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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 September 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 September 30, 2003, there were 16,994,124 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)

ASSETS

	September 30, 2003	March 31, 2003
Current assets:		
Cash and cash equivalents	$ 7,120	$ 912
Trade receivables, net	2,689	2,681
Inventories	6,114	7,032
Prepaid expenses and other current assets	4,726	465
Total current assets	20,649	11,090
Property and equipment, net	4,333	4,916
Intangible assets, net	894	959
Other assets	395	244
Total assets	$ 26,271	$ 17,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 159	$ 389
2% convertible debentures, net	179	--
Accounts payable	2,859	1,923
Product warranty	386	734
Customer deposits	1,120	--
Accrued expenses and other current liabilities	2,570	2,679
Deferred revenue	415	324
Total current liabilities	7,688	6,049
Long-term portion of capital lease obligation	32	37
Total liabilities	7,720	6,086
Stockholders' equity:		
Common stock	170	161
Additional paid-in capital	79,248	68,806
Accumulated other comprehensive income	365	465
Accumulated deficit	(61,232)	(58,309)
Total stockholders' equity	18,551	11,123
	$ 26,271	$ 17,209

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

<TABLE>
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<S>	Three Months Ended September 30, 2003 <C>	Three Months Ended September 30, 2002 <C>	Six Months Ended September 30, 2003 <C>	Six Months Ended September 30, 2002 <C>
Revenue:				
Product	$ 2,882	$ 2,444	$ 6,424	$ 5,750
Services	328	231	671	647
Total revenue	3,210	2,675	7,095	6,397
Cost of sales:				
Cost of product	1,794	3,554	4,286	6,408
Cost of services	424	753	780	1,417
Total cost of sales	2,218	4,307	5,066	7,825
Gross profit (loss)	992	(1,632)	2,029	(1,428)
Operating expenses:				
Research and development	836	1,021	1,539	2,297
Sales and marketing	556	744	1,168	1,403
General and administrative	916	1,271	1,952	2,324
Total operating expenses	2,308	3,036	4,659	6,024
Operating loss	(1,316)	(4,668)	(2,630)	(7,452)
Other expense, net	(354)	(154)	(293)	(216)
Net loss	$ (1,670)	$ (4,822)	$ (2,923)	$ (7,668)
Net loss per share, basic and diluted ...	$ (0.10)	$ (0.33)	$ (0.18)	$ (0.53)
Shares used in per share computations:				
Basic	16,342	14,835	16,215	14,573
Diluted	16,342	14,835	16,215	14,573

</TABLE>

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

<TABLE>
<CAPTION>

<S>	Six Months Ended September 30, 2003 <C>	Six Months Ended September 30, 2002 <C>
Cash flows from operating activities:		
Net loss	$(2,923)	$(7,668)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	665	407
Allowance for doubtful accounts and sales return allowances	74	21
Fair value of warrants issued for services rendered	159	121

Non-cash amortization of beneficial conversion feature and debt issuance costs	292	--
Inventory provision	--	1,922
Changes in operating assets and liabilities:		
Receivables	(77)	(864)
Inventories	858	1,491
Prepaid expenses and other assets	(390)	578
Accounts payable	935	83
Accrued expenses and other liabilities	(236)	(301)
Accrued warranty	(348)	(141)
Customer deposits	1,120	--
Deferred revenue	91	635
	-------	-------
Net cash provided by (used in) operating activities	220	(3,716)
	-------	-------
Cash flows used in investing activities-- purchases of property and equipment	(17)	(309)
	-------	-------
Cash flows from financing activities:		
Gross proceeds from the issuance of convertible debentures	7,165	--
Convertible debentures issuance costs	(982)	--
Net proceeds from issuance of common stock	9	16
Borrowings under lines of credit	177	5,467
Repayment of borrowings under lines of credit	(397)	(5,292)
Payments on capital lease financing	(5)	(5)
	-------	-------
Net cash provided by financing activities	5,967	186
	-------	-------
Effect of exchange rates on cash and cash equivalents	38	(22)
	-------	-------
Net increase (decrease) in cash and cash equivalents	6,208	(3,861)
Cash and cash equivalents at beginning of period	912	8,100
	-------	-------
Cash and cash equivalents at end of period	$ 7,120	$ 4,239
	=======	=======

