

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

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 14, 2007

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)

(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))

Item 2.02. Results of Operations and Financial Condition

On February 14, 2007, Tegal Corporation (the "Company") issued its third quarter 2007 press release, a copy of which is furnished as Exhibit 99.1 to this Form 8-K and incorporated by reference herein. On February 14, 2007, the Company held a conference call announcing its financial results for the third quarter 2007. 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.

Exhibit No. Description

99.1 Press Release dated February 14, 2006

99.2 Transcript of Tegal Corporation's third quarter 2007 conference call held on February 14, 2007

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: February 21, 2007

TEGAL CORPORATION

By: /s/ Christine T. Hergenrother
Name: Christine T. Hergenrother
Title: Chief Financial Officer

EXHIBIT INDEX

Exhibit No. Description

99.1 Press Release dated February 14, 2007

99.2 Transcript of Tegal Corporation's third quarter 2007 conference call held on February 14, 2007

TEGAL CORPORATION REPORTS
THIRD QUARTER FISCAL 2007 FINANCIAL RESULTS

San Jose, Calif., February 14, 2007 — 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 2007, which ended December 31, 2006. Senior management will conduct an investor conference call to discuss these results and the company's financial outlook in more detail today at 2:00 p.m. Pacific Time, Wednesday, February 14, 2007. More information about the conference call is provided below.

Third Quarter Highlights

- On November 13, 2006, Tegal announced that its wholly-owned subsidiary, Sputtered Films Inc. (SFI) agreed to terms settling its trade secrets case against Sergey Mishin, Advanced Modular Sputtering (AMS), Agilent Technologies, Inc., the Avago Entities and other defendants. A final confidential settlement agreement among the parties was executed on December 21, 2006. The entire cash proceeds of the settlement have been recorded as a contingent liability, pending the resolution of a dispute between the Company and its litigation counsel on the amount of contingent fees payable.
- Revenues during the third quarter of fiscal 2007 were \$4.4 million, a decrease of 30% from \$6.2 million reported in the same period last year and a decrease of 14% from the \$5.1 million recorded for the second quarter of fiscal 2007.
- Gross profits declined to a negative (30%) for the current quarter as a result of an inventory adjustment of \$1.7 million and certain other charges and deferrals. Gross profits were 27% in the same period last year and 47% in the second quarter of fiscal 2007.
- Operating losses for the third quarter were \$6.4 million, which included approximately \$2.7 million of non-cash charges. Excluding these non-cash charges, as well as a \$1.2 million litigation expense, Tegal would have reported an operating loss of \$2.5 million for the quarter.
- Tegal recorded a net loss for the third quarter of \$6.1 million or (\$0.86) per share compared to a net loss of \$1.9 million or (\$0.27) per share in the same period last year and a net loss of \$3.3 million or (\$0.47) per share for the second quarter of fiscal 2007.
- Quarterly shipments included an advanced etch system for high volume manufacturing of integrated passive devices to one of the largest semiconductor companies in the world and a repeat order for a 900 series etch tool from a California-based optical networking company.

“As expected, revenues were lower this quarter because of the timing of shipments of advanced tools, a factor which continues to drive the variability in our quarterly results,” said Thomas Mika, Chairman, President & Chief Executive Officer of Tegal Corporation. “We also had a number of other factors that affected our profitability this quarter. These included a low margin shipment, a significant inventory write-off and unusually high service expenses, which will not reoccur. In addition, we recorded \$1.2 million of litigation costs which will be reduced drastically in future quarters. Given these factors we believe that next quarter will be more representative of our overall trend toward an improved business model and improved profitability at both the gross margin and operating levels.”

“Now that we have been able to put behind us the costs and distraction associated with three years of litigation we are focused on new initiatives to improve our business,” continued Mr. Mika. “Currently we are in the process of integrating the AMS deposition tool into our operations and beginning to provide field support to former AMS customers. We believe that this addition to our product portfolio will help Tegal consolidate a dominant position in the RF MEMS arena, which includes important new devices for advanced cell phone and wireless applications. We also continue to make progress toward introducing several new products, including our Compact platform and Nano Layer Deposition (NLD) system, which we expect to be into beta sites within the next few months. Looking ahead we are clearly focused on achieving growth and profitability and with a healthy cash balance we have the resources in place to execute on our goals.”

