SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): June 30, 2003

TEGAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	0-26824	68-0370244
(State or other jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

2201 SOUTH MCDOWELL BOULEVARD, PETALUMA, CALIFORNIA 94955

(Address of principal executive offices) (Zip Code)

(707) 763-5600

(Registrants' telephone number, including area code)

N/A

(former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS

On June 30, 2003, Tegal Corporation ("Tegal") entered into agreements with investors to raise up to $7,200,000 in a private placement to institutional and individual investors of (i) an aggregate of $7,165,000 in principal amount of Tegal's 2% Convertible Secured Debentures, convertible into common stock at $0.35 per share and (ii) warrants to purchase approximately 4,100,000 shares of its common stock, exercisable at $0.50 per share. The first tranche of approximately $1,000,000 of the private placement was completed on June 30, 2003 and the second tranche will be completed following shareholder approval at Tegal's annual meeting currently scheduled for August 26, 2003. Certain investors will have a right to designate a director. A copy of Tegal's press release dated July 1, 2003 is attached hereto as Exhibit 99.1 and the information contained therein is incorporated by reference herein in its entirety.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) Exhibits:

4.1 Form of Unit Subscription Agreement.

4.2 Form of Security Agreement.

4.3 Form of Registration Rights Agreement.

4.4 Form of Debenture.

4.5 Form of Warrant.

99.1 Press Release dated July 1, 2003.

SIGNATURES

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

Dated: July 1, 2003

Tegal Corporation
(Registrant)

By: /S/ MICHAEL L. PARODI
Michael L. Parodi
President and Chief Executive Officer

EXHIBIT INDEX

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Exhibit 4.1

TEGAL CORPORATION

UNIT SUBSCRIPTION AGREEMENT
CONVERTIBLE DEBENTURES
AND WARRANTS

UNIT SUBSCRIPTION AGREEMENT (the "AGREEMENT") dated as of ____ __, 2003 among TEGAL CORPORATION, a Delaware corporation ("COMPANY"), and the persons who execute this agreement as investors (the "INVESTORS").

BACKGROUND: The Company desires to sell to the Investors, and the Investors desire to purchase up to $7,200,000 in principal amount of 2% Convertible Secured Debentures, in substantially the form attached hereto as Exhibit 1 (the "DEBENTURES") and up to 4,114,224 eight-year warrants (equivalent to approximately 20% of the Debenture Underlying Shares), each exercisable to purchase one share of common stock, $.01 par value per share, of the Company (the "Common Stock"), in substantially the form attached hereto as EXHIBIT 2 (the "WARRANTS"). It is anticipated there will be two closings since the Company is unable to issue more than 19.9% of its outstanding shares without stockholder approval. The proceeds are necessary for the development and continuance of the business of the Company and each of its Subsidiaries.

CERTAIN DEFINITIONS:

"COMMON STOCK" shall mean stock of the Company of any class (however designated) whether now or hereafter authorized, which generally has the right to participate in the voting and in the distribution of earnings and assets of the Company without limit as to amount or percentage, including the Company's Common Stock, $.01 par value per share.

"COMPANY" includes the Company and any corporation or other entity which shall succeed to or assume, directly or indirectly, the obligations of the Company hereunder. The term "CORPORATION" shall include an association, joint stock company, business trust, limited liability company or other similar organization.

"COMPANY DISCLOSURE LETTER" means the disclosure letter delivered to the Investors prior to the execution of this Agreement, which letter is incorporated in this Agreement.

"FIRST CLOSING FACTOR" shall be equal to the quotient of (i) the product of (x) .199 multiplied by (y) 16,091,762, the number of shares of Common Stock outstanding as on the Subscription Date divided by (ii) the number of Underlying Shares of the Securities for which Agreements have been entered into on the Subscription Date.

"MATERIAL ADVERSE CHANGE" shall mean any change in the facts represented by the Company in the Agreement or the business, financial condition, results of operation, prospects, properties or operations of the Company and its Subsidiaries taken as a whole which may have a material adverse effect on the value of the Common Stock of the Company.

"OWN" means own beneficially, as that term is defined in the rules and regulations of the SEC.

"PERSON" means any individual, sole proprietorship, partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity, any university or similar institution, or any government or any agency or instrumentality or political subdivision thereof.

"SEC" means the Securities and Exchange Commission.

"SECOND CLOSING CONDITIONS" shall mean: (i) the receipt of approval of the stockholders of the Company to the issuance of all the Securities and the Second Closing as required by the applicable rules of The Nasdaq Stock Market, (ii) the amendment of the Company's Certificate of Incorporation to provide for an increase of the Company's authorized Common Stock to 100,000,000 shares (the "AMENDMENT"), (iii) the receipt of approval of the stockholders of the Company

to effect a reverse stock split of Tegal's common stock, whereby each outstanding 2, 3, 5, 10 or 15 shares would be combined, converted and changed into one share of common stock, provided that Tegal's board of directors will retain discretion as to which amendment will be filed superseding the action of the stockholders on April 28, 2003 and as to when and whether any amendment is filed and (iv) the absence of any Material Adverse Change since the First Closing Date.

"SUBSIDIARY" shall mean any corporation of which stock or other interest having ordinary power to elect a majority of the Board of Directors (or other governing body) of such entity (regardless of whether or not at the time stock or interests of any other class or classes of such corporation shall have or may have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by the Company or by one or more Subsidiaries.

"SUBSCRIPTION DATE" shall mean the date, but no later than June 25, 2003 (unless extended up to 15 days by written consent of the Company and Investors who have entered into Agreements providing for the purchase of at least 140 Units), as of which the Company has executed the Agreement with Investors for the purchase of at least $3 million of Securities and has notified the Investors in writing that it is no longer accepting subscription to the Agreement from additional potential Investors.

"UNDERLYING SHARES" shall mean the shares of Common Stock issued or from time to time issuable upon conversion of the Debentures and exercise of the Warrants.

In consideration of the mutual covenants contained herein, the parties agree as follows:

1. PURCHASE AND SALE OF STOCK.

1.1. SALE AND ISSUANCE OF SECURITIES. The Company shall sell to the Investors and the Investors shall purchase from the Company, up to 144 units (the "UNITS"), each Unit consisting of (i) $50,000 in principal amount of Debentures and (ii) Warrants to purchase 28,571 shares of Common Stock, at a price of $50,000 per Unit, or a total of at least $7,000,000 in principal amount of Debentures (the "PURCHASED DEBENTURES") and Warrants to purchase up to 4,114,224 shares of Common Stock (the "PURCHASED WARRANTS"), for an aggregate purchase price of at least $7,000,000, up to $7,200,000. The Purchased Debentures and Purchased Warrants are referred to herein collectively as the "SECURITIES". The number of Purchased Debentures and Purchased Warrants to be purchased by each Investor from the Company is set forth opposite the name of such Investor on the signature page hereof, subject to acceptance, in whole or in part, by the Company.

1.2. CLOSINGS. The closings of the purchase and sale of the Securities hereunder (each a "CLOSING") shall take place on (x) within three business days after the Subscription Date, but no later than June 30, 2003, unless extended up to 15 days by written consent of the Company and Investors who have entered into Agreements providing for the purchase of at least 140 Units (the "FIRST CLOSING"), and (y) a date within three business days of notice by the Company of satisfaction of the Second Closing Conditions, but no later than August 29, 2003, unless extended up to 15 days by written consent of the Company and Investors who have entered into Agreements providing for the purchase of at least 70 Units (the "SECOND CLOSING"). Any date on which a Closing occurs is referred to herein as the "CLOSING DATE." The date on which the First Closing takes place is referred to herein as the "FIRST CLOSING DATE." The date on which the Second Closing takes place is referred to herein as the "SECOND CLOSING DATE." Each Closing shall take place at the offices of Hahn & Hessen LLP, the Investors' counsel, in New York, New York, or at such other location as is mutually acceptable to the Investors and the Company.

(a) The First Closing shall take place within three business days after the Subscription Date, subject to fulfillment of the conditions of closing set forth

in the Agreement. At the First Closing:

(i) each Investor purchasing Securities at the First Closing shall deliver to the Company or its designees by wire transfer or such other method of payment as the Company shall approve, an amount equal to the product of (A) the purchase price of the Securities purchased by such Investor hereunder, as set forth opposite such Investor's name on the signature pages hereof, multiplied by the (B) First Closing Factor;

(ii) the Company shall issue and deliver to each Investor purchasing Securities at the First Closing (x) Debentures in principal amount equal to the amount paid pursuant to Section 1.2(a)(i) above, and (y) Warrants for the product of (A) the portion of the Purchased Warrants to be issued by the Company and purchased by such Investor, as set forth opposite such Investor's name on the signature pages hereof, multiplied by (B) the First Closing Factor.

(b) The Second Closing shall take place within five business days after the Company's notice to the Investors of satisfaction of the Second Closing Conditions. At the Second Closing:

(i) each Investor purchasing Securities at the Second Closing shall deliver to the Company or its designees by wire transfer or such other method of payment as the Company shall approve, an amount equal to the difference between (A) the purchase price of the Securities purchased by such Investor hereunder, as set forth opposite such Investor's name on the signature pages hereof, less (B) the amount paid for Securities by such Investor at the First Closing;

(ii) the Company shall issue and deliver to each Investor purchasing Securities at the Closing (x) Debentures in principal amount equal to the amount paid pursuant to Section 1.2(b)(i) above, and (y) Warrants for the product of (A) the portion of the Purchased Warrants to be issued by the Company and purchased by such Investor, as set forth opposite such Investor's name on the signature pages hereof, multiplied by (B) the First Closing Factor.

(c) The Company has determined that each of the Purchased Warrants will have a value of $0.1175.

1.3. CONDITIONS OF FIRST CLOSING. The obligations of the Investors to complete the purchase of the Securities at the First Closing is subject to fulfillment of the following conditions:

(a) the Company and the Investors shall execute and deliver a Registration Rights Agreement, dated the First Closing Date, in the form attached as EXHIBIT 3 with respect to the Underlying Shares (the "REGISTRATION RIGHTS AGREEMENT");

(b) the Company and Orin Hirschman shall execute and deliver a Financial Advisory Agreement, dated the First Closing Date, in the form attached as EXHIBIT 4 (the "FINANCIAL ADVISORY AGREEMENT");

(c) each Subsidiary shall execute and deliver to the Investors a Guaranty Agreement, dated the First

Closing Date, in the form attached as EXHIBIT 5 (the "SUBSIDIARY GUARANTY");

(d) the Company, the Subsidiaries and the Investors shall enter into the Security Agreement, dated the First Closing Date, in the form attached hereto as EXHIBIT 6 (the "SECURITY AGREEMENT", and with the Agreement, the

Debentures, the Warrants, the Registration Rights Agreements, the Financial Advisory Agreement, the Subsidiary Guaranties and other documents required in connection with the transactions contemplated in the Agreement, the "TRANSACTION DOCUMENTS");

(e) the Company shall deliver to the Investors an Opinion of Counsel, dated the First Closing Date and reasonably satisfactory to counsel for the Investors, with respect to the matters set forth on EXHIBIT 7;

(f) the Company shall have obtained all consents to the Transaction Documents required under its existing credit facilities in form and substance satisfactory to the investors (including, without limitation, as to lack of contractual subordination and standstill requirements with respect to remedies and the collateral under the Security Agreement) and a related release of any security interest in the Collateral (as defined in the Security Agreement);

(g) the representation and warranties of the Company set forth in this Agreement shall be true and correct as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the First Closing Date as though made on and as of the First Closing Date, and the Company shall have performed in all material respects all covenants and other obligations required to be performed by it under this Agreement at or prior to the First Closing Date, and the Investors shall have received a certificate signed on behalf of the Company by the President and Secretary of the Company, in such capacities, to such effect;

(h) the Company shall have executed and delivered all documents, such as financing statements and assignments, reasonably requested by counsel for the Investors; and

(i) All Securities delivered at the First Closing shall have all necessary stock transfer tax stamps (purchased at the expense of the Company) affixed.

(j) The Company shall have entered into agreements with the Investors for the sale of Securities with an aggregate purchase price of at least $7,000,000.

1.4. CONDITIONS OF SECOND CLOSING. The obligations of the Investors to complete the purchase of the Securities at the Second Closing is subject to fulfillment of the following conditions:

(a) the Company shall pay the Investors' expenses to the extent set forth in Section 6.9 hereof;

(b) the Investors shall have received a certificate signed on behalf of the Company by the President and Secretary of the Company, in such capacities, to the

effect that the Second Closing Conditions have been met;

(c) the Company shall deliver to the Investors an Opinion of Counsel, dated the Second Closing Date and reasonably satisfactory to counsel for the Investors, with respect to the matters set forth on EXHIBIT 7; and

(d) All Securities delivered at the Second Closing shall have all necessary stock transfer tax stamps (purchased at the expense of the Company) affixed.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to each of the Investors as follows:

2.1. CORPORATE ORGANIZATION; AUTHORITY; DUE AUTHORIZATION.

(a) The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) has the corporate power and authority to own or lease its properties as and in the places where such business is now conducted and to carry on its business as now conducted and (iii) is duly qualified and in good standing as a foreign corporation authorized to do business in every jurisdiction where the failure to so qualify, individually or in the aggregate, would have a material adverse effect on the operations, prospects, assets, liabilities, financial condition or business of the Company (a "MATERIAL ADVERSE EFFECT"). Set forth in the Company Disclosure Letter is a complete and correct list of all Subsidiaries. Each Subsidiary is duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and is qualified to do business as a foreign corporation in each jurisdiction in which qualification is required, except where failure to so qualify would not have a Material Adverse Effect.

(b) Each of the Company and each Subsidiary (i) has the requisite corporate power and authority to execute, deliver and perform the Amendment, this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) has been authorized by all necessary corporate action to execute, deliver and perform the Amendment, this Agreement and the other Transaction Documents to which it is a party and to consummate the transactions contemplated hereby and thereby (the "CONTEMPLATED TRANSACTIONS"). Each of the Amendment, this Agreement and the other Transaction Documents is a valid and binding obligation of the Company and the applicable Subsidiaries enforceable in accordance with its terms except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

2.2. CAPITALIZATION. As of June 6, 2003, the authorized capital stock of the Company consisted of (i) 35,000,000 shares of Common Stock, $.01 par value, of which 16,091,762 shares of Common Stock are outstanding and (ii) 5,000,000 shares of Preferred Stock, $.01 par value, authorized of which none are outstanding. All outstanding shares were issued in compliance with all applicable Federal and state securities laws, and the issuance of such shares was duly authorized. Except as contemplated by this Agreement or as set forth in the Company Disclosure Letter, there are (i) no outstanding subscriptions, warrants, options, conversion privileges or other rights or agreements obligating the Company to purchase or otherwise acquire or issue any shares of capital stock of the Company (or shares reserved for such purpose), (ii) no preemptive rights contained in the Company's

Certificate of Incorporation, as amended (the "CERTIFICATE OF INCORPORATION"), By-Laws of the Company or contracts to which the Company is a party or rights of first refusal with respect to the issuance of additional shares of capital stock of the Company, including without limitation the Securities and the Underlying Shares, and (iii) no commitments or understandings (oral or written) of the Company to issue any shares, warrants, options or other rights. Except as set forth in the Company Disclosure Letter, none of the shares of Common Stock are subject to any stockholders' agreement, voting trust agreement or similar arrangement or understanding. Except as set forth in the Company Disclosure Letter, the Company has no outstanding bonds, debentures, notes or other obligations the holders of which have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the stockholders of the Company on any matter. The Company currently shall not within the next twelve months take any action or agree to take any action providing for an increase in the number of shares reserved for issuance for equity incentives under the Company's Amended 1998 Equity Participation Plan (the "PLAN") or any other employee incentive plan, or any new such plan, by an aggregate of more than 4,000,000 shares of Common Stock. With respect to each Subsidiary, (i) all the issued and outstanding shares of the Subsidiary's capital stock have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in compliance with applicable federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and (ii) there are no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Subsidiary's capital stock or any such options, rights, convertible securities or obligations. Except as disclosed in the Company Disclosure Letter, the Company owns 100% of the outstanding equity of each Subsidiary.

2.3. VALIDITY OF SECURITIES. The issuance of the Securities has been duly authorized.

2.4. UNDERLYING SHARES. The issuance of the Underlying Shares upon conversion of the Purchased Debentures or exercise of the Purchased Warrants has been duly authorized, and the Underlying Shares have been, and at all times prior to such exercise will have been, duly reserved for issuance upon such exercise and, when so issued, will be validly issued, fully paid and non-assessable.

2.5. PRIVATE OFFERING. Neither the Company nor anyone acting on its behalf has within the last 12 months issued, sold or offered any security of the Company (including, without limitation, any Securities) to any Person under circumstances that would cause the issuance and sale of the Securities, as contemplated by this Agreement, to be subject to the registration requirements of the Securities Act of 1933, as amended (the "SECURITIES ACT"). The Company agrees that neither the Company nor anyone acting on its behalf will offer the Securities or any part thereof or any similar securities for issuance or sale to, or solicit any offer to acquire any of the same from, anyone so as to make the issuance and sale of the Securities subject to the registration requirements of Section 5 of the Securities Act.

2.6. BROKERS AND FINDERS. The Company has not retained any investment banker, broker or finder in connection with the Contemplated Transactions, except that (i) Bentley Securities Corporation shall be entitled to a cash fee of up to 5% of the gross proceeds of the Contemplated Transactions, and (ii) TSD Trading, LLC shall be entitled to a cash fee of up to 1.65% of the gross proceeds of the Contemplated Transactions, plus cash or warrants with an exercise price of $0.35 representing up to 3.75% of the gross proceeds of the Contemplated Transactions and actual expenses plus $75,000 (not to exceed $100,000 in the aggregate); provided that the Company shall not

be obliged to make any payment of any fees or expenses to any investment banker, broker or finder in connection with the Contemplated Transactions (including the fees mentioned above) unless and until the Second Closing has been consummated.

