minimum $1.00 per share bid price requirement for continued inclusion under Marketplace Rule 4450(a)(5) (the "Rule"), and were provided 90 calendar days, or until December 5, 2002, to regain compliance. Our bid price did not close above the minimum during that period. On December 6, 2002, we received notification from Nasdaq that our securities would be delisted from The Nasdaq National Market, the exchange on which our stock was listed prior to May 6, 2003, on December 16, 2002 unless we either (i) applied to transfer our securities to The Nasdaq SmallCap Market, in which case we would be afforded additional time to come into compliance with the minimum $1.00 bid price requirement; or (ii) appealed the Nasdaq staff's determination to the Nasdaq's Listing Qualifications Panel (the "Panel"). On December 12, 2002 we requested an oral hearing before the Panel and such hearing took place on January 16, 2003 in Washington, D.C. Our appeal was based, among other things, on our intention to seek stockholder approval for a reverse split of our outstanding common stock. On April 28, 2003 at a special meeting of our stockholders, our board of directors was granted the authority to effect a reverse split of our common stock within a range of two-for-one to fifteen-for-one. The timing and ratio of a reverse split, if any, is at the sole discretion of our board of directors. On May 6, 2003, we transferred the listing of our common stock to the Nasdaq SmallCap Market. In connection with this transfer, Nasdaq granted us an extension until September 2, 2003, to regain compliance with the Rule's minimum $1.00 per share bid price requirement for continued inclusion on the Nasdaq SmallCap Market (which may be further extended to December 1, 2003 so long as the company continues to meet other continued listing requirements).

If we are out of compliance in the future with Nasdaq listing requirements, we may take actions in order to achieve compliance, which actions may include a reverse split of our common stock. If an initial delisting decision is made by the Nasdaq's staff, we may appeal the decision as permitted by Nasdaq rules. If we are delisted and cannot obtain listing on another major market or exchange, our stock's liquidity would suffer, and we would likely experience reduced investor interest. Such factors may result in a decrease in our stock's trading price. Delisting also may restrict us from issuing additional securities or securing additional financing.

RISK FACTORS

WE HAVE INCURRED OPERATING LOSSES AND MAY NOT BE PROFITABLE IN THE FUTURE; OUR PLANS TO MAINTAIN AND INCREASE LIQUIDITY MAY NOT BE SUCCESSFUL; OUR AUDITORS' REPORT INCLUDES A GOING CONCERN UNCERTAINTY EXPLANATORY PARAGRAPH.

We incurred net losses of $12.6 million and $8.7 million for the years ended March 31, 2003 and 2002, respectively, and generated negative cash flows from operations of $6.0 million and $3.6 million in these respective years. In addition, we continue to generate losses and negative cash flows from operations through June 30, 2003. These factors raise substantial doubt as to our ability to continue as a going concern, and our auditors have included a going concern uncertainty explanatory paragraph in their latest auditors' report dated June 10, 2003 which is included in our 10-K for the year ended March 31, 2003. Our plans to maintain and increase liquidity include the restructuring executed during fiscal 2002 and 2003, which reduced headcount from 155 employees to 81 employees and has reduced our cost structure entering fiscal 2004. We believe the cost reduction and a projected increase in sales during fiscal 2004 will generate sufficient cash flows to fund our operations through March 31, 2004. However, these projected sales are to a limited number of new and existing customers and are based, for the most part, on internal and customer provided estimates of future demand, not firm customer orders. If the projected sales do not materialize, we will need to reduce expenses further and raise

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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. 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 consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amount or classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern.

OUR DEBENTURES INCLUDE A MATERIAL ADVERSE CHANGE CLAUSE.

