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

Form 10-K

(Mark One)

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

For the fiscal year ended March 31, 2008

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

Commission file number: 0-26824

Tegal Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes [ ] No [X]

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

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

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

Large Accelerated Filer [ ]	Accelerated Filer [ ]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing sale price of the common stock on March 31, 2008 as reported on the NASDAQ Smallcap Market, was $35,996,395. As of June 25, 2008, 7,253,536 shares of the registrant's common stock were outstanding.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for registrant's 2008 Annual Meeting of Stockholders to be held September 23, 2008 will be filed with the Commission within 120 days after the close of the registrant's fiscal year and are incorporated by reference in Part III.

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PART I

Item 1. *Business*

Information contained or incorporated by reference in this report contains forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology which constitutes projected financial information. These forward-looking statements are subject to risks, uncertainties and assumptions about Tegal Corporation including, but not limited to, industry conditions, economic conditions, acceptance of new technologies and market acceptance of Tegal Corporation's products and service. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the "Part I, Item 1A—Risk Factors" and the "Financial Condition" section set forth in "Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," beginning on page 18 below and such other risks and uncertainties as set forth below in this report or detailed in our other SEC reports and filings. We assume no obligation to update forward-looking statements.

All dollar amounts are in thousands unless specified otherwise.

The Company

Tegal Corporation, a Delaware corporation ("Tegal" or the "Company"), designs, manufactures, markets and services plasma etch and deposition systems that enable the production of integrated circuits ("ICs"), memory and related microelectronics devices used in 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. Etching and deposition constitute two of the principal IC and related device production process steps and each must be performed numerous times in the production of such devices.

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

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

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

On May 28, 2004, we purchased substantially all of the assets and assumed certain liabilities of First Derivative Systems, Inc. ("FDSI"). FDSI, a privately held development stage company, was founded in 1999 as a spin-off of SFI. FDSI had developed a high-throughput, low cost-of-ownership physical vapor deposition ("PVD") system with highly differentiated technology for leading edge memory and logic device production on 200 and 300 millimeter wafers. We have postponed further internal development of products based on this technology, but we are seeking development partners and possible licensees for aspects of the unique technologies that we acquired.

Semiconductor Industry Background

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

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

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

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

Business Strategy

Our business objective is to utilize the technologies that we have developed internally or acquired externally in order to increase our market share in process equipment for both semiconductor manufacturing and nanotechnology device fabrication (i.e.. devices smaller than about 100 nanometers). In the recent past, we have focused on competing with more established competitors by being "designed-in" to the advanced device fabrication plans of our customers. We have done so primarily by engaging in research and development activities on behalf of our customers that our more established competitors were unwilling or unable to perform. Many of these advanced devices promise substantial returns as consumer demand for certain functions grows and new markets are created. However, the timing of the emergence of such demand is highly uncertain. In addition, the successful integration by our customers of all the various technical processes required to manufacture a device at an acceptable cost is also highly uncertain. While we have seen increased demand from our customers this fiscal year, we cannot accurately predict the timing of the stable emergence of these markets. Even though our sales have increased this fiscal year, due to the cyclical nature of our industry, we expect that net orders will continue to fluctuate. In the meantime, our costs for maintaining our research and development efforts and our service and manufacturing infrastructure have remained constant or in some cases increased.

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

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

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

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

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

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

Products

Etch Technologies

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

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

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

6500 Series Etch Products

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

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

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

900 Series Etch Products

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

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

Deposition Technologies

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

Our established 200mm PVD technologies address the following applications:

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

Endeavor PVDÔ Products

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

AMS Ô PVD Products

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

Compact™ NLD

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

Customers

The composition of our top five customers has changed from year to year, but net system sales to our top five customers in each of fiscal 2008, 2007, and 2006, accounted for 87.2%, 77.8%, and 68.9%, respectively, of our total net system sales. ST Microelectronics accounted for 57.8% of our total revenue in fiscal 2008. ST Microelectronics and International Rectifier accounted for 43.1% and 13.4% respectively, of our total revenue in fiscal 2007. ST Microelectronics accounted for 54.3% of our total revenue in fiscal 2006. Other than these customers, no single customer represented more than 10% of our total revenue in fiscal 2008, 2007, and 2006. Although the composition of the group comprising our largest customers may vary from year to year, the loss of a significant customer or any reduction in orders by any significant customer, including reductions due to market, economic or competitive conditions in the semiconductor and related device manufacturing industry, would have a material adverse effect on us.

Backlog

We schedule production of our systems based upon order backlog and customer commitments. We include in our backlog only orders for which written purchase orders have been accepted and shipment dates within the next 12 months have been assigned. As of March 31, 2008 and 2007, our order backlog was $250 and $1,172, respectively. Booked system orders are subject to cancellation by the customer, but with substantial penalties except in the case of orders for evaluation systems or for systems that have not yet incurred production costs. Orders may be subject to rescheduling with limited or no penalty. Some orders are received for systems to be shipped in the same quarter as the order is received. As a result, our backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

Marketing, Sales and Service

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

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

International sales, which consist of export sales from the United States either directly to the end user or to one of our foreign subsidiaries, accounted for approximately 72%, 67%, and 76% of total revenue for fiscal 2008, 2007, and 2006, respectively.

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

	Years Ended March 31,		
	2008	2007	2006
United States	$ 9,262	$ 7,398	$ 5,142
Asia, excluding Japan	9,970	7,008	5,624
Japan	805	2,042	2,312
Germany	2,879	3,115	2,313
Europe, excluding Germany	10,009	2,700	6,366
Total sales	$ 32,925	$ 22,263	$ 21,757

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

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

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

Research and Development

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

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

As of March 31, 2008, we had 19 full-time employees dedicated to equipment design engineering, process support and research and development. Research and development expenses for fiscal 2008, 2007, and 2006 were $3,705, $4,646, and $4,753, respectively, and represented 11.3%, 20.9%, and 21.8% of total revenue, respectively. Such expenditures were primarily used for the development of new processes, continued enhancement and customization of existing systems, processing customer samples in our demonstration labs and providing process engineering support at customer sites.

Manufacturing

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

Competition

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

Intellectual Property

We hold an exclusive license or ownership of approximately 62 U.S. patents, including both deposition and etch products, and approximately 14 corresponding foreign patents covering various aspects of our systems. We have also applied for approximately 28 additional U.S. patents and approximately 60 additional foreign patents. Of these patents, a few expire as early as 2008, others expire as late as 2024 with the average expiration occurring in approximately 2020. We believe that the duration of such patents generally exceeds the life cycles of the technologies disclosed and claimed therein. We believe that although the patents we have exclusively licensed or hold directly will be of value, they will not determine our success, which depends principally upon our engineering, marketing, service and manufacturing skills. However, in the absence of patent protection, we may be vulnerable to competitors who attempt to imitate our systems, processes and manufacturing techniques. In addition, other companies and inventors may receive patents that contain claims applicable to our systems and processes. The sale of our systems covered by such patents could require licenses that may not be available on acceptable terms, if at all. We also rely on trade secrets and other proprietary technology that we seek to protect, in part, through confidentiality agreements with employees, vendors, consultants and other parties. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known to or independently developed by others.

6500 Series

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

Endeavor

The original version of the system software for our Endeavor series systems was developed by Sputtered Films, Inc. The enhanced version of this software currently used on our Endeavor series systems has undergone multiple releases of the original software, and such enhancements were developed exclusively by us. No other party has any right to use our current release of the system software. However, we cannot make any assurances that this software will not be illegally copied or reverse-engineered by either customers or third parties.

9xx ACS

The original version of the system software for our 9xx series systems was developed by Tegal. The enhanced version of this software currently used on our 9xx ACS series systems has undergone multiple releases of the original software, and such enhancements were developed exclusively by us. No other party has any right to use our current release of the system software. However, we cannot make any assurances that this software will not be illegally copied or reverse-engineered by either customers or third parties.

Compact

The original version of the system software for our Compact series systems was developed jointly with Adventa Control Technologies. For each shipment of a Compact system, we purchase from ACT a perpetual, non-exclusive license to use and ship this software. Neither the software vendor nor any other party has any right to use our current release of this system software. However, we cannot make any assurances that this software will not be illegally copied or reverse-engineered by either customers or third parties.

Employees

As of March 31, 2008 we had a total of 73 regular employees, 2 part-time contract personnel and 5 full-time contract personnel. Of our regular employees, 19 are in engineering, and research and development, 18 are in manufacturing and operations, 25 are in marketing, sales and customer service and support and 11 are in executive and administrative positions. Many of our employees are highly skilled, and our success will depend in part upon our ability to attract, retain and develop such employees. Skilled employees, especially employees with extensive technological backgrounds, remain in demand. There can be no assurance we will be able to attract or retain the skilled employees that may be necessary to continue our research and development, manufacturing or marketing programs. The loss of any such persons, as well as the failure to recruit additional key personnel in a timely manner, could have a material adverse effect on us.

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

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

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

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

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

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

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

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

The composition of our top five customers has changed from year to year, but net system sales to our top five customers in each of fiscal 2008, 2007, and 2006 accounted for 87.2%. 77.8%, and 68.9% respectively, of our total net system sales. ST Microelectronics accounted for 57.8% of our total revenue in fiscal 2008. ST Microelectronics and International Rectifier accounted for 43.1% and 13.4%, respectively, of our total revenue in fiscal 2007. ST Microelectronics accounted for 54.3% of our total revenue in fiscal 2006. Other than these customers, no single customer represented more than 10% of our total revenue in fiscal 2008, 2007, and 2006. Although the composition of the group comprising our largest customers may vary from year to year, the loss of a significant customer or any reduction in orders by any significant customer, including reductions due to market, economic or competitive conditions in the semiconductor and related device manufacturing industry, would have a material adverse effect on us.

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

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

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

We have designed our advanced etch and deposition products for customer applications in emerging new films, polysilicon and metal which we believe to be the leading edge of critical applications for the production of advanced semiconductor and other microelectronic devices. Revenue from the sale of our advanced etch and deposition systems accounted for 80%, 69%, and 69%, of total revenue in fiscal 2008, 2007, and 2006, respectively. Our advanced systems are currently being used primarily for research and development activities or low volume production. For our advanced systems to achieve full market adoption, our customers must utilize these systems for volume production. We cannot assure you that the market for devices incorporating emerging films, polysilicon or metal will develop as quickly or to the degree we expect. If our advanced systems do not achieve significant sales or volume production due to a lack of full customer adoption, we will be materially adversely affected.