</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 and six months ended September 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 $2,923 and $7,668 for the six months ended September 30, 2003 and 2002, respectively. The company generated cash flows from operations of $220 for the period ended September 30, 2003 and negative cash flows from operations of $3,716 for the period ended September 30, 2002. To finance its operations, the Company raised approximately $7.2 million in proceeds from the sale of convertible debentures and warrants during the six-month period ended September 30, 2003 (see Note 9). Management believes that the proceeds from the debentures, combined with the effects of its cost compression program, will be adequate to fund operations through fiscal year

2005. However, projected sales may not materialize and unforeseen costs may be incurred. Additionally, the convertible debentures agreement includes 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 the Company's financial condition, business or operations as determined by the debenture holders based on required financial reporting and other criteria. These issues raise substantial doubt about the Company's ability to continue as a going concern.

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 allowances for potential credit losses. Write-offs during the periods presented have been insignificant. As of September 30, 2003 and September 30, 2002 one customer accounted for approximately 45 % and three customers accounted for approximately 49 %, respectively, of the accounts receivable balance.

During the three months ended September 30, 2003 and 2002, one customer accounted for 35 % and two customers accounted for 71 % of total revenues, respectively. During the six months ended September 30, 2003 and September 30, 2002, two customers accounted for 42 % and four customers accounted for 48 % of total revenues, respectively.

2. Inventories:

Inventories consisted of:

	September 30, 2003	March 31, 2003
Raw materials	$2,753	$3,218
Work in progress	1,796	1,937
Finished goods and spares	1,565	1,877
	$6,114	$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 and six-month periods ended September 30, 2003 and 2002 was:

<TABLE>
<CAPTION>

	Warranty Activity for the Three Months Ended September 30,		Warranty Activity for the Six Months Ended September 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Balance at the beginning of the period	$ 751	$ 1,138	$ 734	$ 1,205
Additional warranty accruals for warranties issued during the period	25	44	145	211
Accruals related to pre-existing warranties	(227)	--	(227)	--
Settlements made during the period	(163)	(118)	(266)	(352)

Balance at the end of the period	$ 386	$ 1,064	$ 386	$ 1,064

</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 profit (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 September 30, 2003 and September 30, 2002, and the six months ended September 30, 2003 and September 30, 2002 were 7,942,352 and 20,692 and 3,921,964 and 32,844, respectively, and have been excluded from shares used in calculating diluted loss per share because their effect would be antidilutive. The antidilutive securities excluded from shares used in calculating diluted loss per share are as follows (in thousands):

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Antidilutive common equivalent shares:				
Options and warrants	1,328	21	615	33
Shares issuable upon conversion of convertible debentures	6,614	--	3,307	--
Total antidilutive shares	7,942	21	3,922	33

</TABLE>

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>

<S>	Three Months Ended September 30, 2003 <C>	Three Months Ended September 30, 2002 <C>	Six Months Ended September 30, 2003 <C>	Six Months Ended September 30, 2002 <C>
Net loss as reported	$(1,670)	$(4,822)	$(2,923)	$ (7,668)
Add: Stock-based employee compensation expense included in Reported net loss	--	--	--	--
Deduct: Total stock-based employee compensation expense Determined under fair value method for all awards	(34)	(295)	(71)	(397)
Proforma net loss	$(1,704)	$(5,117)	$(2,994)	$ (8,065)
Basic net loss per share:				
As reported	$ (.10)	$ (.33)	$ (.18)	$ (.53)
Proforma	$ (.10)	$ (.33)	$ (.18)	$ (.53)

</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 $107 (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 $32 in the June quarter. The amortization of these charges amounted to $16 in the quarter ended September 30, 2003.

In August 2003, the Company issued stock options to purchase 10,000 shares of the Company's common stock to a service provider for services rendered. These options were valued at $6 using the Black-Scholes model and the value of the option was expensed immediately. In September 2003, the Company issued 158,311 restricted shares of the Company's common stock to a service provider for services rendered. The fair value of these securities amounted to $111 and was expensed in the quarter ended September 30, 2003.

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 September 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 Company's balance sheet. The facility had a maximum borrowing capacity of $10.0 million, and bore interest at prime plus 1.0 %, or 5.25 % as of September 30, 2003. The Company is currently negotiating with Silicon Valley Bank to modify this line of credit to allow renewed borrowing with similar terms and conditions, but including the receivables of its Japanese subsidiary in the borrowing base.