As disclosed in our Current Report on Form 8-K filed with the SEC on June 2, 2003, our 2% Convertible Secured Debentures Due 2011 that we sold on June 30, 2003 include a material adverse change clause. This material adverse change clause allows the debenture holders to demand the immediate payment of all outstanding balances upon the debenture holders' determination of the occurrence of deemed material adverse changes to our financial condition, business or operations as determined by the debenture holders based on required financial reporting and other criteria. Potential material adverse changes causing us to default on the Debentures may include any significant adverse effect on our financial condition arising from an event not previously disclosed in our SEC filings such as a significant litigation judgment against Tegal, bankruptcy, termination of the majority of our customer relationships, or failure to obtain stockholder approval of a second closing of the sale of an additional $6.2 million principal amount of our 2% Convertible Secured Debentures Due 2011 and warrants. As of July 31, 2003, $0.9 million principal amount of our 2% Convertible Secured Debentures Due 2011 plus accrued interest could be demanded for immediate payment by the Debenture holders upon such an event of default. In the event of such a demand, Tegal would need to pursue additional funding for repayment of such amount, or risk insolvency.

THE CONVERSION OF OUR CONVERTIBLE SECURITIES, THE EXERCISE OF OUTSTANDING WARRANTS, OPTIONS AND OTHER RIGHTS TO OBTAIN ADDITIONAL SHARES COULD DILUTE THE VALUE OF THE SHARES.

As of August 1, 2003, there are Debentures convertible into 2,655,554 shares of our common stock (all of which are based on a conversion price of $0.35 per share and a cash payment in lieu of any fractional share), warrants exercisable for approximately 2,229,653 shares of our common stock and options exercisable for approximately 1,474,725 shares of our common stock. If we obtain stockholder approval of the sale of an additional $6.2 million principal amount of our Debentures and warrants, these additional Debentures will be initially convertible into 17,815,714 shares of common stock, and the additional warrants will be exercisable for 3,563,143 shares of common stock.

The conversion of these convertible securities and the exercise of these warrants could result in dilution in the value of the shares of our outstanding common stock and the voting power represented thereby. In addition, the conversion price of the Debentures or 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.

Neither the Debentures nor the warrants establish a "floor" that would limit reductions in such conversion price or exercise price. The downward adjustment of the conversion price of these Debentures and 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.

SALES OF SUBSTANTIAL AMOUNTS OF OUR SHARES OF COMMON STOCK COULD CAUSE THE PRICE OF OUR COMMON STOCK TO GO DOWN.

To the extent the holders of our convertible securities and warrants convert or exercise such securities and then sell the shares of our common stock they receive upon conversion or 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 stockholders and others, which could place further downward pressure on our stock price. Moreover, holders of these convertible securities and warrants may hedge their positions in our common stock by shorting our common stock, which could further adversely affect our stock price. The effect of these activities on our stock price could increase the number of shares issuable upon future conversions of our convertible securities or exercises of our warrants.

Should we receive stockholder approval to increase the number of authorized shares of common stock to 100 million shares and/or effect a reverse stock split, we may also issue additional capital stock, convertible securities and/or warrants to raise capital in the future. In addition, we may elect to pay any accrued interest on the outstanding $0.9 million and proposed $6.2 million (subject to stockholder approval) principal amount of Debentures with shares of our common stock. Interest on the Debentures is calculated quarter-annually, based on 2% per annum on the principal amount outstanding. In addition, to attract and retain key personnel, we may issue additional securities, including stock options. All of the above could result in additional dilution of the value of our 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. Public or private sales of substantial amounts of shares of our common stock by persons or entities that have exercised options and/or warrants could adversely affect the prevailing market price of the shares of our common stock.

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 integrated circuits. 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 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 downturn.

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, among others, 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 of America or worldwide.

IF WE FAIL TO MEET THE CONTINUED LISTING REQUIREMENTS OF THE NASDAQ STOCK MARKET, OUR STOCK COULD BE DELISTED.

Our stock is currently listed on The Nasdaq SmallCap Market. The Nasdaq

Stock Market's Marketplace Rules impose certain minimum financial requirements on us for the continued listing of our stock. One such requirement is the minimum bid price on our stock of $1.00 per share. Beginning in 2002, there have been periods of time during which we have been out of compliance with the $1.00 minimum bid requirements of the Nasdaq SmallCap Market.