Until recently, we have incurred operating losses and may not be profitable in the future. Our plans to maintain and increase liquidity may not be successful.

We incurred net income/(losses) of $18.1 million, ($13.2) million, and ($8.9) million for the years ended March 31, 2008, 2007, and 2006, respectively, and (used) generated cash flows from operations of ($5.1) million, $12.8 million, and ($11.6) million in these respective years. We have raised approximately $18.4 million from the sale of stock and warrants to institutional investors in fiscal 2006. Of the amount raised in fiscal year 2006, a net of $18,161 was achieved through the 2005 PIPE. We believe that these proceeds and the release of the litigation suspense, combined with the effects of consolidation of operations and continued cost containment will be adequate to fund operations through fiscal year 2009. However projected sales may not materialize and unforeseen costs may be incurred. If the projected sales do not materialize, we will need to reduce expenses further and/or raise additional capital which may include capital raises through the issuance of debt or equity securities. If additional funds are raised through the issuance of preferred stock or debt, these securities could have rights, privileges or preferences senior to those of our common stock, and debt covenants could impose restrictions on our operations. Moreover, such financing may not be available to us on acceptable terms, if at all. Failure to raise any needed funds would materially adversely affect us.

Our quarterly operating results may continue to fluctuate.

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

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

Other factors that could affect our quarterly operating results include:

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

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

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

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

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

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

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

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

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

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

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

International sales accounted for 72%, 67%, and 76% of total revenue for fiscal 2008, 2007, and 2006, respectively. International sales are subject to certain risks, including the imposition of government controls, fluctuations in the U.S. dollar (which could increase the sales price in local currencies of our systems in foreign markets), changes in export license and other regulatory requirements, tariffs and other market barriers, political and economic instability, potential hostilities, restrictions on the export or import of technology, difficulties in accounts receivable collection, difficulties in managing representatives, difficulties in staffing and managing international operations and potentially adverse tax consequences. We cannot assure you that any of these factors will not have a detrimental effect on our operations, financial results and cash flows.

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

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

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

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

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

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

As of March 31, 2008, there were 7,242,736 shares of our common stock issued and outstanding, 3,445,219 shares of our common stock reserved for issuance of shares issuable upon exercise of outstanding warrants, and shares underlying equity awards created or available for grant under our equity incentive plans, and shares available under our stock purchase plan.

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

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

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

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

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

Materials delays have not been significant in recent years. Nevertheless, we procure certain components and sub-assemblies included in our systems from a limited group of suppliers, and occasionally from a single source supplier. Such components and assemblies include robots, electro-static chucks, power supplies and flow control devices. Disruption or termination of certain of these sources could have an adverse effect on our operations and damage our relationship with our customers.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. *Properties*

We maintain our headquarters, encompassing our executive office, manufacturing, engineering and research and development operations, in one leased 39,717 square foot facility in Petaluma, California. We have a primary lease which expired in February 2008 with an option to extend for an additional two one-year terms until 2010. In February the Company extended the primary lease for one year and expects to extend the lease for the second one-year term. Other than certain large pieces of capital equipment leased by us, we own substantially all of the machinery and equipment used in our facilities.

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

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

Item 3. *Legal Proceedings*

As of March 31, 2008, we had no pending material legal proceedings. From to time, we are involved in other legal proceedings in the normal course of business and do not expect them to have a material adverse effect on our business.

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

No matter was submitted to a vote of security holders during the fourth quarter of fiscal year 2008.

PART II

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

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

	High	Low
FISCAL YEAR 2007		
First Quarter	$ 8.52	$ 4.32
Second Quarter	4.80	3.68
Third Quarter	6.47	3.69
Fourth Quarter	6.13	4.65
FISCAL YEAR 2008		
First Quarter	$ 6.45	$ 3.11
Second Quarter	6.50	4.00
Third Quarter	7.18	5.28
Fourth Quarter	6.59	4.40

The approximate number of holders on record of our common stock as of March 31, 2008 was 181. We have not paid any cash dividends since our inception and do not anticipate paying cash dividends in the foreseeable future.

Equity Compensation Plan Information

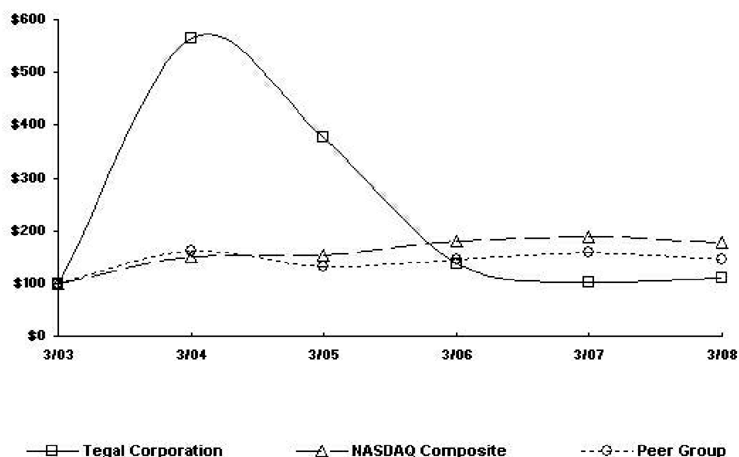
Plan Category	Number of securities to be issued upon exercise of outstanding options and restricted stock awards (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a) (c)
Equity compensation Plans approved by security holders:			
Equity Incentive Plan	1,041	$ 55.56	—
1990 Stock Option Plan	2,703	44.53	—
1998 Equity Participation Plan	664,921	6.22	113,200
2007 Equity Participation Plan	253,977	4.29	546,257
Directors Stock Option Plan	118,655	10.16	9,374
Total	1,041,297	6.35	668,831

Warrants Outstanding

	Year Ended March 31,		
	2008	2007	2006
Number of securities to be issued upon exercise of outstanding warrants	1,511,523	1,527,784	1,647,633
Weighted-average exercise price of outstanding warrants	$ 12.69	$ 12.60	$ 13.44

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Tegal Corporation, The NASDAQ Composite Index
And A Peer Group



* $100 invested on 3/31/03 in stock or index-including reinvestment of dividends.
Fiscal year ending March 31.

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

	Year Ended March 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue	$ 32,925	$ 22,263	$ 21,757	$ 14,888	$ 16,528
Gross profit	14,014	5,527	6,016	3,267	4,647
Operating income (loss)	1,595	(13,375)	(8,839)	(13,522)	(7,180)
Income tax expense (benefit)	504	—	(532)	—	—
Net income (loss)	18,104	(13,213)	(8,880)	(15,363)	(12,602)
Net income (loss) per share: (1)					
Basic	$ 2.53	$ (1.87)	$ (1.50)	$ (3.93)	$ (6.74)
Diluted	$ 2.48	$ (1.87)	$ (1.50)	$ (3.93)	$ (6.74)
Shares used in per share computation:					
Basic	7,159	7,065	5,903	3,907	1,870
Diluted	7,288	7,065	5,903	3,907	1,870

	March 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 19,271	$ 25,776	$ 13,787	$ 7,093	$ 7,049
Working capital	30,724	11,729	22,579	8,056	8,823
Total assets	40,079	41,656	31,491	20,092	22,658
Debt obligations (excluding capital leases, and litigation suspense, convertible debentures)	—	13	13	159	2,450
Stockholders' equity	32,930	14,417	26,040	13,300	14,955

(1) See Note 4 of our Consolidated Financial Statements for an explanation of the computation of earnings per share.

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

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

Company Overview

Tegal Corporation, a Delaware corporation ("Tegal" or the "Company"), designs, manufactures, markets and services plasma etch and deposition systems that enable the production of micro-electrical mechanical systems ("MEMS"), memory devices, integrated circuits ("ICs"), memory and other related microelectronics devices used 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. Etching and deposition constitute two of the principal IC and related device production process steps and each must be performed numerous times in the production of such devices.

Our business objective is to utilize the technologies that we have developed internally or acquired externally in order to increase our market share in process equipment for both semiconductor manufacturing and nanotechnology device fabrication, (i.e., devices smaller than about 100 nanometers). In the recent past, we have focused on etching new materials that are especially important to the miniaturization of certain types of capacitors and the precise deposition processes required for certain filtering devices, both driven primarily by cell phones and wireless applications. We have implemented this strategy primarily by engaging in research and development activities on behalf of our customers that our more established competitors were unwilling or unable to perform. Many of these advanced devices promise substantial returns as consumer demand for certain functions grows and new markets are created. However, the timing of the emergence of such demand, and the adoption of the devices by consumer product companies is highly uncertain. In addition, the successful integration by our customers of all of the various technical processes required to manufacture a device at an acceptable cost is also highly uncertain. As a result of our inability to accurately predict the timing of the emergence of these markets, our sales have declined since the mid-1990's and have increased only recently. Nevertheless, our costs for maintaining our research and development efforts, service and manufacturing infrastructure have remained relatively constant or in some cases have increased.

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

With our current products, we believe that we have sufficient opportunities in both emerging and existing markets to allow us to continue a sales growth pattern in the coming year. Equally important is the reduction of operating costs. In the coming year, as in the past 12 months, we are aiming to contain increases in operating costs by focusing on the most promising opportunities while limiting our exposure to others, continuing the outsourcing of certain activities, such as engineering and software development, and maintaining our headcount at a low level as we strive to improve operational efficiency.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

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

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

For new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting customer specifications at the customer site, 100% of revenue is recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passes to the customer upon shipment and 90% of the contract amount becomes payable at that time, inventory is relieved and accounts receivable is recorded for the entire contract amount. The revenue on these transactions is deferred and recorded as deferred revenue. As of March 31, 2008 and 2007 deferred revenue as related to systems was $252 and $1,039. We reserve for warranty costs at the time the related revenue is recognized.

Revenue related to sales of spare parts is recognized upon shipment. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts. Unearned maintenance and service revenue is included in deferred revenue. As of March 31, 2008 and 2007, $0 and $25 of deferred revenue was related to service contracts.

