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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 DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$13,120	\$17,176	\$44,129	\$44,535
Cost of sales.....	7,750	10,290	24,159	24,009
Gross margin.....	5,370	6,886	19,970	20,526
Operating expenses:				
Research and development.....	2,557	2,526	7,783	7,266
Marketing and selling.....	1,040	1,738	4,545	4,925
General and administrative.....	1,271	1,192	4,698	3,605
Total operating expenses.....	4,868	5,456	17,026	15,796
Operating income.....	502	1,430	2,944	4,730
Other income (expense), net.....	206	184	644	(721)
Income before income taxes.....	708	1,614	3,588	4,009
Income taxes.....	177	162	897	409
Net income.....	\$ 531	\$ 1,452	\$ 2,691	\$ 3,600
Net income per common share.....	\$ 0.05	\$ 0.15	\$ 0.25	\$ 0.43
Shares used in per share computation.....	10,640	9,805	10,655	8,308

</TABLE>

See accompanying notes

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TEGAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

	DECEMBER 31,		MARCH 31,	
	1996	1996		
<S>	<C>	<C>		

ASSETS

Current assets:		
Cash and cash equivalents.....	\$ 30,648	\$23,283
Receivables, net.....	9,067	16,191
Inventories.....	13,570	16,947
Prepaid expenses and other current assets.....	555	1,095
	-----	-----
Total current assets.....	53,840	57,516
Property and equipment, net.....	5,607	6,027
Other assets, net.....	170	229
	-----	-----
	\$ 59,617	\$63,772
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable.....	\$ 1,028	\$ 915
Accounts payable.....	1,410	4,700
Accrued expenses and other current liabilities.....	4,552	6,358
Product warranty.....	2,401	2,586
	-----	-----
Total current liabilities.....	9,391	14,559
Motorola credit liability.....	0	1,587
	-----	-----
Total liabilities.....	9,391	16,146
	-----	-----
Stockholders' equity:		
Common stock.....	101	101
Additional paid-in capital.....	54,477	54,455
Cumulative translation adjustment.....	502	615
Accumulated deficit.....	(4,854)	(7,545)
	-----	-----
Total stockholders' equity.....	50,226	47,626
	-----	-----
	\$ 59,617	\$63,772
	=====	=====

</TABLE>

See accompanying notes

TEGAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

<TABLE>

<CAPTION>

NINE MONTHS ENDED
DECEMBER 31,

1996 1995

<S>

<C> <C>

Cash flows from operating activities:

Net income.....	\$ 2,691	\$ 3,600
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization.....	1,817	1,016
Accretion of senior term loan.....	--	303
Purchase credit redemptions.....	(1,587)	(1,355)
Allowance for doubtful accounts and sales allowances.....	305	16
Changes in operating assets and liabilities.....	5,514	(3,443)
	-----	-----
Net cash provided by operations.....	8,740	137
	-----	-----

Cash flows used in investing activities -- purchases of property and equipment..... (1,397) (2,030)

Cash flows from financing activities:

Proceeds from issuance of common stock.....	22	34,249
Borrowings (payments) under lines of credit.....	114	(10,100)

Net cash provided by financing activities.....	136	24,149
Effect of exchange rates on cash and cash equivalents.....	(114)	(195)
Net increase in cash and cash equivalents.....	7,365	22,061
Cash and cash equivalents at beginning of period.....	23,283	2,351
Cash and cash equivalents at end of period.....	\$30,648	\$24,412

</TABLE>

See accompanying notes

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TEGAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

1. BASIS OF PRESENTATION:

In the opinion of management, the unaudited condensed consolidated interim financial statements have been prepared on the same basis as the March 31, 1996 audited consolidated financial statements and include all adjustments consisting only of normal recurring adjustments, necessary to fairly state the information set forth herein. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission, but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles. These interim financial statements should be read in conjunction with the financial statements and footnotes thereto included in Tegal's (the Company's) annual report on Form 10-K for the year ended March 31, 1996. The results of operations for the three and nine months ended December 31, 1996 are not necessarily indicative of results to be expected for the entire year.

