

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

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**FORM 8-K**

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

Date of report (Date of earliest event reported): February 11, 2005

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Tegal Corporation

(Exact name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction  
of incorporation)

000-26824  
(Commission  
File Number)

68-0370244  
(I.R.S. Employer  
Identification No.)

2201 South McDowell Boulevard  
Petaluma, California 94954  
(Address of Principal Executive Offices)

(707) 763-5600  
(Registrant's telephone number, including area code)

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(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 2.02. Results of Operations and Financial Condition**

On February 11, 2005, Tegal Corporation (the "Company") issued its third quarter 2005 press release, a copy of which is furnished as Exhibit 99.1 to this Form 8-K and incorporated by reference herein. On February 11, 2005, the Company held a conference call announcing its financial results for the third quarter 2005. The transcript of this conference call is furnished as Exhibit 99.2 to this Form 8-K and is incorporated by reference herein.

**Item 9.01. Financial Statements and Exhibits**

(c) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated February 11, 2005
99.2	Transcript of Tegal Corporation's third quarter 2005 conference call held on February 11, 2005

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**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 hereunto duly authorized.

Date: March 7, 2005

TEGAL CORPORATION

By: /s/ Thomas R. Mika

Name: Thomas R. Mika

Title: Chief Executive Officer

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### EXHIBIT INDEX

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99.1	Press Release dated February 11, 2005
99.2	Transcript of Tegal Corporation's third quarter 2005 conference call held on February 11, 2005

## TEGAL CORPORATION REPORTS THIRD QUARTER 2005 FINANCIAL RESULTS

**Petaluma, Calif., February 11, 2005** — Tegal Corporation (Nasdaq: TGAL), a leading designer and manufacturer of plasma etch and deposition systems used in the production of integrated circuits and nanotechnology devices, today announced financial results for the Third Quarter Fiscal Year 2005, which ended December 31, 2004. Senior management will conduct an investor conference call to discuss these results and the company's financial outlook in more detail today at 1pm Pacific Time, Friday, February 11, 2005. More information about the conference call is provided below.

### Third Quarter Highlights

- o Revenues for the third quarter of fiscal 2005 were \$2.9 million, a decrease of 11% from \$3.3 million reported in the third quarter of fiscal 2004, and a decrease of 42% from the \$5.0 million recorded for the second quarter of fiscal 2005.
- o Net losses for the third quarter were \$2.7 million or (\$0.06) per share compared to a net loss of \$8.1 million or (\$0.35) per share for the same quarter one year ago and a loss of \$2.5 million or (\$0.05) in the second quarter of fiscal 2005.
- o Operating losses were \$2.9 million for the third quarter of fiscal 2005 compared to \$4.6 million in the same quarter last fiscal year and \$2.5 million last fiscal quarter. Operating expenses for the third quarter were \$3.5 million, which is approximately \$1.1 million lower than the same quarter last year and \$1.0 million lower than last quarter. The lower quarter to quarter operating expenses were largely in G&A expense, resulting from lower outside legal costs.
- o Cash stood at \$5.3 million at the end of the third quarter of fiscal 2005, compared to \$4.3 million at the end of the second quarter of fiscal 2005 and \$7 million at the end of the fourth quarter of fiscal 2004.
- o Quarterly shipments included several etch systems to MEMS device manufacturers in Europe and Taiwan, a wireless component supplier based in the US, and a leading European telecom device manufacturer.
- o Tegal was awarded two key patents for sputtering sources which will be included in its newly developed 300mm OnCore(TM) physical vapor deposition (PVD) system. One invention represents a significant improvement in sputter target efficiency, while the other is a new sputtering source ideal for depositing magnetic materials.
- o Tegal moved its European headquarters to Thindorf near Dresden, Germany from Munich, positioning it to be able to provide sales, service and technical support for several nearby tier one device manufacturers.
- o During and subsequent to the end of the quarter, Tegal concluded its share issuance by selling 6,133,727 shares of its common stock to Kingsbridge Capital, Ltd. for gross proceeds of \$7.8 million. The total shares issued to Kingsbridge under the structured secondary facility were 8,506,331, with gross proceeds of \$10.4 million.