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

Accounts Receivable – Allowance for Sales Returns and Doubtful Accounts

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

Inventories

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

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

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

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These indicators may include, but are not limited to, significant decreases in the market value of an asset and significant changes in the extent or manner in which an asset is used. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. No impairment charge has been recorded for the years ended 2008, 2007, and 2006, respectively.

Warranty Obligations

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

Accounting for Restructure Expenses

There were no severance charges and no outstanding liability during fiscal year ended March 31, 2008.

During the fiscal year ended March 31, 2006, we recorded a severance charge of approximately $271 related to staff reductions of 17 employees, of which approximately $168 was classified as cost of sales, $81 as research and development, $12 as sales and marketing and $10 as general and administrative expenses. We had an outstanding severance liability of approximately $15 as of March 31, 2006.

Deferred Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Based on the uncertainty of future taxable income, we have fully reserved our deferred tax assets as of March 31, 2008 and 2007. In the event we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such determination was made.

Accounting for Stock-Based Compensation

We have adopted several stock plans that provide for issuance of equity instruments to our employees and non-employee directors. Our plans include incentive and non-statutory stock options and restricted stock awards. Stock options and restricted stock awards generally vest ratably over a four-year period on the anniversary date of the grant, and expire ten years after the grant date. Certain restricted stock awards may vest on the achievement of specific performance targets. We also have employee stock purchase plans that allow qualified employees to purchase Tegal shares at 85% of the fair market value on specified dates.

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

Effective April 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), " *Share Based Payment*" (SFAS 123R) using the modified prospective transition method. Under that transition method, we recognized compensation expense of $1,664 for the fiscal year 2007, and $1,022 the fiscal year 2008, which included: (a) compensation expense for all share-based payments granted prior to but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payments granted or modified on or after April 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Compensation expense is recognized only for those awards that are expected to vest, whereas prior to the adoption of SFAS 123R, we recognized forfeitures as they occurred. In addition, we elected the straight-line attribution method as our accounting policy for recognizing stock-based compensation expense for all awards that are granted on or after April 1, 2006. Results in prior periods have not been restated.

Accounting for Freight Charged to Customers

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

Results of Operations

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

	Year Ended March 31,		
	2008	2007	2006
		(In thousands)	
Revenue	$ 32,925	$ 22,263	$ 21,757
Cost of revenue	18,911	16,736	15,741
Gross profit	14,014	5,527	6,016
Operating expenses:			
Research and development expenses	3,705	4,646	4,753
Sales and marketing expenses	4,163	3,909	2,963
General and administrative expenses	4,551	10,347	7,139
Total operating expenses	12,419	18,902	14,855
Operating income (loss)	1,595	(13,375)	(8,839)
Other income (expense), net	17,013	162	(573)
Net income (loss) before income tax expense (benefit)	18,608	(13,213)	(9,412)
Income tax expense (benefit)	504	—	(532)
Net income (loss)	$ 18,104	$ (13,213)	$ (8,880)

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

	Year Ended March 31,		
	2008	2007	2006
Revenue	100.0%	100.0%	100.0%
Cost of revenue	57.4	75.2	72.3
Gross profit	42.6	24.8	27.7
Operating expenses:			
Research and development expenses	11.3	20.9	21.8
Sales and marketing expenses	12.7	17.6	13.6
General and administrative expenses	13.8	46.5	32.8
Total operating expenses	37.8	85.0	68.2
Operating income (loss)	4.8	(60.2)	(40.5)
Other income (expense), net	51.7	0.9	(2.6)
Net income (loss) before income tax expense (benefit)	56.5	(59.3)	(43.1)
Income tax expense (benefit)	1.5	—	(2.3)
Net income (loss)	55.0%	(59.3)%	(40.8)%

Years Ended March 31, 2008, 2007 and 2006

Revenue

Our revenue is derived from sales of new and refurbished systems, spare parts and non-warranty service. Revenue increased 47.9% in fiscal 2008 from fiscal 2007 (to $32,925 from $22,263). The revenue increase was due principally to the product mix and number of systems sold, as well as to setting higher selling prices for some of our advanced systems compared to the prior year. Revenue increased 2.3% in fiscal 2007 from fiscal 2006 (to $22,263 from $21,757). The revenue increase was principally due to the product mix as compared to the prior year. Spares and service sales were flat year to year.

International sales accounted for approximately 72%, 67%, and 76% of total revenue in fiscal 2008, 2007, and 2006, respectively. We expect that international sales will continue to account for a significant portion of our revenue.

Gross Profit

Our gross profit as a percentage of revenue (gross margin) increased to 42.6% in fiscal 2008 compared to 24.8% in fiscal 2007. The increase in the gross margin in fiscal 2008 compared to 2007 was due to the product mix and number of systems sold, as well as to cost reductions in manufacturing overhead, primarily in payroll expense. We also reduced lead times beginning in mid-2006 and wrote off inventory for the 300mm PVD tool in the amount of $1.7 million in fiscal 2007. Our gross profit as a percentage of revenue (gross margin) decreased to 24.8% in fiscal 2007 compared to 27.7% in fiscal 2006. The decrease in the gross margin in fiscal 2007 compared to 2006 was principally due to the write off of inventory for the 300mm PVD tool in the amount of $1.7 million.

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

Research and Development

Research and development expenses consist primarily of salaries, prototype material and other costs associated with our ongoing systems and process technology development, applications and field process support efforts.

Research and development expenses decreased to $3,705 in fiscal 2008 from $4,646 in fiscal 2007. The decrease in spending was due primarily to reimbursement for prototype costs as well as lower depreciation costs. Research and development expenses decreased to $4,646 in fiscal 2007 from $4,753 in fiscal 2006. The decrease was due primarily to cuts in payroll and expenses within non-essential programs.

Sales and Marketing

Sales and marketing expenses primarily consist of salaries, commissions, trade show promotion and advertising expenses. Sales and marketing expenses remained fairly flat in fiscal 2008 compared to fiscal 2007 despite a significant increase in revenue. Expenses increased to $4,163 in fiscal 2008 from $3,909 in fiscal 2007. If sales continue to increase, we anticipate an increase in sales and marketing expenses due to increased commission expense and travel related expenses. Sales and marketing expenses increased to $3,909 in fiscal 2007 from $2,963 in fiscal 2006 due to payroll and other increased costs.

General and Administrative

General and administrative expenses consist of salaries, legal, accounting and related administrative services and expenses associated with general management, finance, information systems, human resources and investor relation's activities. General and administrative costs decreased to $4,551 in fiscal 2008 from $10,347 in fiscal 2007 primarily due to decreased legal fees as a result of the settlement of the AMS litigation (described below), a buyout provision in fiscal 2007 in the Petaluma lease and SFI consolidation costs. General and administrative cost increased to $10,347 in fiscal 2007 from $7,139 in fiscal 2006 primarily due to increased legal fees.

Other Income (Expense), Net

Other income (expense), net, consists principally of settling of the *Sputtered Films, Inc. v. Advanced Modular Sputtering* lawsuit (the "AMS litigation"), interest income, gains and losses on foreign exchange, and retirement of fixed assets. We recorded other income (expense) of $17,013 in fiscal 2008. In addition to recording the net $14,705 from the settlement of the AMS litigation, we also recorded $682 from the recognition of foreign exchange differences between current and historical valuations of investment as a result of the dissolution of our Japan subsidiary completed in December 2007. Net interest income was also higher in the current fiscal year due to higher cash balances as a result of the settlement of the AMS litigation earning higher interest. We recorded other income (expense), net of $162 in fiscal 2007. In fiscal year 2006, we recorded ($573) of other income (expense), net.

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

Income Taxes

In fiscal 2008 our effective tax rate was 2.7%. The company recorded $504 as tax expense for the income realized in fiscal 2008. Our effective tax rate was 0% in fiscal 2007. In fiscal 2006, our effective rate was a benefit of 5.7%. The Company recorded a tax benefit of $532 for the losses incurred in fiscal 2006. All deferred tax assets have been fully reserved.

In the fiscal years prior to fiscal 2006, the Company recorded a reserve for the possibility of an audit of our transfer pricing policy for sales in foreign countries. During fiscal 2006, the contingency reserve in the amount of $532 was reversed. Based on a review at that time of this reserve, and in accordance with requirements at that time, the Company believed the probability of such an audit was less than 70%, therefore, reversed the reserve.

Liquidity and Capital Resources

In fiscal 2008 we financed our operations through net cash provided by operations. The primary significant changes in our cash flow statement were in inventories and the litigation suspense. The Company increased inventories in anticipation of new sales and increased costs of raw materials. Litigation suspense decreased as a result of the final settlement the AMS litigation. Our original litigation suspense of $19,500 was reduced by the payment of $995 to settle claims with G&L earlier in the year resulting in a litigation suspense balance of $18,505 as of December 31, 2007. In January 2008, we reached settlement of a $3,800 payment to Keker & Van Nest. As a result of this settlement, the litigation suspense of $14,705 was released and recorded as other income in the fourth quarter ended March 31, 2008. For more information, see Note 8, "Commitment and Contingencies" to our consolidated financial statements.

Accounts receivable was flat from fiscal 2007 to fiscal 2008 despite our additional sales. Full payment is due from customers when system installations are complete. The Company, through its own field service employees and contract employees completed installations of advanced systems, primarily sold in the second and third quarters of fiscal 2008.

Net cash used in operations in fiscal 2008 was $5,057, due primarily to the non cash income from the lawsuit settlement amount of $19,500 partially offset by a net income of $18,104 and increased inventories. Net cash provided by operations was $12,772 in fiscal 2007, due primarily to the litigation suspense amount of $19,500 partially offset by a net loss of $13,213 partially offset by non cash stock compensation expense, and inventory write-off provisions. Net cash used in operations was $11,576 in fiscal 2006, due primarily to a net loss of $8,880 and increases in Accounts Receivable offset by decreases in Accounts Payable offset by non cash stock compensation expense.

Net capital expenditures totaled $483, $691, and $231 in fiscal 2008, 2007, and 2006, respectively. Capital expenditures in all three years were incurred principally for demonstration equipment, leasehold improvements and to acquire design tools, analytical equipment and computers.

Notes payable consisted of capital lease obligations on fixed assets totaling $14 during 2008.