2.7. NO CONFLICT; REQUIRED FILINGS AND CONSENTS.

(a) The execution, delivery and performance of the Amendment, this Agreement and the other Transaction Documents by the Company and its Subsidiaries do not, and the consummation by the Company of the Contemplated Transactions will not, (i) conflict with or violate the Certificate of Incorporation or By-Laws of the Company or such Subsidiaries, (ii) conflict with or violate any law, rule, regulation, order, judgment or decree applicable to the Company or such subsidiaries or by which any property or asset of the Company or such Subsidiaries is bound or affected, (iii) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, result in the loss of a material benefit under, or give to others any right of purchase or sale, or any right of termination, amendment, acceleration, increased payments or cancellation of, or result in the creation of a lien or other encumbrance on any property or asset of the Company or of any of its Subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or of any of its Subsidiaries is a party or by which the Company or of any of its Subsidiaries or any property or asset of the Company or of any of its Subsidiaries is bound or affected (other than the lien under the Security Agreement) or (iv) cause any or all of the Investors to be deemed an Acquiring Person within the meaning of the Company's Preferred Shares Rights Agreement with ChaseMellon Shareholder Services, L.L.C., dated June 11, 1996 and amended on January 15, 1999, or in any way trigger the distribution of Rights

thereunder or other such event thereunder which may be deemed adverse to the interest of the Investors; except, in the case of clauses (ii) and (iii) above, for any such conflicts, violations, breaches, defaults or other occurrences which would not prevent or delay consummation of any of the Contemplated Transactions in any material respect, have a material adverse effect on the liens and security intended to be granted pursuant to the Security Agreement or otherwise prevent the Company from performing its obligations under this Agreement or any of the other Transaction Documents in any material respect, and would not, individually or in the aggregate, have a Material Adverse Effect.

(b) The execution and delivery of this Agreement and the other Transaction Documents by the Company and its Subsidiaries do not, and the performance of this Agreement and the other Transaction Documents and the consummation by the Company and its Subsidiaries of the Contemplated Transactions will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Body (as hereinafter defined) except for the filing of a Form D with the Securities and Exchange Commission and applicable requirements, if any, of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT") or any state securities or "blue sky" laws ("BLUE SKY LAWS"), any approval required by applicable rules of The Nasdaq Stock Market with respect to the Second Closing, filings of Uniform Commercial Code financing statements and filings with the Patent and Trademark Office and the Copyright Office to perfect the liens granted under the Security Agreement. For purposes of this Agreement, "GOVERNMENTAL BODY"

shall mean any: (a) nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; or (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or entity and any court or other tribunal).

2.8. COMPLIANCE. Except as set forth in the Company Disclosure Letter, neither the Company nor any Subsidiary is in conflict with, or in default or violation of (i) any law, rule, regulation, order, judgment or decree applicable to the Company or such subsidiary or by which any property or asset of the Company or such subsidiary is bound or affected ("LEGAL REQUIREMENT"), or (ii) any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or such subsidiary is a party or by which the Company or such subsidiary or any property or asset of the Company or such subsidiary is bound or affected, in each case except for any such conflicts, defaults or violations that would not, individually or in the aggregate, have a Material Adverse Effect. Neither the Company nor any Subsidiary has received any notice or other communication from any Governmental Body regarding any actual or possible violation of, or failure to comply with, any Legal Requirement.

2.9. SEC DOCUMENTS; FINANCIAL STATEMENTS.

(a) The information contained in the following documents, did not, as of the date of the applicable document, include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading, as of their respective filing dates or, if amended, as so amended (the following documents, collectively, the "SEC DOCUMENTS"), provided that the representation in this sentence shall not apply to any misstatement or omission in any SEC Document filed prior to the date of this Agreement which was superseded by a subsequent SEC Document filed prior to the date of this Agreement:

(i) the Company's Annual Report on Form 10-K for the year ended March 31, 2003; and

(ii) the Company's definitive Proxy Statement with respect to its 2003 Special Meeting of Stockholders, filed with the Commission on April 3, 2003; and

(b) In addition, as of the date of this Agreement, the Company Disclosure Letter, when read together with the information, qualifications and exceptions contained in this Agreement, does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading.

(c) The Company has filed all forms, reports and documents required to be filed by it with the SEC since March 31, 2001, including without limitation the SEC Documents. As of their respective dates, the SEC Documents filed prior to the date hereof complied as to form in all material respects with the applicable requirements of the Securities Act, the Exchange Act, and the rules and regulations thereunder.

(d) The Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2002, includes

consolidated balance sheets as of December 31, 2001 and 2002 and consolidated statements of income for the three month and nine month periods then ended (collectively, the "FINANCIAL STATEMENTS").

(e) Each of the consolidated balance sheets of the Company included in or incorporated by reference into the SEC Documents (including the related notes and schedules) and the Financial Statements fairly presents in all material respects the consolidated financial position of the Company as of the date of such, and each of the consolidated statements of income, retained earnings and cash flows of Company included in or incorporated by reference into the SEC Documents (including any related notes and schedules) and the Financial Statements fairly presents in all material respects the results of operations, retained earnings or cash flows, as the case may be, of the Company for the periods set forth therein (subject, in the case of unaudited statements, to normal year-end audit adjustments that would not be material in amount or effect), in each case in accordance with generally accepted accounting principles consistently applied during the periods involved, except as may be noted therein.

2.10. LITIGATION. Except as set forth in the SEC Documents or the Company Disclosure Letter, there are no claims, actions, suits, investigations, inquiries or proceedings (each, an "ACTION") pending against the Company or any of its Subsidiaries or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, at law or in equity, or before or by any court, tribunal, arbitrator, mediator or any federal or state commission, board, bureau, agency or instrumentality, that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. Neither the Company nor any of its Subsidiaries is a party to or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality.

2.11. ABSENCE OF CERTAIN CHANGES. Except as specifically contemplated by this Agreement or set forth in the Company Disclosure Letter, the SEC Documents, or the Financial Statements, since December 31, 2002, there has not been (i) any Material Adverse Change; (ii) any return of any capital or other distribution of assets to stockholders of Company (except to Company); (iii) any acquisition (by merger, consolidation, acquisition of stock and/or assets or otherwise) of any Person; or (iv) any transactions, other than in the ordinary course of business, consistent with past practices and reasonable business operations ("ORDINARY COURSE OF BUSINESS"), with any of its officers, directors, principal stockholders or employees or any Person affiliated with any of such persons.

2.12. PROPRIETARY ASSETS.

(a) For purposes of this Agreement, "PROPRIETARY ASSETS" shall mean all right, title and interest of the Company and the Subsidiaries party to the Security Agreement in and to the following items or types of property: (i) every patent, patent application, trademark (whether registered or unregistered), trademark application, trade name, fictitious business name, service mark (whether registered or unregistered), service mark application, copyright (whether registered or unregistered), copyright application, maskwork, maskwork application, trade secret, know-how, customer list, franchise, system, computer software, computer program, invention, design, blueprint, engineering drawing, proprietary product, technology, proprietary right or other intellectual property right or intangible asset; and (ii) all licenses and other rights to use or exploit any of the foregoing.

(b) The Company Disclosure Letter sets forth, with respect to each Proprietary Asset of the Company and the Subsidiaries party to the Security Agreement registered with any Governmental Body in the U.S., or for which an application has been filed with any Governmental Body in the U.S., (i) a brief description of such Proprietary Asset and (ii) the names of the jurisdictions covered by the applicable registration or application. The Company Disclosure Letter identifies and provides a brief description of all other material Proprietary Assets owned by the Company and the Subsidiaries party to the Security Agreement, and identifies and provides a brief description of each material Proprietary Asset that is

registered with any Governmental Body in the U.S., or each material asset for which an application has been filed with any Governmental Body in the U.S., or source code version of any software licensed to the Company or any Subsidiary party to the Security Agreement by any Person (except for any Proprietary Asset that is licensed to the Company or any Subsidiary party to the Security Agreement under any third party software license generally available to the public at a cost of less than $10,000), and identifies such license agreement under which such Proprietary Asset is being licensed to the Company or any Subsidiary party to the Security Agreement. Except as set forth in the Company Disclosure Letter, the Company or its Subsidiaries have good, valid and marketable title to each of the Proprietary Assets identified in the Company Disclosure Letter as owned by it, free and clear of all liens and other encumbrances (other than the liens under the Company's existing credit facility (which shall be cleared at the First Closing) and under the Security Agreement); has a valid right to use all Proprietary Assets of third parties identified in the Company Disclosure Letter; and is not obligated to make any payment to any Person for the use of any Proprietary Asset except as set forth in the applicable license agreement. Except as set forth in the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has developed jointly with any other Person any material Proprietary Asset with respect to which such other Person has any rights.

(c) Each of the Company and the Subsidiaries party to the Security Agreement has taken commercially reasonable and customary measures and precautions to protect and maintain the confidentiality and secrecy of all Proprietary Assets of the Company and its Subsidiaries (except Proprietary Assets whose value would be unimpaired by public disclosure) and otherwise to maintain and protect the value of all Proprietary Assets of the Company and its Subsidiaries. Except as set forth in the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has (other than pursuant to license agreements identified in the Company Disclosure Letter) disclosed or delivered to any Person, or permitted the disclosure or delivery to any Person of, (i) the source code, or any portion or aspect of the source code, of any Proprietary Asset, (ii) the object code, or any portion or aspect of the object code, of any Proprietary Asset of the Company and its Subsidiaries, except in the ordinary course of its business or (iii) any patent applications (except as required by law).

(d) To the knowledge of the Company, (i) none of the Proprietary Assets of the Company and its Subsidiaries infringes or conflicts with any Proprietary Asset owned or used by any other Person; (ii) neither the Company nor any Subsidiary is infringing, misappropriating or making any unlawful use of any Proprietary Asset owned or used by any other Person; and (iii) no other Person is infringing,

misappropriating or making any unlawful use of, and no Proprietary Asset owned or used by any other Person infringes or conflicts with, any Proprietary Asset of the Company or any of its Subsidiaries.

(e) Except as set forth in the Company Disclosure Letter, excluding warranty claims received by Company or any of its Subsidiaries in the ordinary course of business, there has not been any claim by any customer or other Person alleging that any Proprietary Asset of the Company or any of its Subsidiaries (including each version thereof that has ever been licensed or otherwise made available by the Company to any Person) does not conform in all material respects with any specification, documentation, performance standard, representation or statement made or provided by or on behalf of the Company.

(f) To the knowledge of the Company, the Proprietary Assets of the Company and its Subsidiaries constitute all the Proprietary Assets necessary to enable the Company and its Subsidiaries to conduct their respective businesses in the manner in which such businesses have been and are being conducted. Except as set forth in the Company Disclosure Letter (i) neither the Company nor any Subsidiary has licensed any of its Proprietary Assets to any Person on an exclusive, semi-exclusive or royalty-free basis, and (ii) neither the Company nor any Subsidiary has entered into any covenant not to compete or contract limiting such entity's ability to exploit fully any of such entity's material Proprietary Assets or to transact business in any material market or geographical area or with any Person.

(g) Except as set forth in the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has at any time received any notice or other communication (in writing or otherwise) of any actual, alleged, possible or potential infringement, misappropriation or unlawful use of, any Proprietary Asset owned or used by any other Person.

2.13. NO ADVERSE ACTIONS. Except as set forth in the Company Disclosure Letter, there is no existing, pending or, to the knowledge of the Company, threatened termination, cancellation, limitation, modification or change in the business relationship of the Company or any of its Subsidiaries, with any supplier, customer or other Person except such as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

2.14. REGISTRATION RIGHTS. Except as set forth in the Registration Rights Agreement, the SEC Documents, or in the Company Disclosure Letter, the Company is not under any obligation to register under the Securities Act any of its currently outstanding securities or any securities issuable upon exercise or conversion of its currently outstanding securities nor is the Company obligated to register or qualify any such securities under any state securities or blue sky laws.

2.15. CORPORATE DOCUMENTS. The Company's Certificate of Incorporation and Bylaws, each as amended to date, which have been requested and previously provided to the Investors are true, correct and complete and contain all amendments thereto; provided that the Amendment will be filed prior to the Second Closing Date.

2.16. DISCLOSURE. No representation or warranty of the Company herein, no exhibit or schedule hereto, and no information contained or referenced in the SEC Documents, when read together, contains or will contain any untrue statement of a material fact or omits or will omit to state a material

fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading. On or before 9:00 a.m., New York City Time, on the first business day after the First Closing, the Company shall file a Current Report on Form 8-K describing the material terms of the transactions contemplated by this Agreement, and disclosing such portions of the Transaction Documents as contain material nonpublic information with respect to the Company that has not previously been publicly disclosed by the Company, and attaching as an exhibit to such Form 8-K a form of this Agreement.

2.17. USE OF PROCEEDS. The net proceeds received by the Company from the sale of the Securities shall be used by the Company for working capital and general corporate purposes, including without limitation to support the operations of each of the Subsidiaries.

3. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS. Each Investor represents and warrants to the Company as follows:

3.1. AUTHORIZATION. Such Investor (i) has full power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) if applicable has been authorized by all necessary corporate or equivalent action to execute, deliver and perform the Amendment, this Agreement and the other Transaction Documents and to consummate the Contemplated Transactions. Each of the Amendment, this Agreement and the other Transaction Documents is a valid and binding obligation of such Investor enforceable in accordance with its terms, except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

3.2. BROKERS AND FINDERS. Such Investor has not retained any investment banker, broker or finder in connection with the Contemplated Transactions.

4. SECURITIES LAWS.

4.1. SECURITIES LAWS REPRESENTATIONS AND COVENANTS OF INVESTORS.

(a) This Agreement is made with each Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Securities to be received by such Investor will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof such that such Investors would constitute an "underwriter" under the

Securities Act; provided that this representation and warranty shall not limit the Investor's right to sell the Underlying Shares pursuant to the Registration Rights Agreement or in compliance with an exemption from registration under the Securities Act or the Investor's right to indemnification under this Agreement or the Registration Rights Agreement.

(b) Each Investor understands and acknowledges that the offering of the Securities pursuant to

this Agreement will not be registered under the Securities Act or qualified under any Blue Sky Laws on the grounds that the offering and sale of the Securities are exempt from registration and qualification, respectively, under the Securities Act and the Blue Sky Laws.

(c) Each Investor covenants that, unless the Purchased Debentures, the Purchased Warrants, the Underlying Shares or any other shares of capital stock of the Company received in respect of the foregoing have been registered pursuant to the Registration Rights Agreement being entered into among the Company and the Investors, such Investor will not dispose of such securities unless and until such Investor shall have notified the Company of the proposed disposition and shall have furnished the Company with an opinion of counsel reasonably satisfactory in form and substance to the Company to the effect that (x) such disposition will not require registration under the Securities Act and (y) appropriate action necessary for compliance with the Securities Act and any applicable state, local or foreign law has been taken; PROVIDED, HOWEVER, that an Investor may dispose of such securities without providing the opinion referred to above if the Company has been provided with adequate assurance that such disposition has been made in compliance with Rule 144 under the Securities Act (or any similar rule).

(d) Each Investor represents that (i) such Investor is able to fend for itself in the Contemplated Transactions; (ii) such Investor has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of such Investor's prospective investment in the Securities; (iii) such Investor has the ability to bear the economic risks of such Investor's prospective investment and can afford the complete loss of such investment; (iv) such Investor has been furnished with and has had access to such information as is in the Company Disclosure Letter together with the opportunity to obtain such additional information as it requested to verify the accuracy of the information supplied; (v) such Investor has had access to officers of the Company and an opportunity to ask questions of and receive answers from such officers and has had all questions that have been asked by such Investor satisfactorily answered by the Company; and (vi) such Investor has read and understands the Risk Factors set forth on Exhibit 8.

(e) Each Investor further represents by execution of this Agreement that such Investor qualifies as an "accredited investor" as such term is defined under Rule 501 promulgated under the Securities Act. Any Investor that is a corporation, a partnership, a limited liability company, a trust or other business entity further represents by execution of this Agreement that it has not been organized for the purpose of purchasing the Securities.

(f) By acceptance hereof, each Investor agrees that the Purchased Debentures, the Purchased Warrants, the Underlying Shares and any shares of capital stock of the Company received in respect of the foregoing held by it may not be sold by such Investor without registration under the Securities Act or an exemption therefrom, and therefore such Investor may be required to hold such securities for an indeterminate period.

4.2. LEGENDS. All certificates for the Purchased Debentures, Purchased Warrants and the Underlying Shares, and each certificate representing any shares of capital stock of the Company received in respect of the foregoing, whether by reason of a stock

split or share reclassification thereof, a stock dividend thereon or otherwise and each certificate for any such securities issued to subsequent transferees of any such certificate (unless otherwise permitted herein) shall bear the following legend:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT."

5. ADDITIONAL COVENANTS OF THE COMPANY.

5.1. REPORTS, INFORMATION, SHARES.

(a) The Company shall cooperate with each Investor in supplying such information as may be reasonably requested by such Investor to complete and file any information reporting forms presently or hereafter required by the SEC as a condition to the availability of an exemption, presently existing or hereafter adopted, from the Securities Act for the sale of any of the Purchased Debentures, the Purchased Warrants, the Underlying Shares and shares of capital stock of the Company received in respect of the foregoing.

(b) For so long as an Investor (or the successor or assign of such Investor) holds either Securities or Underlying Shares, the Company shall deliver to such Investor (or the successor or assign of such Investor), contemporaneously with delivery to other holders of Common Stock, a copy of each report of the Company delivered to holders of Common Stock.

(c) The Company shall keep reserved for issuance a sufficient number of authorized but unissued shares of Common Stock (or other securities into which the Purchased Debentures are convertible or for which the Purchased Warrants are then exercisable) so that the Purchased Debentures and Purchased Warrants may be converted or exercised to purchase Common Stock (or such other securities) at any time.

5.2. EXPENSES; INDEMNIFICATION.

(a) The Company agrees to pay on each Closing Date and save the Investors harmless against liability for the payment of any stamp or similar taxes (including interest and penalties, if any) that may be determined to be payable in respect of the execution and delivery of this Agreement, the issue and sale of any Securities and the Underlying Shares, the expense of preparing and issuing the Securities and the Underlying Shares, the cost of delivering the Securities and the Underlying Shares of each Investor to such Investor's address, insured in accordance with customary practice, and the costs and expenses incurred in the preparation of all certificates and letters on behalf of the Company and of the Company's performance and compliance with all agreements and conditions contained herein on its part to be performed or complied with. Each Investor shall be responsible for its out-of-pocket expenses arising in connection with the Contemplated Transactions, except that, at the Second Closing, the Company shall pay fees and disbursements of counsel to the Investors as set forth in Section 6.9.