“We remain strongly focussed on expanding our leadership position in advanced technologies that are critical to emerging markets in non-volatile memories, advanced packaging, new materials and novel approaches to advanced devices, including MEMS and nanotechnology, said Michael Parodi, Chairman, President & CEO of Tegal Corporation. We made significant progress during the quarter in introducing our capabilities to an expanded base of customers, including a wider set of Tier 1 manufacturers for high-volume production requirements.”

### Financial Results

Revenues for the third quarter of fiscal 2005 were \$2.9 million, a decrease of 11% from \$3.3 million reported in the third quarter of fiscal 2004, and a decrease of 42% from the \$5.0 million recorded for second quarter of fiscal 2005. Tegal reported a net loss for the third quarter of \$2.7 million or (\$0.06) per share compared to a net loss of \$8.1 million or (\$0.35) per share for the same quarter one year ago. Sequentially, the Company's net loss increased from the prior quarter loss of \$2.5 million or (\$0.05) per share.

Gross profits for the third quarter of fiscal 2005 were 18% compared to a negative 2% in the same quarter one year ago and 38% in the second quarter of fiscal 2005. The decrease in margins compared to last quarter is a direct result of lower revenues which resulted in a less efficient absorption of fixed overhead costs.

Operating expenses for the third quarter of fiscal 2005 were \$3.5 million, an overall decrease of \$1.1 million from the same quarter one year ago. However, the third quarter of last fiscal year included a \$2.2 million non-cash charge for In-Process R&D related to the acquisition of Simplus Systems. Otherwise, operating expenses increased by \$1.1 million compared to the same quarter one year ago, distributed in R&D (\$0.6 million), G&A (\$0.4 million) and Sales & Marketing (\$0.1 million). Compared to last quarter, operating expenses declined by \$1.0 million, with the majority (\$0.8 million) coming from G&A expense. Lower legal costs associated with patents and acquisitions was the principal reason for the sequential quarterly decrease in operating expenses.

“We will continue to lower our operating expenses even as we bring our NLD™, OnCore™, PVD300 and Compact™ products to market, said Thomas Mika, Executive Vice President and Chief Financial Officer of Tegal. “Our goal is to attain a cash neutral position as we focus on customer evaluations of our new products and we achieve higher levels of efficiency from our operations.”

Cash and equivalents at the end of the third quarter of fiscal 2005 was \$5.3 million, offset by borrowings of \$1.1 million under our line of credit in Japan.

During and subsequent to the end of the quarter, Tegal concluded its share issuance by selling 6,133,727 shares of its common stock to Kingsbridge Capital, Ltd. for gross proceeds of \$7.8 million. The total shares issued to Kingsbridge under the structured secondary facility entered into on May 19, 2004 were 8,506,331, the maximum number available for issuance. Gross proceeds from Kingsbridge were \$10.4

million.

Total shares outstanding as of February 11, 2005 are 52,811,020.

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## Outlook

“We expect continued progress in firming up customer evaluations of our new products and winning qualification trials for production orders in markets where Tegal is a clear leader,” said Mr. Parodi. “Non-volatile memories, especially the production of FeRAM devices for RFID applications, is one of the growth sectors in which we expect Tegal’s 10+ years of system and process development to translate directly into revenue-generating production orders this year. In addition, we are experiencing strong interest from nanotech device manufacturers for both our etch and nano-layer deposition products.”

## Investor Conference Call

Tegal Corporation will discuss these results and further details of its third quarter of fiscal 2005 during a conference call today, February 11, 2005, at 4:00 p.m. EST / 1:00 p.m. PST. The call is open to all interested investors. The call-in numbers are (800) 901-5259 or (617) 786-4514. For either dial-in number, investors should reference Tegal or reservation number: 13184016. A digital recording will be made available one hour after the completion of the conference call, and it will be accessible through midnight on Friday, February 18, 2005. To access, investors should dial (888) 286-8010 or (617) 801-6888 and enter passcode: 36081164.