On September 6, 2002, we received notification from Nasdaq that for the 30 days prior to the notice, the price of our common stock had closed below the minimum $1.00 per share bid price requirement for continued inclusion under Marketplace Rule 4450(a)(5) (the "Rule"), and were provided 90 calendar days, or until December 5, 2002, to regain compliance. Our bid price did not close above the minimum during that period. On December 6, 2002, we received notification from Nasdaq that our securities would be delisted from The Nasdaq National Market, the exchange on which our stock was listed prior to May 6, 2003, on December 16, 2002 unless we either (i) applied to transfer our securities to The Nasdaq SmallCap Market, in which case we would be afforded additional time to come into compliance with the minimum $1.00 bid price requirement; or (ii) appealed the Nasdaq staff's determination to the Nasdaq's Listing Qualifications Panel (the "Panel"). On December 12, 2002 we requested an oral hearing before the Panel and such hearing took place on January 16, 2003 in Washington, D.C. Our appeal was based, among other things, on our intention to seek stockholder approval for a reverse split of our outstanding common stock. On April 28, 2003 at a special meeting of our stockholders, our board of directors was granted the authority to effect a reverse split of our common stock within a range of two-for-one to fifteen-

for-one. The timing and ratio of a reverse split, if any, is at the sole discretion of our board of directors. On May 6, 2003, we transferred the listing of our common stock to the Nasdaq SmallCap Market. In connection with this transfer, Nasdaq granted us an extension until September 2, 2003, to regain compliance with the Rule's minimum $1.00 per share bid price requirement for continued inclusion on the Nasdaq SmallCap Market (which may be further extended to December 1, 2003 so long as the company continues to meet other continued listing requirements).

If we are out of compliance in the future with Nasdaq listing requirements, we may take actions in order to achieve compliance, which actions may include a reverse split of our common stock. If an initial delisting decision is made by the Nasdaq's staff, we may appeal the decision as permitted by Nasdaq rules. If we are delisted and cannot obtain listing on another major market or exchange, our stock's liquidity would suffer, and we would likely experience reduced investor interest. Such factors may result in a decrease in our stock's trading price. Delisting also may restrict us from issuing additional securities or securing additional financing.

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. Revenues from the sale of our advanced etch and deposition systems accounted for 25% and 36% of total revenues in fiscal 2003 and 2002, 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. There can be no assurance 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, our business, financial condition, results of operations and cash flows will be materially adversely affected.

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 detrimental effect on 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 there can be no assurance as to future profitability.

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;
- product returns upon the introduction of new product versions and pricing adjustments for our distributors;
- seasonal fluctuations in sales;
- anticipated declines in selling prices of our products to original equipment manufacturers and potential declines in selling prices to other parties as a result of competitive pressures;

- 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;
- 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; and
- timely and accurate reporting to us by our original equipment manufacturer customers of units shipped.

Additionally, potential acquisitions may result in significant expenses, including amortization of purchased software, which is reflected in cost of revenues, as well as charges for in-process research and development and amortization of acquired identifiable intangible assets, which are reflected in operating expenses.

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. There can be no assurance 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.

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.

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.

Existing litigation and any future litigation could result in substantial cost and diversion of effort by us, which by itself could have a detrimental 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.

OUR CUSTOMERS ARE CONCENTRATED AND THEREFORE THE LOSS OF A SIGNIFICANT CUSTOMER MAY HARM OUR BUSINESS.

Our top five customers accounted for 88.2%, 54.4% and 42.0% of our systems revenues in fiscal 2003, 2002 and 2001, respectively. Four customers each accounted for more than 10% of net systems sales in fiscal 2003. 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 manufacturing industry, may have a detrimental effect on our business, financial condition, results of operations and cash flows. Our ability to increase our sales in the future will depend, in part, upon our ability to obtain orders from new customers, as well as the financial condition and success of our existing customers and the general economy, which is largely beyond our ability to control.

WE ARE EXPOSED TO ADDITIONAL RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS.

International sales accounted for 66%, 67% and 61% of total revenue for fiscal 2003, 2002 and 2001, 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 distributors or representatives, difficulties in staffing and managing international operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a detrimental effect on our operations and financial results.

Sales of our systems in certain countries are billed in local currency, and we have a line of credit denominated in Japanese Yen. We generally attempt to offset a portion of our U.S. dollar denominated balance sheet exposures subject to foreign exchange rate remeasurement by purchasing forward currency contracts for future delivery. There can be no assurance 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 of America.