(b) The Company hereby agrees and acknowledges that the Investors have been induced to enter into this Agreement and to purchase the Securities hereunder,

in part, based upon the representations, warranties and covenants of the Company contained herein. The Company hereby agrees to pay, indemnify and hold harmless the Investors and any director, officer or employee of any Investor against all claims, losses and damages resulting from any and all legal or administrative proceedings, including without limitation, reasonable attorneys' fees and expenses incurred in connection therewith (collectively, "LOSS"), resulting from a breach by the Company of any representation or warranty of the Company contained herein or the failure of the Company to perform any covenant made herein.

(c) As soon as reasonably practicable after receipt by an Investor of notice of any Loss in respect of which the Company may be liable under this Section 5.2, the Investor shall give notice thereof to the Company. Each Investor may, at its option, claim indemnity under this Section 5.2 as soon as a claim has been threatened by a third party, regardless of whether an actual Loss has been suffered, so long as counsel for such Investor shall in good faith determine that such claim is not frivolous and that such Investor may be liable or otherwise incur a Loss as a result thereof and shall give notice of such determination to the Company. Each Investor shall permit the Company, at the Company's option and expense, to assume the defense of any such claim by counsel mutually and reasonably satisfactory to the Company and the Investors who are subject to such claim, and to settle or otherwise dispose of the same; PROVIDED, HOWEVER, that each Investor may at all times participate in such defense at such Investor's expense; and PROVIDED, FURTHER, that the Company shall not, in defense of any such claim, except with the prior written consent of each Investor subject to such claim, (i) consent to the entry of any judgment that does not include as an unconditional term thereof the giving by the claimant or plaintiff in question to each Investor and its affiliates of a release of all liabilities in respect of such claims, or (ii) consent to any settlement of such claim. If

the Company does not promptly assume the defense of such claim irrespective of whether such inability is due to the inability of the afore-described Investors and the Company to mutually agree as to the choice of counsel, or if any such counsel is unable to represent one or more of the Investors due to a conflict or potential conflict of interest, then an Investor may assume such defense and be entitled to indemnification and prompt reimbursement from the Company for such Investor's costs and expenses incurred in connection therewith, including without limitation, reasonable attorneys' fees and expenses. Such fees and expenses shall be reimbursed to the Investors as soon as practicable after submission of invoices to the Company.

5.3. CONDUCT OF BUSINESS OF THE COMPANY. From the date of the execution of this Agreement until the Second Closing Date, the Company, unless otherwise expressly contemplated by this Agreement or consented to in writing by the Investors, will, and will cause its Subsidiaries to, carry on their respective businesses only in the Ordinary Course of Business, use their respective reasonable best efforts to preserve intact their business organizations and assets, retain the services of their officers and employees and maintain their relationships with customers, suppliers, licensors, licensees and others having business dealings with them. Without limiting the generality of the foregoing, from the date of the execution of this Agreement until the Second Closing Date, the Company shall not, and shall not permit its Subsidiaries to:

(a) (i) increase in any manner the compensation or fringe benefits of, or pay any bonus to, any

director, officer or employee, except for increases or bonuses in the Ordinary Course of Business to employees who are not directors or officers and except pursuant to existing arrangements previously disclosed to or approved in writing by the Investors; (ii) grant any severance or termination pay (other than pursuant to the normal severance practices or existing agreements of the Company or its subsidiary in effect on the date of this Agreement) to, or enter into any severance agreement with, any director, officer or employee, or enter into any employment agreement with any director, officer or employee; (iii) establish, adopt, enter into or amend any plan or other arrangement, except as may be required to comply with applicable law (except the execution and delivery of the Amendment); (iv) pay any benefit not provided for under any plan or other arrangement; (v) grant any awards under any bonus, incentive, performance or other compensation plan or arrangement or plan or other arrangement (including the grant of stock options, stock appreciation rights, stock-based or stock-related awards, performance units or restricted stock, or the removal of existing restrictions in any plan or other arrangement or agreement or awards made thereunder), except for grants in the Ordinary Course of Business;

(b) declare, set aside or pay any dividend on, or make any other distribution in respect of, outstanding shares of capital stock;

(c) (i) redeem, purchase or otherwise acquire any shares of capital stock of the Company or any securities or obligations convertible into or exchangeable for any shares of capital stock of the Company, or any options,

warrants or conversion or other rights to acquire any shares of capital stock of the Company or any such securities or obligations, or any other securities thereof, other than redemption and purchases from departing employees in the Ordinary Course of Business; (ii) effect any reorganization or recapitalization; or (iii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock;

(d) except upon the exercise of Company stock options in accordance with their terms, issue, deliver, award, grant or sell, or authorize the issuance, delivery, award, grant or sale (including the grant of any limitations in voting rights or other encumbrances) of, any shares of any class of its capital stock (including shares held in treasury), any securities convertible into or exercisable or exchangeable for any such shares, or any rights, warrants or options to acquire, any such shares, or amend or otherwise modify the terms of any such rights, warrants or options the effect of which shall be to make such terms more favorable to the holders thereof;

(e) acquire or agree to acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets of any other person (other than the purchase of assets from suppliers or vendors in the Ordinary Course of Business);

(f) sell, lease, exchange, mortgage, pledge, transfer or otherwise subject to any encumbrance or dispose of, or agree to sell, lease, exchange, mortgage, pledge,

transfer or otherwise subject to any encumbrance or dispose of, any of its assets, except for sales, dispositions or transfers in the Ordinary Course of Business;

(g) adopt any amendments to its articles or certificate of incorporation, bylaws or other comparable charter or organizational documents (except the execution and delivery of the Amendment);

(h) pay, discharge, settle or satisfy any claims, liabilities or obligations (whether absolute or contingent, matured or unmatured, known or unknown), other than the payment, discharge or satisfaction, in the Ordinary Course of Business or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent financial statement or incurred in the Ordinary Course of Business, or waive any material benefits of, or agree to modify in any material respect, any confidentiality, standstill or similar agreements to which the Company is a party (except in connection with the consent of Silicon Valley Bank to the Contemplated Transactions);

(i) except in the Ordinary Course of Business, waive, release or assign any rights or claims, or modify, amend or terminate any agreement to which the Company is a party;

(j) make any change in any method of accounting or accounting practice or policy other than those required by GAAP or a governmental entity; or

(k) authorize, or commit or agree to do any of the foregoing.

5.4. PROXY STATEMENT; STOCKHOLDERS MEETING.

(a) Promptly following the execution and delivery of this Agreement, the Company shall take all action necessary to call a meeting of its stockholders (together with any adjournments or postponements thereof, the "Stockholders Meeting") for the purpose of seeking approval of the Company's stockholders (the "Stockholder Approvals") for the issuance and sale to the Investors of the Securities and any other actions necessary to meet the Second Closing Conditions (the "Proposal"). In connection therewith, the Company will promptly prepare and file with the SEC proxy materials (including a proxy statement(as amended or supplemented, the "Proxy Statement") and form of proxy) for use at the Stockholders Meeting and, after receiving and promptly responding to any comments of the SEC thereon, shall promptly mail such proxy materials to the stockholders of the Company. Each Investor shall promptly furnish in writing to the Company such information relating to such Investor and its investment in the Company as the Company may reasonably request for inclusion in such proxy materials; provided that no Investor shall be obliged to furnish any such information if there has been no change in such Investor's beneficial ownership (as defined under the Exchange Act) of Common Stock since the date of this Agreement. The Company will comply with Section 14(a) of the Exchange Act and the rules promulgated thereunder in relation to any proxy statement and any form of proxy to be sent to the stockholders of the Company in connection with the Stockholders Meeting, and the Proxy Statement shall not, on the date the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to stockholders or at the time of the Stockholders Meeting, contain any statement which,

at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the Stockholders Meeting or the subject matter thereof which has become false or misleading. If the Company should discover at any time prior to the Second Closing any event relating to the Company or any of its Subsidiaries or any of their respective affiliates, officers or directors that is required to be set forth in a supplement or amendment to the Proxy Statement, in addition to the Company's obligations under the Exchange Act, the Company will promptly inform its stockholders and the Investors thereof.

(b) Subject to their fiduciary obligations under applicable law (as determined in good faith by the Company's Board of Directors after consultation with the Company's outside counsel), the Company's Board of Directors shall recommend to the Company's stockholders (and not revoke or amend such recommendation) that the stockholders vote in favor of the Proposal and shall cause the Company to take all commercially reasonable action (including, without limitation, the hiring of a proxy solicitation firm of nationally recognized standing) to solicit the Stockholder Approvals. Whether or not the Company's Board of Directors determines at any time after the date hereof that, due to its fiduciary duties, it must revoke or amend its recommendation to the Company's stockholders, the Company is required to, and will take, in accordance with applicable law and its Certificate of Incorporation and Bylaws, all action necessary to convene the Stockholders Meeting as promptly as practicable to consider and vote upon the approval of the Proposal.

(c) In the event that the Company's Board of Directors has withdrawn or modified its recommendation to stockholders pursuant to the provisions of Section 5.4(b), upon termination of the Agreement in accordance with its terms the Company shall pay to the Investors, pro rata based on their pro rata share of the aggregate purchase price, a breakup fee equal to the aggregate amount invested by the Investors at the First Closing in cash.

5.5 DESIGNATED DIRECTOR.

(a) So long as Special Situations Fund III, L.P., and its affiliates ("SSF") continue to beneficially own at least 5,500,000 shares of Common Stock (appropriately adjusted for any stock split, reverse stock split, stock dividend or other reclassification or combination of the Common Stock occurring after the date hereof) SSF shall have the right to designate one individual, reasonably acceptable to the Company, as a member of the Company's Board of Directors (such person, subject to replacement by SSF in the event of such individual's death, resignation or removal, the "SSF Designee"), and the Company will use its best efforts to cause the SSF Designee to be elected to the Board of Directors of the Company and agrees that it will recommend that the SSF Designee be elected at each meeting of stockholders in which the Company's stockholders elect directors.

(b) Subject to any limitations imposed by applicable law, the SSF Designee shall be entitled to the same notices, voting rights, information and perquisites, including without limitation stock options, indemnification by the Company, reimbursement of expenses and other similar rights in connection with such person's membership on the Board of

Directors of the Company, as every other non-executive member of the Board of Directors of the Company.

(c) The Company shall use its best efforts to cause the removal forthwith of the SSF Designee when (and only when) such removal is requested for any reason, with or without cause, by SSF.

6. MISCELLANEOUS.

6.1. ENTIRE AGREEMENT; SUCCESSORS AND ASSIGNS. This Agreement and the other Transaction Documents constitute the entire contract between the parties relative to the subject matter hereof and thereof, and no party shall be liable or bound to the other in any manner by any warranties, representations or covenants except as specifically set forth herein or therein. This Agreement and the other Transaction Documents supersede any previous agreement among the parties with respect to the Securities. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective executors, administrators, heirs, successors and assigns of the parties. Except as expressly provided herein, nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

6.2. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. Notwithstanding any right of the Investors fully to investigate the affairs of the Company and notwithstanding any knowledge of facts determined or determinable by any Investor pursuant to such right of investigation, each Investor has the right to rely fully upon the representations, warranties, covenants and agreements of the Company contained in this Agreement or in any documents delivered pursuant to this Agreement. All such representations and warranties of the Company shall survive the execution and delivery of this Agreement and the Closing hereunder and shall continue in full force and effect for one year after the Second Closing. The covenants of the Company set forth in Section 5 shall remain in effect as set forth therein.

6.3. GOVERNING LAW; JURISDICTION. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of law. Each party hereby irrevocably consents and submits to the jurisdiction of any New York State or United States Federal Court sitting in the State of New York, County of New York, over any action or proceeding arising out of or relating to this Agreement and irrevocably consents to the service of any and all process in any such action or proceeding by registered mail addressed to such party at its address specified in Section 6.6 (or as otherwise noticed to the other party). Each party further waives any objection to venue in New York and any objection to an action or proceeding in such state and county on the basis of FORUM NON conveniens. Each party also waives any right to trial by jury.

6.4. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.5. HEADINGS. The headings of the sections of this Agreement are for convenience and shall not by themselves determine the interpretation of this Agreement.

6.6. NOTICES. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, (ii) delivery by fax (with answer back

confirmed) or (iii) delivery by electronic mail (with reception confirmed), addressed to a party at its address or sent to the fax number or e-mail address shown below or at such other address, fax number or e-mail address as such party may designate by three days advance notice to the other party.

Any notice to the Investors shall be sent to the addresses set forth on the signature pages hereof, with a copy to:

Hahn & Hessen LLP
488 Madison Avenue
New York, New York 10022
Attention: James Kardon, Esq.
Fax Number: (212) 478-7400
e-mail: JKARDON@HAHNHESSEN.COM

Any notice to the Company shall be sent to:

Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax Number: (707) 765-9311
Email: mparodi@tegal.com

with a copy to:

Latham & Watkins LLP
505 Montgomery Street, Suite 1900
San Francisco, California 94111
Attention: Taitt Sato, Esq.
Fax Number: (415) 395-8095
Email: taitt.sato@lw.com

6.7. RIGHTS OF TRANSFEREES. Any and all rights and obligations of each of the Investors herein incident to the ownership of Securities or the Underlying Shares shall pass successively to all subsequent transferees of such securities until extinguished pursuant to the terms hereof.

6.8. SEVERABILITY. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be deemed prohibited or invalid under such applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, and such prohibition or invalidity shall not invalidate the remainder of such provision or any other provision of this Agreement.

6.9. EXPENSES. Irrespective of whether any Closing is effected, the Company shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of this Agreement. Each Investor shall be responsible for all costs incurred by such Investor in connection with the negotiation, execution, delivery and performance of this Agreement including, but not limited to, legal fees and expenses, except that, at the Second Closing, the Company shall pay legal fees and expenses of $60,000 to Hahn & Hessen LLP, as counsel to the Investors.

6.10. AMENDMENTS AND WAIVERS. Unless a particular provision or section of this Agreement requires otherwise explicitly in a particular instance, any provision of this Agreement may be amended and the observance of any provision of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of Securities convertible or exercisable into at least 75% of the Underlying Shares (not including for this purpose any Underlying Shares which have been sold to the public pursuant to a registration statement under the Securities Act or an exemption therefrom). Any

amendment or waiver effected in accordance with this Section 6.10 shall be binding upon each holder of any Securities at the time outstanding (including securities into which such Securities are convertible), each future holder of all such Securities, and the Company.

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SIGNATURE PAGE
TO
TEGAL CORPORATION
SUBSCRIPTION AGREEMENT
Dated _____, 2003

IF the PURCHASER is an INDIVIDUAL, please complete the following:

IN WITNESS WHEREOF, the undersigned has executed this Agreement this ____ day of ____, 2003.

<TABLE>
<CAPTION>
<S> <C>
Amount of Subscription:
$ ---

Print Name

Number of Units to be Purchased:
, including ---

$_____ principal amount of Purchased Debentures Signature of Investor
and _____ Purchased Warrants

Social Security Number

Address and Fax Number

E-mail Address

ACCEPTED AND AGREED:

TEGAL CORPORATION

By:

Dated:

</TABLE>

SIGNATURE PAGE

TO
TEGAL CORPORATION
SUBSCRIPTION AGREEMENT
Dated _____, 2003

IF the INTERESTS will be held as JOINT TENANTS, as TENANTS IN COMMON, or as COMMUNITY PROPERTY, please complete the following:

IN WITNESS WHEREOF, the undersigned has executed this Agreement this ___ day of ____, 2003.

<TABLE>
<CAPTION>
<S> <C>
Amount of Subscription: ----------
$ Print Name of Purchaser

Number of Units to be Purchased: ----------
, including Signature of a Purchaser
$_____ principal amount of Purchased Debentures
and _____ Purchased Warrants

Social Security Number

Print Name of Spouse or Other Purchaser

Signature of Spouse or Other Purchaser

Social Security Number

Address

Fax Number

E-mail Address
ACCEPTED AND AGREED:

TEGAL CORPORATION

By:

Dated:

</TABLE>

SIGNATURE PAGE
TO
TEGAL CORPORATION
SUBSCRIPTION AGREEMENT
Dated _____, 2003

IF the PURCHASER is a PARTNERSHIP, CORPORATION, LIMITED LIABILITY COMPANY, TRUST or OTHER ENTITY, please complete the following:

IN WITNESS WHEREOF, the undersigned has executed this Agreement this ____ day of ____, 2003.