Our consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. We incurred net income (loss) of $18,104, $(13,213), and $(8,880) for fiscal 2008, 2007, and 2006, respectively. We (used) generated cash flows from operations of $(5,057), $12,772, and ($11,576) for fiscal 2008, 2007, and 2006, respectively. To finance our operations, in fiscal 2007 we received $19,500 representing the gross cash proceeds from the settlement of the AMS litigation. We raised $18,410 in net proceeds from the sale of our common stock and warrants to institutional investors in fiscal 2006. We believe that these proceeds, combined with the effects of the consolidation of operations and continued cost containment, will be adequate to fund operations through fiscal year 2009. However, projected sales may not materialize and unforeseen costs may be incurred**.** If the projected sales do not materialize, we will need to reduce expenses further and raise additional capital through the issuance of debt or equity securities. If additional funds are raised through the issuance of preferred stock or debt, these securities could have rights, privileges or preferences senior to those of common stock, and debt covenants could impose restrictions on our operations. The sale of equity or debt could result in additional dilution to current stockholders, and such financing may not be available to us on acceptable terms, if at all.

The following summarizes our contractual obligations at March 31, 2008, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands).

Contractual obligations:	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Non-cancelable capital lease obligations	$ 15	$ 15	$ —	$ —	$ —
Non-cancelable operating lease obligations	936	610	302	24	
Total contractual cash obligations	$ 951	$ 625	$ 302	$ 24	$ —

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

Recent Accounting Pronouncements

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

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

In December 2007, FASB issued SFAS No. 141 (revised 2007), " *Business Combinations*", ("SFAS 141R") which replaces SFAS No 141. SFAS 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for the Company beginning April 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*", ("SFAS 160") which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for the Company beginning April 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. SFAS 160 has no material effect on the Company's consolidated financial statements.

In March 2008, FASB issued SFAS No. 161, " *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* " ("SFAS 161"), which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The statement requires disclosure about (a) why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. SFAS 161 has no material effect on the Company's consolidated financial statements.

In May 2008, FASB issued SFAS No. 162 " *The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162"). SFAS 162 identifies the sources of generally accepted accounting principles in the United States. SFAS 162 is effective sixty days following the SEC's approval of PCAOB amendments to AU Section 411, "The Meaning of 'Present fairly in conformity with generally accepted accounting principles'". The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 162 on its consolidated financial statements.

On May 23, 2008, FASB issued SFAS 163, " *Accounting for Financial Guarantee Insurance Contracts*" ("SFAS163"). The new standard clarifies how SFAS 60, "Accounting and Reporting by Insurance Enterprises", applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 has no material effect on the Company's consolidated financial statements.

In June 2007, FASB's Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 07-3, "*Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*" ("EITF Issue No. 07-3") that would require nonrefundable advance payments made by the Company for future research and development activities to be capitalized and recognized as an expense as the goods or services are received by the Company. The Company does not expect EITF Issue No. 07-3 to have a material impact on the Company's consolidated financial statements.

In December 2007, FASB ratified the EITF consensus on EITF Issue No. 07-1, "*Accounting for Collaborative Arrangements*" that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e., parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent." Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements, analogy to such pronouncements if not within their scope, or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective beginning January 1, 2009 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is currently evaluating the impacts and disclosures of this standard, but would not expect EITF Issue No. 07-1 to have a material impact on the Company's consolidated financial statements.

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

Market Risk Disclosure

Foreign Exchange Risk

Our exposure to foreign currency fluctuations is primarily related to sales of our products in Europe, which are denominated in the Euro. Changes in the exchange rate between the Euro and the U.S. dollar could adversely affect our operating results. Exposure to foreign currency exchange rate risk may increase over time as our business evolves and our products continue to be sold into international markets. Currently, we do not hedge against any foreign currencies and, as a result, could incur unanticipated gains or losses. For the year ended March 31, 2008, fluctuations of the U.S. dollar in relation to the Euro were immaterial to our financial statements.

Interest Rate Risk

We are only marginally exposed to interest rate risk through interest earned on money market accounts. Interest rates that may affect these items in the future will depend on market conditions and may differ from the rates we have experienced in the past. We do not hold or issue derivatives, commodity instruments or other financial instruments for trading purposes.

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Tegal Corporation:

We have audited the accompanying consolidated balance sheets of Tegal Corporation and its subsidiaries ("the Company") as of March 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended March 31, 2008. Our audit also included the financial statement schedule as of and for the years ended March 31, 2008 and 2007 listed in the Index at Item 15(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tegal Corporation and its subsidiaries as of March 31, 2008 and 2007 and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the information presented in the related financial statement schedule as of and for the years ended March 31, 2008 and 2007, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

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

/s/Burr, Pilger & Mayer LLP

San Francisco, California

June 25 2008

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Tegal Corporation

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

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

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

/s/ Moss Adams LLP

Santa Rosa, California

June 27, 2008

TEGAL CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2008	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,271	$ 25,776
Accounts receivable, net of allowances for sales returns and doubtful accounts of $191 and $413 at March 31, 2008 and 2007, respectively	6,758	6,634
Inventories, net	11,056	5,567
Prepaid expenses and other current assets	788	991
Total current assets	37,873	38,968
Property and equipment, net	1,213	1,351
Intangible assets, net	903	1,161
Other assets	90	176
Total assets	$ 40,079	$ 41,656
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 14	$ 10
Accounts payable	1,469	1,974
Accrued product warranty	1,770	1,101
Deferred revenue	252	1,064
Litigation suspense	—	19,500
Accrued expenses and other current liabilities	3,644	3,590
Total current liabilities	7,149	27,239
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock; $0.01 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock; $0.01 par value; 50,000,000 shares authorized; 7,242,736 and 7,106,867 shares issued and outstanding at March 31, 2008 and 2007, respectively	72	71
Additional paid-in capital	123,567	122,473
Accumulated other comprehensive (loss) income	(446)	240
Accumulated deficit	(90,263)	(108,367)
Total stockholders' equity	32,930	14,417
Total liabilities and stockholders' equity	$ 40,079	$ 41,656

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended March 31,		
	2008	2007	2006
Revenue	$ 32,925	$ 22,263	$ 21,757
Cost of revenue	18,911	16,736	15,741
Gross profit	14,014	5,527	6,016
Operating expenses:			
Research and development expenses	3,705	4,646	4,753
Sales and marketing expenses	4,163	3,909	2,963
General and administrative expenses	4,551	10,347	7,139
Total operating expenses	12,419	18,902	14,855
Operating income (loss)	1,595	(13,375)	(8,839)
Other income (expense), net	17,013	162	(573)
Income (loss) before income tax expense (benefit)	18,608	(13,213)	(9,412)
Income tax expense (benefit)	504	—	(532)
Net income (loss)	$ 18,104	$ (13,213)	$ (8,880)
Net income (loss) per share :			
Basic	$ 2.53	$ (1.87)	$ (1.50)
Diluted	$ 2.48	$ (1.87)	$ (1.50)
Weighted average shares used in per share computations:			
Basic	7,159	7,065	5,903
Diluted	7,288	7,065	5,903

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Comprehensive Income (Loss)
Balances at March 31, 2005	4,403,627	$ 44	$ 99,640	$ (110)	$ (86,274)	$ 13,300	
Common stock issued under option and stock purchase plans	9,498	—	96	—	—	96	
Common stock issued in PIPE	2,570,000	26	20,020	—	—	20,046	
Common stock issued for services rendered	14,697	—	103	—	—	103	
Warrants and options to purchase common stock issued for services rendered	—	—	953	—	—	953	
Restricted stock units – vested	23,266	—	1,231	—	—	1,231	
Deferred Compensation	—	—	(224)	—	—	(224)	
Cost of Equity	—	—	(1,662)	—	—	(1,662)	
Valuation of Warrants in 2005 PIPE	—	—	435	—	—	435	
Net loss	—	—	—	—	(8,880)	(8,880)	$ (8,880)
Cumulative translation adjustment	—	—	—	642	—	642	642
Total comprehensive loss	—	—	—	—	—	—	$ (8,238)
Balances at March 31, 2006	7,021,088	70	120,592	532	(95,154)	26,040	
Common stock issued stock purchase plans	2,664	—	10	—	—	10	
Warrants and options to purchase common stock issued for services rendered	—	—	69	—	—	69	
Repurchase of fractural shares	(219)						
Restricted stock units - vested	83,334	1	138	—	—	139	
Stock compensation expense	—	—	1,664	—	—	1,664	
Net loss	—	—	—	—	(13,213)	(13,213)	$ (13,213)
Cumulative translation adjustment	—	—	—	(292)	—	(292)	(292)
Total comprehensive loss	—	—	—	—	—	—	$ (13,505)
Balances at March 31, 2007	7,106,867	71	122,473	240	(108,367)	14,417	
Common stock issued stock purchase plans	5,734	—	42	—	—	42	
Warrants and options to purchase common stock issued for services rendered	40,940	—	29	—	—	29	
Restricted stock units – vested	89,195	1	—			1	
Stock based compensation expense	—	—	1,022	—	—	1,022	
Net income	—	—	—	—	18,104	18,104	$ 18,104
Cumulative translation adjustment	—	—	—	(685)	—	(685)	(685)
Total comprehensive income	—	—	—	—	—	—	$ 17,418
Balances at March 31, 2008	7,242,736	$ 72	$ 123,566	$ (445)	$ (90,263)	$ 32,930	

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended March 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income (loss)	$ 18,104	$ (13,213)	$ (8,880)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	734	840	1,193
Stock compensation expense	1,022	1,803	435
Stock issued under stock purchase plan	42	10	—
Provision for doubtful accounts and sales returns allowances	(222)	208	(338)
Loss on disposal of property and equipment	144	663	128
Fair value of warrants and options issued for services rendered	29	69	1,958
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	160	(1,524)	(2,718)
Inventories, net	(5,428)	1,951	(1,764)
Prepaid expenses and other assets	271	239	(532)
Accounts payable	(481)	(508)	(1,112)
Accrued expenses and other current liabilities	22	1,582	(601)
Accrued product warranty	858	565	300
Litigation suspense	(19,500)	19,500	—
Deferred revenue	(812)	587	355
Net cash (used in) provided by operating activities	(5,057)	12,772	(11,576)
Cash flows from investing activities:			
Purchases of property and equipment	(483)	(691)	(231)
Net cash used in investing activities	(483)	(691)	(231)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	—	—	18,583
(Repayments) borrowings under notes payable and bank lines of credit	—	(14)	—
Repayments of notes payable and bank lines of credit	—	—	(134)
Payments on capital lease financing	3	(2)	(24)
Net cash provided by (used in) financing activities	3	(16)	18,425
Effect of exchange rates on cash and cash equivalents	(968)	(76)	76
Net (decrease) increase in cash and cash equivalents	(6,505)	11,989	6,694
Cash and cash equivalents at beginning of year	25,776	13,787	7,093
Cash and cash equivalents at end of year	$ 19,271	$ 25,776	$ 13,787
Supplemental disclosures of cash paid during the year for:			
Interest	$ —	$ 6	$ 10
Supplemental disclosure of non-cash investing and financing activities			
Transfer of demo lab equipment between inventory and fixed assets	$ 143	$ 314	$ 725

TEGAL CORPORATION

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

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

Description of Business

Tegal Corporation, a Delaware corporation ("Tegal" or the "Company"), designs, manufactures, markets and services plasma etch and deposition systems that enable the production of integrated circuits ("ICs"), memory and related microelectronics devices used in 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. Etching and deposition constitute two of the principal IC and related device production process steps and each must be performed numerous times in the production of such devices.