As of September 30, 2003, the Company's Japanese subsidiary had no amounts 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 % as of September 30, 2003) plus 1.0 %, has a renewal date of September 30, 2004, and has a total capacity of 150 million yen (approximately $1,038 at exchange rates prevailing on September 30, 2003). As of September 30, 2002, the Company's Japanese subsidiary had approximately $109 outstanding under its bank line of credit which was collateralized by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable.

Notes payable as of September 30, 2003 consisted of one outstanding note, to the California Trade and Commerce Agency for $159. The unsecured note from the California Trade and Commerce Agency carries an annual interest rate of 5.75 % with monthly interest only payments of approximately $4.2 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 Company also entered into a convertible debenture financing, which is described in Note 9 to the financial statements.

7. Comprehensive Loss:

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

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net loss	$(1,670)	$(4,822)	$(2,923)	$(7,668)
Foreign currency translation adjustment	(63)	(56)	(100)	6
	$(1,733)	$(4,878)	$(3,023)	$(7,662)

</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 and six months ended September 30, 2002 give effect to the acquisition of Sputtered Films as if the acquisition had occurred on April 1, 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.

These unaudited proforma financial results 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):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
	Actual	Proforma	Actual	Proforma
Revenue	$ 3,210	$ 2,755	$ 7,095	$ 8,061
Net loss	$ (1,670)	$ (5,363)	$ (2,923)	$ (8,361)
Net loss per share, basic and diluted	$ (0.10)	$ (0.34)	$ (0.18)	$ (0.53)
Shares used in per share computations:				
Basic	16,342	15,835	16,215	15,823
Diluted	16,342	15,835	16,215	15,823

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 tranches. The first tranche, which closed on June 30, 2003, involved the sale of debentures in the principal amount of $929. The Company received $424 in cash on June 30, 2003 and the remaining balance of $506 on July 1, 2003, which was recorded as other receivable as of June 30, 2003. The closing of the second tranche, which occurred on September 9, 2003 following shareholder approval on September 8, 2003, resulted in the receipt of approximately $6,236 in cash on September 10, 2003.

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, or termination of the majority of the Company's customer relationships. The MAC clause is effective until the conversion of all outstanding debentures. As a result of the MAC clause, the debentures are classified as current liabilities.

The Company was required to pay a cash fee of up to 6.65% of the gross proceeds of the debentures to certain financial advisors upon the closing of the second tranche. A fee of $448 has been recorded as a debt issuance cost and was paid out in September 2003. The financial advisors also were granted warrants to purchase 1,756,127 shares of the Company's common stock at an exercise price of $0.35 per share. These warrants were valued at $1,387 using the Black-Scholes option pricing model with the following variables: stock fair value of $0.93, term of five years, volatility of 95% and risk-free interest rate of 2.5%.

The debentures accrue interest at the rate of 2% per annum. Both the principal of, and the interest on, the debentures are convertible at the rate of $0.35 per share. The principal of the debentures is convertible into 20,471,428 shares of the Company's common stock. The closing prices of the Company's common stock on June 30, 2003 and September 8, 2003, the closing dates for the first and second tranches, respectively, were $0.55 and $1.45. Therefore, a beneficial conversion feature exists which needs to be accounted for under the provisions of EITF 00-27, Application of Issue 98-5 to Certain Convertible Instruments. A beneficial feature also exists in connection with the conversion of the interest on the debentures into shares of common stock.

During the quarter ended September 30, 2003, several debenture holders converted debentures in the principal amount of $255 into 728,184 shares of the Company's common stock. These conversions resulted in the classification of $59 of debt into equity and the acceleration of amortization of $196 of debt discount into interest expense.

In addition, the debenture holders were granted warrants to purchase

4,094,215 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 for the first tranche debentures and $0.93 for the second tranche debentures, volatility of 37% and risk-free interest rate of 2.5%.

The relative fair value of the warrants of $1,572 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 and conversions (in thousands):

<TABLE>
<CAPTION>

<S>	First Tranche <C>	Second Tranche <C>	Total <C>
Debentures - principal amount	$ 929	$ 6,236	$ 7,165
Beneficial conversion feature (included in equity)	(653)	(6,236)	(6,889)
Warrants (included in equity)	(61)	--	(61)
Conversions to common stock	(59)	--	(59)
Accretion of debt discount	8	15	23
Net amount of debentures	$ 164	$ 15	$ 179

</TABLE>

The issuance costs associated with the debentures amounted to $3,940 and are comprised of $982 in cash issuance costs, $1,387 associated with warrants issued to financial advisors and $1,572 associated with warrants issued to the second tranche debentureholders. These costs have been recorded as a short-term asset to be amortized over the life of the debt. Amortization of debt issuance costs for the quarter ended September 30, 2003 amounted to $48.