Financial Results

Revenues for the third quarter of fiscal 2007 were \$4.4 million, a decrease of 30% from \$6.2 million reported in the same period last year and a decrease of 14% sequentially from the \$5.1 million recorded for the second quarter of fiscal 2007. Tegal recorded a net loss for the third quarter of fiscal 2007 of \$6.1 million or (\$0.86) per share compared to a net loss of \$1.9 million or (\$0.27) per share in the same period last year and a net loss of \$3.3 million or (\$0.47) per share for the second quarter of fiscal 2007. All of the per share numbers reflect a one-for-twelve reverse split in Tegal's common stock which became effective on July 25, 2006.

Gross profits declined to a negative (30%) for the third quarter of fiscal 2007, compared to 27% in the same period last year and 47% in the second quarter of fiscal 2007. The negative gross margin was the result of the write-off of inventory associated with the Company's 300mm PVD product and unusually high service expenses.

Operating expenses for the third quarter of fiscal 2007 were \$5.1 million, an increase of \$2.2 million compared to the same period last year. Litigation expense of \$1.2 million and stock compensation expense of \$0.8 million accounted for almost all of this increase. Operating expenses actually declined by \$0.5 million sequentially compared to the second quarter of fiscal 2007.

Operating losses for the third quarter of fiscal 2007 were \$6.4 million, which included approximately \$2.7 million of non-cash charges. This compares to a \$1.2 million loss in the same period last year and a loss of \$3.1 million in the second quarter of fiscal 2007, each of which included \$0.3 million and \$0.5 million of non-cash charges, respectively. Litigation expenses for the quarter amounted to \$1.2 million. Excluding the non-cash and litigation expenses Tegal would have reported an operating loss of \$2.5 million for the third quarter of fiscal 2007.

Cash and equivalents at the end of the third quarter of fiscal 2007 were \$29.5 million compared to \$13.8 million at the end of last fiscal year (March 31, 2006) and \$10.5 million at the end of the second quarter of fiscal 2007.

The Company's book-to-bill ratio during the quarter was 1:1, and the backlog as of February 14, 2007 is \$5.0 million.

Total shares outstanding as of December 31, 2006 were 7,106,867 adjusted for the one-for-twelve reverse split in Tegal's common stock which became effective on July 25, 2006.

Investor Conference Call

Tegal Corporation will discuss these results and further details of its third quarter of fiscal 2007 during a conference call today, February 14, 2007, at 2:00 p.m. PST / 5:00 p.m. EST. The call is open to all interested investors. The call-in numbers are (866) 800-8652 or (617) 614-2705 for international callers. For either dial-in number, investors should reference passcode: 54536541. A digital recording will be made available one hour after the completion of the conference call, and it will be accessible through midnight on Wednesday, February 21, 2007. To access, investors should dial (888) 286-8010 or (617) 801-6888 and enter passcode: 59911039.

The conference call also will be available online via the Investor Section of the Company's website at: 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.

[Missing Graphic Reference]

Contact:

Tegal Corporation
Christine Hergenrother (VP and CFO), 707/763-5600
or
The Blue Shirt Group
Rakesh Mehta or Chris Danne, 415/217-7722