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

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

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

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

Principles of Consolidation/Foreign Currency

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Intercompany transactions and balances are eliminated in consolidation. Accounts denominated in foreign currencies are translated using the foreign currencies as the functional currencies. Assets and liabilities of foreign operations are translated to U.S. dollars at current rates of exchange and revenues and expenses are translated using weighted average rates. The effects of translating the financial statements of foreign subsidiaries into U.S. dollars are reported as accumulated other comprehensive income (loss), a separate component of stockholders' equity. Gains and losses from foreign currency transactions are included in the statements of operations as a component of other income (expense), net, and were not material in all periods presented.

Use of Estimates

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

Cash and Cash Equivalents

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

At March 31, 2008 and 2007 all of the Company's investments are classified as cash equivalents in the consolidated balance sheets. The investment portfolio at March 31, 2008 and 2007 is comprised of money market funds. At March 31, 2008 and 2007, the fair value of the Company's investments approximated cost.

Financial Instruments

The carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, notes payable, accrued expenses and other liabilities approximates fair value due to their relatively short maturity. The Company has foreign subsidiaries, which operate and sell the Company's products in various global markets. As a result, the Company is exposed to changes in foreign currency exchange rates. The Company does not hold derivative financial instruments for speculative purposes. Foreign currency transaction gains and (losses) included in other income (expense), net were not significant for the years ended March 31, 2008, 2007, and 2006.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of temporary cash investments and accounts receivable. Substantially all of the Company's temporary investments are invested in money market funds. The Company's accounts receivable are derived primarily from sales to customers located in the U.S., Europe and Asia. The Company performs ongoing credit evaluations of its customers and generally requires no collateral. The Company maintains reserves for potential credit losses. Write-offs during the periods presented have been insignificant. As of March 31, 2008, three customers accounted for approximately 55.8% of the accounts receivable balance. As of March 31, 2007, three customers accounted for approximately 86.3% of the accounts receivable balance.

Inventories

Inventories are stated at the lower of cost or market, reduced by provisions for excess and obsolescence. Cost is computed using standard cost, which approximates actual cost on a first-in, first-out basis and includes material, labor and manufacturing overhead costs. The Company estimates the effects of excess and obsolescence on the carrying values of our inventories based upon estimates of future demand and market conditions. The Company establishes a provision for inventories in excess of production demand. Should actual production demand differ from the Company's estimates, additional inventory provision may be required. The excess and obsolete provision is only released if and when the related inventory is sold or scrapped. The inventory provision balance at March 31, 2008 and 2007 was $3,695 and $3,908, respectively. The inventory provision write down for the years ended March 31, 2008 and 2007 was ($213) and ($3,227), respectively.

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

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

Warranty Costs

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

Property and Equipment

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

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

Identified Intangible Assets

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

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. No impairment charge has been recorded for the years ended 2008, 2007, and 2006, respectively.

Accounts Receivable – Allowance for Sales Returns and Doubtful Accounts

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

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

Revenue Recognition

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

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

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

For new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting customer specifications at the customer site, 100% of revenue is recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passes to the customer upon shipment and 90% of the contract amount becomes payable at that time, inventory is relieved and accounts receivable is recorded for the entire contract amount. The revenue on these transactions is deferred and recorded as deferred revenue. As of March 31, 2008 and 2007, deferred revenue as related to systems was $252 and $1,039, respectively. We reserve for warranty costs at the time the related revenue is recognized.

Revenue related to sales of spare parts is recognized upon shipment. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts. Unearned maintenance and service revenue is included in deferred revenue. At March 31, 2008 and 2007, respectively, $0 and $25 of deferred revenue was related to service contracts.

Accounting for Freight Charged to Customers

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

Income Taxes

Effective April 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainties in Income Taxes — An Interpretation of FASB Statement No. 109*" (FIN 48). FIN 48 requires recognition on the financial statements of the effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure related to uncertain income tax positions. Deferred income taxes are recognized for the differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company adopted FASB Interpretation No. 48 ("FIN 48"), *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109,"* on January 1, 2007. FIN 48 is an interpretation of SFAS No. 109 ("SFAS 109"), *"Accounting for Income Taxes,"* and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. In accordance with its accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. The impact on adoption of FIN 48 is more fully described in Note 6, "Income Taxes."

As of March 31, 2008, the Company had net operating loss carryforwards of approximately $70.0 million and $26.8 million for federal and state tax purposes, respectively. The federal net operating loss carryforward will begin to expire in the year ending March 31, 2019. The state of California operating loss carryforwards will start to expire in the ending March 31, 2009

The deferred tax asset valuation allowance as of March 31, 2008 is attributed to U.S. federal, and state deferred tax assets, which result primarily from future deductible accruals, reserves, net operating loss carryforwards, and tax credit carryforwards. We believe that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding our ability to realize the deferred tax assets such that a full valuation allowance has been recorded. These factors include our history of losses, and the lack of carryback capacity to realize deferred tax assets.

In accordance with Section 382 of the Internal Revenue Code, the amounts of and benefits from net operating loss and tax credit carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses or credits that we may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% as defined, over a three year period.

We recognize interest and penalties related to uncertain tax positions in income tax expense. Income tax expense for the year ended March 31, 2008 includes no interest and penalties. As of March 31, 2008, we have no accrued interest and penalties related to uncertain tax positions.

Earnings Per Share

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

Stock-Based Compensation

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

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

Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004) "Accounting for Stock Based Compensation" (SFAS 123R) using the modified prospective transition method. Under that transition method, the Company recognized compensation expense of $1,022 for the fiscal year 2008 and $1,664 for the fiscal year 2007, which included: (a) compensation expense for all share-based payments granted prior to but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payments granted or modified on or after April 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Compensation expense is recognized only for those awards that are expected to vest, whereas prior to the adoption of SFAS 123R, the Company recognized forfeitures as they occurred. In addition, the Company elected the straight-line attribution method as our accounting policy for recognizing stock-based compensation expense for all awards that are granted on or after April 1, 2006. Results in prior periods have not been restated.

At March 31, 2008, total compensation expense related to non-vested awards not yet recognized is $2,430. The weighted average period for which it is expected to be recognized is 2 years.

The Company used the following valuation assumptions to estimate the fair value of options granted for the years ended March 31, 2008, 2007 and 2006, respectively:

STOCK OPTIONS:	**2008**	**2007**	**2006**
Expected life (years)	4.0	4.0	4.0
Volatility	70%	87%	116%
Risk-free interest rate	3.8%	5.0%	4.6%
Dividend yield	0%	0%	0%

ESPP awards were valued using the Black-Scholes model with expected volatility calculated using a six-month historical volatility.

ESPP:	**2008**	**2007**	**2006**
Expected life (years)	0.5	0.5	0.5
Volatility	46%	51%	65%
Risk-free interest rate	4.0%	5.0%	4.7%
Dividend yield	0%	0%	0%

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

		2006
Net loss as reported	$	(8,880)
Proforma compensation expense at fair value	$	(1,770)
Proforma net loss	$	(10,650)
Net loss per share as reported - basic and diluted	$	(1.50)
Proforma net loss per share		
Basic and diluted	$	(1.80)

Comprehensive Income/(Loss)

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

Recent Accounting Pronouncements

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

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

In December 2007, FASB issued SFAS No. 141 (revised 2007), " *Business Combinations"*, ("SFAS 141R") which replaces SFAS No 141. SFAS 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for the Company beginning April 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51"*, ("SFAS 160") which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for the Company beginning April 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. SFAS 160 has no material effect on the Company's consolidated financial statements.

In March 2008, FASB issued SFAS No. 161, " *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* " (SFAS 161), which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The statement requires disclosure about (a) why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. SFAS 161 has no material effect on the Company's consolidated financial statements.

In May 2008, FASB issued SFAS No. 162 " *The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162"). SFAS 162 identifies the sources of generally accepted accounting principles in the United States. SFAS 162 is effective sixty days following the SEC's approval of PCAOB amendments to AU Section 411, "The Meaning of 'Present fairly in conformity with generally accepted accounting principles'". The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 162 on its consolidated financial statements.

On May 23, 2008, FASB issued SFAS 163, " *Accounting for Financial Guarantee Insurance Contracts*" ("SFAS163"). The new standard clarifies how SFAS 60, "Accounting and Reporting by Insurance Enterprises", applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 has no material effect on the Company's consolidated financial statements.

In June 2007, FASB's Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 07-3, "*Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*" ("EITF Issue No. 07-3") that would require nonrefundable advance payments made by the Company for future research and development activities to be capitalized and recognized as an expense as the goods or services are received by the Company. The Company does not expect EITF Issue No. 07-3 to have a material impact on the Company's consolidated financial statements.

In December 2007, FASB ratified the EITF consensus on EITF Issue No. 07-1, "*Accounting for Collaborative Arrangements*" that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e., parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent." Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements, analogy to such pronouncements if not within their scope, or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective beginning January 1, 2009 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is currently evaluating the impacts and disclosures of this standard, but would not expect EITF Issue No. 07-1 to have a material impact on the Company's consolidated financial statements.