<TABLE>
<CAPTION>

<S> <C>
Number of Units to be Purchased:
, including
$_____ principal amount of Purchased Debentures
and _____ Purchased Warrants

Print Full Legal Name of Partnership,
Company, Limited Liability Company,
Trust or Other Entity

By:

(Authorized Signatory)
Name:

Title:

Address and Fax Number:

Taxpayer Identification Number:

Date and State of Incorporation or Organization:

Date on which Taxable Year Ends:

E-mail Address:

ACCEPTED AND AGREED:

TEGAL CORPORATION

By:

Name:

Title:

Dated:

</TABLE>

EXHIBITS AND SCHEDULES
TO THE UNIT SUBSCRIPTION AGREEMENT

Exhibit 1: Form of Debentures
Exhibit 2: Form of Warrants
Exhibit 3: Form of Registration Rights Agreement
Exhibit 4: Form of Financial Advisory Agreement
Exhibit 5: Form of Subsidiary Guaranty
Exhibit 6: Form of Security Agreement
Exhibit 7: Legal Opinion
Exhibit 8: Risk Factors
Exhibit 9: Company Disclosure Letter

EXHIBIT 5

Form of

SUBSIDIARY GUARANTY

New York, New York _____, 2003

FOR VALUE RECEIVED, and in consideration of the purchase of the Debentures by the Holders (as those terms are defined below) from TEGAL CORPORATION (the "Corporation") and for other good and valuable consideration, and to induce the Holders to purchase the Debentures, the undersigned (and each of them if more than one, the liability under this Guaranty being joint and several) (jointly and severally referred to as "Guarantor" or "the undersigned") unconditionally guarantee to the Holders, their appointed representative or collateral agent (the "Agent"), their successors, endorsees and assigns, the prompt payment and performance when due (whether by acceleration or otherwise) of all present and future obligations and liabilities of any and all kinds of the Corporation to Agent and the Holders and of all instruments of any nature evidencing or relating to any such obligations and liabilities upon which the Corporation is or may become liable to Agent and the Holders, whether due or to become due, secured or unsecured, absolute or contingent, joint or several, and however or whenever acquired by Agent and the Holders, arising under, out of, or in connection with those certain 2% Convertible Secured Debentures due June __, 2011 dated as of June __, 2003 (as amended, modified, restated or supplemented from time to time, collectively, the "Debentures") made by the Corporation to the holders listed therein (collectively, the "Holders") or any documents, instruments or agreements relating to or executed in connection with the Debentures (together with the Debentures, as each may be amended, modified, restated or supplemented from time to time, the "Debenture Documents"; all of such obligations and liabilities are herein collectively referred to as the "Obligations"), and irrespective of the genuineness, validity, regularity or enforceability of such Obligations, or of any instrument evidencing any of the Obligations or of any collateral therefor or of the existence or extent of such collateral, and irrespective of the allowability, allowance or disallowance of any or all of the Obligations in any case commenced by or against the Corporation under Title 11, United States Code, including, without limitation, obligations or indebtedness of the Corporation for post-petition interest, fees, costs and charges that would have accrued or been added to the Obligations but for the commencement of such case. In furtherance of the foregoing, the undersigned hereby agree as follows:

1. NO IMPAIRMENT. Agent and Holders may at any time and from time to time, either before or after the maturity thereof, without notice to or further consent of the undersigned, extend the time of payment of, exchange or surrender any collateral for, renew or extend any of the Obligations or increase or decrease the interest rate thereon, and may also make any agreement with the Corporation or with any other party to or person liable on any of the Obligations, or interested therein, for the extension, renewal, payment, compromise, discharge or release thereof, in whole or in part, or for any modification of the terms thereof or of any agreement among Agent and/or Holders and the Corporation, or make any election of rights Agent and/or Holders may deem desirable under the United States Bankruptcy Code, as amended, or any other federal or state bankruptcy, reorganization, moratorium or insolvency law relating to or affecting the enforcement of creditors' rights generally (any of the foregoing, an "Insolvency Law") without in any way impairing or affecting this Guaranty. This instrument shall be effective regardless of the subsequent reincorporation, merger or consolidation of the Corporation, or any change in

the composition, nature, personnel or location of the Corporation and shall extend to any successor entity to the Corporation, including a debtor in possession or the like under any Insolvency Law.

2. GUARANTY ABSOLUTE. The undersigned guarantees that the Obligations will be paid strictly in accordance with the terms of the Debenture and/or any other document, instrument or agreement creating or evidencing the Obligations, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Corporation with respect thereto. Guarantor hereby knowingly accepts the full range of risk encompassed within a contract of "continuing guaranty" which risk includes the possibility that the Corporation will contract additional indebtedness for which Guarantor may be liable hereunder after the Corporation's financial condition or ability to pay its lawful debts when they fall due has deteriorated, whether or not the Corporation has properly authorized incurring such additional indebtedness. The undersigned acknowledge that no oral representations have been made by Agent or Holders to induce the undersigned to enter into this Guaranty.

The liability of the undersigned under this Guaranty shall be absolute and unconditional, in accordance with its terms, and shall remain in full force and effect without regard to, and shall not be released, suspended, discharged, terminated or otherwise affected by, any circumstance or occurrence whatsoever, including, without limitation: (a) any waiver, indulgence, renewal, extension, amendment or modification of or addition, consent or supplement to or deletion from or any other action or inaction under or in respect of the Debentures or any other instruments or agreements relating to the Obligations or any assignment or transfer of any thereof, (b) any lack of validity or enforceability of any Debenture Document or other documents, instruments or agreements relating to the Obligations or any assignment or transfer of any thereof, (c) any furnishing of any additional security to Agent or Holders or their assignees or any acceptance thereof or any release of any security by Agent or Holders or their assignees, (d) any limitation on any party's liability or obligation under the Debenture Documents or any other documents, instruments or agreements relating to the Obligations or any assignment or transfer of any thereof or any invalidity or unenforceability, in whole or in part, of any such document, instrument or agreement or any term thereof, (e) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to the Corporation, or any action taken with respect to this Guaranty by any trustee or receiver, or by any court, in any such proceeding, whether or not the undersigned shall have notice or knowledge of any of the foregoing, (f) any exchange, release or nonperfection of any collateral, or any release, or amendment or waiver of or consent to departure from any guaranty or security, for all or any of the Obligations or (g) any other circumstance (other than payment and satisfaction in full of all Obligations) which might otherwise constitute a defense available to, or a discharge of, the undersigned. Any amounts due from the undersigned to Agent or Holders shall bear interest until such amounts are paid in full at the highest rate then applicable to the Obligations. Obligations include post-petition interest whether or not allowed or allowable.

3. WAIVERS. (a) This Guaranty is a guaranty of payment and not of collection. Neither Agent nor Holders shall be under any obligation to institute suit, exercise rights or remedies or take any other action against the Corporation or any other person liable with respect to any of the Obligations or resort to any collateral security held by it to secure any of the Obligations as a condition precedent to the undersigned being obligated to perform as agreed herein and Guarantor hereby waives any and all rights which the undersigned may have by statute or otherwise which would require Agent or Holders to do any of

the foregoing. Guarantor further consents and agrees that Agent and Holders shall be under no obligation to marshal any assets in favor of Guarantor, or against or in payment of any or all of the Obligations. The undersigned hereby waives all suretyship defenses and any rights to interpose any defense, counterclaim or offset of any nature and description which it may have or which may exist between and among Agent, Holders, the Corporation and/or the undersigned with respect to the undersigned's obligations under this Guaranty, or which the Corporation may assert on the underlying debt, including but not limited to failure of consideration, breach of warranty, fraud, payment (other than cash payment in full of the Obligations), statute of frauds, bankruptcy, infancy, statute of limitations, accord and satisfaction, and usury.

(b) The undersigned further waives (i) notice of the acceptance of this Guaranty, of the purchase or issuance of any Debentures, and of all notices and demands of any kind to which the undersigned may be entitled, including, without limitation, notice of adverse change in the Company's financial condition or of any other fact which might materially increase the risk of the undersigned and (ii) presentment to or demand of payment from anyone whomsoever liable upon any of the Obligations, protest, notices of presentment, non-payment or protest and notice of any sale of collateral security or any default of any sort.

(c) Notwithstanding any payment or payments made by the undersigned hereunder, or any setoff or application of funds of the undersigned by Agent or any Holder, the undersigned shall not be entitled to be subrogated to any of the rights of Holders against the Corporation or against any collateral or guarantee or right of offset held by Holders for the payment of the Obligations, nor shall the undersigned seek or be entitled to seek any contribution or reimbursement from the Corporation in respect of payments made by the undersigned hereunder, until all amounts owing to Agent and Holders by the Corporation on account of the Obligations are paid in full and the

Debentures have been terminated. If, notwithstanding the foregoing, any amount shall be paid to the undersigned on account of such subrogation rights at any time when all of the Obligations shall not have been paid in full and the Debentures shall not have been terminated, such amount shall be held by the undersigned in trust for Agent and Holders, segregated from other funds of the undersigned, and shall forthwith upon, and in any event within two (2) business days of, receipt by the undersigned, be turned over to Agent in the exact form received by the undersigned (duly endorsed by the undersigned to Agent, if required), to be applied against the Obligations, whether matured or unmatured, in such order as Agent and the Holders may determine, subject to the provisions of the Debentures. Any and all present and future debts and obligations of the Corporation to any of the undersigned are hereby waived and postponed in favor of, and subordinated to the full payment and performance of, all present and future Obligations of the Corporation to Agent and Holders.

4. SECURITY. The Obligations are secured by a pledge of all intellectual property of Guarantor pursuant to the terms of a Security Agreement, dated as of the date hereof, made by the Corporation and Guarantor in favor of Agent. In addition, all sums at any time to the credit of the undersigned and any property of the undersigned in Agent's or any Holder's possession or in the possession of any bank, financial institution or other entity that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, Agent or any Holder (each such entity, an "Affiliate") shall be deemed held by Agent, such Holder or such

Affiliate, as the case may be, as security for any and all of the undersigned's obligations to Agent and the Holders and to any Affiliate of Agent and Holders, no matter how or when arising and whether under this or any other instrument, agreement or otherwise.

5. REPRESENTATIONS AND WARRANTIES. The undersigned hereby represent and warrant (all of which representations and warranties shall survive until all Obligations are indefeasibly satisfied in full and the Debentures have been irrevocably terminated), that:

(a) CORPORATE STATUS. Each of the undersigned is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization or formation and has full power, authority and legal right to own its property and assets and to transact the business in which it is engaged.

(b) AUTHORITY AND EXECUTION. The undersigned has full power, authority and legal right to execute and deliver, and to perform its obligations under, this Guaranty and has taken all necessary corporate and legal action to authorize the execution, delivery and performance of this Guaranty.

(c) LEGAL, VALID AND BINDING CHARACTER. This Guaranty constitutes the legal, valid and binding obligation of the undersigned enforceable in accordance with its terms, except as enforceability may be limited by applicable Insolvency Law.

(d) VIOLATIONS. The execution, delivery and performance of this Guaranty will not violate any requirement of law applicable to the undersigned or any material contract, agreement or instrument to which the undersigned is a party or by which the undersigned or any property of the undersigned is bound or result in the creation or imposition of any mortgage, lien or other encumbrance other than to Agent and Holders on any of the property or assets of the undersigned pursuant to the provisions of any of the foregoing.

(e) CONSENTS OR APPROVALS. No consent of any other person or entity (including, without limitation, any creditor of the undersigned) and no consent, license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required in connection with the execution, delivery, performance, validity or enforceability of this Guaranty.

(f) LITIGATION. No litigation, arbitration, investigation or administrative proceeding of or before any court, arbitrator or governmental authority, bureau or agency is currently pending or, to the best knowledge of the undersigned, threatened (i) with respect to this Guaranty or any of the transactions contemplated by this Guaranty or (ii) against or affecting the undersigned, or any property or assets of the undersigned, which, if adversely

determined, would have a material adverse effect on the business, operations, assets or condition, financial or otherwise, of the undersigned.

(g) FINANCIAL BENEFIT. The undersigned has derived or expects to derive a financial or other advantage from each and every purchase and issuance of Debentures between the Corporation and the Holders.

6. ACCELERATION. It shall be an event of default hereunder if any Event of Default under the Debentures shall have occurred and be continuing. Upon the occurrence and during the continuance of any event of default, any and all Obligations shall for purposes hereof be deemed due and payable without notice, at Agent's option (or automatically without any action of Agent with respect to any event of default relating to any Insolvency Law), notwithstanding that any such Obligation is not then due and payable by the Corporation.

7. PAYMENTS FROM GUARANTOR. Agent, in its sole and absolute discretion, with or without notice to the undersigned, may apply on account of the Obligations any payment from the undersigned or any other guarantor, or amounts realized from any security for the Obligations, or may deposit any and all such amounts realized in a non-interest bearing cash collateral deposit account to be maintained as security for the Obligations.

8. COSTS. The undersigned shall pay on demand all costs, fees and expenses (including expenses for legal services of every kind) relating or incidental to the enforcement or protection of the rights of Agent and Holders hereunder or under any of the Obligations.

9. NO TERMINATION. This is a continuing irrevocable guaranty and shall remain in full force and effect and be binding upon the undersigned, and the undersigned's successors and assigns, until all of the Obligations have been paid in full and the Debentures have been irrevocably terminated. If any of the present or future Obligations are guarantied by persons, partnerships or corporations in addition to the undersigned, the death, release or discharge in whole or in part or the bankruptcy, merger, consolidation, incorporation, liquidation or dissolution of one or more of them shall not discharge or affect the liabilities of the undersigned under this Guaranty.

10. RECAPTURE. Anything in this Guaranty to the contrary notwithstanding, if Agent or any Holder receives any payment or payments on account of the Obligations guaranteed hereby, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under any Insolvency Law, common law or equitable doctrine, then to the extent of any sum not finally retained by Agent and Holders, the undersigned's obligations to Agent and Holders shall be reinstated and this Guaranty shall remain in full force and effect (or be reinstated) until payment shall have been made to Agent and Holders, which payment shall be due on demand.

11. BOOKS AND RECORDS. The books and records of Agent and Holders showing the account among Agent, Holders and the Corporation shall be admissible in evidence in any action or proceeding, shall be binding upon the undersigned for the purpose of establishing the items therein set forth and shall constitute prima facie proof thereof.

12. NO WAIVER. No failure on the part of Agent or Holders to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by Agent of any right, remedy or power hereunder preclude any other or future exercise of any other legal right, remedy or power. Each and every right, remedy and power

hereby granted to Agent or Holders or allowed it by law or other agreement shall be cumulative and not exclusive of any other, and may be exercised by Agent or Holders at any time and from time to time.

13. WAIVER OF JURY TRIAL. THE UNDERSIGNED DO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR WITH RESPECT TO THIS GUARANTY OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR RELATING OR INCIDENTAL HERETO. THE UNDERSIGNED DO HEREBY CERTIFY THAT NO REPRESENTATIVE OR AGENT OF AGENT OR ANY HOLDER HAS REPRESENTED,

EXPRESSLY OR OTHERWISE, THAT AGENT OR ANY HOLDER WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION.

14. GOVERNING LAW; JURISDICTION; AMENDMENTS. THIS INSTRUMENT CANNOT BE CHANGED OR TERMINATED ORALLY, AND SHALL BE GOVERNED, CONSTRUED AND INTERPRETED AS TO VALIDITY, ENFORCEMENT AND IN ALL OTHER RESPECTS IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. THE UNDERSIGNED EXPRESSLY CONSENT TO THE JURISDICTION AND VENUE OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR ALL PURPOSES IN CONNECTION HEREWITH. ANY JUDICIAL PROCEEDING BY THE UNDERSIGNED AGAINST AGENT OR ANY HOLDER INVOLVING, DIRECTLY OR INDIRECTLY ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED HEREWITH SHALL BE BROUGHT ONLY IN THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK OR THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK. THE UNDERSIGNED FURTHER CONSENT THAT ANY SUMMONS, SUBPOENA OR OTHER PROCESS OR PAPERS (INCLUDING, WITHOUT LIMITATION, ANY NOTICE OR MOTION OR OTHER APPLICATION TO EITHER OF THE AFOREMENTIONED COURTS OR A JUDGE THEREOF) OR ANY NOTICE IN CONNECTION WITH ANY PROCEEDINGS HEREUNDER, MAY BE SERVED INSIDE OR OUTSIDE OF THE STATE OF NEW YORK OR THE SOUTHERN DISTRICT OF NEW YORK BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY PERSONAL SERVICE PROVIDED A REASONABLE TIME FOR APPEARANCE IS PERMITTED, OR IN SUCH OTHER MANNER AS MAY BE PERMISSIBLE UNDER THE RULES OF SAID COURTS. THE UNDERSIGNED WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREON AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM NON CONVENIENS.

15. SEVERABILITY. To the extent permitted by applicable law, any provision of this Guaranty which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

16. AMENDMENTS, WAIVERS. No amendment or waiver of any provision of this Guaranty nor consent to any departure by the undersigned therefrom shall in any event be effective unless the same shall be in writing executed by the undersigned and Agent.

17. NOTICE. All notices, requests and demands to or upon the undersigned shall be given in the manner set forth in the Debentures, as to each Guarantor, at its address set forth on the signature pages hereof, and as to the Holders and the Agent, at their address appearing on the books of the Corporation.

18. SUCCESSORS. Agent and Holders may, from time to time, without notice to the undersigned, sell, assign, transfer or otherwise dispose of all or any part of the Obligations. Agent may, from time to time, without notice to the undersigned, sell, transfer or otherwise dispose of its rights under this Guaranty. In each such event, Agent, its Affiliates and each and every immediate and successive purchaser, assignee, transferee or holder of all or any part of the Obligations shall have the right to enforce this Guaranty, by legal action or otherwise, for its own benefit as fully as if such purchaser, assignee, transferee or holder were herein by name specifically given such right.

19. RELEASE. Nothing except cash payment in full of the Obligations shall release the undersigned from liability under this Guaranty.

IN WITNESS WHEREOF, this Guaranty has been executed by the undersigned this ___ day of ____, 2003.

SPUTTERED FILMS, INC.

By:_____
Name:
Title:

Address:

Sputtered Films, Inc.
320 Nopal Street
Santa Barbara, California 93103

TEGAL GERMANY

By:_____
Name:
Title:

Address:

c/o Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax Number: (707) 765-9311
Email: mparodi@tegal.com

TEGAL JAPAN, INC.

By:_____
Name:
Title:

Address:

c/o Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax Number: (707) 765-9311
Email: mparodi@tegal.com

TEGAL ITALY, SRL

By:_____
Name:
Title:

Address:

c/o Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax Number: (707) 765-9311
Email: MPARODI@TEGAL.COM

In each case with a copy to:

Latham & Watkins LLP
505 Montgomery Street, Suite 1900
San Francisco, California 94111
Attention: Taitt Sato, Esq.
Fax Number: (415) 395-8095
Email: taitt.sato@lw.com

FORM OF LEGAL OPINION

The opinion will be subject to standard qualifications and exceptions, the standard form of Latham & Watkins LLP and review and approval by the firm's opinions committee.

1. The Company is a corporation duly incorporated under the Delaware General Corporation Law with corporate power and authority to enter into the Transaction Documents to which it is a party and to perform its obligations thereunder.

2. Sputtered Films, Inc. is a corporation duly incorporated under the laws of the state of California, with corporate power to execute and deliver the Transaction Documents to which it is a party and to perform its obligations thereunder.

3. Immediately prior to the [First/Second] Closing, the total authorized capital stock of the Company consists of 35,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock.