The value of the beneficial conversion feature, warrants and debt issuance costs are being amortized as interest expense over the life of the debt using the effective interest method. Interest expense for the quarter ended September 30, 2003 amounted to $303. This amount is comprised of $11 in nominal interest, $251 in amortization of beneficial conversion feature and $41 in amortization of debt issuance costs.

Amortization will accelerate if the Company repays the debt early, upon conversion, 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.

10. Subsequent Events

On October 28, 2003, the Board of Directors granted options to purchase 3.5 million shares of the Company's common stock at an exercise price of $1.03 per share, which was the closing price of the Company's common stock on October 28, 2003, to certain employees and directors of the Company.

On November 11, 2003, the Company entered into a definitive agreement to purchase substantially all of the assets and to assume certain liabilities of Simplus Systems Corporation of Fremont, California, a development stage company. Upon closing, which is expected to be completed by the end of November 2003, the Company will issue 1,500,000 shares of its common stock and enter into employment agreements with key Simplus personnel. Simplus has developed unique Nano Layer Deposition (NLD) and Metal Organic Chemical Vapor Deposition (MOCVD) systems which are complementary to products offered by the Company and which are targeted at barrier, copper seed and high-k dielectric applications for DRAM and logic devices.

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 and six-month periods ended September 30, 2003 and 2002:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Revenue:				
Product revenue	89.8%	91.4%	90.5%	89.9%
Services revenue	10.2	8.6	9.5	10.1
Total revenue	100.0	100.0	100.0	100.0
Cost of sales:				
Cost of product	55.9	132.9	60.4	100.2
Cost of services	13.2	28.1	11.0	22.1
Total cost of sales	69.1	161.0	71.4	122.3
Gross profit (loss)	30.9	(61.0)	28.6	(22.3)
Operating expenses:				
Research and development	26.0	38.2	21.7	35.9
Sales and marketing	17.3	27.8	16.5	22.0
General and administrative	28.6	47.5	27.5	36.3
Total operating expenses	71.9	113.5	65.7	94.2
Operating loss	(41.0)	(174.5)	(37.1)	(116.5)
Other expense, net	(11.0)	(5.8)	(4.1)	(3.4)
Net loss	(52.0)	(180.3)	(41.2)	(119.9)

Product revenue. Product revenue for the three and six months ended September 30, 2003 was $2,882 and $6,424, respectively, an increase of $438 and

$674, respectively, over the comparable periods in 2002. The increase for the three months ended September 30, 2003 was principally due to the sale of a 6500 series system upgrade. The slight increase for the six months ended September 30, 2003 was principally due to slightly higher sales in parts and service.

Services revenue. Revenue from service sales for the three and six-month periods ended September 30, 2003 was $328 and $671, respectively, up slightly from $231 and $647 million for the three and six-month periods ended September 30, 2002, which we believe is a result of customers' slight increased utilization of Tegal's etch systems.

International sales as a percentage of the Company's revenue for the three and six months ended September 30, 2003 were approximately 81.3% and 81.8%, respectively. International sales as a percentage of the Company's revenue for the three and six months ended September 30, 2002 were approximately 73.0% and 73.8%, respectively. We believe that international sales will continue to represent a significant portion of our revenue.

Gross profit (loss). Gross profit as a percentage of revenue was 30.9% and (61.0%) for the three months ended September 30, 2003 and 2002, respectively, and 28.6% and (22.3%)for the six months ended September 30, 2003 and 2002, respectively. The increase in gross profit for the three and six months ended September 30, 2003 compared to the same periods in the prior year was principally attributable to reduced costs in the current year as a result of the cost cutting measures taken in the prior year, coupled with a $1,922 inventory provision in the prior year based on reduced revenue projections, which reflected the continued slow-down of the semiconductor sector, and lower volume of system sales.