The conference call also will be available online via the Investor Section of the Company’s website at: [www.tegal.com](http://www.tegal.com). An online replay of the teleconference, along with a copy of the Company’s earnings release, will also be available on the Company’s website.

## Safe Harbor Statement

Except for historical information, matters discussed in this news release contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements, which are based on assumptions and describe our future plans, strategies and expectations, are generally identifiable by the use of the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “project” or similar expressions. These forward-looking statements are subject to risks, uncertainties and assumptions about the Company including, but not limited to industry conditions, economic conditions, acceptance of new technologies and market acceptance of the Company’s products and services. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. For a further discussion of these risks and uncertainties, please refer to the Company’s periodic filings with the Securities and Exchange Commission.

## About Tegal

Tegal provides process and equipment solutions to leading edge suppliers of advanced semiconductor and nanotechnology devices. Incorporating unique, patented etch and deposition technologies, Tegal’s system solutions are backed by over 35 years of advanced development and over 100 patents. Some examples of devices enabled by Tegal technology are energy efficient memories found in portable computers, cellphones, PDAs and RFID applications; megapixel imaging chips used in digital and cellphone cameras; power amplifiers for portable handsets and wireless networking gear; and MEMS devices like accelerometers for automotive airbags, microfluidic control devices for ink jet printers; and laboratory-on-a-chip medical test kits.

More information is available on the Internet at: [www.tegal.com](http://www.tegal.com).

## Contact:

Tegal Corporation  
Thomas Mika (EVP and CFO), 707/763-5600 or  
Nagle & Ferri Investor Relations  
Frank Nagle or Bob Ferri, 415/575-1999

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## TEGAL CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)  
(In thousands, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Revenue	\$ 2,903	\$ 3,276	\$ 11,332	\$ 10,371

Cost of revenue	2,377	3,331	8,105	8,397
Gross profit (loss)	526	(55)	3,227	1,974
Operating expenses:				
Research and development	1,578	951	4,243	2,490
Sales and marketing	704	592	2,230	1,760
General and administrative	1,178	812	4,771	2,764
In-process research and development	--	2,202	1,653	2,202
Total operating expenses	3,460	4,557	12,897	9,216
Operating loss	(2,934)	(4,612)	(9,670)	(7,242)
Other income (expense), net				
Interest expense, net	(2)	(3,513)	(2,065)	(3,866)
Other income (expense)	248	6	221	66
Total other income (expense), net	246	(3,507)	(1,844)	(3,800)
Net loss	\$ (2,688)	\$ (8,119)	\$ (11,514)	\$ (11,042)
Net loss per share, basic and diluted	\$ (0.06)	\$ (0.35)	\$ (0.26)	\$ (0.59)
Shares used in per share computation:				
Basic	47,733	23,234	45,135	18,588
Diluted	47,733	23,234	45,135	18,588

**TEGAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)  
(In thousands)

**ASSETS**

	December 31, 2004	March 31, 2004
Current assets:		
Cash and cash equivalents	\$ 5,344	\$ 7,049
Accounts receivable, net of allowances for sales returns and doubtful accounts of \$131 and \$270 at December 31, 2004 and March 31, 2004, respectively	6,347	4,729
Inventories	5,102	3,719
Prepaid expenses and other current assets	1,033	905
Total current assets	17,826	16,402
Property and equipment, net	3,618	4,039
Intangible assets, net	1,890	1,190
Other assets	356	1,027
Total assets	\$ 23,690	\$ 22,658

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Notes payable and bank lines of credit	\$ 1,121	\$ 2,450
2% Convertible debentures, net	--	74
Accounts payable	3,175	1,645
Accrued product warranty	256	366
Deferred revenue	320	440
Accrued expenses and other current liabilities	3,093	2,604
Total current liabilities	7,965	7,579
Long-term portion of capital lease obligations	17	26
Other long term obligations	81	98
Total long term liabilities	98	124
Total liabilities	8,063	7,703

Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; none issued and outstanding	--	--
Common stock; \$0.01 par value; 100,000,000 shares authorized; 51,192,161 and 36,583,850 shares issued and outstanding at December 31, 2004 and March 31, 2004, respectively	512	366
Additional paid-in capital	97,608	85,376
Accumulated other comprehensive income	(68)	124
Accumulated deficit	(82,425)	(70,911)
	<u>15,627</u>	<u>14,955</u>
Total stockholders' equity	15,627	14,955
	<u>\$ 23,690</u>	<u>\$ 22,658</u>
Total liabilities and stockholders' equity	\$ 23,690	\$ 22,658

**FINAL TRANSCRIPT**

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**TGAL — Q3 2005 Tegal Corporation Earnings Conference Call**

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streetevents@thomson.com 617.603.7900 www.streetevents.com

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Final Transcript

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*[GRAPHIC OMITTED][GRAPHIC OMITTED]*

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*Conference Call Transcript*

*TGAL — Q3 2005 Tegal Corporation Earnings Conference Call*

*Event Date/Time: Feb. 11, 2005 / 1:00PM PT Event Duration: N/A*

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**CORPORATE PARTICIPANTS**

*Mike Parodi*

*Tegal Corporation — Chairman, Pres, CEO*

*Thomas Mika*

*Tegal Corporation — Executive Vice President, CFO*

*Bob Ferri*

*Tegal Corporation — IR*

**CONFERENCE CALL PARTICIPANTS**

*Eunjin Um*

*Kingsbridge — Analyst*

*Tom Arapetus*

*Friedman Shanner — Analyst*

*David Smith*

*LP Partners — Analyst*

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**PRESENTATION**

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**Operator**

Good day, ladies and gentlemen, and welcome to the Tegal third quarter 2005 earnings conference call. My name is Dillon. I will be your conference coordinator for today. At this time all participants are in a listen-only mode. (OPERATOR INSTRUCTIONS). As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today's presentation, Mr. Bob Ferri, Tegal Investor Relations. Please proceed sir.

Thank you. Good afternoon and welcome to Tegal's investor conference call for the third quarter of fiscal 2005, which ended December 31, 2004. This is Bob Ferri on behalf of Tegal Corporation Investor Relations.

A digital recording of this conference call will be available one hour after its completion and will be accessible through midnight on Friday, February 18, 2005. To access, investors should dial 888-286-8010, or 617-801-6888 and enter the pass code 36081164. This conference call is also available online via the Investor Section of the Company's Website at [tegal.com](http://tegal.com), along with a copy of the Company's earnings release.

Before we begin, it is my duty to review with you the important Safe Harbor statement that should be taken into consideration when listening to comments that will be made on this call. Except for historical information, matters discussed on this call are forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties, including but not limited to industry conditions, economic conditions, acceptance of new technology, the growth of target markets, as well as other risks.

Actual operations and financial results might differ materially from Tegal's expectations as a result of these factors or unanticipated events. Specifically, we refer you to the risks and uncertainties as set forth in the Company's periodic filings with the Securities and Exchange Commission.

Now I would like to introduce Mike Parodi, Chairman, President, and Chief Executive Officer of Tegal.

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*Mike Parodi — Tegal Corporation — Chairman, Pres, CEO*

Thank you Bob. Good afternoon everyone. Welcome to Tegal Corporation's investor conference call for the third quarter of fiscal 2005. With me today is Tom Mika, our Executive Vice President and Chief Financial Officer. During this afternoon's conference call we will follow our usual format. I will begin by providing an overview of the business highlights for the quarter. Tom will then review the details on our financial performance. And after that we will open it up to any questions you might have.