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	<u>December 31</u>	<u>March 31</u>
	<u>2006</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,502	\$ 13,787
Accounts receivable, net of allowances for sales returns and doubtful accounts of \$464 and \$205 at December 31, 2006, and March 31, 2006, respectively	2,265	5,265
Inventories, net	5,886	7,700
Prepaid expenses and other current assets	1,211	1,270
Total current assets	38,864	28,022
Property and equipment, net	1,033	1,849
Intangible assets, net	1,238	1,474
Other assets	146	146
Total assets	\$ 41,281	\$ 31,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and bank lines of credit	\$ 37	\$ 27
Accounts payable	2,271	2,458
Accrued product warranty	852	506
Deferred revenue	794	477
Litigation suspense	19,500	—
Accrued expenses and other current liabilities	1,909	1,975
Total current liabilities	25,363	5,443
Long-term portion of capital lease obligations	—	2
Other long term obligations	—	6
Total long term liabilities	—	8
Total liabilities	25,363	-5,451
Stockholders' equity:		
Preferred stock; \$ 0.01 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock; \$ 0.01 par value; 200,000,000 shares authorized; 7,106,867 and 7,021,088 shares issued and outstanding at December 31, 2006 and March 31, 2006, respectively	71	70
Restricted share units	281	1,034
Additional paid-in capital	121,787	119,558
Accumulated other comprehensive income	142	532
Accumulated deficit	(106,363)	(95,154)
Total stockholders' equity	15,918	26,040
Total liabilities and stockholders' equity	\$ 41,281	\$ 31,491

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

	Three Months		Nine Months	
	December 31,		December 31,	
	2006	2005	2006	2005
Revenue	\$ 4,377	\$ 6,246	\$ 16,066	\$ 15,704
Cost of revenue	5,703	4,565	12,494	10,905
Gross profit (loss)	(1,326)	1,681	3,572	4,799
Operating expenses:				
Research and development	1,077	1,039	3,139	3,426
Sales and marketing	949	694	2,957	2,095
General and administrative	3,063	1,128	8,850	5,766
Total operating expenses	5,089	2,861	14,946	11,287
Operating loss	(6,415)	(1,180)	(11,374)	(6,488)
Other income (expense), net	290	(724)	166	(604)
Net loss	\$ (6,125)	\$ (1,904)	\$ (11,208)	\$ (7,092)
Net loss per share, basic and diluted	\$ (0.86)	\$ (0.27)	\$ (1.59)	\$ (1.35)
Shares used in per share computation:				
Basic	7,082	6,995	7,044	5,261
Diluted	7,082	6,995	7,044	5,261

Note: Shares used in per share computation for basic and diluted reflect a 1-for-12 reverse stock split effected by the Company on July 25, 2006

Q3 2007 Tegal Corporation Earnings Conference Call

Participants

Christine Hergenrother

Tegal Corporation - CFO

Tom Mika

Tegal Corporation - President and CEO

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2007 Tegal Corporation earnings conference call. At this time (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to Ms. Christine Hergenrother, Chief Financial Officer. Please proceed, ma'am.

Christine Hergenrother - Tegal Corporation - CFO

Thank you. Good afternoon and happy Valentine's Day. Welcome to Tegal's investor conference call for the third quarter of fiscal 2007, which ended December 31, 2006. Before I review the financial results for the quarter and the year, I have two housekeeping items.

The first is a reminder that a digital recording of this call will be made available one hour after its completion. The recording will be accessible through midnight on Wednesday, February 21, 2007. To access, investors should dial 888-286-8010 or 617-801-6888 and enter passcode 59-91-1039. An online replay of the call, along with the Company's earnings release will also be available on the Company's website.

The second housekeeping item is a reminder about the Safe Harbor statement that should be taken into consideration when listening to comments that are 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 may 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.

Following my review of the financial performance for the quarter, I will introduce Tom Mika, Chairman, President and Chief Executive Officer of Tegal, who will have some additional comments. After that we will entertain questions from the dial-in audience.

As announced in our press release, revenues for the fiscal third quarter were \$4.4 million, a decrease of 30% from \$6.2 million recorded in the same period last year, and a decrease of 14% from the \$5.1 million recorded for the second quarter of fiscal 2007. Gross profits declined to negative 30% for the current quarter as a result of an inventory adjustment of \$1.7 million and certain other charges and deferrals. Gross profits were 27% in the same period last year and 47% in the second quarter of fiscal 2007.