WE MUST INTEGRATE OUR ACQUISITION OF SPUTTERED FILMS AND WE MAY NEED TO MAKE ADDITIONAL FUTURE ACQUISITIONS TO REMAIN COMPETITIVE. THE PROCESS OF IDENTIFYING, ACQUIRING AND INTEGRATING FUTURE ACQUISITIONS MAY CONSTRAIN VALUABLE MANAGEMENT RESOURCES, AND OUR FAILURE TO EFFECTIVELY INTEGRATE FUTURE ACQUISITIONS MAY RESULT IN THE LOSS OF KEY EMPLOYEES AND THE DILUTION OF STOCKHOLDER VALUE AND HAVE AN ADVERSE EFFECT ON OUR OPERATING RESULTS.

We acquired Sputtered Films, Inc. in August 2002. We may in the future seek to acquire or invest in additional businesses, products or technologies that we believe could complement or expand our business, augment our market coverage, enhance our technical capabilities or that may otherwise offer growth opportunities. We may encounter problems with the assimilation of Sputtered Films or businesses, products or technologies acquired in the future including:

o difficulties in assimilation of acquired personnel, operations, technologies or products;

o unanticipated costs associated with acquisitions;

o diversion of management's attention from other business concerns and potential disruption of our ongoing business;

o adverse effects on our existing business relationships with our customers;

o potential patent or trademark infringement from acquired technologies;

o adverse effects on our current employees and the inability to retain employees of acquired companies;

o use of substantial portions of our available cash as all or a portion of the purchase price; and

o dilution of our current stockholders due to issuances of additional securities as consideration for acquisitions.

If we are unable to successfully integrate our acquired companies or to create new or enhanced products and services, we may not achieve the anticipated benefits from our acquisitions. If we fail to achieve the anticipated benefits from the acquisitions, we may incur increased expenses and experience a shortfall in our anticipated revenues and we may not obtain a satisfactory return on our investment. In addition, if a significant number of employees of acquired companies fail to remain employed with us, we may experience difficulties in achieving the expected benefits of the acquisitions.

Completing any potential future acquisitions could cause significant diversions of management time and resources. Financing for future acquisitions may not be available on favorable terms, or at all. If we identify an appropriate acquisition candidate for any of our businesses, we may not be able to negotiate the terms of the acquisition successfully, finance the acquisition or integrate the acquired business, products, technologies or employees into our existing business and operations. Future acquisitions may not be well-received by the investment community, which may cause our stock price to fall. We have not entered into any agreements or understanding regarding any future acquisitions and cannot ensure that we will be able to identify or complete any acquisition in the future.

If we acquire businesses, new products or technologies in the future, we may be required to amortize significant amounts of identifiable intangible assets and we may record significant amounts of goodwill that will be subject to annual testing for impairment. If we consummate one or more significant future acquisitions in which the consideration consists of stock or other securities, our existing stockholders' ownership could be significantly diluted. If we were to proceed with one or more significant future acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash.

OUR WORKFORCE REDUCTIONS AND FINANCIAL PERFORMANCE MAY ADVERSELY AFFECT THE MORALE AND PERFORMANCE OF OUR PERSONNEL AND OUR ABILITY TO HIRE NEW PERSONNEL.

We have made reductions in our workforce in order to reduce costs and bring staffing in line with our anticipated requirements. There were costs associated with the workforce reductions related to severance and other employee-related costs, and our restructuring may yield unanticipated costs and consequences, such as attrition beyond our planned reduction in staff. In addition, 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. In addition, workforce reductions and management changes create anxiety and uncertainty and may adversely affect employee morale. As a result, we may lose employees whom we would prefer to retain. 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.

PROVISIONS IN OUR AGREEMENTS, CHARTER DOCUMENTS, STOCKHOLDER RIGHTS PLAN AND DELAWARE LAW MAY DETER TAKEOVER ATTEMPTS, WHICH COULD DECREASE THE VALUE OF YOUR SHARES.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. Our board of directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. Delaware law imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. In addition, we have adopted a stockholder rights plan that makes it more difficult for a third party to acquire us without the approval of our board of directors. These provisions apply even if the offer may be considered beneficial by some stockholders.