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 $836 and $1,021 for the three months ended September 30, 2003 and 2002, respectively, and $1,539

and $2,297 for the six months ended September 30, 2003 and 2002, respectively, representing 26.0% and 38.2% of revenue for the three months and 21.7% and 35.9% of revenue for the six months ended September 30, 2003 and 2002, respectively. The decrease in research and development spending is due to 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 $556 and $744 for the three months ended September 30, 2003 and 2002, respectively, and $1,168 and $1,403 for the six months ended September 30, 2003 and 2002, respectively, representing 17.3% and 27.8% of revenue for the three months ended September 30, 2003 and 2002, respectively, and 16.5% and 22.0% of revenue for the six months ended September 30, 2003 and 2002, respectively. The decrease in sales and marketing spending is due to the continued cost reduction efforts. These efforts include but are not limited to a reduction of advertising and limited attendance at trade shows.

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 were $916 and $1,271 for the three months ended September 30, 2003 and 2002, respectively, and $1,952 and $2,324 for the six months ended September 30, 2003 and 2002, respectively, representing 28.6% and 47.5% of revenue for the three months ended September 30, 2003 and 2002, respectively, and 27.5% and 36.3% of revenue for the six months ended September 30, 2003 and 2002, respectively. The decrease in general and administrative spending for the three months and six months ended September 30, 2003 compared to the same period in the prior year was primarily attributable to reduced expenses from our continued cost cutting efforts and reduced legal expenses as compared to the same period in the previous year.

Other expense, net. Other expense, net consists primarily of interest expense from the debenture financing and the domestic line of credit offset in

part by interest income on outstanding cash balances, and gains and losses on foreign exchange.

Liquidity and Capital Resources

We generated sufficient cash flows to finance our operations, for the six-month period ended September 30, 2003, For the six-month period ended September 30, 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 provided from operations was $220 during the six months ended September 30, 2003, due principally to a net loss of $2,923 offset by non cash expense from depreciation and amortization, warrants issued for services rendered, and non cash amortization of debt discount. Additionally the net loss is offset by a net decrease in inventory and an increase in accounts payable and accrued liabilities, offset by an increase of prepaid expenses and other assets. Net cash used in operations was $3,716 during the six months ended September 30, 2002, due principally to a net loss of $7,668 offset by non cash expense for depreciation, a non cash related provision for inventory and warrants issued for services rendered. Additionally the net loss is offset by an increase in accounts receivable and a decrease in accrued liabilities, partially offset by a decrease in inventory and prepaid expenses and an increase in deferred revenue.

There were minimal net capital expenditures for the six months ended September 30, 2003. Net capital expenditures totaled approximately $17 and $309 for the six months ended September 30, 2003 and September 30, 2002, respectively. Capital expenditures in 2002 were incurred principally for leasehold improvements and to acquire design tools, analytical equipment and computers.

Cash proceeds from financing activities totaled $5,967 for the six months ended September 30, 2003 and were primarily from the sale of debentures net of issuance costs as discussed in Note 9 to our financial statements, partially offset by the repayment of the Japanese line of credit. Net cash proceeds from financing activities totaled $186 for the six months ended September 30, 2002. The increase for the six months ended September 30, 2002 was due principally to increased borrowing on the domestic 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 to our financial statements). 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 September 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 %, or 5.25 % as of September 30, 2003. The Company is currently negotiating with Silicon Valley Bank to modify this line of credit to allow renewed borrowing with similar terms and conditions, but including the receivables of its Japanese subsidiary.

Notes payable as of September 30, 2003 consisted of one outstanding note, to the California Trade and Commerce Agency for $159. The unsecured note from the California Trade and Commerce Agency carries an annual interest rate of 5.75 % 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 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.

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 $2,923 and $7,668 for the six months ended September 30, 2003 and 2002, respectively. The company generated cash flows from operations of $220 for the period ended September 30, 2003 and negative cash flows from operations of $3,716 for the period ended September 30, 2002. To finance its operations, the Company raised approximately $7.2 million in proceeds from the sale of convertible debentures and warrants during the six month period ended September 30, 2003 (see Note 9). Management believes that the proceeds from the debentures, combined with the effects of its cost compression program, will be adequate to fund operations through fiscal year 2005. However, projected sales may not materialize and unforeseen costs may be incurred. Additionally, the convertible debentures agreement includes 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 the Company's financial condition, business or operations as determined by the debenture holders based on required financial reporting and other criteria. These issues raise substantial doubt about the Company's ability to continue as a going concern.

