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

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 1996

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

COMMISSION FILE NUMBER: 01-26824

TEGAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	68-0370244
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2201 SOUTH MCDOWELL BLVD. P.O. BOX 6020
PETALUMA, CALIFORNIA 94955-6020
(Address of principal executive offices)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No[ ]

As of September 30, 1996, there were 10,112,464 shares of the registrant's Common Stock outstanding.

TEGAL CORPORATION AND SUBSIDIARIES

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<TABLE>
<CAPTION>

</TABLE>

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)

<TABLE>
<CAPTION>

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995	Six Months Ended September 30, 1996	Six Months Ended September 30, 1995
<S>	<C>	<C>	<C>	<C>
Revenue	$ 12,757	$ 14,266	$ 31,008	$ 27,359
Cost of sales	6,508	7,086	16,408	13,719
Gross margin	6,249	7,180	14,600	13,640
Operating expenses:				
Research and development	2,597	2,502	5,226	4,740
Marketing and selling	1,739	1,506	3,505	3,187
General and administrative	1,587	1,220	3,427	2,413
Total operating expenses	5,923	5,228	12,158	10,340
Operating income	326	1,952	2,442	3,300
Other income (expense), net	228	(679)	438	(905)
Income before income taxes	554	1,273	2,880	2,395
Income taxes	139	135	720	247
Net income	$ 415	$ 1,138	$ 2,160	$ 2,148
Net income per common share	$ 0.04	$ 0.15	$ 0.20	$ 0.28
Shares used in per share computation	10,647	7,589	10,669	7,559

</TABLE>

See accompanying notes

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands)

<TABLE>
<CAPTION>

<S>	September 30, 1996 <C>	March 31, 1996 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,892	$ 23,283
Receivables, net	13,626	16,191
Inventories	16,928	16,947
Prepaid expenses and other current assets	527	1,095
Total current assets	59,973	57,516
Property and equipment, net	6,037	6,027
Other assets, net	179	229
	$ 66,189	$ 63,772
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 3,519	$ 915
Accounts payable	2,163	4,700
Accrued expenses and other current liabilities	7,451	6,358
Product warranty	2,666	2,586
Total current liabilities	15,799	14,559
Motorola credit liability	613	1,587
Total liabilities	16,412	16,146
Stockholders' equity:		
Common stock	101	101
Additional paid-in capital	54,476	54,455
Cumulative translation adjustment	585	615
Accumulated deficit	(5,385)	(7,545)
Total stockholders' equity	49,777	47,626
	$ 66,189	$ 63,772

</TABLE>

See accompanying notes

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

(In thousands)

<TABLE>
<CAPTION>

	Six Months Ended September 30, 1996	1995
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 2,160	$ 2,148
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,210	635
Accretion of senior term loan	--	267
Purchase credit redemptions	(974)	(971)
Allowance for doubtful accounts and sales allowances	234	(70)
Changes in operating assets and liabilities	1,604	(4,077)
Net cash (used in) provided by operations	4,234	(2,068)
Cash flows used in investing activities -- purchases of property and equipment	(1,220)	(1,109)
Cash flows from financing activities:		
Proceeds from issuance of common stock	21	17
Borrowings under lines of credit	2,604	2,933
Net cash provided by financing activities	2,625	2,950
Effect of exchange rates on cash and cash equivalents	(30)	(7)
Net increase (decrease) in cash and cash equivalents	5,609	(234)
Cash and cash equivalents at beginning of period	23,283	2,351
Cash and cash equivalents at end of period	$ 28,892	$ 2,117

</TABLE>

See accompanying notes

TEGAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(All amounts in thousands, except share data)

1. BASIS OF PRESENTATION:

In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments necessary for fair presentation. Results of operations for the three and six months ended September 30, 1996 are not necessarily indicative of results to be expected for the full year. The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and related notes. For information as to the significant accounting policies followed by the Company and other financial and operating information, see the Company's Form 10-K as filed with the Securities and Exchange Commission (SEC) on June 28, 1996. These financial statements should be read in conjunction with the financial statements included in that Form 10-K.