2. INVENTORIES:

Inventories consisted of (in thousands):

<TABLE>

<CAPTION>

	DECEMBER 31, 1996	MARCH 31, 1996
<S>	<C>	<C>
Raw Materials.....	\$ 3,164	\$ 4,036
Work in Progress.....	2,016	3,173
Finished Goods and Spares.....	8,390	9,738
	\$ 13,570	\$ 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.

4. INCOME TAX EXPENSE:

Income taxes as a percentage of income before income taxes were 25.0% and 10.0% for the three months and 25.0% and 10.2% for the nine months ended December 31, 1996 and 1995, respectively. The effective tax rate in 1995 was substantially below the federal statutory rate due to utilization of tax loss carryforwards and a reduction in the valuation allowance.

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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 nine month periods ended December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Revenue.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	59.1	59.9	54.7	53.9
Gross margin.....	40.9	40.1	45.3	46.1
Operating expenses:				
Research and development.....	19.5	14.7	17.6	16.3
Marketing and selling.....	7.9	10.1	10.3	11.1
General and administrative.....	9.7	7.0	10.7	8.1
Total operating expenses.....	37.1	31.8	38.6	35.5
Operating income.....	3.8	8.3	6.7	10.6
Other income (expense), net.....	1.6	1.1	1.4	(1.6)
Income before income taxes.....	5.4	9.4	8.1	9.0
Income taxes.....	1.4	0.9	2.0	0.9
Net income.....	4.0%	8.5%	6.1%	8.1%

</TABLE>

Revenue. Revenue for the three and nine months ended December 31, 1996 was \$13.1 million and \$44.1 million respectively, down 23.6% and 0.9%, respectively, over comparable periods in 1995. The decline in revenue for the three months ended December 31, 1996 was principally due to a \$3.8 million decline in non-critical etch system sales which the Company believes resulted from customers' decisions to curtail adding further production capacity in the face of excess capacity in the semiconductor industry and a \$0.7 million decline in spare parts and service sales as customers reduced their spare parts inventories in response to the current semiconductor industry slowdown. Revenues for the Company's 6500 series critical etch system increased \$0.4 million for the three months ended December 31, 1996 due to an increase in average selling prices and increased \$5.5 million for the nine months ended December 31, 1996 principally due to increased unit sales over comparable periods in the prior year. The Company believes that development of advanced semiconductor devices and their related production processes that require 0.35 and 0.25 micron circuit width capabilities may continue to support demand for its 6500 series critical etch systems in spite of the continuing industry slowdown, since the development of that capability is necessary for device manufacturers to produce the next generation of advanced semiconductor devices. No assurance of such continued demand can, however, be given.

International sales as a percentage of the Company's revenue accounted for approximately 66.3% and 58.4% for the three months and 69.3% and 62.2% for the nine months ended December 31, 1996 and 1995, respectively.

Gross margin. Gross margin was 40.9% and 40.1% for the three months and 45.3% and 46.1% for the nine months ended December 31, 1996 and 1995, respectively. The slight increase in gross margin for the three months ended December 31, 1996 resulted primarily from improved margins in the Company's service business resulting from increased service revenue and improved field service productivity, offset, in part by a decline in non-critical etch system revenue which typically generates high gross margins and low absorption of manufacturing overhead late in the period. The decline in gross margin for the nine months ended December 31, 1996, resulted primarily from a change in the sales mix toward 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 now expects that these high startup costs on the 6500 series systems will continue at least through calendar year 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 ended December 31, 1996 and 1995, respectively, and \$7.8 million and \$7.3 million for the nine months ended December 31, 1996 and 1995, respectively, representing 19.5%, 14.7%, 17.6% and 16.3% of revenue, respectively. The increase in research and development spending in the nine months ended December 31, 1996 compared to the comparable period 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 \$1.0 million and \$1.7 million for the three months and \$4.5 million and \$4.9 million for the nine months ended December 31, 1996 and 1995, respectively, representing 7.9%, 10.1%, 10.3% and 11.1% of revenue, respectively. The decline in marketing and selling expenses for the three months ended December 31, 1996 was due principally to reduced spending on sales commissions on a lower revenue base, an increasing proportion of which were sales generated by the Company's direct sales force whose commission rates are lower than those earned by outside sales representatives.