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 September 30, 2003, we had cash and cash equivalents of $7,120. 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 the contempt finding, the willfulness finding, and the award of attorneys fees, and remanded for further consideration of 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. 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. Subsequent to the Federal Circuit's decision in the TEL case, Tegal entered into a non-exclusive license agreement with TEA. Accordingly, on October 27, 2003 the District Court vacated its stay order and dismissed the case. The outcome of the litigation is now final.

On September 1, 1999, Tegal 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 expired. Thus, the outcome of the litigation is now final.

Item 2. Changes in Securities and Use of Proceeds

On September 8, 2003, the Company closed the second tranche of a private

placement in which it sold to accredited investors $6.236 million principal amount of its 2.0% Convertible Secured Debentures Due 2011 and warrants initially exercisable for 3,563,122 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 September 8, 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 $107,000 (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. Expenses related to both of these transactions for the quarter ended June 30, 2003 amounted to $32 in the June quarter. The amortization of these charges amounted to $16 in the quarter ended September 30, 2003.

In August 2003, the Company issued stock options to purchase 10,000 shares of the Company's common stock to a service provider for services rendered. These options were valued at $5.917 million using the Black-Scholes model and the value of the option was expensed immediately. In September 2003, the Company issued 158,311 restricted shares of the Company's common stock to a service provider for services rendered. The fair value of these securities amounted to $111 and was expensed in the quarter ended September 30, 2003.

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

On September 8, 2003 the Company held its annual meeting of the stockholders. There were present at the meeting, in person or by proxy, the holders of 15,133,957 shares of common stock of the Company, representing 94% of the total votes eligible to be cast, constituting a majority and more than a quorum of the outstanding shares entitled to vote.

The following individuals were re-elected to the board of directors:

	Votes for	Votes Withheld
Michael L. Parodi	14,113,964	1,019,993
Jeffrey M. Krauss	14,266,776	867,181
Duane Wadsworth	14,330,894	803,063
Edward A. Dohring	14,328,982	804,975

The proposal to adopt an amendment to the Company's 1998 Equity Participation Plan to increase the maximum authorized shares from 2,400,000 to 6,400,000 and to increase the award limit from 600,000 shares to 1,600,000 shares was approved by the stockholders as follows:

For	7,493,459
Against	1,697,681
Abstain	51,261
Broker Non Vote	5,891,556

The proposal to approve the sale of 2% convertible secured debentures and warrants to purchase common stock was approved by the stockholders as follows:

For	7,404,078
Against	1,434,619
Abstain	73,704
Broker Non Vote	5,891,556

Excluded from the final tally of votes for this proposal were 330,000 shares held by eligible shareholders intending to participate in the convertible debt financing.

The proposal to adopt an amendment to the articles of incorporation to increase the number of authorized shares for issuance from 35,000,000 to 100,000,000 was approved by the stockholders as follows:

For	13,653,404
Against	1,427,861
Abstain	52,692
Broker Non Vote	0

The proposal to approve a reverse split of our common stock whereby each outstanding 2, 3, 5, 10, or 15 shares would be combined, converted and changed into one share of common stock, should the board decide to do so, was approved by the stockholders as follows:

For	13,847,589
Against	1,218,985
Abstain	67,383
Broker Non Vote	0

The authority of Tegal's board of directors to effect a reverse stock split, should it decide to do so, will expire on December 2, 2003.

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.

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. This authority was reaffirmed by our stockholders at the Annual Meeting on September 8, 2003. The timing and ratio of a reverse split, if any, is at the sole discretion of our board of directors, but it must be completed on or before December 2, 2003. On May 6, 2003, we transferred the listing of our common stock to The Nasdaq SmallCap Market. In connection with this transfer, and by additional notice, Nasdaq granted us an extension until December 31, 2003, to regain compliance with the Rule's minimum $1.00 per share bid price requirement for continued inclusion on The Nasdaq SmallCap Market. On September 16, 2003, the bid price for our stock had closed at $1.00 or above for ten consecutive days. On September 17, 2003, we received a letter from Nasdaq confirming that Tegal had regained compliance with the

minimum bid price requirement and that the question of its continued listing on the SmallCap Market was now closed.

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 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; The accounting for the Debentures would result in significant expense amounts.