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. There can be no assurance that the market price of our common stock will not experience significant fluctuations in the future, including fluctuations that are unrelated to our performance.

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 6. EXHIBITS AND REPORTS ON FORM 8-K

<TABLE>
<CAPTION>

(a) Exhibits

<s>	<c>
10.1	Subordination Agreement
10.2	SVB Amendment
31	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

</TABLE>

(b) Reports on Form 8-K

Current Report on Form 8-K filed on July 2, 2003, under item 5 and item 7 there of.

SIGNATURES

Pursuant to the requirements 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
(Registrant)

/s/ THOMAS R. MIKA
Thomas R. Mika
Chief Financial Officer

Dated: August 14, 2003

EXHIBIT 10.1

SUBORDINATION AGREEMENT

BORROWER: TEGAL CORPORATION AND ITS SUBSIDIARIES SPUTTERED FILMS, INC., TEGAL GERMANY, TEGAL JAPAN, INC. AND TEGAL ITALY, SRL

SUBORDINATING CREDITOR: SILICON VALLEY BANK

DATE: JUNE 30, 2003

THIS SUBORDINATION AGREEMENT is executed by the above-named Subordinating Creditor ("Subordinating Creditor") in favor of Orin Hirschman ("Secured Party"), as collateral agent for the holders of the 2% Convertible Secured Debentures due June 30, 2011 of Tegal Corporation (as amended or otherwise modified from time to time, the "Debentures"), whose address is 1231 East 10th Street, Brooklyn, New York 11230, with respect to the above-named Borrower (collectively, "Borrower"). The Subordinating Creditor hereby agrees as follows:

1. SUBORDINATION OF SECURITY INTEREST. All security interests now or hereafter acquired by Secured Party in any or all of the Collateral (as defined below), in which the Borrower now has or hereafter acquires any ownership, leasehold or other interest shall at all times be prior and superior to any lien, ownership interest, security interest or other interest or claim now held or hereafter acquired by the Subordinating Creditor in the Collateral (the "Subordinate Interest"). Said priority shall be applicable irrespective of the time or order of attachment or perfection of any security interest or the time or order of filing of any financing statements or other documents, or any statutes, rules or law, or court decisions to the contrary. Upon any disposition of any of the Collateral by Secured Party, the Subordinating Creditor agrees, if requested by Secured Party, to promptly execute and deliver any and all releases or other documents or agreements which Secured Party reasonably deems necessary to accomplish a disposition thereof free of the Subordinate Interest.

2. "COLLATERAL." As used in this Agreement, "Collateral" shall mean all of the following types of property, in which the Borrower now has or hereafter acquires any ownership, leasehold or other interest, wherever located:

(a) any and all copyrights (whether registered or unregistered), copyright rights, copyright applications, copyright registrations, mask works, mask work applications and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret;

(b) any and all trade secrets, know-how, customer lists, franchise, systems, inventions, designs, blueprints, engineering drawings, proprietary products, technology, proprietary rights and any and all intellectual property rights in computer software, computer programs and computer software products, including source code on any proprietary or licensed software;

(c) any and all patents and patent applications, and all registrations, applications and recordings thereof, including, without limitation, all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof, and all applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, or any State thereof, or any foreign country;

(d) any and all trademarks (whether registered or unregistered) and trademark applications, trade names, fictitious business names, service marks (whether registered or unregistered), service mark applications and all registrations, applications, and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof, or any foreign country;

(e) any and all license agreements with respect to any Patent or Trademark; and

(f) All products and proceeds of any and all of the foregoing; provided that the Collateral shall not include (without limitation) the following (collectively, "Excluded Assets"): any accounts or payment intangibles generated from the licensing of any Collateral prior to the "Date of Disposition" of such Collateral by Secured Party with respect to periods ending prior to such date (which shall include, for example, an account for an item of inventory sold by Borrower prior to the date Secured Party foreclosed upon a copyright of Borrower even if software represented by said copyright was integrated into such item of inventory), inventory, equipment, or deposit accounts of Borrower, even if (i) the account or payment intangible is a royalty, license fee or other proceed of the sale or license of copyrighted material, or (ii) the inventory or equipment has an intellectual property right of Borrower associated with it (e.g., if an item of inventory has a logo of Borrower stamped thereon or was manufactured pursuant to a patent held by Borrower; or if an item of equipment of Borrower contains software necessary for the equipment's operation, which was licensed to Borrower in connection with Borrower's purchase of such equipment). For purposes of the foregoing, "Date of Disposition" shall mean the later of the date Secured Party disposes of such Collateral pursuant to its remedies as a secured party or the date Secured Party gives written notice of such disposition to Subordinating Creditor (without limitation on any right Subordinating Creditor may have to be given notice prior to disposition).