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

Inventories, net consisted of:

	March 31, 2008	March 31, 2007
Raw materials	$ 4,674	$ 1,315
Work in process	4,663	2,928
Finished goods and spares	1,719	1,324
	$ 11,056	$ 5,567

The inventory provision at March 31, 2008 and 2007 was $3,695 and $3,908, respectively.

Property and equipment, net, consisted of:

	March 31, 2008	March 31, 2007
Machinery and equipment	$ 2,763	$ 2,605
Demo lab equipment	1,188	1,295
Computer and software	1,295	1,152
Leasehold improvements	3,295	3,198
	8,541	8,250
Less accumulated depreciation and amortization	(7,328)	(6,899)
	$ 1,213	$ 1,351

Machinery and equipment at March 31, 2008 and 2007, includes approximately $16 and $43, respectively, of assets under leases that have been capitalized. Accumulated amortization for such equipment approximated $1 and $42, respectively. Depreciation expense for years ended March 31, 2008, 2007, and 2006 were $583, $683, and $871, respectively.

A summary of accrued expenses and other current liabilities follows:

	March 31, 2008	March 31, 2007
Accrued compensation costs	$ 1,565	$ 1,089
Income taxes payable	538	27
Customer deposits	925	1,063
Sales tax payable	172	302
Other	444	1,109
	$ 3,644	$ 3,590

Product warranty and guarantees:

The Company provides warranty on all system sales based on the estimated cost of product warranties at the time revenue is recognized. The warranty obligation is affected by product failure rates, material usage rates, and the efficiency by which the product failure is corrected. Warranty activity for the years ended March 31, 2008 and 2007 is as follows:

	Year Ended March 31, 2008	Year Ended March 31, 2007
Balance at the beginning of the period	$ 1,101	$ 506
Additional warranty accruals for warranties issued during the year	1,811	1,140
Settlements made during the year	(1,142)	(545)
Balance at the end of the year	$ 1,770	$ 1,101

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

Note 3. ***Intangible Assets***

As of March 31, 2008, intangible assets, net consisted of the following:

	Gross	Accumulated Amortization	Net
Technology	$ 782	$ (546)	$ 236
Trade name	253	(177)	76
Patents	1,072	(481)	591
Total	$ 2,107	$ (1,204)	$ 903

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

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

Amortization expense was $258 in fiscal 2008, $314 in fiscal 2007 and $322 in fiscal 2006. The estimated future amortization expense of intangible assets as of March 31, 2008 is as follows:

2009	$ 223
2010	178
2011	103
2012	49
2013	49
Thereafter	301
	$ 903

Note 4. ***Earnings Per Share (EPS)***

Basic EPS is computed by dividing income (loss) available to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) for the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period. The computation of diluted EPS uses the average market prices during the period. All amounts in the following table are in thousands except per share data.

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

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

	Year Ended March 31,		
	2008	2007	2006
Net income (loss) applicable to common stockholders	$ 18,104	$ (13,213)	$ (8,880)
Basic and diluted:			
Weighted-average common shares outstanding	7,159	7,065	5,903
Less weighted-average common shares subject to repurchase	—	—	—
Weighted-average common shares used in computing basic net income (loss) per common share	7,159	7,065	5,903
Plus diluted - common stock equivalents	129	—	—
Weighted-average common shares used in diluted net income (loss) per common share	7,288	7,065	5,903
Basic net income (loss) per common share	$ 2.53	$ (1.87)	$ (1.50)
Diluted net income (loss) per common share	$ 2.48	$ (1.87)	$ (1.50)

Outstanding options, warrants and restricted stock of 1,697,608; 2,537,429; and 2,410,772 shares of common stock at a weighted-average exercise price of $10.72 $11.36, and $13.92, per share on March 31, 2008, 2007, and 2006 respectively, were not included in the computation of diluted net income (loss) per common share for the periods presented as a result of their anti-dilutive effect. Such securities could potentially dilute earnings per share in future periods.

Note 5. ***Notes Payable***

Notes payable at March 31, 2008, consisted of capital lease obligations of $14, excluding the interest portion, due within the next year.

Note 6. ***Income Taxes***

Components of income (loss) before income tax expense (benefit) are as follows:

Year ended March 31,	2008	2007	2006
Domestic	$ 18,197	$ (15,261)	$ (6,884)
Foreign	411	2,048	(2,528)
Income (Loss) before income tax expense (benefit)	$ 18,608	$ (13,213)	$ (9,412)

Components of income tax expense (benefit) are as follows:

Year ended March 31	2008	2007	2006
Current:			
U.S. Federal	$ 385	$ —	$ —
State and Local	119	—	—
Foreign (credit)	—	—	(532)
Total current tax expense (benefit)	504	—	(532)
Deferred			
U.S. Federal	—	—	—
State and Local	—	—	—
Foreign (credit)	—	—	—
Total deferred tax expense	—	—	—
Total income tax expense (benefit)	$ 504	$ —	$ (532)

The income tax expense (benefit) differs from the amount computed by applying the statutory U.S. federal income tax rate as follows:

Year ended March 31,	2008	2007	2006
Income tax expense (benefit) at U.S. Statutory Rate	$ 6,326	$ (4,493)	$ (3,200)
State taxes expense (benefit) net of federal effect	79	(534)	(295)
Foreign differential	—	(696)	860
Current year tax credits	(5)	(48)	(441)
Reversal of PY Transfer price reserve	—	—	(532)
Change in valuation allowance	(6,423)	5,681	2,080
Statutory rate change	—	—	600
Foreign SubF Germany	227	—	—
Japan liquidation subject to 367(b)	273	—	—
Other items	27	90	396
Total Income tax expense/(income)	$ 504	$ ---	$ (532)

Components of deferred taxes are as follows:

Year ended March 31,	2008	2007
Deferred revenue	$ 96	$ —
Accruals, reserves and other	2,861	3,194
Net operating loss carryforwards	26,838	32,656
Credit carryforward	2,795	3,597
Uniform cap adjustment	348	721
Other	1,059	140
Gross deferred tax assets	33,997	40,308
Valuation allowance	(33,997)	(40,308)
Net deferred tax asset	$ —	$ —

The Company adopted FIN 48, on January 1, 2007. As a result of the implementation of FIN 48, the Company did not recognize any adjustment to the liability for uncertain tax positions and therefore did not record any adjustment to the beginning balance of accumulated deficit on the consolidated balance sheet. As of the date of adoption, the Company

recorded a $1.4 million reduction to deferred tax assets for unrecognized tax benefits, all of which is currently offset by a full valuation allowance and therefore did not record any adjustment to the beginning balance of accumulated deficit on the balance sheet.

We have recorded no net deferred tax assets for the years ended March 31, 2008 and 2007, respectively. The Company has provided a valuation allowance of $34.0 million and $40.3 million at March 31, 2008 and 2007, respectively. The valuation allowance fully reserves all net operating loss carryforwards, credits and non-deductible accruals and reserves, for which realization of future benefit is uncertain. The realization of net operating losses may be limited due to change of ownership rules. The valuation allowance decreased by $6.3 million in fiscal 2008 and increased by $5.7 million during fiscal 2007.

At March 31, 2008, the Company has net operating loss carryforwards of approximately $70.0 million and $26.8 million for federal and state tax purposes, respectively, the federal net operating loss carryforward will begin to expire in the year ended March 31, 2019 and the state of California will start to expire in the year ended March 31, 2008.

At March 31, 2008, the Company also has research and experimentation credit carryforwards of $1.6 million and $0.7 million for federal and state income tax purposes, respectively, the federal credit will begin to expire in the year ended March 31, 2008 and the state of California will never expire.

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

Note 7. ***Accounting for Restructure Expense***

During the fiscal year ended March 31, 2008, there were no severance charges and no outstanding liability.

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

During the fiscal year ended March 31, 2006, we recorded a severance charge of approximately $271 related to staff reductions of 17 employees, of which approximately $168 was classified as cost of sales, $81 as research and development, $12 as sales and marketing and $10 as general and administrative expenses. We had an outstanding severance liability of approximately $15 as of March 31, 2006.

Note 8. ***Commitments and Contingencies***

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

Year Ending March 31, 2008	Capital Leases	Operating Leases
	As of March 31, 2008	
2009	$ 15	$ 610
2010	—	242
2011	—	60
2012	—	24
2013	—	—
Thereafter	—	—
Total minimum lease payments	15	$ 936
Less amount representing interest	1	—
Present value of minimum lease payments	14	—
Less current portion	14	—
Long term capital lease obligation	$ —	—

Most leases provide for the Company to pay real estate taxes and other maintenance expenses. Rent expense for operating leases, net of sublease income, was $862, $1,636, and $2,671, during the years ended March 31, 2008, 2007, and 2006, respectively.

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

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

On November 13, 2006, following commencement of the trial, all the parties in the litigation agreed on terms of a settlement, which was filed with the court. Among other things, the settlement called for the transfer of assets related to PVD technology from AMS to SFI, the dissolution of AMS as of March 1, 2007 and the assumption by Tegal of certain warranty obligations of AMS, neither of which was material. The Avago Cross-Complaint was also dismissed as part of the settlement. A final confidential settlement and release of claims was executed among the parties on December 21, 2006.

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

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

Prior to the September 11, 2007 arbitration hearing, G&L settled its claim against the Company for $995, and the resulting payment by the Company to G&L of $995 was released from the litigation in suspense proceeds. Until recently KVN continued to pursue its original claim. However, on January 16, 2008, Tegal received a Notice of Acceptance of Written Offer to Compromise from KVN. In connection with KVN's acceptance of the Company's Written Offer to Compromise and the execution of a mutual general release, dated as of January 18, 2008, the Company has paid KVN $3,800. As a result, the Company has eliminated the litigation suspense along with other liabilities related to the AMS Settlement, and the net proceeds has been recorded as other income in the fiscal fourth quarter ended March 31, 2008.

Note 9. ***Sale of Common Stock and Warrants***

During fiscal year 2006, the Company entered into a contract with certain consultants of the Company pursuant to which the Company will issue warrants on a monthly basis in lieu of cash payments for two years, dependant upon the continuation of the contract and the achievement of certain performance goals. These warrants are valued and expensed on a monthly basis upon issuance.