Operating expenses for the third quarter of fiscal 2007 were \$5.1 million, an increase of \$2.2 million reported for the same period last year. Litigation expense of \$1.2 million and stock compensation expense of \$800,000 accounted for almost all of this increase. Compared to the second quarter of this fiscal year, operating expenses actually declined by \$500,000.

The resulting operating losses for the third quarter were \$6.4 million, which included approximately \$2.7 million of non-cash charges. This compares to a \$1.2 million loss in the same period last year and a loss of \$3.1 million last quarter, each of which included \$300,000 and \$500,000 in non-cash charges respectively.

Litigation expenses for the quarter amounted to \$1.2 million. Excluding the non-cash and litigation expenses in Q3, Tegal would have reported an operating loss of \$2.5 million for the quarter. G&A expense at \$3.1 million was about \$2 million more than the same quarter last fiscal year, but about \$400,000 lower than last quarter. This quarter's G&A expense included litigation expenses of \$1.2 million and \$800,000 of non-cash stock compensation expenses.

Going forward, we expect G&A expenses to stabilize to a range of \$1 million to \$1.5 million per quarter, which is lower than our previous estimate. Sales and marketing expense at just under \$1 million is the same as last quarter but an increase over the same quarter last year. This is due to a reclassification of some service overhead expenses compared to last year. We expect sales and marketing expenses to remain at about \$1 million to \$1.2 million per quarter level going forward, depending on the level of sales commissions paid.

R&D spending has been stable at just over \$1 million for the quarter for the past several quarters, going back to last year. We expect that R&D spending will remain at about \$1 million to \$1.2 million per quarter level going forward. Our reported net loss for the third quarter was \$6.1 million, or \$0.86 per share compared to a net loss of \$1.9 million, or \$0.27 per share in the same period last year, and a net loss

of \$3.3 million, or \$0.47 per share, for the second quarter of fiscal 2007.

All of the per share numbers reflect a one 1-for-12 reverse split in Tegal's common stock which became effective on July [25], 2006. There are a few significant changes in the balance sheet accounts since the end of last fiscal year. Cash at the end of the third quarter was \$29.5 million, an increase of \$15.7 million since March 31, 2006, and \$19 million higher than at the end of the second quarter, when cash stood at \$10.5 million. Accounts receivable were down \$3 million and now stand at \$2.3 million. Inventories are down by \$1.8 million, reflecting the write-off of the 300 mm PVD inventory.

We created a litigation suspense liability account for \$19.5 million. This will remain in suspense until we resolve our key dispute with our litigation attorney. The Company's book-to-bill ratio was one to one during the quarter; our backlog as of today is approximately \$5 million. Total shares outstanding as of December 31, 2006 were 7,106,867, taking into account the 1-for-12 reverse split which became effective July 25.

I would now like to introduce Tom Mika, our President and Chief Executive Officer.

Tom Mika - Tegal Corporation - President and CEO

Thanks, Christine. As I've said in the past, our quarterly performance continues to be affected by the timing of single advanced system orders. The slip of just one order outside the quarter impacts both revenues and operating profits. We will not emerge from this situation until our revenues are substantially higher, which I believe will depend both on our success in broadening our sales coverage and on the acceptance of our new products that we are introducing this year.

Despite this current lumpiness in our business, I believe that recently, especially after putting behind the costs and distractions associated with three years of litigation, we are succeeding with new initiatives that are improving our business and positioning us well for long-term growth.

The December quarter included the final shipment of a four-tool order to ST Micro in Singapore. ST uses our systems, both in Singapore and France, to make a unique integrated active passive device for cellphone applications. This has been an extremely successful project for Tegal on many levels, and we look forward to continuing to support ST's high-volume manufacturing of these devices. In addition, we shipped a repeat order for a 900 series etch tool to a California-based optical networking company.

New order flow during the quarter was very good. We received two purchase orders for Endeavor PVD systems. One of the tools is a repeat order for high-volume manufacturing from a global leader in power management producing devices on ultra-thin wafers.