From a revenue point of view, the quarter ending December 31 was disappointing, though it was not entirely unexpected. In the past, we've cautioned our investors that the emergence of these growth markets will not be linear, especially at this early stage. Accordingly, our visibility on bookings, revenue recognition, and quarterly results is limited at the present time. Nevertheless, we've made significant progress during the quarter toward our goals and we continue to be very optimistic about our prospects through the balance of this fiscal year and next.

Further to this point, we've made significant progress in this quarter toward achieving three of our most important strategic goals which are – first, bringing to market our new Compact NLD and OnCore PVD 300 products; second, enhancing our leadership position in advanced technologies that are critical to emerging markets in non-volatile memories, advanced packaging, new materials, and novel approaches to advanced devices including nano-technology devices; and lastly introducing our capabilities to an expanded base of customers including a wider set of tier-one manufacturers for high-volume production requirements.

Regarding these two new products, we have successfully implemented a new NLD chamber design, which we are currently using for customer demonstrations. To date, we have achieved excellent results for two film sets – titanium nitride and hafnium (ph) oxide. Several manufacturers are expected to use these films as barrier and dielectric layers in devices and the sub-90 nanometer design node. Being able to deposit highly (indiscernible) films with high levels of uniformity and film quality is a key enabling technology for advanced devices. We designed the new NLD chamber to integrate onto our new Compact platform, a beta version of which is now being assembled in our Petaluma facility.

Compact platform has been engineered to be a highly efficient, low-cost cluster tool for both 200 and 300 millimeter wafer sizes. Because NLD and certain ALD-type processes are in the evaluation stage at most device manufacturers, our ability to deliver a production-worthy 300 millimeter cluster tool at an extremely low cost is a key strategic advantage for this new product from Tegal. Our goal for fiscal 2006 is to deliver two of these systems for evaluations at tier-one customers.

Regarding our OnCore PVD 300 system, we are now assembling the beta version of this uniquely designed multi-chamber tool. It is being built for a customer evaluation that we expect to be able to announce soon. Several important PVD applications would be showcased in this system including backside metallization, copper seed layers, and elemental nickel deposition for advanced lead-free packaging and mainstream nickel cycloide (ph) for contact metallization. This is a tool that is targeted squarely at advanced device packaging applications, an area which is experiencing very high levels of growth, especially in Europe and Asia. Our goal for the first half of fiscal 2006 is to deliver one of these systems for an extensive evaluation at a tier-one customer.

During the quarter Tegal was awarded two key patents for sputtering sources, which will be included in the OnCore PVD 300 system. One invention represents a significant improvement in sputter target efficiency, which leads to lower operating costs for system operators.

The second invention for a hollow cathode ray is a new sputtering source, which is ideal for depositing magnetic materials. We expect to use this source for elemental nickel deposition, which is being demanded by advanced packaging houses for the replacement of bumps that are currently made out of lead. Removing lead from the environment is a top priority for governments around the world. The introduction of the Compact NLD and OnCore PVD 300 products also helps to support our second objective of enhancing our leadership position in advanced technologies that are critical to emerging markets.

In addition, we continue to maintain our position as a recognized leader in the etching of new materials used in non-volatile memories using our series 6500 advanced etched systems, which incorporated our high density HRe and inductively coupled Spectra etch chambers along



with our patented rinse/strip rinse technology. During the quarter we had several inquiries from customers for solutions to critical etch problems across an array of non-volatile memory types including FeRAM, MRAM, polymeric memory, resistive memory sometimes referred to as R-Ram, and face-change memory also known as P-RAM. We can confirm that there is substantial interest on the part of FeRAM device manufacturers to begin full-scale production this calendar year and next. Such interest is coming both from our active customers in Japan as well as from larger memory device producers elsewhere in the world. Even now we are participating in production-quality qualification trials with at least device manufacturers who plan to move into full-scale production in 2006.

We have also been working on integrated deposition and etch solutions in some extremely interesting and potentially important areas such as decoupling capacitors. We successfully installed an endeavor system for deposition of aluminum nitrate films in so-called F-Bar devices, which are a critical component in high-bandwidth wireless devices.