- During the fiscal year ended March 31, 2006, the Company issued warrants to purchase 40,267 shares of the Company's common stock to service providers for services rendered. The warrants were valued at $253 using the Black-Scholes model with an exercise price at the market value on the day of the grant and an average interest rate of 3.99% and a 5 year life.

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

- During fiscal year 2008, the Company issued 5,000 warrants valued at $33 using the Black Scholes model with an exercise price at the market value on the day of the grant and an average interest rate of 3.75% and a 5 year life.

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

In connection with the agreement, the Company issued fully vested warrants to Kingsbridge Capital to purchase 25,000 shares of the Company's common stock at an exercise price of $49.32 per share. The fair value of such warrants, which amounted to approximately $756, was capitalized as a transaction cost. The following variables were used to determine the fair value of such instruments under the Black-Scholes option pricing model: volatility of 114%, term of five years, risk free interest of 3.91% and underlying stock price equal to fair market value at the time of grant. All warrants in connection to this transaction were outstanding at March 31, 2008.

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

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

At March 31, 2008 there were 1,511,523 warrants outstanding.

Note 10. ***Employee Benefit Plans***

Equity Incentive Plan

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

1998 Equity Participation Plan (Eighth Amended and Restated)

Pursuant to the terms of the Company’s Amended 1998 Equity Participation Plan (“1998 Equity Plan”), aggregate of 1,666,666 shares of common stock were reserved for issuance pursuant to stock options and stock appreciation rights or upon the vesting of restricted stock awards. The exercise price of options generally will be the fair value of the Company’s common stock on the date of grant. Options are generally subject to vesting at the discretion of the Compensation Committee of the Board of Directors (the “Committee”). At the discretion of the Committee, vesting may be accelerated when the fair market value of the Company’s stock equals a certain price established by the Committee on the date of grant. Incentive stock options will be exercisable for up to ten years from the grant date of the option. Non-qualified stock options will be exercisable for a maximum term to be set by the Committee upon grant. Following the adoption of the 2007 Equity Plan, no further awards will be issued under the 1998 Equity Plan.

2007 Incentive Award Plan

Pursuant to the terms of the Company’s 2007 Equity Participation Plan (“ 2007 Equity Plan”), which was authorized as a successor plan to the Company’s 1998 Equity Incentive Plan and Director Option Plan, an aggregate of 1,000,000 shares of common stock is available for grant pursuant to the 2007 Equity Plan, plus the number of shares of common stock which are or become available for issuance under the 1998 Equity Plan and the Director Option Plan and which are not thereafter issued under such plans. The 2007 Equity Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards, and performance-based awards. The option exercise price of all stock options granted pursuant to the 2007 Equity Plan will not be less than 100% of the fair market value of the common stock on the date of grant. Stock options may be exercised as determined by the Board, but in no event after the tenth anniversary date of grant, provided that a vested nonqualified stock option may be exercised up to 12 months after the optionee's death. Awards granted under the 2007 Equity Plan are generally subject to vesting at the discretion of the Compensation Committee of the Board of Directors (the “Committee”). As of March 31, 2008, 9,400 shares were available for issuance under the Equity Plan.

Directors Stock Option Plan

Pursuant to the terms of the Fifth Amended and Restated Stock Option Plan for Outside Directors, as amended, ("Director Option Plan"), an aggregate of 333,333 shares of common stock were reserved for issuance pursuant to stock options granted to outside directors. Each outside director who was elected or appointed to the Board on or after September 15, 1998 was eligible to be granted an option to purchase 8,333 shares of common stock and on each second anniversary after the applicable election or appointment shall receive an additional option to purchase 4,166 shares, provided that such outside director continued to serve as an outside director on that date. For each outside director, 1/12th of the total number of shares will vest on the first day of each calendar month following the date of Option grant, contingent upon continued service as a director. Following the adoption of the 2007 Equity Plan, no further awards will be issued under the Director Option Plan.

Employee Qualified Stock Purchase Plan

The Company has offered an Employee Qualified Stock Purchase Plan ("Employee Plan") under which rights are granted to purchase shares of common stock at 85% of the lower of the market value of such shares at the beginning of a six month offering period or at the end of that six month period. Under the Employee Plan, the Company is authorized to issue up to 83,333 shares of common stock. 5,734 common stock shares were purchased in fiscal 2008 and 2,664 common stock shares were purchased in fiscal 2007. Shares available for future purchase under the Employee Plan were 34,337 at March 31, 2008.

Savings and Investment Plan

The Company has established a defined contribution plan that covers substantially all U.S. employees. Employee contributions of up to 4% of each U.S. employee's compensation will be matched by the Company based upon a percentage to be determined annually by the Board. Employees may contribute up to 15% of their compensation, not to exceed a prescribed maximum amount. The Company made contributions to the plan of $15, $13, and $13 in the years ended March 31, 2008, 2007, and 2006, respectively.

Note 11. Stock Based Compensation

A summary of stock option and warrant activity during the year ended March 31, 2008 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in yrs.)	Aggregate Intrinsic Value
Beginning outstanding	2,060,846	$ 11.33		
Granted				
Price = market value	237,780	$ 4.29		
Total	237,780	$ 4.29		
Exercised	(40,940)	$ 4.42		
Cancelled				
Forfeited	(28,485)	$ 5.16		
Expired	(26,673)	$ 14.45		
Total	(55,158)	$ 9.65		
Ending outstanding	2,202,528	$ 10.72	4.40	$274
Ending vested and expected to vest	2,172,721	$ 10.83	4.30	$253
Ending exercisable	1,784,395	$ 12.19	3.26	$41

The aggregate intrinsic value of options and warrants outstanding at March 31, 2008 is calculated as the difference between the exercise price of the underlying options and the market price of our common stock as of March 31, 2008.

The weighted average estimated grant date fair value, as defined by SFAS No.123R and SFAS 123 (for fiscal 2006), for stock options granted during fiscal 2008, 2007, and 2006 was $2.93, $3.03, and $6.77 per option, respectively

The following table summarizes information with respect to stock options and warrants outstanding as of March 31, 2008

Range of Exercise Prices		Number Outstanding As of March 31, 2008	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable As of March 31, 2008	Weighted Average Exercise Price As of March 31, 2008
$4.20	$4.20	216,699	9.72	$4.20	83	$4.20
4.60	4.60	271,836	8.56	4.60	98,047	4.60
4.63	7.08	239,066	5.40	6.09	207,822	6.12
7.20	8.28	59,162	7.20	8.19	59,162	8.19
12.00	12.00	1,280,211	2.43	12.00	1,284,990	12.00
12.36	55.28	128,059	3.12	26.81	126,796	26.92
92.26	92.26	416	1.94	92.26	416	92.26
92.52	92.52	4,165	1.88	92.52	4,165	92.52
99.00	99.00	2,498	1.99	99.00	2,498	99.00
105.00	105.00	416	4.48	105.00	416	105.00
$4.20	$105.00	2,202,528	4.40	$10.72	1,784,395	$12.19

The weighted average estimated grant date fair values per share, for rights granted under the employee stock purchase plan during fiscal 2008, 2007, and 2006 were $4.36, $3.82, and $4.80 respectively.

Restricted Stock Units

The following table summarizes the Company's restricted stock award activity for the period ended March 31, 2008:

	Number of Shares	Weighted Avg. Grant Date Fair Value
Balance March 31, 2007	485,683	$ 4.73
Granted	32,397	$ 4.63
Forfeited	(78,593)	4.06
Vested	(89,195)	$ 4.79
Balance, March 31, 2008	350,292	$ 4.97

The weighted average estimated grant date fair value, as defined by SFAS No.123R and SFAS 123 (for fiscal 2006), for restricted stock awards granted during fiscal 2008, 2007, and 2006 was $4.63, $5.32, and $9.73 per award, respectively

As of March 31, 2008 there was $1,103 of total unrecognized compensation cost related to restricted stock which is expected to be recognized over a weighted average period of 2 years.

Note 12. ***Geographical Information***

Tegal operates in one segment for the manufacture, marketing and servicing of integrated circuit fabrication equipment. In accordance with SFAS No. 131 ("SFAS 131"))isclosures About Segments of an Enterprise and Related Information," Tegal's chief operating decision-maker has been identified as the President and Chief Executive Officer, who views operating results to make decisions about allocating resources and assessing performance for the entire company.

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

Revenues:	Years Ended March 31,		
Sales to customers located in:	2008	2007	2006
United States	$ 9,262	$ 7,398	$ 5,142
Asia, excluding Japan	9,970	7,008	5,624
Japan	805	2,042	2,312
Germany	2,879	3,115	2,313
Europe, excluding Germany	10,009	2,700	6,366
Total sales	$ 32,925	$ 22,263	$ 21,757

	March 31,	
	2008	2007
Long-lived assets at year-end:		
United States	$ 1,195	$ 1,341
Europe	18	10
Asia	0	0
Total long-lived assets	$ 1,213	$ 1,351

The Company's sales are primarily to domestic and international semiconductor manufacturers. The composition of the Company's top five customers has changed from year to year, but net system sales to its top five customers in each of fiscal 2008, 2007, and 2006 accounted for 87.2%, 77.8%, and 68.9% respectively, of total net system sales. ST Microelectronics accounted for 57.8% of our total revenue in fiscal 2008. ST Microelectronics and International Rectifier accounted for 43.1% and 13.4% respectively, of our total revenue in fiscal 2007. ST Microelectronics accounted for 54.3% of the Company's total revenue in fiscal 2006. Other than the previously listed customers, no single customer represented more than 10% of the Company's total revenue in fiscal 2007, 2006, and 2005.

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

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

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

Evaluation of disclosure controls and procedures. As of March 31, 2008, management performed, with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, 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 disclosures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2008, such disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Chief Executive Officer and our Chief Financial Officer, an assessment, including testing of the effectiveness of our internal control over financial reporting as of March 31, 2008. Management's assessment of internal control over financial reporting was based on the framework in *Internal Control over Financial Reporting – Guidance for Smaller Public Companies* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management concluded that our system of internal control over financial reporting was effective as of March 31, 2008.