2. INVENTORIES:

Inventories consisted of (in thousands):

<TABLE>
<CAPTION>

<S>	Sept. 30, 1996 <C>	March 31, 1996 <C>
Raw Materials	$ 4,751	$ 4,036
Work in Progress	4,143	3,173
Finished Goods and Spares	8,034	9,738
	$16,928	$16,947

</TABLE>

3. NET INCOME PER COMMON SHARE:

Net income per share is based on the weighted average number of shares of common stock, common equivalent shares from the convertible preferred stock using the "as if converted" method and dilutive common equivalent shares from options and warrants outstanding during the period using the treasury stock method.

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

Information contained herein contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology or which constitute projected financial information. The following contains cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements.

RESULTS OF OPERATIONS

Tegal Corporation designs, manufactures, markets and services plasma etch systems used in the fabrication of integrated circuits.

The following table sets forth certain financial items as a percentage of revenue for the three and six month periods ended September 30, 1996 and 1995:

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Six Months Ended September 30,	
<S>	1996 <C>	1995 <C>	1996 <C>	1995 <C>
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	51.0	49.7	52.9	50.1
Gross margin	49.0	50.3	47.1	49.9
Operating expenses:				
Research and development	20.4	17.5	16.9	17.3
Marketing and selling	13.6	10.6	11.3	11.6
General and administrative	12.4	8.6	11.0	8.8
Total operating expenses	46.4	36.7	39.2	37.7
Operating income	2.6	13.6	7.9	12.2
Other income (expense), net	1.7	(4.8)	1.4	(3.3)

Income before income taxes	4.3	8.8	9.3	8.9
Income taxes	1.0	0.9	2.3	0.9
Net income	3.3 %	7.9 %	7.0 %	8.0 %

</TABLE>

Revenue. Revenue for the three and six months ended September 30, 1996 was $12.8 million and $31.0 million respectively, down 10.6% and up 13.3%, respectively, over comparable periods in 1995. The decline in the three months ended September 30, 1996 was principally due to a $1.9 million decline in spare parts and service sales as customers reduced their spare parts inventories in response to the current semiconductor industry slowdown. The increase in revenue for the six month period ended September 30, 1996 over the prior year was attributable principally to an increase in the number of 6500 series critical etch systems and 980 non-critical etch systems sold during the period over the comparable period in 1995. The Company expects to experience continued pressure on revenues until such time as the semiconductor industry resumes making significant manufacturing capacity additions.

Revenue from spare parts and service sales as a percentage of total revenue was approximately 30.4% and 41.0% for the three months and 31.2% and 42.6% for the six months ended September 30, 1996 and 1995, respectively.

International sales as a percentage of the Company's revenue accounted for approximately 56.2% and 63.5% for the three months and 70.6% and 64.7% for the six months ended September 30, 1996 and 1995, respectively.

Gross margin. Gross margin was 49.0% and 50.3% for the three months and 47.1% and 49.9% for the six months ended September 30, 1996 and 1995, respectively. The decline in gross margin for the three and six months ended September 30, 1996, resulted primarily from increased sales of 6500 series systems, which currently carry lower gross margins than the Company's non-critical etch systems. The 6500 series systems have experienced, as is typical with recently introduced products, high startup costs and low initial margins. The Company expects that these high startup costs on the 6500 series systems will continue at least through fiscal 1997 until the substantially fixed manufacturing overhead is absorbed over a larger production volume and the Company can obtain larger vendor discounts on purchased components through volume purchases. There can be no assurance that the Company's overall gross margins or gross margins on its 6500 series systems will increase.

Research and development. Research and development expenses consist primarily of salaries, prototype material and other costs associated with the Company's ongoing systems and process technology development, applications and field process support efforts. Research and development expenses were $2.6 million and $2.5 million for the three months and $5.2 million and $4.7 million for the six months ended September 30, 1996 and 1995, respectively, representing 20.4%, 17.5%, 16.9% and 17.3% of revenue, respectively. The increase in research and development spending in absolute dollars in the periods ended September 30, 1996 compared to the comparable periods in the prior year was attributable to increased spending on salaries, prototype material and support costs. This increase funded development of new 6500 series functions, running an increased number of customer wafer samples in the Company's demonstration laboratory and design and test changes to the Company's standard systems configurations called for by customers' special order requirements.