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 \$1.3 million and \$1.2 million for the three months and \$4.7 million and \$3.6 million for the nine months ended December 31, 1996 and 1995, respectively, representing 9.7%, 7.0%, 10.7% and 8.1% of revenue, respectively. Included in the general and administrative expenses for the nine month period ended December 31, 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 \$0.7 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, and

interest accretion on the Motorola term loan.

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Income tax expense. Income taxes as a percentage of income before income taxes were 25.0% and 10.0% for the three months and 25.0% and 10.2% for the nine months ended December 31, 1996 and 1995, respectively. The effective tax rate in 1995 was substantially below the federal statutory rate due to utilization of tax loss carryforwards and a reduction in the valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

For the nine month periods ended December 31, 1996 and 1995, the Company has financed its operations through cash generated from operations, proceeds from the IPO and bank borrowings.

Net cash provided by operations was \$8.7 million during the nine months ended December 31, 1996, due principally to a decrease in accounts receivable and inventories, net income in the period, non-cash depreciation expenses, offset, in part, by a decrease in accounts payable. Net cash provided by operations during the nine month period ended December 31, 1995 was \$0.1 million and was primarily attributable to net income in the period and non-cash depreciation expenses.

Net capital expenditures totaled \$1.4 million and \$2.0 million in the nine months ended December 31, 1996 and 1995, respectively. Capital expenditures in both periods were incurred principally to acquire design tools, analytical equipment and computers.

Net cash provided by financing activities totaled \$0.1 million and \$24.1 million in the nine months ended December 31, 1996 and 1995, respectively. Net cash provided by financing activities for the nine months ended December 31, 1996 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. Net cash provided by financing activities for the comparable period in 1995 were derived from approximately \$34.2 million of net proceeds raised in the Company's IPO in October 1995, offset, in part, by a net repayment of \$10.1 million of bank borrowings under the Company's domestic lines of credit.

As of December 31, 1996, the Company had approximately \$30.6 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 December 31, 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 December 31, 1996, the Company's Japanese subsidiary had available a 566 million Yen (approximately \$4.9 million at exchange rates prevailing on December 31, 1996) unused portion of two Japanese bank lines of credit totaling 600 million Yen (approximately \$5.2 million at exchange rates prevailing December 31, 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.

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PART II. OTHER INFORMATION

ITEM 3. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the three month period ended December 31, 1996.

ITEM 4. EXHIBITS AND REPORTS ON FORM 8-K

<TABLE>

<S> <C>

<C>

(a) Exhibits

Exhibit 11 -- Computation of Net Income Per Share [Exhibit

- (b) Reports on Form 8-K On December 18, 1996, a current report on Form 8-K was filed with the SEC in connection with the Company's decision to replace KPMG Peat Marwick, LLP, its independent accountants with Price Waterhouse LLP.

</TABLE>

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SIGNATURE

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: January 23, 1997

TEGAL CORPORATION
(Registrant)

/s/ DAVID CURTIS

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

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TEGAL CORPORATION AND SUBSIDIARIES

EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT NAME	DESCRIPTION	PAGE
<S> Exhibit 11	<C> Computation of Net Income Per Share.....	12
[Exhibit 27	Financial Data Schedule.....	14]*

</TABLE>

* (Edgarized Version Only)

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EXHIBIT 11

TEGAL CORPORATION AND SUBSIDIARIES

STATEMENT REGARDING COMPUTATION
OF NET INCOME PER SHARE
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
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	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	1996	1995	1996	1995
	<C>	<C>	<C>	<C>
Net Income.....	\$ 531	\$1,452	\$ 2,691	\$3,600
Weighted average shares outstanding during the period.....	10,113	7,486	10,095	2,938
Preferred stock on an "as if" converted.....	--	1,485	--	4,412
Common shares issued and stock options granted in accordance with Staff Accounting Bulletin No. 83....	--	--	--	1
Common stock equivalents.....	527	834	560	957
Shares used in per share computation.....	10,640	9,805	10,655	8,308
Net income per share.....	\$ 0.05	\$ 0.15	\$ 0.25	\$ 0.43

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