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. We also incurred a net loss of $2.9 million and generated cash flows from operations of $0.2 million during the six months ended September 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 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 issued in June and September are convertible at a conversion rate of $0.35 per share, which was lower than the common stock's prices at June 30, 2003, the commitment date for the first tranche and September 8, 2003, the stockholder approval date for the second tranche. Additionally, we granted a 20% warrant coverage to our debenture holders. The value of both the beneficial conversion feature and warrants resulted in a significant debt discount which will be accreted as interest expense over the eight-year life of the debentures. This will result in substantial interest expense during fiscal 2004 and through fiscal 2011 or until the debentures are converted.

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 and September 9, 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 or termination of the majority of our customer relationships. As of July 31, 2003, $0.9 million principal amount, and as of October 9, 2003, $6.2 million principal amount of our 2% Convertible Secured Debentures Due 2011 plus accrued interest payable in kind by issuance of additional debentures convertible into common stock in the amount of such 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 will dilute the value of the shares.

On June 30, 2003, we entered into agreements with investors to raise up to $7.2 million in a private placement of convertible debt financing to be completed in two tranches, the first of which was completed on June 30, 2003 for $0.9 million and the second of which was completed on September 9, 2003 for $6.2 million following stockholder approval on September 8, 2003. As of September 10, 2003, there are debentures convertible into 20,471,428 shares of our common stock (2,655,554 from the first tranche and 17,815,874 from the second tranche, 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 4,094,212 shares of our common stock (531,103 from the first tranche and 3,563,109 from the second tranche), advisor warrants convertible into 1,756,127 shares, 3,542,436 shares issuable as interest payment in lieu of cash and options exercisable for approximately 1,474,725 shares of our common stock. In addition, we have warrants outstanding from previous offerings for approximately 1,705,964 shares of our common stock.

The conversion of these convertible securities and the exercise of these warrants will 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.

On October 14, 2003, we registered 3,542,436 shares which can be issued as interest payments to the debenture holders in lieu of cash. The number of shares issuable as interest payments is calculated by dividing total interest due over the life of the debentures at 2% per annum by a price per share of $0.35. If we elect to use such shares to pay interest, such issuance will result in dilution to our stockholders.

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.

We received stockholder approval to increase the number of authorized shares of common stock to 100,000,000 shares and to 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 $7.2 million principal amount of debentures with shares of our common stock. Interest on the debentures is compounded 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 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. This authority was reaffirmed by our stockholders at the Annual Meeting on September 8, 2003. The timing and ratio of a reverse split, if any, is at the sole discretion of our board of directors, but it must be completed on or before December 2, 2003. On May 6, 2003, we transferred the listing of our common stock to The Nasdaq SmallCap Market. In connection with this transfer, and by additional notice, Nasdaq granted us an extension until December 31, 2003, to regain compliance with the Rule's minimum $1.00 per share bid price requirement for continued inclusion on The Nasdaq SmallCap Market. On September 16, 2003, the bid price for our stock had closed at $1.00 or above for ten consecutive days. On September 17, 2003, we received a letter from Nasdaq confirming that Tegal had regained compliance with the minimum bid price requirement and that the question of its continued listing on The SmallCap Market was now closed.

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;

- seasonal fluctuations in sales;

- changes in the mix of our revenues represented by our various products and customers;

- adverse changes in the level of economic activity in the United States or other major economies in which we do business;

- foreign currency exchange rate fluctuations;

- expenses related to, and the financial impact of, possible acquisitions of other businesses; and

- changes in the timing of product orders due to unexpected delays in the introduction of our customers' products, due to lifecycles of our customers' products ending earlier than expected or due to market acceptance of our customers' products.

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 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, financial results and cash flows.

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.

We must integrate our acquisition of Sputtered Films and proposed acquisition of

Simplus Systems Corporation 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. On November 10, 2003, the Company entered into a definitive agreement to purchase substantially all of the assets and assume certain liabilities of Simplus Systems Corporation of Fremont, California, a development stage company. 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 and Simplus or businesses, products or technologies acquired in the future including:

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

- unanticipated costs associated with acquisitions;

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

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

- potential patent or trademark infringement from acquired technologies;

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

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

- dilution of our current stockholders due to the issuance 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

(a) Exhibits

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.

(b) Reports on Form 8-K

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

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: November 14, 2003

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: November 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: November 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: November 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: November 14, 2003 /s/ THOMAS R. MIKA

Thomas R. Mika
Chief Financial Officer