Marketing and selling. Marketing and selling expenses consist primarily of salaries, commissions, trade show promotion and travel and living expenses associated with those functions. Marketing and selling expenses were $1.7 million and $1.5 million for the three months and $3.5 million and $3.2 million for the six months ended September 30, 1996 and 1995, respectively, representing 13.6%, 10.6%, 11.3% and 11.6% of revenue, respectively. After deducting a $0.3 million non-recurring sales office relocation expense from the six month period ended September 30, 1995, the six month period ended September 30, 1996 was $0.6 million higher than the comparable period in the prior year, with the increase primarily due to higher sales commission expenses on a larger revenue base than occurred in the comparable period in the prior year and to increased advertising expenses.

General and administrative. General and administrative expenses consist primarily of compensation for general management, accounting and finance, human resources and management information systems functions and for legal, consulting and accounting fees of the Company. General and administrative expenses were $1.6 million and $1.2 million for the three months and $3.4 million and $2.4 million for the six months ended September 30, 1996 and 1995, respectively, representing 12.4%, 8.6%, 11.0% and 8.8% of revenue, respectively. Included in the general and administrative expenses for the six month period ended September 30, 1996, was an approximately $0.3 million expense associated with completing an upgrade to the Company's business system begun in late fiscal 1996

and approximately $0.6 million additional expenses incurred in connection with being a public company which was not the case in the comparable period in the prior year.

Other income (expenses), net. Other income (expense), net, consists of interest income on the unused proceeds of the Company's initial public offering (IPO) completed in October 1995, interest expense on bank borrowings, interest accretion on the Motorola term loan prior to the repayment of those obligations from the net proceeds of the IPO, foreign exchange gains and losses, and gains and losses on the sale of fixed assets. Other income, net was $0.2 million for the three months and $0.4 million for the six months ended September 30, 1996. Other expense, net, was $0.7 million for the three months and $0.9 million for the six months ended September 30, 1995. The other income, net generated in the three and six months ended September 30, 1996 was principally due to the Company generating interest income on the Company's unused cash balance. The other expense, net generated in the three and six months ended September 30, 1995 was principally due to interest expense incurred in connection with the Company's domestic bank borrowings prior to the IPO and a $0.4 million foreign exchange loss in the three month period ended September 30, 1995 as a consequence of delays in placing foreign currency hedges for the first two weeks of July 1995, when exchange rates moved materially in the Company's disfavor.

Income tax expense. Income taxes as a percentage of income before income taxes were 25.1% and 10.6% for the three months and 25.0% and 10.3% for the six months ended September 30, 1996 and 1995, respectively. The effective tax rate in 1995 was substantially below the federal statutory rate due to utilization of tax loss carryforwards. The Company expects that its effective tax rate for the remainder of fiscal 1997 will approximate 25% due to the continuing utilization of foreign tax loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

For the six month period ended September 30, 1996 and 1995, the Company has financed its operations through cash generated from operations, use of net proceeds from the IPO and bank borrowings.

Net cash provided by operations was $4.2 million during the six months ended September 30, 1996, due principally to net income in the period, non-cash depreciation expenses, a decrease in accounts receivable and an increase in other accrued liabilities, offset, in part, by a decrease in accounts payable. Net cash used in operations during the six month period ended September 30, 1995 was $2.1 million and was primarily attributable to an increase in accounts receivable and inventories and the application of Motorola purchase credits to redeem preferred stock prior to the IPO.

Net capital expenditures totaled $1.2 million and $1.1 million in the six months ended September 30, 1996 and 1995, respectively. Capital expenditures in both periods were incurred principally to acquire design tools, analytical equipment and computers. In addition, in the six months ended September 30, 1996, approximately $0.3 million was incurred on leasehold improvements to the Company's manufacturing and demonstration laboratory facilities.

Net cash provided by financing activities totaled $2.6 million in the six months ended September 30, 1996 and was due principally to increased borrowings under the Company's two Japanese promissory note borrowing facilities in advance of payment on accounts receivable balances in Japan.