The introduction of our new products also supports our third objective to introduce our capabilities to an expanded base of customers including a wider set of tier-one manufacturers for high-volume production requirements. We have a compelling reason for such manufacturers to learn more about Tegal and to become more comfortable with our strategy and our capabilities. For example, among the half dozen strategic projects that we are pursuing, we are engaged with nine tier-one customers, five for multiple projects. This is our most extensive initiative with tier-one customers in our history.

An additional measure that we took during the quarter to enhance our position among tier-one customers was the move of our European headquarters to Thiendorf near Dresden, Germany from Munich. All European sales, service, and support will be directed out of the new location. Dresden is in the heart of so-called Silicon Saxony, which is one of the leading locations for R&D in high-end production of microelectronics in Europe. Located in Saxony are such companies as Infineon, AMD, and Dupont Photronics. This is an ideal location from which to support such customers.

As we pursue these new products, markets, and customers we continue to rely on our 900 series etch and endeavor deposition product lines as well as our service and spares to sustain our business. During the quarter we had several shipments of etch products within this series. As I mentioned before, we successfully installed an Endeavor tool for an (indiscernible) application with a leading company in Japan. The Etch systems went to MEMS device manufacturers in Europe and Taiwan as well as to telecom component manufacturers in the US and Europe. We are able to maintain significant sales of these tools because of their basic cost-effectiveness and production-proven quality. In addition, we continuously upgrade these tools with recipes for new processes and factory-automation interfaces.

I would now like to turn the call over to Tom Mika for a review of our financial results for the quarter after which I'll make some summary comments and open it up to your questions.

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*Thomas Mika — Tegal Corporation — Executive Vice President, CFO*

Thanks Mike. Revenues for the third quarter of fiscal 2005 were 2.9 million, a decrease of 11 percent from 3.3 million reported in the third quarter of fiscal 2004 and a decrease of 42 percent from the 5 million recorded for second quarter of 2005. Tegal reported a net loss for the third quarter of 2.7 million or \$0.06 per share compared to a net loss of 8.1 million or \$0.35 per share for the same quarter one year ago. Sequentially the Company's net loss increased from the prior quarter loss of 2.5 million, or \$0.05 per share.

Gross profits for the third quarter of fiscal 2005 were 18 percent compared to a negative 2% in the same quarter one year ago and 38% in the second quarter of fiscal 2005. The decrease in margins compared to last quarter is a direct result of lower revenues, which resulted in less efficient absorption of fixed overhead costs.

Operating expenses for the third quarter of fiscal 2005 were \$3.5 million, an overall decrease of \$1.1 million from the same quarter one year ago. However, the third quarter of last fiscal year included a \$2.2 million non-cash charge for in-process R&D related to the acquisition of Simplus Systems. Otherwise, operating expenses increased by \$1.1 million compared to the same quarter one year ago, distributed in R&D, about 600,000; G&A 400,000; and Sales & Marketing 100,000. Compared to last quarter, operating expenses declined by \$1.0 million, with the majority – about \$800,000 – coming out of G&A expense. Lower legal costs associated with patents and acquisitions was the principal reason for the sequential quarterly decrease in operating expenses. We expect to continue to lower our operating expenses even as we bring our new products to market with a goal of attaining a cash neutral position.

Cash and equivalents at the end of the third quarter of fiscal 2005 was \$5.3 million, offset somewhat by borrowings of \$1.1 million under our line of credit in Japan.

During and subsequent to the end of the quarter, Tegal concluded its share issuance to Kingsbridge Capital by selling approximately 6.13 million shares of its common stock for gross proceeds of \$7.8 million of which 1.6 million was raised following the end of the quarter. The total shares issued to Kingsbridge under the structured secondary facility, entered into on May 19, 2004, were 8.5 million, the maximum number available for issuance. Gross proceeds from Kingsbridge were \$10.4 million. To be clear, as of today, the Kingsbridge facility is now closed. Total shares outstanding as of February 11, 2005 are 52,811,020 shares.