4. The Securities to be issued and sold by the Company pursuant to the Agreement have been duly authorized by all necessary corporate action on the part of the Company and, when issued to and paid for by you, upon conversion of the Purchased Debentures or exercise of the Purchased Warrants in accordance with the Agreement, the Underlying Shares will be validly issued, fully paid and non-assessable.

5. The execution, delivery and performance of each of the Amendment and the Transaction Documents have been duly authorized by all necessary corporate action of the Company and the Subsidiaries party thereto, and each of the Transaction Documents have been duly executed and delivered by the Company and the Subsidiaries party thereto.

6. Each of the Transaction Documents constitutes a valid and binding obligation of the Company and the applicable Subsidiaries party thereto, enforceable against the Company and the subsidiaries party thereto in accordance with its terms, except as limited by applicable bankruptcy, reorganization, insolvency moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

7. The Company's and each Subsidiary's execution and delivery of, and the consummation by the Company and each Subsidiary of the transactions contemplated thereunder, each of the Amendment and the Transaction Documents on the date hereof do not (i) violate the current Delaware General Corporation Law, (ii) result in the breach or default under any of the Material Agreements or (iii) violate any current federal or New York statute, rule or regulation applicable to the Company or any Subsidiary party to the Transaction Documents, except that we express no opinion regarding the indemnification section of the Registration Rights Agreement.

8. With your consent based solely on a certificate of an officer of the Company as to factual matters, the Company is not, and immediately after giving effect to the sale of the Purchased Debentures and Purchased Warrants in accordance with the Transaction Documents and the application of the proceeds as described in Section 2.17 of the Agreement, will not be required to be registered as an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

9. Assuming that the representations and warranties of the Company and the Investors contained in the Agreement are true and correct, the issuance of the (i) Purchased Debentures, (ii) shares of Common Stock issuable upon conversion of the Purchased Debentures, assuming conversion on the date hereof, (iii) Purchased Warrants and (iv) shares of Common Stock issuable upon exercise of the Purchased Warrants, assuming exercise on the date hereof, upon issuance and delivery and payment therefor in the manner described in the Agreement, are exempt from the registration requirements

of the Securities Act. We express no opinion as to the securities laws of any other jurisdiction or to the effect of subsequent issuances of securities of the Company or transfers of the Securities to the extent that such issuances or transfers may be integrated with the issuance of the Securities under Section 4(2) of, or Rule 502 or Regulation D promulgated under, the Securities Act.

10. The Security Agreement creates a valid security interest in favor of Orin Hirschman as agent for the Investors, in all right title and interest of the Company and the Subsidiaries in the Collateral thereunder to the extent that a security interest therein can be executed under Article 9 of the Uniform Commercial Code of the State of New York (the "Article 9 Collateral"). Upon filing of the attached UCC filings with the Secretary of State of the State of Delaware, the security interest in the Article 9 Collateral identified in the attached UCC filings shall be perfected to the extent that it can be perfected by the filing of a UCC filing with the Secretary of State of Delaware. Upon filing of the attached recordation forms with the United States Patent and Trademark Office and the United States Copyright Office, the security interest in the registered U.S. patents, trademarks, and copyrights identified in the attached recordation forms shall be perfected to the extent that it can be perfected by the filing of a form with the United States Patent and Trademark Office and the United States Copyright Office.

EXHIBIT 8

RISKS RELATED TO THIS OFFERING

SECURITIES PURCHASED IN THIS OFFERING ARE SUBJECT TO RESTRICTIONS WHICH MAY LIMIT YOUR ABILITY TO TRANSFER SUCH SHARES AND LIQUIDATE YOUR INVESTMENT.

In connection with your purchase of Securities in this offering, you will be required to represent and warrant that you:

- are acquiring the Securities for investment and not with a view to distribution or resale;
- understand that you must bear the economic risk of an investment in our securities for an indefinite period of time because the common stock has not been registered with the SEC or any state or other governmental agency, and
- understand and agree that the Securities may not be transferred or sold unless the Securities are registered or an exemption from such registration is available.

You will be prohibited from transferring Securities purchased in this offering if such transfer would violate the Securities Act or any other applicable federal or state securities laws, rules or regulations. You may be prohibited from transferring the Securities purchased in the offering in the event that a registration statement to be filed by us under the Registration Rights Agreement is not declared effective by the SEC. In addition, you may be prevented from transferring such Securities pursuant to such registration statement if there is a delay in achieving the effectiveness of the registration statement, if the SEC imposes a stop order with respect to the registration statement, or we invoke our right to delay or suspend the effectiveness of the registration statement.

THE OFFERING PRICE OF SHARES OF OUR COMMON STOCK SHOULD NOT BE REGARDED AS AN INDICATION OF ANY FUTURE MARKET PRICE OF OUR COMMON STOCK, WHICH COULD DECLINE.

The offering price of shares of our common stock (which underlie the Securities offered hereby) has been determined by us, the Placement Agents and certain Investors based on a number of factors, such as an assessment of our management, our present operations and our earnings prospects, the present state of our development, the general condition of the securities markets at the time of the offering and the price of our common stock on the Nasdaq National Market

at the time of the offering. The price of the shares of our common stock should not be regarded as an indication of any future market price for shares of our common stock.

WE CANNOT ASSURE YOU THAT OUR STOCK PRICE WILL NOT DECLINE.

The market price of our common stock could be subject to significant fluctuations. Among the factors that could affect our stock price are:

- quarterly variations in our operating results;
- changes in revenue or earnings estimates or publication of research reports by analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- general market conditions; and
- domestic and international economic factors unrelated to our performance.

The stock markets in general, and the markets for technology stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In particular, we cannot assure you that you will be able to resell your shares at any particular price, or at all.

SHARES ELIGIBLE FOR SALE IN THE FUTURE COULD NEGATIVELY AFFECT OUR STOCK PRICE.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock or the perception that these sales could occur. This might also make it more difficult for us to raise funds through the issuance of securities. As of June 18, 2003, we had outstanding 16,091,762 shares of common stock of which 12,705,358 shares are freely tradeable. The remaining 3,386,404 shares of common stock outstanding are "restricted securities" as defined in Rule 144. These shares include 642,200 issued to the Clarke Family Trust and 596,327 shares issued to the Carole Clarke 1997 Trust, both in connection with our acquisition of Sputtered Films. These restricted securities may be sold in the future pursuant to registration statements filed with the SEC or without registration under the Securities Act to the extent permitted by Rule 144 or other exemptions under the Securities Act.

As of June 18, 2003, there were an aggregate of 4,945,018 shares of common stock issuable upon exercise of outstanding stock options and warrants, including 3,246,466 shares issuable upon exercise of options outstanding under our option plans and 1,698,552 shares of common stock issuable upon exercise of outstanding warrants (including 537,500 shares issued to Polar Global Technology upon exercise of an outstanding warrant). In addition we have agreed to register for resale the 1,499,987 shares of common stock issued through the Sputtered Films acquisition. We have not entered into any agreements or understanding regarding any future acquisitions and cannot ensure that we will be able to identify or complete any acquisition in the future.

SHARES ELIGIBLE FOR INCLUSION IN THE INVESTORS' REGISTRATION STATEMENT COULD NEGATIVELY AFFECT OUR STOCK PRICE.

Approximately 5,084,956 shares of our common stock will be included in the registration statement to be filed under your Registration Rights Agreement

covering the shares of common stock underlying the Securities. These shares may adversely affect the price of our common stock.

THE SALE OF THE SECURITIES MAY RESULT IN SUBSTANTIAL DEFERRAL OF APPLICATION OF OUR NET OPERATING LOSS

The sale of the Securities may adversely affect the timing of the application of existing net operating losses to future taxable earnings, if any.

Special Note Regarding Forward Looking Statements

These risk factors include or incorporate by reference forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements, which are based on assumptions and describe our future plans, strategies and expectations, are generally identifiable by the use of the words "anticipate," "believe," "estimate," "expect," "intend," "project," or similar expressions. These forward-looking statements are subject to risks, uncertainties and assumptions about us. If one or more of these risks or uncertainties materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirely by the cautionary statements in this paragraph. Certain aspects of the transaction may have tax consequences. Investors must consult their own tax advisors.

SECURITY AGREEMENT

SECURITY AGREEMENT (this "Agreement") dated _____, 2003, made by TEGAL CORPORATION, a Delaware corporation, and the other Grantors listed on the signature pages hereto, each with its principal offices as set forth on the signature pages hereto (the "Grantors"), and ORIN HIRSCHMAN, having an office at 1231 East 10th Street, Brooklyn, New York 11230 ("Secured Party"), as agent for the Holders (the "Holders") of the Debentures (as defined herein).

PRELIMINARY STATEMENT:

Tegal Corporation has issued to the Holders certain convertible debentures dated as of the date hereof (together with any other convertible debentures issued after the date hereof as contemplated in such convertible debentures, collectively, the "Debentures"). The parties hereto desire to provide security for the obligations of Tegal Corporation to the Holders under the Debentures.

NOW, THEREFORE, in consideration of the premises, and in order to induce the Holders to purchase the Debentures, the parties hereby agree as follows:

Section 1. GRANT OF SECURITY. Each Grantor hereby grants to Secured Party, for its benefit and for the ratable benefit of each Holder, a continuing security interest in all of such Grantor's right, title and interest in and to the following, whether now owned or hereafter acquired and wherever located (collectively, the "Collateral"):

(1) any and all copyrights (whether registered or unregistered), copyright rights, copyright applications, copyright registrations, including, without limitation, the registered copyrights and copyright applications shown in the attached EXHIBIT A, and all mask works, mask work applications and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret (collectively the "Copyrights");

(2) any and all trade secrets, know-how, customer lists, franchise, systems, inventions, designs, blueprints, engineering drawings, proprietary products, technology, proprietary rights and any and all intellectual property rights in computer software, computer programs and computer software products, including, without limitation, source code on any proprietary or licensed software (collectively, the "Trade Secrets");

(3) any and all patents and patent applications, including, without limitation, the patents and patent applications shown in the attached EXHIBIT A, and all registrations, applications and recordings thereof, including, without limitation, all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof, and all applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, or any State thereof, or any foreign country (collectively, the "Patents");

(4) any and all trademarks (whether registered or unregistered) and trademark applications, including, without limitation, the registered trademarks and pending applications shown in the attached EXHIBIT A, trade names, fictitious business names, service marks (whether registered or unregistered), service mark applications and all registrations, applications, and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof, or any foreign country, together in each case with the goodwill of the business asociated with such trademarks, provided, however, that the Collateral shall not include any application to register a trademark or servicemark prior to the filing of a verified statement of use with respect thereto (collectively, the "Trademarks");

(5) any and all license agreements with respect to any Copyright, Patent or Trademark (collectively, the "Licenses"); and

(6) All products and proceeds of any and all of the foregoing.

Section 2. SECURITY FOR OBLIGATIONS. This Agreement secures the payment and performance when due of all obligations of each Grantor now or hereafter existing under this Agreement, the Debentures, and, if applicable, such Grantor's Subsidiary Guaranty (as defined in the Debentures) whether for principal, interest, fees, expenses, or otherwise (all such obligations of each Grantor being the "Obligations"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Obligations and would be owed by any Grantor to the Holders under the Debentures or the Subsidiary Guaranty but for the fact that they are unenforceable or not allowable owing to the existence of bankruptcy, reorganization, or similar proceedings involving the Grantor.

Section 3. GRANTORS REMAINS LIABLE. Anything herein to the contrary notwithstanding, the exercise by the Holders or Secured Party of any rights hereunder shall not release any Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral.

Section 4. COLLATERAL ASSIGNMENT OF COLLATERAL.

(1) Concurrently and in connection with the security interest in the Collateral granted by the Grantors to Secured Party (for itself and as agent for the Holders), each Grantor also assigns and conveys to Secured Party all of such Grantor's right, title and interest in, to and under the Collateral, PROVIDED, HOWEVER, that Secured Party (for itself and as agent for the Holders) and each Grantor acknowledge and agree that the interest in the Collateral being assigned hereby shall not be construed as a current assignment, but as a collateral assignment only, in order to secure the Grantors' Obligations.

(2) The assignment and security interest granted hereby (the "Assignment") constitutes a valid security interest in and lien on all of the Collateral subject to no equal or prior lien other than the lien in favor of California Trade and Commerce Agency on the Collateral of Sputtered Films, Inc. (the "Prior Lien")or any subordinate lien other than the lien in favor of Silicon Valley Bank (the "Subordinate Lienholder") with respect to the obligations relating to that certain Loan and Security Agreement dated June 26, 2002 (such lien, the "Subordinate Lien").

(3) Each Grantor authorizes and requests that the Register of Copyrights and the Commissioner of Patents and Trademarks record the Agreement. Without limitation on any other representation or warranty of the Grantors set forth in this Agreement, each Grantor represents, warrants, covenants and agrees as follows:

(a) Performance of this Assignment does not conflict with or result in a breach of any agreement to which such Grantor is party or by which such Grantor is bound, except to the extent that certain intellectual property agreements (the "Limited Agreements") by their terms prohibit the assignment of the rights thereunder to a third party without the licensor's or other party's consent and this Assignment constitutes an assignment, provided that Grantor further represents and warrants that the Limited Agreements do not include any Licenses the loss of which could materially adversely affect the business, operations, results of operations or prospects of the Grantors;

(b) During the term of this Agreement, such Grantor will not transfer or otherwise encumber any interest in the Collateral, except for (I) licenses granted by such Grantor in the ordinary course of business or as set forth in this Agreement, (II) the Prior Lien, and (III) the Subordinate Lien in favor of the Subordinate Lienholder, which lien shall be subordinate to the lien hereof at all times pursuant to the terms of that certain Subordination Agreement, dated as of the date hereof, among Secured Party, Subordinate Lienholder and the Grantors in the form attached hereto as EXHIBIT B (as amended or otherwise modified from time to time in accordance with the terms thereof, the "Lien Subordination Agreement");

(c) Such Grantor shall use commercially reasonable efforts to: (i) protect, defend and maintain the validity and enforceability of the Collateral, (ii) promptly advise Secured Party in writing of material

infringements detected; and (iii) not allow any of the Collateral to be abandoned, forfeited or dedicated to the public without the written consent of the Secured Party, which shall not be unreasonably withheld, unless such Grantor determines that reasonable business practices suggest that abandonment is appropriate.

(d) Such Grantor shall register as such Grantor ordinarily would in the ordinary course of business the most recent version of any of such Grantor's Copyrights, if not so already registered, and shall, from time to time, execute and file such other instruments, and take such further actions as Secured Party may reasonably request from time to time to perfect or continue the perfection of the Secured Party' interest in the Collateral;

(e) Upon making appropriate filings with the United States Patent and Trademark Office, the Registrar of Copyrights and the Delaware Secretary of State, this Assignment creates in favor of the Secured Party a valid and perfected security interest in the Collateral in the United States, securing the payment and performance of the Obligations evidenced by the Debentures.

(f) Such Grantor shall not enter into any agreement that would materially impair or conflict with such Grantor's obligations hereunder without the Secured Party's prior written consent, which consent shall not be unreasonably withheld. Such Grantor shall not permit the inclusion in any material contract to which it becomes a party of any provisions that could or might in any way prevent the creation of a security interest in such Grantor's rights and interests in any property included within the definition of the Collateral acquired under such contracts. Without limitation on the foregoing, such Grantor shall not grant any license or similar right to any of the Collateral other than on an arms length basis on terms no worse than the fair market value of such license or similar right.

(g) Upon any executive officer of such Grantor obtaining actual knowledge thereof, such Grantor will promptly notify the Secured Party in writing of any event that materially adversely affects the value of any Collateral, the ability of such Grantor to dispose of any Collateral or the rights and remedies of the Secured Party in relation thereto, including the levy of any legal process against any of the Collateral.

Section 5. REPRESENTATIONS, WARRANTIES AND COVENANTS. Each Grantor represents, warrants and covenants as follows:

(1) Such Grantor will notify the Secured Party immediately in writing of any change in its name, its jurisdiction of formation or its address.

(2) Such Grantor is the legal and beneficial owner of the Collateral pledged by it free and clear of any Lien except for the security interest created by this Agreement, the Prior Lien and the Subordinate Lien. No effective financing statement or other document similar in effect covering all or any part of the Collateral is on file in any recording office except in respect of this Agreement, the Prior Lien or the Subordinate Lien.

(3) Such Grantor is a corporation duly incorporated, validly existing, and in good standing under the laws of the jurisdiction of its organization; has the corporate power and authority to own its assets and to transact its business and enter into this Agreement, and is duly qualified and in good standing under the laws of each jurisdiction in which qualification is required.

(4) The execution and performance by such Grantor of this Agreement have been duly authorized by all necessary corporate action and do not and will not (a) require any consent or approval of the stockholders of such corporation; (b) contravene such corporation's charter or bylaws; (c) violate any provision of any law, rule, or regulation; or (d) result in a breach of or constitute a default under, any indenture or loan or credit agreement or any other agreement, lease, or instrument to which such corporation is a party or by which it or its properties may be bound or affected.

(5) This Agreement is the legal, valid, and binding obligation of such Grantor, enforceable in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, and other similar laws affecting creditor's rights generally.

(6) Except for the filing of appropriate financing statements under the Uniform Commercial Code, and the recordation of this Agreement in the United States Copyright Office and the United States Patent and Trademark Office and any similar offices in any foreign countries, no consent of any other person or entity and no authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (a) for the grant by such Grantor of the assignment and security interest granted hereby or for the execution, delivery, or performance of this Agreement by such Grantor; (b) for the perfection or maintenance of the assignment, and security interest created hereby (including the priority of such assignment and security interest); or (c) for the exercise by the Secured Party of the rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement.

(7) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(8) Such Grantor shall not pledge, sell, assign, transfer, create or suffer to exist any security interest in or other lien or encumbrance on any part of the Collateral to anyone other than the Secured Party, California Trade and Commerce Agency in respect of the Prior Lienor, subject to the terms of the Lien Subordination Agreement, the Subordinate Lienholder in respect of the Subordinate Lien, without Secured Party's prior written consent. Such Grantor hereby agrees to defend the same against any and all persons whatsoever.

Section 6. FURTHER ASSURANCES.

(1) Each Grantor, at its sole expense, will take any and all actions as may be necessary or appropriate to facilitate the perfection and preservation of the security interest granted herein, or to enable the Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral.