Changes in Internal Control Over Financial Reporting There were no changes in our internal control over financial reporting during the fourth quarter ended March 31, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of March 31, 2008 has not been audited by Burr, Pilger & Mayer LLP, an independent registered public accounting firm, as stated in their report appearing above. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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

None.

PART III

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

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

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

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

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

Item 11. *Executive Compensation*

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

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

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

Item 13. *Certain Relationships and Related Transactions*

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

Item 14. *Principal Accountant Fees and Services*

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

PART IV

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

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

(1) Financial Statements

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

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

(b) Exhibits

The following exhibits are referenced or included in this report:

Exhibit Number	Description
3.1	Certificate of Incorporation of the Registrant, as amended.
3.2	Restated By-laws of Registrant (incorporated by reference to Exhibit 3.2 included in Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 2006).
10.1	Form of Warrant (incorporated by reference to Exhibit (ii) to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 13, 2002).
10.2	Form of Warrant dated June 30, 2003 (incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003).
10.3	Form of Security Agreement between the Registrant and Orin Hirschmann dated June 30, 2003 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003).
**10.4	Fifth Amended and Restated Stock Option Plan for Outside Directors (incorporated by reference to the Registrant's Quarterly Report on 10-Q, for the quarter ended June 30, 2006, filed with the Securities and Exchange Commission on August 14, 2006.
**10.5	Eighth Amended and Restated 1998 Equity Participation Plan of Tegal Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission on August 14, 2006.
**10.6	2007 Incentive Award Plan
**10.7	Second Amended and Restated Employee Qualified Stock Purchase Plan (incorporated by reference to Appendix C to the Registrant's revised definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on July 29, 2004).
**10.8	1990 Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-84702) declared effective by the Securities and Exchange Commission on October 18, 1995).
10.9	Form of Stock Option Agreement for Employees from the 2007 Incentive Award Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2007.
**10.10	Form of Non-Qualified Stock Option Agreement for Employees from the Eighth Amended and Restated 1998 Equity Participation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2004).
**10.12	Form of Restricted Stock Unit Award Agreement from the Eighth Amended and Restated 1998 Equity Participation (incorporated by reference to Exhibit 10.5.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
**10.14	Employment Agreement between the Registrant and Thomas Mika dated as of July 27, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 2, 2007).
**10.15	Employment Agreement between the Registrant and Christine Hergenrother dated as of July 27, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 2, 2007).
**10.16	Employment Agreement between the Registrant and Steve Selbrede dated as of May 3, 2004 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2005 filed with the Securities and Exchange Commission on June 29, 2005).
10.15	Form of Warrant Agreement between Tegal and the investor parties thereto (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.16	Lease, dated December 21, 2005, by and between BRE/PCCP Orchard LLC, as Landlord, and Tegal Corporation, as Tenant (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the Securities and Exchange Commission on February 10, 2006).
10.17	Sublease Agreement, dated December 30, 2005, by and between Silicon Genesis Corporation, as Sublandlord, and Tegal Corporation, as Subtenant (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the Securities and Exchange Commission on February 10, 2006).
**10.18	Restricted Stock Unit Award Agreement between Tegal Corporation and Brad Mattson, dated July 5, 2005 (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on July 11, 2005).
**10.19	Letter Agreement, dated July 5, 2005, between Tegal Corporation and Brad Mattson (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
**10.20	Restricted Stock Unit Award Agreement between Tegal Corporation and Tom Mika, dated July 5, 2005, (incorporate by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.23†	Exclusive Distributor Agreement, dated as of October 1, 2006, between Tegal Corporation and Noah Corporation.
21.1	List of Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm – Burr, Pilger & Mayer LLP.
23.2	Consent of Independent Registered Public Accounting Firm – Moss Adams LLP.
24.1	Power of Attorney (included on signature page hereto).
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

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

** Management contract for compensatory plan or arrangement.

TEGAL CORPORATION

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
Years Ended March 31, 2006, 2007, 2008

Description	Balance At Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance At End of Year
Year ended March 31, 2006:					
Allowances for doubtful accounts	(542)	(18)	—	381	(179)
Sales returns and allowances	(10)	(15)	—	—	(25)
Cash discounts	1	(3)	—	—	(2)
Year ended March 31, 2007:					
Allowances for doubtful accounts	(179)	(134)	—	33	(280)
Sales returns and allowances	(25)	(102)	—	—	(127)
Cash discounts	(2)	(7)	—	1	(6)
Year ended March 31, 2008:					
Allowances for doubtful accounts	(280)	150	—	8	(122)
Sales returns and allowances	(127)	59	—	(1)	(69)
Cash discounts	(6)	6	—	—	—

SIGNATURES

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

Tegal Corporation

By: /s/thomas

r. mika

Thomas

R. Mika

President,

Chief Executive Officer and Chairman of the Board

Dated: June

27, 2008

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas R. Mika and Christine T. Hergenrother, his or her attorney-in-fact and agent, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS R. MIKA Thomas R. Mika	President, CEO, and Chairman of the Board (Principal Executive Officer)	June 27, 2008
/s/ CHRISTINE T. HERGENROTHER* Christine T. Hergenrother	Chief Financial Officer (Principal Financial and Accounting Officer)	June 27, 2008
/s/ EDWARD A. DOHRING* Edward A. Dohring	Director	June 27, 2008
/s/ JEFFREY M. KRAUSS* Jeffrey M. Krauss	Director	June 27, 2008
/s/ CARL MUSCARI* Carl Muscari	Director	June 27, 2008
/s/ DUANE WADSWORTH* Duane Wadsworth	Director	June 27, 2008

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation of the Registrant, as amended.
3.2	Restated By-laws of Registrant (incorporated by reference to Exhibit 3.2 included in Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 2006).
10.1	Form of Unit Purchase Agreement dated December 31, 2001 (incorporated by reference to Exhibit (i) to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 13, 2002).
10.2	Form of Warrant (incorporated by reference to Exhibit (ii) to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 13, 2002).
10.3	Form of Unit Subscription Agreement dated June 30, 2003 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003).
10.4	Form of Warrant dated June 30, 2003 (incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003).
10.5	Form of Security Agreement between the Registrant and Orin Hirschmann dated June 30, 2003 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2003).
**10.6	Fifth Amended and Restated Stock Option Plan for Outside Directors (incorporated by reference to the Registrant's Quarterly Report on 10-Q, for the quarter ended June 30, 2006, filed with the Securities and Exchange Commission on August 14, 2006.
**10.7	Eighth Amended and Restated 1998 Equity Participation Plan of Tegal Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission on August 14, 2006.
**10.8	Second Amended and Restated Employee Qualified Stock Purchase Plan (incorporated by reference to Appendix C to the Registrant's revised definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on July 29, 2004).
**10.9	1990 Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-84702) declared effective by the Securities and Exchange Commission on October 18, 1995).
**10.10	Form of Non-Qualified Stock Option Agreement for Employees from the Seventh Amended and Restated 1998 Equity Participation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2004).
**10.11	Form of Restricted Stock Unit Aware Agreement from the Eighth Amended and Restated 1998 Equity Participation (incorporated by reference to Exhibit 10.5.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
**10.12	Employment Agreement between the Registrant and Thomas Mika dated as of August 12, 2002 (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2003 filed with the Securities and Exchange Commission on June 27, 2003).
**10.13	Employment Agreement between the Registrant and Steve Selbrede dated as of May 3, 2004 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2005 filed with the Securities and Exchange Commission on June 29, 2005).
10.14	Stock Purchase agreement between Tegal and the investor parties there to (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.15	Form of Warrant Agreement between Tegal and the investor parties there to (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.16	Lease, dated December 21, 2005, by and between BRE/PCCP Orchard LLC, as Landlord, and Tegal Corporation, as Tenant (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the Securities and Exchange Commission on February 10, 2006).
10.17	Sublease Agreement, dated December 30, 2005, by and between Silicon Genesis Corporation, as Sublandlord, and Tegal Corporation, as Subtenant (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the Securities and Exchange Commission on February 10, 2006).
**10.18	Restricted Stock Unit Award Agreement between Tegal Corporation and Brad Mattson, dated July 5, 2005 (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on July 11, 2005).
**10.19	Letter Agreement, dated July 5, 2005, between Tegal Corporation and Brad Mattson (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
**10.20	Restricted Stock Unit Award Agreement between Tegal Corporation and Tom Mika, dated July 5, 2005, (incorporate by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.23†	Exclusive Distributor Agreement, dated as of October 1, 2006, between Tegal Corporation and Noah Corporation.
16.1	Letter of Moss Adams LLP to the Securities and Exchange Commission dated August 25, 2006 (incorporated by reference to Exhibit 16.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 28, 2006).
21.1	List of Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm – Burr, Pilger & Mayer LLP.
23.2	Consent of Independent Registered Public Accounting Firm – Moss Adams LLP.
24.1	Power of Attorney.
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

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

** Management contract for compensatory plan or arrangement.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-128953, 333-12473, 333-66781, 333-88373, 333-51294, 333-110650, and 333-119272), Form S-2 (No. 333-83840), and Form S-3 (Nos. 333-127494, 333-128943, 333-38086, 333-94093, 333-52265, 333-107422, 333-108921, 333-113045, 333-116980, and 333-118641) of Tegal Corporation of our report dated June 27, 2008 relating to the consolidated financial statements and financial statement schedule as of and for the years ended March 31, 2008 and 2007 which appears in this 10-K.

/s/ Burr Pilger & Mayer LLP

San Francisco, California

June 27, 2008

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

/s/ Moss

Adams LLP

Santa

Rosa, California

June 27

2006

EXHIBIT 31.1

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

I, Thomas R. Mika, certify that:

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

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

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

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

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

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

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

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

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

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

/s/

Thomas R. Mika

Date: June

27 2008

Chief

Executive Officer and President

EXHIBIT 31.2

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

I, Christine Hergenrother, certify that:

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

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

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

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

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

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

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

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

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

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

/s/

Christine Hergenrother

Date:

June 27, 2008

Chief

Financial Officer

EXHIBIT 32.1

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

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

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

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

/s/ Thomas R. Mika

Chief Executive Officer and President

June 27, 2008

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

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

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

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

/s/ Christine Hergenrother

Chief Financial Officer

June 27, 2008