3. DISPOSITION OF COLLATERAL. The Subordinating Creditor agrees that, until Secured Party has received payment in full of all indebtedness, liabilities, guarantees and other obligations of the Borrower to Secured Party and the holders of the Debentures, now existing or hereafter arising (the "Secured Party Debt"), Secured Party may dispose of, and exercise any other rights with respect to, any or all of the Collateral, free of the Subordinate Interest without the consent of the Subordinating Creditor, provided that the Subordinating Creditor retains any rights it may have as a junior secured creditor with respect to the surplus, if any, arising from any such disposition or enforcement.

4. MODIFICATIONS TO SECURED PARTY DEBT; WAIVERS. Until Secured Party has received payment in full of all Secured Party Debt, the Subordinating Creditor agrees that, in addition to any other rights that Secured Party and the holders of the Debentures may have at law or in equity, Secured Party and the holders of the Debentures may at any time, and from time to time, without the Subordinating Creditor's consent and without notice to the Subordinating Creditor, renew, extend or increase any of the Secured Party Debt or that of any other person at any time directly or indirectly liable for the payment of any Secured Party Debt, accept partial payments of the Secured Party Debt, settle, release (by operation of law or otherwise), compound, compromise, collect or liquidate any of the Secured Party Debt, make loans or advances to the Borrower secured in whole or in part by the Collateral or refrain from making any loans or advances to the Borrower, change, waive, alter or vary the interest charge on, or any other terms or provisions of the Secured Party Debt, any Debenture, or any present or future instrument, document or agreement between Secured Party, the holders of the Debentures and the Borrower, release, exchange, fail to perfect, delay the perfection of, fail to resort to, or realize upon any Collateral, and take any other action or omit to take any other action with respect to the Secured Party Debt or the Collateral as Secured Party deems necessary or advisable in Secured Party's sole discretion. The Subordinating Creditor waives any right to require Secured Party to marshal any assets in favor of the Subordinating Creditor or against or in payment of any or all of the Secured Party Debt. Subordinating Creditor further waives any defense arising by reason of any claim or defense based upon an election of remedies by Secured Party which in any manner impairs, affects, reduces, releases, destroys and/or extinguishes the Subordinating Creditor's subrogation rights, rights to proceed against the Borrower for reimbursement, and/or any other rights of the Subordinating Creditor in connection with the Collateral.

5. STANDSTILL. Until the Secured Party Debt has been paid and performed in full, the Subordinating Creditor shall not collect, take possession of, foreclose upon, or exercise any other rights or remedies with respect to, the Collateral, judicially or non-judicially, or attempt to do any of the foregoing; provided that Subordinating Creditor shall not (without limitation) in any manner be prevented or constrained from exercising any rights or remedies that it may have with respect to any Excluded Collateral or other assets of Borrower not constituting Secured Party's Collateral (as that term is used herein) or from using customer information for purposes of collecting accounts and payment intangibles. Until the Secured Party Debt has been paid and performed in full,

if (notwithstanding the foregoing limitations on Subordinating Creditor exercising its remedies) Subordinating Creditor shall receive any Collateral in connection with the enforcement of any of its rights and remedies with respect to Collateral, the Subordinating Creditor shall promptly deliver such Collateral to Secured Party.

6. NO COMMITMENT. It is understood and agreed that this Agreement shall in no way be construed as a commitment or agreement by Secured Party and the holders of the Debentures to continue financing arrangements with the Borrower and that Secured Party and the holders of the Debentures may terminate such arrangements at any time, in accordance with Secured Party's agreements with the Borrower.