The second order from another global leader in power conversion device manufacturing will be used to deposit various metals, including some new materials incorporating a mixture of silicon and chromium. We also received an order for a 6500 advanced etch system from Skyworks Solutions, the global leader in high-performance analog and mixed signal semiconductors, enabling mobile connectivity. The Tegal 6500 etch system will be used by Skyworks to etch silicon nitride and other critical films, thin films, on gallium arsenide substrates. According to analysts, Skyworks is a leading supplier for front end modules for Apple's new iPhone.

In terms of introducing new products, our recent settlement has expanded our product portfolio. We recently began the process of integrating the AMS deposition tool into our sales efforts and into our operations overall. We have begun to provide field support to former AMS customers, including an installation that is taking place right now in Japan. We believe that this addition to our product portfolio will help Tegal consolidate the dominant position in the RF MEMS arena, which includes important new devices for advanced cellphone and wireless applications.

We continue to make very good progress in NLD, especially in the LED applications that I mentioned in the last conference call, and importing our etch chamber technology to our new compact platform. We believe that we are very close to beta site orders for both of these new tools.

In addition to growing our product portfolio, we continue to expand our sales channels to improve sales in our core etch and PVD products. Recently, we have made significant strides in Asia, the world's largest semiconductor market. This represents a significant growth opportunity for us as we currently derive just a small percentage of sales from this region.

During our last conference call, I spoke about our agreement with Noah Corporation, which is off to a very good start in Japan. In addition, we just announced an agreement with Westpac in Korea. Westpac has a very good reputation, and we know them well, since they were most recently the AMS rep in Korea, where there are two installations of AMS tools. And they were at one time the rep for Sputtered Films, our PVD subsidiary.

There are some very good signs of life for our specialized systems in Korea, so we look forward to actively selling in this market once again after a long hiatus. I am also working to expand our presence in mainland China, about which I hope to be able to say something very positive over the coming months. All this continues to give me confidence that our sales trend is up despite the quarterly fluctuations.

As Christine mentioned, our gross margins took several hits this quarter, ending up in negative territory. We anticipated a lower than normal level, since we shipped the last tool of a four system order to ST Micro that was significantly below our target margins when we

signed the deal over 18 months ago.

In addition, we had some higher than expected service costs, which we do not expect to reoccur, and we decided to write off inventory related to our 300 mm PVD system development. The inventory commitment that we made to our 300 mm PVD system was reasonable at the time, since it was related to a specific European-based customer, and substantial government funds had been approved for the project. Regrettably, this customer abruptly ended its evaluation of new 300 mm tools.

As a reasonable period for finding its substitute home for this specific tool has passed, we have taken the appropriate accounting measure and taken the write-off. We have definitely not abandoned the 300 mm PVD development program. Indeed, we now see that project moving forward in a completely different environment, which I hope to be able to report on in subsequent calls.

Regarding the suspension of the proceeds of the settlement agreement into a contingent liability account, my only comment is that I am confident that our dispute with our litigation council will be resolved soon. Until it is, we will not recognize any income from the settlement.

So to recap, this quarter presented challenges for us in terms of the timing of our sales -- a large one-time inventory charge and high legal expenses. However, we should be back on track again next quarter. In addition, by midyear, we should be able to announce some significant progress from our sales channel development and new products that will become available to the market.

I'll now turn the call over to our listeners for any questions that you may have.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). There are no questions in queue at this time.

Tom Mika - Tegal Corporation - President and CEO

Operator, let's give it another 30 seconds or so to see if there are any questions. I'm, again, surprised.

Operator

(OPERATOR INSTRUCTIONS). There are no questions in queue.

Tom Mika - Tegal Corporation - President and CEO

All right, operator, then I'll take it from here. Again, our quarter presented significant challenges, but I really do think that as a company we're on track with executing our strategy as we've outlined over the past two years. We've made some very significant progress that hasn't been reflected in our revenues or our earnings, but I am very confident that we will get back on track.

Thank you for your time and attention, and thank you for joining us today. This concludes today's conference call.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.