I'll now turn the call back to Mike for some final comments.

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*Mike Parodi — Tegal Corporation — Chairman, Pres, CEO*

Thank you Tom. We expect continued in firming up customer evaluations of our new products and winning qualification trials for production orders in markets where Tegal is a clear leader. Non-volatile memories, and especially the production of FeRAM devices for RFID applications, is one of the growth sectors in which we expect Tegal's 10-plus years of system and process development to translate directly into revenue-generating production orders this year. In addition, we are experiencing strong interest from nanotech device manufacturers for both our etch and nano-layer deposition products.

We look forward, as I am sure you do, to favorable developments for Tegal in the coming quarters. Thanks for your attention and continued support. At this point I'll now turn the call over to the Operator for questions.

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## QUESTION AND ANSWER

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### Operator

Thank you very much sir. (OPERATOR INSTRUCTIONS) Eunjin Um of Kingsbridge.

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*Eunjin Um — Kingsbridge — Analyst*

Good afternoon. I have a couple questions. The first one is, in your comments you mentioned that you have a strong interest from the Japanese companies in the FeRAM. Does that mean that they are going into full ramp production and that we are able to see some type of volume shipments at the end of 2005 or even any time in the next couple quarters? Comment on that as well as the whole geographic perspective in terms of your technology, especially in Asia – how that market is looking up for you.

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*Mike Parodi — Tegal Corporation — Chairman, Pres, CEO*

Let me start with the FeRAM aspect of your question. The Japanese market is definitely improving. They are laying in plans for the back half of this year and into early 2006 to begin ramping production. They are currently – in the case of our two accounts that we're specifically talking about there – are maxed out on their capacity right now. They are laying in plans for their future device demand. It's really predicated on acceptance in the marketplace for their follow-on products. We've been told to be prepared for a gradual ramp. We are working with them closely to do that.

With respect to our penetration in Asia, we continue to see very good customer interest in our new products and particularly for the backend packaging applications. We think that is going to be driven by – as that market turns up – in higher pin-count devices become accepted into the marketplace. The packaging area for high pin-count devices for bump-types of applications is projected to have the highest growth rate over the next three to five year in the packaging sector. We hope to participate in that (indiscernible) sector quite extensively.

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*Eunjin Um — Kingsbridge — Analyst*

In the NLD area of your technology, are you in the—do you have any companies needing to evaluate or sample? Or is it in their system now for evaluation?

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*Mike Parodi — Tegal Corporation — Chairman, Pres, CEO*

We currently are sampling products with a number of customers. There are two very large companies in Europe that we have samples that we are working on. We've already had two RAMs of sampling going on there. One company has two specific operations in mind that we are extensively looking at. The second company is focused on more of their advanced devices and are still trying to evaluate how that particular technology will play out for their future needs. So the NLD technology for both the dielectric and the barrier metals is becoming of high interest to a number of accounts. I mentioned that we have somewhere around nine active engagements. A number of those – five of those active engagements are for both technologies. In some cases those two technologies are somewhat synergistic to one another in the final application. We're very, very positive about the future need for that product line.

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*Thomas Mika — Tegal Corporation — Executive Vice President, CFO*

The only thing I'd like to add to that is that even though we've got prospects there that are – a substantial number of them. What we've put down as our goal is really only to deliver systems to two of those customers. It's really important for us to choose the right partner at this early stage in the introduction of the NLD product.

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*Eunjin Um — Kingsbridge — Analyst*

What would those requirements be with—be considered the right partner? Is it more on the application side? Can you —

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*Mike Parodi — Tegal Corporation — Chairman, Pres, CEO*

It's the application side. It's also the opportunity side. We do not want to be engaged with customers that are not serious about bringing that technology into mainstream production. So it's both the qualification of their needs and the qualification of our needs.

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*Eunjin Um — Kingsbridge — Analyst*

Okay. Thank you.