7. FINANCIAL CONDITION OF BORROWER. The Subordinating Creditor is presently informed of the financial condition of the Borrower and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of non-payment of the Secured Party Debt and the indebtedness of Borrower to Subordinating Creditor.

8. GENERAL. The word "indebtedness" is used in this agreement in its most comprehensive sense and includes without limitation any and all present and future loans, advances, credit, debts, obligations, liabilities, representations, warranties, and guarantees, of any kind and nature, absolute or contingent, liquidated or unliquidated, and individual or joint. This Agreement is solely for the benefit of Secured Party, as the collateral agent for the holders of the Debentures, and Secured Party's successors and assigns, and neither the Borrower nor any other person shall have any right, benefit, priority or interest under, or because of the existence of, this Agreement. All of Secured Party's rights and remedies hereunder and under applicable law are cumulative and not exclusive. This Agreement sets forth in full the terms of agreement between the parties with respect to the subject matter hereof, and may not be modified or amended, nor may any rights hereunder be waived, except in a writing signed by Secured Party and the Subordinating Creditor. In the event of any litigation between the parties based upon or arising out of this Agreement, the prevailing party shall be entitled to recover all of its costs and expenses (including without limitation attorneys fees) from the non-prevailing party. This Agreement shall be construed in accordance with, and governed by, the laws of the State of New York. This Agreement shall be binding upon the Subordinating Creditor and its successors and assigns and shall inure to the benefit of Secured Party and Secured Party's successors and assigns.

11. MUTUAL WAIVER OF JURY TRIAL; JURIDICTION. SUBORDINATING CREDITOR AND SECURED PARTY EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS AGREEMENT; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN SUBORDINATING CREDITOR AND SECURED PARTY; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF SUBORDINATING CREDITOR OR SECURED PARTY OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH SUBORDINATING CREDITOR OR SECURED PARTY; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE. SUBORDINATING CREDITOR AND SECURED PARTY HEREBY AGREE THAT ANY JUDICIAL PROCEEDING WITH RESPECT TO THIS AGREEMENT MAY BE BROUGHT, WITHOUT LIMITATION, IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICATION IN THE STATE OF NEW YORK, AND THEY HEREBY ACCEPT, WITHOUT LIMITATION, THE NON-EXCLUSIVE JURISDICTION OF SAID COURTS LOCATED IN THE STATE OF NEW YORK. SUBORDINATING CREDITOR WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF SAID COURTS LOCATED IN THE STATE OF NEW YORK AND SHALL NOT ASSERT ANY DEFENSE BASED UPON LACK OF JURISDICTION OR VENUE BASED UPON FORUM NON CONVENIENS WITH RESPECT TO SAID COURTS.

"SUBORDINATING CREDITOR:"

SILICON VALLEY BANK

BY /S/ PATRICK O'DONNELL
PRESIDENT OR VICE PRESIDENT
ADDRESS: 3003 TASMAN DRIVE
SANTA CLARA, CALIFORNIA 95054
ATTN: MICHAEL WHITE AND
BRENDA PENROD

CONSENT AND AGREEMENT OF BORROWER

The undersigned Borrower hereby approves of, agrees to and consents to all of the terms and provisions of the foregoing Subordination Agreement and agrees to be bound thereby. Borrower further agrees that, at any time and from time to time, the foregoing Agreement may be altered, modified or amended by Secured Party and the Subordinating Creditor without notice to or the consent of Borrower.

BORROWER:

TEGAL CORPORATION

BY /S/ THOMAS R. MIKA
PRESIDENT OR VICE PRESIDENT

SPUTTERED FILMS, INC.

BY /S/ THOMAS R. MIKA
PRESIDENT OR VICE PRESIDENT

TEGAL GERMANY

BY /S/ LOUIS VONARB
PRESIDENT OR VICE PRESIDENT

TEGAL JAPAN, INC.