As of September 30, 1996, the Company had approximately $28.9 million of cash and cash equivalents. In addition to cash and cash equivalents, the Company's other principal sources of liquidity consisted of the unused portions of several bank borrowing facilities. At September 30, 1996, the Company had an aggregate of $13.0 million available under two domestic lines of credit, secured by substantially all of the Company's assets. Both facilities are available until August 15, 1997. In addition to the foregoing facilities, as of September 30, 1996, the Company's Japanese subsidiary had available a 575 million Yen (approximately $5.2 million at exchange rates prevailing on September 30, 1996) unused portion of two Japanese bank lines of credit totaling 600 million Yen (approximately $5.4 million at exchange rates prevailing September 30, 1996) secured by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable.

The Company believes that anticipated cash flow from operations, funds available under its lines of credit and existing cash and cash equivalent balances will be sufficient to meet the Company's cash requirements for at least the next twelve months.

PART II - OTHER INFORMATION

ITEM 4. LEGAL PROCEEDINGS

On June 10, 1996, Lucent Technologies Inc. filed a claim with the United States District Court for the Northern District of California alleging patent infringement by Austria Mikro Systeme International AG and AMS Austria Mikro Systeme International, Inc. (AMS) for the sale of integrated circuits manufactured with the Company's dry plasma etch systems. On March 7, 1995, the Company executed an indemnification agreement with AMS, covering certain uses of select equipment sold to AMS. The Company believes that the claims made by Lucent Technologies Inc. are without merit and that the ultimate outcome of any defense of any required indemnification obligation to AMS is unlikely to have a material adverse effect on the Company's results of operations or financial condition. No assurance can be given, however, as to the outcome of such legal proceedings or as to the effect of any such outcome on the Company's results of operations or financial condition.

ITEM 5. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Stockholders' Meeting held on September 10, 1996, the following individuals were elected to the Board of Directors:

<TABLE>
<CAPTION>

<S>	Votes For <C>	Votes Withheld <C>
Robert V. Hery	8,868,839	21,361
Fred Nazem	8,866,351	23,849
Jeffrey M. Krauss	8,867,901	22,299
Thomas R. Mika	8,798,001	92,199
Edward A. Dohring	8,868,401	21,799

</TABLE>

The following proposals were approved at the Company's Annual Stockholders' Meeting:

<TABLE>
<CAPTION>

<S>	<C>	Affirmative Votes <C>	Negative Votes <C>	Votes Withheld/Abstained <C>	Broker Non-Votes <C>
1.	Amendment of the Amended and Restated Equity Incentive Plan increasing the authorized shares by 1,557,858, from 1,942,142 shares to 3,500,000 shares.	6,781,913	300,399	31,449	1,776,439
2.	Amendment of the 1990	6,219,352	936,489	39,049	1,695,310

Stock Option Plan
increasing the authorized
shares by 142,143, from
407,857 shares to 550,000
shares.
</TABLE>

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits Exhibit 11 - Computation of Net Income Per Share

(b) Reports on Form 8-K On August 26, 1996, a current report on Form 8-K was filed with the SEC in connection with the Company's announcement of a reduction in its work force taken in response to a decline in semiconductor industry capital spending.

TEGAL CORPORATION AND SUBSIDIARIES

EXHIBIT INDEX

<TABLE>
<CAPTION>

</TABLE>

TEGAL CORPORATION AND SUBSIDIARIES EXHIBIT 11
STATEMENT REGARDING COMPUTATION
OF NET INCOME PER SHARE
(Unaudited)

(In thousands, except per share data)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Six Months Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Net Income	$ 415	$ 1,138	$ 2,160	$ 2,148
Weighted average shares outstanding during the period	10,104	675	10,087	664
Preferred stock on an "as if" converted	--	5,876	--	5,876
Common shares issued and stock options granted in accordance with Staff Accounting Bulletin No. 83	--	1	--	1
Common stock equivalents	543	1,037	582	1,018
Shares used in per share computation	10,647	7,589	10,669	7,559
Net income per share	$ 0.04	$ 0.15	$ 0.20	$ 0.28

</TABLE>

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 12, 1996

TEGAL CORPORATION
(Registrant)

/s/ David Curtis

David Curtis
Chief Financial Officer, Treasurer and
Secretary (Principal Financial Officer)

<TABLE> <S> <C>

<ARTICLE> 5

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