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## Operator

Thank you. Tom Arapetus with Friedman Shanner.

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*Tom Arapetus — Friedman Shanner — Analyst*

Yes. I just have one question. I want to know what the breakeven is going to be for the next quarter and obviously going into next fiscal year, which would start in about June or July. What kind of breakevens are we going to be looking for for each quarter being that you did say that you're looking for a neutral money flow for the coming year.

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*Thomas Mika — Tegal Corporation — Executive Vice President, CFO*

We've taken a look at four quarters going forward. We think that the right size for the Company overall is one whose operating expenses allow us to breakeven in the \$20 million to \$25 million review target area. Obviously we think that there is upside from there. But in order to conserve our cash for what we really need it for to bring these products to market, that is about the size that we're comfortable with.

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*Tom Arapetus — Friedman Shanner — Analyst*

Okay so now you feel with Kingsbridge being out of the equation and obviously, as you said, the Kingsbridge facility is now closed – you feel that you'll be able to breakeven and possibly maybe even – if some things break for you – go into positive flow?

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*Thomas Mika — Tegal Corporation — Executive Vice President, CFO*

Yes. To answer your question a little bit indirectly, we're continuing to lower our cash needs. We feel that we can reach cash flow neutral within a reasonable period of time. So we think we're fine for now. Remember we intended the Kingsbridge facility as a line of capital that was available to us to complete our new products. That is largely accomplished for us. That is what we told people we were going to do. That's what we've done.

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*Tom Arapetus — Friedman Shanner — Analyst*

So you would say, in your professional opinion, the build-out is pretty much complete with all the products?

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*Thomas Mika — Tegal Corporation — Executive Vice President, CFO*

With respect to product development side of that, yes.

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*Mike Parodi — Tegal Corporation — Chairman, Pres, CEO*

Certainly from the engineering side, we've completed that. Now we're going into that integration phase.

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*Tom Arapetus — Friedman Shanner — Analyst*

Okay. Thank you very much.

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## Operator

Thank you very much, sir. Ladies and gentlemen, management does encourage your questions. (OPERATOR INSTRUCTIONS)  
David Smith of LP Partners.

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*David Smith — LP Partners — Analyst*

Good afternoon. I think the previous caller asked the question I was going to ask. Do you have any contingency plans if it turns out that sales end up dragging out in terms of the amount of cash you have in liquidity? Or are you really pretty confident that the amount of cash that you have should be sufficient to make you cash flow positive?

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*Mike Parodi — Tegal Corporation — Chairman, Pres, CEO*

Certainly right now we think that's the case. As you know, this is a lumpy business. So you have to consider what those situations can be. We always try to have some contingency plans in place to deal with that. Certainly sizing the operation to deal with that is one option that we can consider. But it's not what we have planned at this moment.

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*David Smith — LP Partners — Analyst*

Okay. Nothing in terms of actively looking for other ways to raise the funds or equity or partner with anybody else?

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*Thomas Mika — Tegal Corporation — Executive Vice President, CFO*

At this moment, we are not considering that. (multiple speakers)

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*David Smith — LP Partners — Analyst*

Okay. Thank you very much.

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## **Operator**

Thank you very much sir. (OPERATOR INSTRUCTIONS) At this time we have further questions. I'd like to the call back over to Mr. Ferri for any closing remarks he may have. Please proceed, sir.

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*Bob Ferri — Tegal Corporation — IR*

Thank you. Once again, a digital recording of this conference call will be available one hour after its completion and will be accessible through midnight on Friday, February 18, 2005. To access, investors should dial 888/286-8010 or 617/801-6888 and enter pass-code 36081164. Again, a replay of this conference call is also available online via the investor section of the Company's website at tegal.com. along with a copy of the Company's earnings release. This concludes today's conference call. Thank you for joining us this afternoon.

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## **Operator**

Thank you very much, ladies and gentlemen, for your participation in today's conference call. This concludes the presentation. You may now disconnect. Have a good day.

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