BY /S/ JIM MCKIBBEN
PRESIDENT OR VICE PRESIDENT

TEGAL ITALY, SRL

BY /S/ KATHY PETRINI
PRESIDENT OR VICE PRESIDENT

ACCEPTED:

SECURED PARTY:

/S/ ORIN HIRSCHMAN
ORIN HIRSCHMAN

Exhibit 10.2

June 30, 2003

Tegal Corporation
2201 South McDowell Blvd.
Petaluma, CA 94954

Gentlemen:

Reference is made to (i) the Loan and Security Agreement, and the Loan and Security Agreement (Exim Program), both between you ("Borrower") and us ("Silicon"), and both dated as of June 26, 2002 (as amended, restated, supplemented, or otherwise modified from time to time, collectively the "Loan Agreements"), and (ii) the Schedule to Loan and Security Agreement, and the Schedule to Loan and Security Agreement (Exim Program), both between Borrower and Silicon, and both dated as of June 26, 2002 (as amended, restated, supplemented or otherwise modified from time to time, collectively the "Loan Agreement Schedules"). This letter agreement (this "Agreement"), the Loan Agreements, the Loan Agreement Schedules, and all other written documents and agreements between us are referred to herein collectively as the "Loan Documents". Capitalized terms used, but not defined, in this Agreement shall have the meanings set forth in the Loan Agreements and the Loan Agreement Schedules.

You have advised us that you desire to provide to Orin Hirschman ("Hirschman") a security interest in intellectual property "Collateral" (as that term is defined in the Subordination Agreement referenced below), and you have requested that (i) such security interest be considered a Permitted Lien under the Loan Agreements and (ii) Silicon enter into a Subordination Agreement (the "Subordination Agreement") with Hirschman pursuant to which Silicon subordinates its security interest in the Collateral in favor of Hirshman's security interest in the Collateral.

Silicon hereby agrees that the security interest of Hirschman to which Silicon subordinates pursuant to the Subordination Agreement shall be considered a Permitted Lien, based upon your agreement that you shall not request, and Silicon shall have no obligation to provide, any Loan, Letter of Credit, FX Forward Contract, Cash Management Service or other credit accommodation under the Loan Documents (collectively, "Credit Accommodations") until 45 days following written notice from you of your desire to have Silicon provide Credit Accommodations, provided that at that time (i) Silicon has been provided evidence satisfactory to Silicon that the security interests in favor of Hirschman have been terminated, and (ii) the Subordination Agreement has been terminated pursuant to a written agreement reasonably acceptable to Silicon. Notwithstanding the foregoing, if a factoring arrangement is agreed to on terms acceptable to you and Silicon (in your discretion and Silicon's discretion), then such factoring shall be pursuant to such agreed upon terms and not subject to the 45-days notice requirement set forth herein.

This Agreement, the Loan Agreements, the Loan Agreement Schedules, and the other Loan Documents set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, oral representations, oral agreements and oral understandings between the parties with respect to the subject hereof.

Except as herein expressly amended, all of the respective terms and provisions of the Loan Agreements, the Loan Agreement Schedules, and all other Loan Documents shall continue in full force and effect and the same are hereby ratified and confirmed. This Agreement is part of the Loan Agreements, and the terms of the Loan Agreements are incorporated herein by reference.

If the foregoing correctly sets forth our agreement, please sign the enclosed copy of this Agreement and return it to us.

Sincerely yours,

Silicon Valley Bank

By /s/ Patrick O'Donnell
Title Vice President

Acknowledged and agreed:

Borrower:

Tegal Corporation

By /s/ Thomas R. Mika .
President or Vice President

By /s/ Kathy Petrini .
Secretary or Assistant Secretary

EXHIBIT 31

CERTIFICATIONS

I, Thomas R. Mika, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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-15(e) for the registrant and 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; and

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 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 functions):

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 control over financial reporting.

Date: August 14, 2003 /s/ THOMAS R. MIKA

Thomas R. Mika
Chief Financial Officer

I, Michael L. Parodi, certify that:

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

2. Based on my knowledge, this quarterly 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; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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-15(e) for the registrant and 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; and

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 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 functions):

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 control over financial reporting.

Date: August 14, 2003 /s/ MICHAEL L. PARODI

Michael L. Parodi

Chief Executive Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Tegal Corporation (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: August 14, 2003

/s/ MICHAEL L. PARODI
Michael L. Parodi
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Tegal Corporation (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: August 14, 2003

/s/ THOMAS R. MIKA
Thomas R. Mika
Chief Financial Officer