(2) Each Grantor hereby authorizes the Secured Party to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of any Grantor where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(3) Each Grantor will furnish to the Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may reasonably request, all in reasonable detail.

(4) Each Grantor, upon acquiring or organizing a Subsidiary, shall cause such Subsidiary to execute and deliver to the Secured Party a Guaranty Agreement in substantially the same form executed by other Grantors and an agreement to become bound as a Grantor under this Agreement. "Subsidiary" shall mean any corporation or other entity of which stock or other interest having ordinary power to elect a majority of the board of directors (or other governing

body) of such entity (regardless of whether or not at the time stock or interests of any other class or classes of such corporation shall have or may have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by a Grantor or by one or more Subsidiaries.

Section 7. SECURED PARTY APPOINTED ATTORNEY-IN-FACT. Each Grantor hereby irrevocably appoints the Secured Party as such Grantor's attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of such Grantor or otherwise, from time to time in the Secured Party's discretion, to take any action and to execute any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement.

Section 8. THE SECURED PARTY'S DUTIES. The powers conferred on the Secured Party hereunder are solely to protect the Holders' interest in the Collateral and shall not impose any duty upon the Secured Party to exercise any such powers. Except for the safe custody of any Collateral in his possession and the accounting for moneys actually received by him hereunder, the Secured Party shall have no duty as to any Collateral, as to ascertaining or taking action with respect to any Collateral, whether or not the Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. The Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in their possession if such Collateral is accorded treatment substantially equal to that which it accords its own property.

Section 9. EVENTS OF DEFAULT. It shall be an event of default (an "Event of Default") hereunder if any Event of Default under the Debentures occurs and is continuing.

Section 10. REMEDIES. If any Event of Default shall have occurred and be continuing, the Secured Party may exercise in respect of the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code (the "Code") (whether or not the Code applies to the affected Collateral), and also may (a) require each Grantor to, and each Grantor hereby agrees that it will, at its expense and upon request of the Secured Party forthwith, assemble all or part of the Collateral as directed by the Secured Party and make it available to the Secured Party at a place to be designated by the Secured Party which is convenient to the parties and (b) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Secured Party' offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Secured Party may deem commercially reasonable. Each Grantor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days notice to each applicable Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. All proceeds of the sale or other disposition of all or any portion of the Collateral shall be applied FIRST, to the payment of the reasonable fees, costs and expenses of or from time to time incurred by the

Secured Party of the type described in clauses (b) and (c) of Section 11(2) hereof, including, without limitation, reasonable fees and expenses of counsel and any agents or experts, SECOND, to the payment, pro rata by outstanding principal amount of each Debenture, of all Obligations until paid in full, and THIRD, the remainder if any to the applicable Grantor or such other person or persons lawfully entitled thereto.

Section 11. INDEMNITY AND EXPENSES.

(1) Each Grantor agrees to indemnify the Secured Party and the Holders from and against any and all reasonable claims, losses, and liabilities (including, without limitation, reasonable attorney fees) growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses, or liabilities resulting from the gross negligence or willful misconduct of the Holders or Secured Party.

(2) Each Grantor will upon demand pay the amount of any and

all reasonable expenses, including, without limitation, the reasonable fees and expenses of counsel and of any experts and agents, which the Holders or Secured Party may incur in connection with (a) the preparation and administration of this Agreement, the Debentures and the Subsidiary Guaranty; (b) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral; (c) the exercise or enforcement of any of the rights of the Holders or Secured Party hereunder; or (d) the failure by any Grantor to perform or observe any of the provisions hereof.

(3) Each Holder agrees to protect, defend, indemnify and hold harmless the Secured Party from all liabilities, costs, damages or expenses (including without limitation legal fees and expenses) arising out of or in connection with his acts or omissions of any kind in his capacity as Secured Party, unless caused by the gross negligence or willful misconduct of the Secured Party.

Section 12. AMENDMENTS; ETC. No amendment, modification, termination, or waiver of any provision of this Agreement, and no consent to any departure by any Grantor here from, shall in any event be effective unless the same shall be in writing and signed by Secured Party and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 13. ADDRESSES FOR NOTICES. All notices and other communications provided for hereunder shall be given in accordance with the provisions of Section 10 of the Debentures, mailed or transmitted or delivered to the address for each such party set forth above or, as to either party, at such other address as shall be designated by such party in a written notice to the other party.

Section 14. WAIVER OF RIGHTS. Each Grantor waives the right to assert against any of the Holders or Secured Party or other holder any defense, counterclaim or set-off which it could assert against such person in any action brought by such person upon any Grantor's obligations hereunder.

Section 15. CONTINUING SECURITY INTEREST; ASSIGNMENTS UNDER THE DEBENTURES. This Agreement shall create a continuing security interest in the Collateral and shall: (1) remain in full force and effect until the sooner to occur of (a) the payment and performance in full of the Obligations and all other amounts payable under this Agreement, the Debentures and the Subsidiary Guaranty or (b) the conversion of all the Debentures; (2) be binding upon each Grantor, its successors and assigns; and (3) inure to the benefit of, and be enforceable by, the Secured Party and Holders and their respective successors, transferees, and assigns. Without limiting the generality of the foregoing clause (3) the Secured Party and Holders may assign or otherwise transfer all or any portion of their rights and Obligations to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to the respective Secured Party or Holder therein or otherwise. Upon the payment and performance in full of the Obligations and all other amounts payable under this Agreement and the Debentures, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Grantors. Upon any such termination, the Secured Party will, at the Grantors' expense, execute and deliver to the Grantors such documents as the Grantor shall reasonably request to evidence such termination.

Section 16. GOVERNING LAW; TERMS. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of law, except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of New York. Each party hereby irrevocably consents and submits to the jurisdiction of any New York State or United States Federal Court sitting in the State of New York, County of New York, over any action or proceeding arising out of or relating to this Agreement and irrevocably consents to the service of any and all process in any such action or proceeding by registered mail addressed to such party at its address specified herein (or as otherwise noticed to the other party). Each party further waives any objection to venue in New York and any objection to an action or proceeding in such state and county on the basis of FORUM NON CONVENIENS. Each party also waives any

right to trial by jury.

Section 17. SUBMISSION TO JURISDICTION. Each Grantor hereby submits to the non-exclusive jurisdiction of the United States District Court for the Southern District of New York and of any State court sitting in New York County for purposes of all legal proceedings which may arise hereunder or under the Debenture. Each Grantor irrevocably waives to the fullest extent permitted by law, any objection which it may have or hereafter have to the laying of the venue of any such proceeding brought in such a court, and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum and trial by jury. Each Grantor hereby consents to process being served in any such proceeding by the mailing of a copy thereof by registered or certified mail, postage prepaid, to its address specified above or in any other manner permitted by law.

THE SECURED PARTY AND THE GRANTORS HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT. NO OFFICER OF THE SECURED PARTY HAS AUTHORITY TO WAIVE, CONDITION, OR MODIFY THIS PROVISION.

Section 18. ACTION BY SECURED PARTY. The Secured Party shall provide prompt notice of any material action under this Agreement to the Holders.

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IN WITNESS WHEREOF, the Grantors and the Secured Party have caused this Agreement to be duly executed and delivered by their respective duly authorized representatives as of the date first above written.

THE GRANTORS:

TEGAL CORPORATION

By:

Name:
Title:

Address:

Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax Number: (707) 765-9311
Email: mparodi@tegal.com

with a copy to:

Latham & Watkins LLP
505 Montgomery Street, Suite 1900

San Francisco, California 94111
Attention: Taitt Sato, Esq.
Fax Number: (415) 395-8095
Email: taitt.sato@lw.com

SPUTTERED FILMS, INC.

By:

Name:
Title:

Address:

Sputtered Films, Inc.
320 Nopal Street
Santa Barbara, California 93103

TEGAL GERMANY

By:

Name:
Title:

Address:

c/o Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax Number: (707) 765-9311
Email: mparodi@tegal.com

TEGAL JAPAN, INC.

By:

Name:
Title:

Address:

c/o Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax Number: (707) 765-9311
Email: mparodi@tegal.com

TEGAL ITALY, SRL

By:

Name:
Title:

Address:

c/o Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President

Fax Number: (707) 765-9311
Email: mparodi@tegal.com

In each case with a copy to:

Latham & Watkins LLP
505 Montgomery Street, Suite 1900
San Francisco, California 94111
Attention: Taitt Sato, Esq.
Fax Number: (415) 395-8095
Email: taitt.sato@lw.com

THE SECURED PARTY:

- ----------
Orin Hirschman

ACKNOWLEDGEMENT PAGE
SECURITY AGREEMENT
TEGAL CORPORATION
_____, 2003

The undersigned Holder hereby acknowledges the execution of this Agreement by Orin Hirschman as the collateral agent of the Holders, consents to the terms hereof and agrees to be bound by Section 11(3) hereof.

[ ]

By:

Name:
Title:
Address:

Fax:
Email:

EXHIBIT A

[Schedule all patents (by number), patent applications (by number), trademarks, URL's, copyrights, etc.]

EXHIBIT B

FORM OF LIEN SUBORDINATION AGREEMENT

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this "AGREEMENT") is made as of _____, 2003 by and among Tegal Corporation, a Delaware corporation (the "COMPANY") and (ii) the investors listed on EXHIBIT A hereto (collectively the "INVESTORS")

WHEREAS, the Company desires to sell to the Investors, and the Investors desire to purchase up to $7,000,000 in principal amount of 2% Convertible Secured Debentures (the "DEBENTURES") and up to 3,999,940 eight-year warrants, each exercisable to purchase one share of Common Stock (the "WARRANTS"), upon the terms and conditions set forth in that certain Unit Subscription Agreement, dated of even date herewith, between the Company and the Investors (the "UNIT SUBSCRIPTION AGREEMENT"); and

WHEREAS, the terms of the Unit Subscription Agreement provide that it shall be a condition precedent to the closing of the transactions thereunder for the Company and the Investors to execute and deliver this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, the parties hereto hereby agree as follows:

1. DEFINITIONS. The following terms shall have the meanings provided below:

"ADDITIONAL SHARES" shall mean any additional shares of Common Stock which may be issued or become issuable from time to time upon the exercise of a Warrant or the conversion of a Debenture, or a distribution with respect to, or in exchange for, or in replacement of, a Warrant or Debenture, as a result of anti-dilution provisions of a Warrant or Debenture, as a result of the accrual of interest on a Debenture or otherwise.

"BOARD OF DIRECTORS" shall mean the board of directors of the Company.

"COMMON STOCK" shall mean the common stock, $.01 par value per share, of the Company.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended, and all of the rules and regulations promulgated thereunder.

"FIRST CLOSING" shall have the meaning ascribed to such term in the Unit Subscription Agreement.

"MAJORITY HOLDERS" shall mean, at the relevant time of reference thereto, those Investors holding more than fifty percent (50%) of the Registrable Shares held by all of the Investors.

"REGISTRABLE SHARES" shall mean any shares of Common Stock issued or issuable from time to time upon the exercise of a Warrant or the conversion of a Debenture, or a distribution with respect to, or in exchange for, or in replacement of, a Warrant or Debenture, including without limitation Additional Shares and Second Closing Shares.

"RULE 144" shall mean Rule 144 promulgated under the Securities Act and any successor or substitute rule, law or provision.

"SEC" shall mean the Securities and Exchange Commission.

"SECOND CLOSING" shall have the meaning ascribed to such term in the Unit Subscription Agreement.

"SECOND CLOSING SHARES" shall mean any shares of Common Stock issued or issuable from time to time upon the exercise of a Warrant or the

conversion of a Debenture, or a distribution with respect to, or in exchange for, or in replacement of, a Warrant or Debenture, in each case originally issued on the Second Closing Date.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended, and all of the rules and regulations promulgated thereunder.

"TRIGGER DATE" shall mean the date of an event triggering an anti-dilution adjustment (such as an adjustment to the Conversion Price pursuant to the Debentures or the Purchase Price pursuant the Warrants).

2. EFFECTIVENESS. This Agreement shall become effective upon the First Closing.

3. MANDATORY REGISTRATION. (a) No later than thirty (30) days after the First Closing (the "FILING DEADLINE"), the Company will prepare and file with the SEC a registration statement on Form S-3 (or, if Form S-3 is not then available to the Company, on such form of registration statement that is then available to effect a registration of all Registrable Shares) for the purpose of registering under the Securities Act all of the Registrable Shares for resale by, and for the account of, the Investors as selling stockholders thereunder (the "REGISTRATION STATEMENT"). The Registration Statement shall permit the Investors to offer and sell, on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, any or all of the Registrable Shares. Such Registration Statement also shall cover, to the extent allowable under the Securities Act and the rules promulgated thereunder (including Rule 416), such indeterminate number of additional shares of Common Stock resulting from stock splits, stock dividends or similar transactions with respect to the Registrable Shares.

(b) The Company agrees to use commercially reasonable efforts to cause the Registration Statement to become effective as soon as practicable after filing, but in no event later than one hundred twenty (120) days after filing (the "MANDATORY EFFECTIVE DATE").

(c) No later than ten (10) days after the Second Closing Date and each Trigger Date (each an "ADDITIONAL FILING DEADLINE"), the Company shall prepare and file with the SEC one or more Registration Statements on Form S-3 (the "NEW REGISTRATION STATEMENTS") or amend the Registration Statement filed pursuant to clause (b) above, if such Registration Statement has not previously been declared effective (or, if Form S-3 is not then available to the Company,

on such form of registration statement as is then available to effect a registration for resale of such Second Closing Shares or Additional Shares, subject to the Investors' consent) covering the resale of the Second Closing Shares or Additional Shares, as applicable, but only to the extent such Second Closing Shares or Additional Shares are not at the time covered by an effective Registration Statement. Unless otherwise specifically provided herein, the term Registration Statement shall include without limitation any New Registration Statement, as amended from time to time. Such Registration Statement also shall cover, to the extent allowable under the Securities Act and the rules promulgated thereunder (including Rule 416), such indeterminate number of additional shares of Common Stock resulting from stock splits, stock dividends or similar transactions with respect to the Second Closing Shares and Additional Shares. The Company agrees to use commercially reasonable efforts to cause the Registration Statement, as amended from time to time, and each New Registration Statement, as amended from time to time, to become effective as soon as practicable after filing of each amendment and each New Registration Statement, but in no event later than thirty (30) days after filing of each such amendment and each New Registration Statement (each such date, an "ADDITIONAL MANDATORY EFFECTIVE DATE").

(d) The Company shall be required to keep the Registration Statement, as amended, effective until such date that is the earlier of (i) two years after the Second Closing, (ii) the date when all of the Registrable Shares registered thereunder shall have been sold, or (iii) such time as all the Registrable Shares held by the Investors can be sold pursuant to Rule 144(k) and without

compliance with the registration requirements of the Securities Act (such date is referred to herein as the "MANDATORY REGISTRATION TERMINATION DATE"). Thereafter, the Company shall be entitled to withdraw the Registration Statement and the Investors shall have no further right to offer or sell any of the Registrable Shares pursuant to the Registration Statement (or any prospectus relating thereto).

(e) The Company shall not grant any registration rights that are pari passu with or senior to the registration rights of the Investors under this Agreement.

(f) If a Registration Statement covering the Registrable Securities is not filed with the SEC on or prior to the Filing Deadline or any Additional Filing Deadline, the Company will make pro rata payments to each Investor, as liquidated damages and not as a penalty, in an amount equal to 1.5% of the aggregate amount invested by such Investor for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been filed for which no Registration Statement is filed with respect to Registrable Securities.

(g) If (A) a Registration Statement covering the Registrable Securities is not declared effective by the SEC before the Mandatory Effective Date, or (B) a Registration Statement, as amended, or New Registration Statement, as amended, covering Additional Shares or Second Closing Shares is not declared effective by the SEC within thirty (30) days following a Additional Mandatory Effective Date, then the Company will make pro rata payments to each Investor, as liquidated damages and not as a penalty, in an amount equal to 1.5% of the aggregate amount invested by such Investor for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been effective.

(h) If the Investor shall be prohibited from selling Registrable Shares under the Registration Statement as a result of a Suspension of more than forty-five (45) days or Suspensions on more than two (2) occasions of not more than an aggregate of ninety (90) days in any 12-month period, then for each day on which a Suspension is in effect that exceeds the maximum allowed period for a Suspension or Suspensions, but not including any day on which a Suspension is lifted, the Company shall pay the Purchaser, as liquidated damages and not as a penalty, an amount equal to 0.05% of the aggregate amount invested by such Investor for each such day, and such payment shall be made no later than the first business day of the calendar month next succeeding the month in which such day occurs. For purposes of this Section 3(h), a Suspension shall be deemed lifted on the day after notice that the Suspension has been lifted is delivered to the Purchaser pursuant to this Agreement.

(i) Any payments made pursuant to Sections 3(f), (g) or (h) shall be in partial compensation to the Investors, and shall not constitute the Investors' exclusive remedy for such events. Such payments shall be made to each Investor in cash monthly no later than the second business day of the calendar month next succeeding each calendar month in which such obligation to make payments accrues. Any such payments shall not constitute the Investor's exclusive remedy for such events.

4. OBLIGATIONS OF THE COMPANY. In connection with the Company's obligation under Section 3 hereof to file a Registration Statement with the SEC and to use its reasonable efforts to cause the Registration Statement to become effective as soon as practicable after filing, the Company shall, as expeditiously as reasonably possible, subject to Section 9 hereof:

(a) Prepare and file with the SEC such amendments and supplements to the Registration Statement and the prospectus used in connection therewith as may be necessary to keep the Registration Statement effective until the Mandatory Registration Termination Date;

(b) Furnish to the selling Investors such reasonable number of copies of the Registration Statement, prospectus and preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents (including, without limitation, prospectus amendments and supplements as are prepared by the Company in accordance with Section 4(a) above) as the selling Investors may reasonably request, in order to facilitate the public or other

disposition of such selling Investors' Registrable Shares;

(c) Use reasonable efforts to register and qualify the Registrable Shares covered by the Registration Statement under such other securities or Blue Sky laws of all states requiring such securities or Blue Sky registration or qualification, PROVIDED that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions; and

(d) Use reasonable efforts to cause all such Registrable Shares registered hereunder to be listed on each securities exchange (including without limitation any Nasdaq market) on which securities of the same class issued by the Company are then listed.

5. FURNISH INFORMATION. (a) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement that the selling Investors shall

furnish to the Company such information regarding them and the securities held by them as the Company shall reasonably request and as shall be required in order to effect any registration by the Company pursuant to this Agreement.

(b) The Registration Statement will provide for a plan of distribution with respect to the Registrable Shares substantially as follows: The Registrable Shares may be sold from time to time by the Investors, or by pledgees, donees, transferees or other successors in interest. Such sales may be made on one or more exchanges or in the over-the-counter market, or otherwise at prices and at terms then prevailing or at prices related to the then-current market price, or in negotiated transactions. The Registrable Shares may be sold by one or more of the following: (a) a block trade in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (b) purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to the resale registration statement; (c) an exchange distribution in accordance with the rules of such exchange; (d) ordinary brokerage transactions and transactions in which the broker solicits purchasers; and (e) transactions between sellers and purchasers without a broker/dealer. In addition, any securities covered by the Registration Statement which qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to the Registration Statement. From time to time the selling Investors may engage in short sales, short sales versus the box, puts and calls and other transactions in securities of the issuer or derivatives thereof, and may sell and deliver the shares in connection therewith. In effecting sales, brokers or dealers engaged by the selling Investors may arrange for other brokers or dealers to participate. Brokers or dealers will receive commissions or discounts from selling Investors in amounts to be negotiated immediately prior to the sale.

6. EXPENSES OF REGISTRATION. All expenses incurred in connection with the registration of the Registrable Shares pursuant to this Agreement (excluding underwriting, brokerage and other selling commissions and discounts), including without limitation all registration and qualification and filing fees, printing expenses, fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel for the selling Investors selected by the selling Investors, shall be borne by the Company.

7. INDEMNIFICATION. (a) To the extent permitted by law, the Company will indemnify and hold harmless each selling Investor (including the partners or officers, directors and stockholders of such Investor), and each person, if any, who controls such selling Investor within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which they may become subject under the Securities Act, the Exchange Act, and other federal or state securities laws, or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) (i) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in the Registration Statement, in any preliminary prospectus or final prospectus relating thereto or in any amendments or supplements to the Registration Statement or any such preliminary prospectus or final prospectus,

(ii) arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading or (iii) arise out of any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other federal or

state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any other federal or state securities law; and will reimburse such selling Investor, or such officer, director or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the indemnity agreement contained in this Section 7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld or delayed), nor shall the Company be liable in any such case for any such loss, damage, liability or action to the extent that it arises out of or is based upon an untrue statement or alleged untrue statement or omission made in connection with the Registration Statement, any preliminary prospectus or final prospectus relating thereto or any amendments or supplements to the Registration Statement or any such preliminary prospectus or final prospectus, in reliance upon and in conformity with written information furnished expressly for use in connection with the Registration Statement or any such preliminary prospectus or final prospectus by the selling Investors, any broker/dealer acting on their behalf or controlling person with respect to them.

(b) To the extent permitted by law, each selling Investor will severally and not jointly indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement, each person, if any, who controls the Company within the meaning of the Securities Act, or any selling Investors, and all other selling Investors against any losses, claims, damages or liabilities to which the Company or any such director, officer, controlling person or such other selling Investor may become subject to, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in the Registration Statement or any preliminary prospectus or final prospectus, relating thereto or in any amendments or supplements to the Registration Statement or any such preliminary prospectus or final prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent and only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, in any preliminary prospectus or final prospectus relating thereto or in any amendments or supplements to the Registration Statement or any such preliminary prospectus or final prospectus, in reliance upon and in conformity with written information furnished by the selling Investor expressly for use in connection with the Registration Statement, or any preliminary prospectus or final prospectus; and such selling Investor will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, or other selling Investor in connection with investigating or defending any such loss, claim, damage, liability or action, PROVIDED, HOWEVER, that the liability of each selling Investor hereunder (when aggregated with amounts contributed, if any, pursuant to Section 7(d)) shall be limited to the difference (the "Difference") between the amount received by such Investor from the sale of the Registrable Securities pursuant to the Registration Statement and the amount paid by such Investor to the Company for such Registrable Securities pursuant to the Unit Subscription Agreement, and PROVIDED FURTHER, HOWEVER, that the indemnity agreement contained in this Section 7(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of those selling Investor(s) against which the request for indemnity is being made (which consent shall not be unreasonably withheld or delayed).

(c) Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in and, to the extent the indemnifying party desires, jointly with any other indemnifying party similarly noticed, to assume at its expense the defense thereof with counsel mutually satisfactory to the indemnifying parties with the consent of the indemnified party which consent will not be unreasonably withheld, conditioned or delayed. In the event that the indemnifying party assumes any such defense, the indemnified party may participate in such defense with its own counsel and at its own expense, PROVIDED, HOWEVER, that the counsel for the indemnifying party shall act as lead counsel in all matters pertaining to such defense or settlement of such claim and the indemnifying party shall only pay for such indemnified party's reasonable legal fees and expenses for the period prior to the date of its participation in such defense, and PROVIDED FURTHER, HOWEVER, that the indemnified party (together with all indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if the representation of the indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between the indemnified party and any other party represented by such counsel in such proceeding. Notwithstanding the foregoing, the indemnifying party shall not be obligated to pay the fees of more than one separate counsel. The failure to notify an indemnifying party of the commencement of any such action will not relieve such indemnifying party of any liability to the indemnified party under this Section 7 (except to the extent that such failure materially and adversely affects the indemnifying party's ability to defend such action), nor shall the omission so to notify an indemnifying party relieve such indemnifying party of any liability which it may have to any indemnified party otherwise other than under this Section 7. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation and otherwise in form and substance reasonably satisfactory to the indemnified party.

(d) If the indemnification provided in this Section 7 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that shall have resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations; provided that in no event shall any contribution by an Investor under this Section 7(d), when aggregated with amounts paid, if any, pursuant to Section 7(b), exceed the Difference. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the

indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

(e) The obligations of the Company and Investors under this Section 7 shall survive the completion of any offering of Registrable Shares in a Registration Statement under Section 3, and otherwise.

(f) Notwithstanding anything to the contrary herein, the indemnifying party shall not be entitled to settle any claim, suit or proceeding without the written consent of the indemnified party unless in connection with such settlement the indemnified party receives an unconditional release with respect

to the subject matter of such claim, suit or proceeding.

8. REPORTS UNDER THE EXCHANGE ACT. With a view to making available to the Investors the benefits of Rule 144 and any other rule or regulation of the SEC that may at any time permit the Investors to sell the Registrable Shares to the public without registration, the Company agrees to use reasonable efforts: (i) to make and keep public information available, as those terms are understood and defined in the General Instructions to Form S-3, or any successor or substitute form, and in Rule 144, (ii) to file with the SEC in a timely manner all reports and other documents required to be filed by an issuer of securities registered under the Securities Act or the Exchange Act and (iii) undertake any additional actions reasonably necessary to maintain the availability of the Registration Statement or the use of Rule 144.

9. SELLING PROCEDURES. Any sale of Registrable Shares pursuant to the registration statement filed in accordance with Section 3 hereof shall be subject to the following conditions and procedures:

(a) Updating the Prospectus.

(i) If the Company informs the selling Investor that the Registration Statement or final prospectus then on file with the SEC is not current or otherwise does not comply with the Securities Act, the Company shall use its best efforts to provide to the selling Investor a current prospectus that complies with the Securities Act as soon as practicable, but in no event later than three (3) business days after delivery of such notice. The Company's obligation to update the Registration Statement or final prospectus under this Section 9(a)(i) shall not be subject to the limitations of Section 9(a)(ii) or (c) below.

(ii) If the Company requires more than three (3) business days to update the prospectus under Section 9(a)(i) above, the Company shall have the right to delay the preparation of a current prospectus that complies with the Securities Act without explanation to such Investor, subject to the limitations set forth in Section 9(c) below, for a period of not more than forty-five (45) days (or two periods which total not more than ninety (90) days in the aggregate) during any twelve-month period.

(b) GENERAL. Notwithstanding the foregoing, upon receipt of any notice from the Company of (i) any request by the SEC or any other federal or state governmental authority during the period of effectiveness of the Registration Statement for amendments or supplements to the Registration Statement or related prospectus or for additional information relating to the Registration Statement, (ii) the issuance by the SEC or any other federal or

state governmental authority of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose, (iii) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, (iv) the happening of any event which makes any statement made in the Registration Statement or related prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or which requires the making of any changes in the Registration Statement or prospectus so that, in the case of the Registration Statement, it will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the prospectus, it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (v) that, in the judgment of the Company's Board of Directors, it is advisable to suspend use of the prospectus for a discrete period of time due to pending corporate developments, public filings with the Commission or that there exists material nonpublic information about the Company that the Board of Directors, acting in good faith, determines not to disclose in a registration statement, then the Company may suspend use of the prospectus, in which case the Company shall promptly so notify each Investor and each Investor shall not dispose of Registrable Shares covered by the Registration Statement or prospectus until

copies of a supplemented or amended prospectus are distributed to the Investors or until the Investors are advised in writing by the Company that the use of the applicable prospectus may be resumed; PROVIDED, however, that, notwithstanding the foregoing, the Company may suspend use of the prospectus pursuant to Sections 9(a)(ii), 9(b)(iv) and 9(b)(v), and an Investor may be prohibited from selling or otherwise disposing of the Registrable Shares covered by the Registration Statement or prospectus, on NOT MORE than two occasions (each a "SUSPENSION") in total during any twelve-month period and for NO MORE than ninety (90) days in the aggregate during any such twelve-month period. The Company shall use its best efforts to ensure the use of the prospectus may be resumed as soon as practicable. The Company shall use its best efforts to obtain the withdrawal of any order suspending the effectiveness of the Registration Statement, or the lifting of any suspension of the qualification (or exemption from qualification) of any of the securities for sale in any jurisdiction, at the earliest practicable moment. The Company shall, upon the occurrence of any event contemplated by clause (iv), prepare a supplement or post-effective amendment to the Registration Statement or a supplement to the related prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Shares being sold thereunder, such prospectus will not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

10. ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns. In addition, and whether or not any express assignment shall have been made, the provisions of this Agreement which are for the benefit of the Investors shall also be for the benefit of and enforceable by any subsequent holder of any Registrable Securities who has executed a copy of this Agreement or otherwise indicated its agreement to be bound hereby. Without limitation on

the Investors' rights to transfer Registrable Securities, the Company acknowledges that any Investor may, at any time, transfer any of the Registrable Securities which they may own, beneficially or of record, to (a) their affiliates, or (b) their partner(s), investor(s), security holder(s) or beneficial holder(s) pursuant to their organization documents or other agreements, and that, upon the consummation of any such transfer, the provisions of this Agreement shall be binding upon and inure to the benefit of each transferee of such Registrable Securities.

11. ENTIRE AGREEMENT. This Agreement (including the exhibits hereto) constitutes and contains the entire agreement and understanding of the parties with respect to the subject matter hereof, and it also supersedes any and all prior negotiations, correspondence, agreements or understandings with respect to the subject matter hereof.

12. MISCELLANEOUS.

(a) AMENDMENTS. This Agreement may not be amended, modified or terminated, and no rights or provisions may be waived, except with the written consent of the Majority Holders and the Company.

(b) GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York. Each party hereby irrevocably consents and submits to the jurisdiction of any New York State or United States Federal Court sitting in the State of New York, County of New York, over any action or proceeding arising out of or relating to this Agreement and irrevocably consents to the service of any and all process in any such action or proceeding by registered mail addressed to such party at its address specified herein (or as otherwise noticed to the other party). Each party further waives any objection to venue in New York and any objection to an action or proceeding in such state and county on the basis of FORUM NON CONVENIENS. Each party also waives any right to trial by jury.

(c) SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors or assigns. This Agreement shall also be

binding upon and inure to the benefit of any transferee of any of the Registrable Shares. Notwithstanding anything in this Agreement to the contrary, if at any time any Investor shall cease to own any Registrable Shares, all of such Investor's rights under this Agreement shall immediately terminate.

(d) NOTICES

(i) Any notices, reports or other correspondence (hereinafter collectively referred to as "CORRESPONDENCE") required or permitted to be given hereunder shall be sent by mail, courier (overnight or same day) or fax or delivered by hand to the party to whom such correspondence is required or permitted to be given hereunder (except that notices of Suspensions or stop orders must be made by fax). The date of giving any notice shall be the date of its actual receipt.

(ii) All correspondence to the Company shall be addressed as follows:

Tegal Corporation
2201 South McDowell Boulevard
Petaluma, California 94954
Attention: President
Fax number: (707) 765-9311
E-mail: mparodi@tegal.com

with a copy to:

Latham & Watkins LLP
505 Montgomery Street, Suite 1900
San Francisco, CA 94111
Attention: Taitt Sato, Esq.
Fax number: (415) 395-8095
Email: taitt.sato@lw.com

(iii) All correspondence to any Investor shall be sent to the most recent address furnished by the Investor to the Company.

(iv) Any Investor may change the address to which correspondence to it is to be addressed by notification as provided for herein.

(e) INJUNCTIVE RELIEF. The parties acknowledge and agree that in the event of any breach of this Agreement, remedies at law may be inadequate, and each of the parties hereto shall be entitled to seek specific performance of the obligations of the other parties hereto and such appropriate injunctive relief as may be granted by a court of competent jurisdiction.

(f) ATTORNEY'S FEES. If any action at law or in equity is necessary to enforce or interpret any of the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

(g) SEVERABILITY. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, such provision shall be replaced with a provision that accomplishes, to the extent possible, the original business purpose of such provision in a valid and enforceable manner, and the balance of the Agreement shall be interpreted as if such provision were so modified and shall be enforceable in accordance with its terms.

(h) AGGREGATION OF SHARES. Registrable Shares held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

(i) COUNTERPARTS. This Agreement may be executed in a number of counterparts, any of which together shall for all purposes constitute one Agreement, binding on all the parties hereto notwithstanding that all such parties have not signed the same counterpart.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement as of the date and year first above written.

TEGAL CORPORATION

By:

Name:
Title:

INVESTOR

[ ]

By:

Name:
Title:

[SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT]

EXHIBIT A

SCHEDULE OF INVESTORS

Orin Hirschman
1231 East 10th Street
Brooklyn, NY 11230

- ---
[Address]

- ---
[Address]

- ---
[Address]

Exhibit 4.4

THIS DEBENTURE HAS NOT BEEN REGISTERED UNDER THE PROVISIONS OF THE SECURITIES ACT OF 1933 OR UNDER ANY STATE SECURITIES LAWS AND IS TRANSFERABLE ONLY IN COMPLIANCE WITH THE PROVISIONS OF SUCH LAWS

2% CONVERTIBLE SECURED DEBENTURE DUE JUNE __, 2011

$_____ June 30, 2003

SECTION 1. GENERAL. Tegal Corporation, for value received, hereby promises to pay to , the registered Holder hereof, the principal amount of Dollars ($) in such coin or currency of the United States of America as at the time of payment shall be legal tender therein for the payment of public and private debts, and to pay interest on the principal amount outstanding under this Debenture from this date, at the rate of two percent (2%) per annum, quarter-annually on the last day of September and December, 2003 and the last day of March, June, September and December in each succeeding year, payable (i) in cash until receipt of the Stockholder Approval (as defined below) and (ii) in kind by issuance of additional Debentures in the amount of such interest, until all the obligations under this Debenture are paid in full; provided that in the event the Stockholder Approval is obtained prior to any payment in cash of interest, such interest shall be payable in kind as provided in clause (ii). All payments of principal and interest on this Debenture shall be paid to the registered Holder hereof as shown in the Corporation's records, without presentment or demand. To the extent not sooner paid, all accrued and outstanding principal and interest hereunder shall be due and payable on June __, 2011. Interest hereon for any period other than a full year shall be computed on the basis of the number of days elapsed over a 365-day year.

SECTION 2. DEFINITIONS. As used herein, the following terms have the following respective meanings:

"Common Stock" shall mean all stock of any class or classes (however designated) of the Corporation, authorized upon the date hereof or thereafter the holders of which shall have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and shall include, without limiting the foregoing, the Common Stock, $.01 par value, of the Corporation authorized as of the date of issuance hereof.

"Corporation" shall mean Tegal Corporation, a Delaware corporation, the issuer of this Debenture, and shall also mean any successor corporation. The term "corporation" shall include an association, joint stock company, business trust, limited liability company or other similar organization.

"Debenture" refers to this Debenture. Such term also refers to any debenture executed and delivered by the Corporation in exchange or replacement pursuant to Section 10 hereof. This Debenture together with any other 2% Convertible Secured Debentures due June __, 2011, issued by the Corporation in connection with Units described in and offered pursuant to its Unit Subscription Agreement dated June 30, 2003 (the "Subscription Agreement") are collectively called the "Debentures." The Debentures were issued as part of Units including the Corporation's warrants to purchase certain shares of Common Stock (the "Warrants").

"Excluded Stock" shall mean shares of Common Stock issued by the Corporation (i) reserved for employees or consultants (up to the available incentive pool), (ii) to bona fide leasing companies, strategic partners, or major lenders, (iii) as the purchase price in a bona fide acquisition or merger (including reasonable fees paid in connection therewith) or (iv) upon issuance,

conversion or exercise of the Debentures or Warrants.

"Fair Market Value" shall mean the fair market value of assets or securities as reasonably determined by the Board of Directors of the Corporation in good faith in accordance with generally accepted accounting principles.

"Holder" shall mean the person who shall at the time be the registered Holder of this Debenture.

The term "person" shall mean an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any department, agency or political subdivision thereof.

The term "Stockholder Approval" means the approval of the stockholders of the Company for the issuance of all the Debentures as required by the applicable rules of The Nasdaq Stock Market.

"Subsidiary" shall mean any corporation of which stock or other interest having ordinary power to elect a majority of the board of directors (or other governing body) of such entity (regardless of whether or not at the time stock or interests of any other class or classes of such corporation shall have or may have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by the Corporation or by one or more Subsidiaries.

SECTION 3. REGISTERED HOLDERS. The Corporation may deem and treat the registered Holder of this Debenture as the absolute owner of this Debenture for the purpose of receiving payment hereon or on account hereof and for all other purposes, and the Corporation shall not be affected by any notice to the contrary.

SECTION 4. PREPAYMENT. This Debenture may not be prepaid.

SECTION 5. COLLATERAL; HOLDER'S REPRESENTATIVE.

5.1 In order to secure the payment and performance of all of the Corporation's obligations, warranties and agreements in the Debentures, the Corporation has executed and

delivered a Security Agreement, dated June 30, 2003 (as amended, supplemented or otherwise modified from time to time, the "Security Agreement"), granting Orin Hirschman as collateral agent for the Holders of the Debentures, certain liens and rights relating to the "Collateral" (as defined in such Security Agreement). All provisions of the Security Agreement are hereby incorporated into and made a part of this Debenture. The Corporation will furnish to any Holder of a Debenture a true and complete copy of the Security Agreement without charge to such Holder.

5.2 Notwithstanding any contrary or inconsistent provision contained in this Debenture or any other document executed by the Corporation in connection with it:

(a) The following rights and remedies (the "Majority's Remedies") under this Debenture and/or the Security Agreement shall be exercisable only upon the joint action of the Holders of a majority of the principal amount of all Debentures then outstanding (the "Majority in Interest"):

(i) the right to accelerate the maturity of a Debenture upon an Event of Default; and

(ii) the right to enforce, by legal proceedings or otherwise, any right or remedy relating to the Collateral.

(b) Each Holder of Debentures, by such Holder's acceptance hereof, appoints Orin Hirschman to serve as such Holder's collateral agent under the Security Agreement (together with any successor appointed by the Majority in Interest, the "Holders' Representative") until his resignation, disability, death, or removal by written action of the Majority in Interest, and appoints the Majority in Interest and the Holders' Representative as such Holder's

attorney and agent authorized to take any and all actions necessary or appropriate to exercise (or refrain from exercising) the Majority's Remedies. This power of attorney is irrevocable and coupled with an interest, and each Holder hereby ratifies and approves all acts of the Majority in Interest and/or the Holders' Representative permitted by this Section. With respect to any actions taken or omitted to be taken by the Holders' Representative in connection with this Debenture, the Security Agreement, and/or the Collateral, each Holder of Debentures, by such Holder's acceptance hereof, agrees to protect, defend, indemnify and hold harmless the Holders' Representative from all liabilities, costs, damages or expenses (including without limitation legal fees and expenses) arising out or in connection with his acts or omissions of any kind in his capacity as Holder's Representative, unless caused by the willful misconduct of the Holders' Representative. Upon the resignation, disability or death of the Holders' Representative, the Majority in Interest shall appoint a new Holders' Representative. If the Majority in Interest is unable to agree upon a new Holders' Representative, within thirty (30) days of such resignation, disability or death, the new Holders' Representative shall be appointed by a court of competent jurisdiction.

5.3 No Holder(s) of any Debenture(s) shall have any right to exercise any of the Majority's Remedies individually or solely for such Holder(s), and the Majority's Remedies shall be exercised only by Holders of Debentures constituting a Majority in Interest and for the

benefit of the Holders of all outstanding Debentures; provided, however, that the Holder of this Debenture shall have the right, which is absolute and unconditional, to receive payment of the principal of and interest on this Debenture when due and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the express written consent of the Holder.

5.4 Any recoveries and proceeds realized from the Collateral or otherwise upon exercise of the Majority's Remedies shall be distributed first to repay the actual and reasonable expense (including without limitation legal fees and expenses) incurred to collect such recovery or proceeds and then to the Holders of all Debentures then outstanding pro rata in proportion to the principal amounts of Debentures held by each Holder.

SECTION 6. CONVERSION OF DEBENTURE; ISSUANCE OF CERTAIN SECURITIES

6.1 RIGHTS AND OBLIGATIONS TO CONVERT. Subject to and upon compliance with the provisions hereof, the Holder of this Debenture shall have the right, at such Holder's option, at any time or from time to time prior to the date this Debenture is paid upon maturity, acceleration or prepayment under Section 4 above, to convert all or any part (provided, however, that the minimum conversion amount shall be $10,000.00 in principal amount of Debentures, plus accrued interest) of the unpaid obligations of the Corporation under this Debenture including the principal amount hereof, accrued interest and interest paid in kind into Common Stock, at the price of $.35 principal amount of Debenture per share of Common Stock, or in case an adjustment of such price has taken place pursuant to the further provisions of this Section 6, then at the price as last adjusted and in effect on the date this Debenture or portion hereof is surrendered for conversion (such price or such price as last adjusted, as the case may be, is called the "Conversion Price").

6.2 EXERCISE OF CONVERSION PRIVILEGE. In order to exercise the conversion privilege, the Holder of this Debenture shall surrender it to the Corporation at the principal executive offices of the Corporation, accompanied by written notice to the Corporation that the Holder elects to convert this Debenture, or if less than the entire unpaid principal amount hereof is to be converted, the portion hereof to be converted, and, if requested by the Corporation, accompanied by a duly executed instrument of transfer. Such notice shall also state the name or names (with address or addresses) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion (the "Conversion Stock") shall be issued. The term "Conversion Stock," as used herein, shall also include shares of Common Stock issued upon conversion of this Debenture. As soon as practicable after the receipt of such documents, the Corporation shall issue and shall deliver at said offices to the converting Holder of this Debenture, or on such Holder's written order, a certificate or certificates for the number of full shares of Conversion

Stock issuable upon the conversion of this Debenture (or portion hereof) and provision shall be made for any fractions of a share as provided in Section 6.3 below. Such conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the documents deliverable upon conversion of this Debenture are delivered to the Corporation. At such time the rights of the Holder of this Debenture as such Holder shall cease and the person or persons in whose names any certificate or certificates for shares of

Conversion Stock shall be issuable upon such conversion shall be deemed to have become the Holder or Holders of record of the shares of Conversion Stock represented thereby. Upon conversion the Corporation shall execute and deliver to or to the order of the Holder hereof at its principal executive offices, at the expense of the Corporation, a new Debenture which shall be in a principal amount equal to the then outstanding principal amount of the Debenture, giving full effect to all accruals or payment in kind of interest, prepayments and conversions, and shall be dated and bear interest from the date to which interest shall have been paid on such unconverted portion of this Debenture.

6.3 ADJUSTMENT FOR FRACTIONAL SHARES. No fractional shares of Conversion Stock or scrip shall be issued upon conversion of Debentures. Any fractional shares of Conversion Stock less than one-half shall be disregarded, and fractional interests of one-half or more of a share of Conversion Stock shall be rounded up to a full share.

6.4 ADJUSTMENT OF CONVERSION PRICE.

(a) The Conversion Price shall be subject to adjustment from time to time as follows:

(i) If the number of shares of Common Stock outstanding at any time after the date hereof is increased by a stock dividend or other distribution of securities to the Corporation's stockholders without consideration (other than a distribution of rights to purchase securities for cash) payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, then, immediately following the record date fixed for such dividend and others distribution the Conversion Price shall be appropriately adjusted so that the number of shares of Common Stock issuable on conversion of this Debenture shall be increased and the Conversion Price decreased in proportion to such increase of outstanding shares.

(ii) If the number of shares of Common Stock outstanding at any time after the date hereof is decreased by a combination of the outstanding shares of Common Stock, then, immediately following the record date for such combination, the number of shares of Conversion Stock issuable upon conversion of this Debenture and the Conversion Price shall be appropriately adjusted so that the number of shares of Common Stock issuable on conversion of this Debenture shall be decreased and the Conversion Price shall be increased in proportion to such decrease in outstanding shares.

(iii) If any consolidation or merger of the Corporation with or into another entity, or the sale of all or substantially all of its assets to another entity shall be effected, or in the case of any capital reorganization or reclassification of the capital stock of the Corporation, then, as a condition of such consolidation, merger or sale, reorganization or reclassification, lawful and adequate provision shall be made whereby each Holder of Debentures shall thereafter have the right to receive, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock of the Corporation immediately theretofore receivable upon the conversion of such Debentures, such shares of

stock, securities, interests or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of shares of Common Stock immediately theretofore so receivable by such Holder had such consolidation, merger, sale, reorganization or reclassification not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of such Holder to the end that the provisions hereof (including without limitation provisions for adjustment of the Conversion Price) shall thereafter be applicable, as nearly as may be in relation to any shares of stock, securities, interests or assets thereafter deliverable upon the exercise of such conversion rights.

(iv) Other than as set forth in Section 6.4 (a)(i), (ii) or (iii), if, after receipt of the Stockholder Approval, the Corporation shall issue any Common Stock other than Excluded Stock for a consideration per share less than the Conversion Price in effect immediately prior to the issuance of such Common Stock, the Conversion Price in effect immediately prior to each issuance shall forthwith be reduced to a new Conversion Price determined by dividing (x) the sum of (I) the consideration received by the Corporation in such issue less (II) the Fair Market Value of any securities or other assets transferred by the Corporation in units or otherwise together with such Common Stock ("Additional Assets"), by (y) the number of shares of Common Stock (not including shares issuable upon conversion or exercise of Additional Assets) issued, and the number of shares of Common Stock which are obtainable upon conversion of this Debenture shall be increased to a new number of shares determined by dividing the unpaid principal amount outstanding under this Debenture by the new Conversion Price. For the purpose of any adjustment of the Conversion Price pursuant to this clause (iv), the following provisions shall be applicable:

(1) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor after deducting therefrom any discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance of sale thereof.

(2) In the case of the issuance of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the Fair Market Value thereof.

(3) In the case of the issuance, at any time after the close of business on the date of the first issuance of Debentures of (i) options to purchase or rights to subscribe for Common Stock, (ii) securities by their terms convertible into or exchangeable for Common Stock or (iii) options to purchase or rights to subscribe for such convertible or exchangeable securities (not including Additional Assets, collectively, the "Convertible Securities"):

(A) the aggregate maximum number of shares of Common Stock deliverable upon exercise of such Convertible Securities shall be deemed to have been issued at the time such Convertible Securities were issued and for a consideration equal to the consideration (determined in the manner provided in subdivisions (1) and (2) above) for such Convertible Securities plus the minimum purchase price provided in such Convertible Securities for the Common Stock covered thereby;

(B) the aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such Convertible Securities or upon the exercise of options to purchase or rights to subscribe for such Convertible Securities and the subsequent conversion or exchange thereof shall be deemed to have been issued at the time such Convertible Securities and for a consideration equal to the consideration received by the Corporation for any such Convertible Securities (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such Convertible Securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subdivisions (1) and (2) above);

(C) on any change in the number of shares of Common Stock deliverable upon exercise of any such Convertible Securities or conversion of or exchange for such Convertible Securities, other than a change resulting from the bona fide anti-dilution provisions of such Convertible Securities, the Conversion Price shall forthwith be readjusted to the Conversion Price which would have obtained had the adjustment made upon the issuance of (x) such Convertible Securities not been exercised, converted or exchanged prior to such change or (y) the Convertible Securities related to such Convertible Securities not converted or exchanged prior to such change, as the case may be, been made upon the basis of such change; and

(D) on the expiration or termination of any such Convertible Securities, and provided that none of such rights have been exercised, the Conversion Price shall forthwith be readjusted to the Conversion Price which would have obtained had the adjustment made upon the issuance of such

Convertible Securities or options or rights related to such Convertible Securities, as the case may be, been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such Convertible Securities or upon the exercise of the options or rights related to such convertible or exchangeable securities as the case may be.

(v) All calculations under this paragraph (a) shall be made to the nearest cent or to the nearest one-hundredth (1/100) of a share, or one cent ($.01), as the case may be.

(b) Whenever the Conversion Price shall be adjusted as provided in paragraph (a) of this Section 6.4, the Corporation shall forthwith file, at the then principal office of the Corporation or at such other place as may be designated by the Corporation, a statement signed by the President and Treasurer, showing in detail the facts requiring such adjustment and the Conversion Price that shall be in effect after such adjustment. The Corporation shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Holder at such Holder's address appearing on the Corporation's records.

6.5 RIGHTS RELATING TO CONVERSION.

(a) The Corporation shall pay all documentary, stamp or other transactional taxes attributable to the issuance or delivery of Conversion Stock of the Corporation upon conversion of this Debenture; PROVIDED, HOWEVER, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares in a name other than that of the Holder of the Debenture in respect of which such shares are being issued if such taxes would not be due if such shares were issued or delivered to such Holder.

(b) The Corporation shall reserve, free from pre-emptive rights, out of authorized but unissued shares of its capital stock, solely for the purpose of effecting the conversion of this Debenture, sufficient shares of Conversion Stock to provide for the conversion of this Debenture.

(c) All shares of Conversion Stock which may be issued upon conversion of this Debenture will, upon issuance by the Corporation, be validly issued, fully paid and non-assessable and free from all taxes, liens and charges with respect to the issuance thereof.

(d) By such Holder's presentment of this Debenture for conversion into Common Stock under this Section 6, the Holder hereof shall be deemed to:

(i) represent and warrant to the Corporation that such Holder has full right and authority to exercise such conversion privilege and to receive the shares of Conversion Stock, without resulting in a violation, breach or default (with the giving of notice, the passage of time, or otherwise) under any law, regulation, order, judgment, writ or contract (including but not limited to a pledge agreement or other agreement creating a lien or adverse interest in this Debenture or any shares of Conversion Stock) that is applicable to such Holder, this Debenture or any Conversion Stock; and

(ii) agree to protect, defend and indemnify the Corporation against any losses, judgments, damages or expenses (including attorneys' fees) incurred in connection with any breach of or inaccuracy in the representations and warranties of (i) above.

(e) Until such shares have been registered as provided in Section 8 below, any and all shares of Conversion Stock issued pursuant to a conversion of this Debenture shall bear a legend reflecting that such shares of Conversion Stock have not been registered under the Securities Act of 1933, as amended, or under any state security law, and cannot be transferred by sale, pledge or otherwise, except in compliance with such securities laws and all regulations thereunder. As a condition to the issuance of Conversion Stock, the Holder hereof requesting to so convert this Debenture shall execute appropriate investment letters and other documents as may be reasonably required by the Corporation and its counsel to assure that the shares of Conversion Stock are issued only in compliance with the applicable securities laws.

6.6. ISSUANCE OF CERTAIN SECURITIES. The Corporation shall not issue

any (a) Convertible Securities or similar securities that contain a provision that provides for any change or determination of the applicable conversion price, conversion rate, or exercise price (or a similar provision which might have a similar effect) based on any determination of the market price or value of the Corporation's securities or any other market based or contingent standard,

(b) any preferred stock, debt instruments or similar securities or investment instruments providing for (i) preferences or other payments substantially in excess of the original investment by purchasers thereof or (ii) dividends, interest or similar payments other than dividends, interest or similar payments computed on an annual basis and not in excess, directly or indirectly, of a rate equal to twice the interest rate on 10 year US Treasury Notes or (c) prior to the receipt of the Stockholder Approval, any Common Stock, Convertible Securities, options or other rights for consideration less than the Purchase Price (as defined in the Warrants) or take any other action which would have the effect of triggering an adjustment of the Purchase Price as provided in Section 6.4(a)(i), (ii) or (iii) above.

SECTION 7. TRANSFER OF DEBENTURES. No interest in this Debenture shall be transferable, except on the books and records of the Corporation. As conditions to any such transfer, the Holder desiring to effect such transfer shall give prior written notice thereof to the Corporation, and shall surrender this Debenture to the Corporation at its principal executive offices together with proper written instruments of transfer. The Holder of this Debenture agrees that the Corporation shall not give effect to any transfer of this Debenture, unless in the opinion of the Corporation's counsel, such transfer may be made in compliance with all applicable Federal and State securities laws and regulations.

SECTION 8. REGISTRATION RIGHTS. The record owners of the Debentures and any shares of Common Stock issued upon conversion thereof shall have the right to registration on a general form of registration under the Securities Act of all such shares pursuant to the terms of the Registration Rights Agreement entered into among the Holders and the Corporation on the date of initial issuance of the Debentures.

SECTION 9. EVENTS OF DEFAULT.

9.1 Definitions and Effect. In case one or more of the following "Events of Default" shall have occurred and be continuing:

(a) default in the payment of interest upon this or any other of the Debentures as and when the same shall become due and payable, and continuance of such default for a period of thirty (30) days;

(b) default in the payment of the principal of this or any other of the Debentures as, if and when the same shall become due and payable;

(c) failure on the part of the Corporation duly to observe or perform any other of the material covenants or agreements on the part of the Corporation in this Debenture or in the Subscription Agreement or the Security Agreement for a period of thirty (30) days after the occurrence, or any representation or warranty on the part of the Corporation contained in the Subscription Agreement or the Security Agreement shall be inaccurate in any material respect;

(d) the Security Agreement shall cease at any time to constitute a valid, perfected, first priority lien on, security interest in or collateral assignment of any material

portion of the Collateral thereunder, subject only to the Prior Lien (as defined in the Security Agreement);

(e) the Corporation or any of its Subsidiaries shall have admitted in writing its inability to pay its debts as they mature, or shall have made an assignment for the benefit of creditors, or shall have been adjudicated bankrupt;

(f) a trustee or receiver of the Corporation or any of its Subsidiaries, or of any substantial part of the assets of the Corporation or any of its Subsidiaries, shall have been appointed and, if appointed in a proceeding brought against the Corporation or any of its Subsidiaries, the Corporation or any of its Subsidiaries by any action or failure to act shall have indicated its approval of, consent to or acquiescence in such appointment, or, within sixty (60) days after such appointment, such appointment shall not have been vacated or stayed on appeal or otherwise, or shall not otherwise have ceased to continue in effect;

(g) proceedings involving the Corporation or any of its Subsidiaries shall have been commenced by or against the Corporation or such Subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law or statute of the federal government, or any state government, and, if such proceedings shall have been instituted against the Corporation or any of its Subsidiaries, or the Corporation or any of its Subsidiaries by any action or failure to act shall have indicated its approval of, consent to, or acquiescence therein, or an order shall have been entered approving the petition in such proceedings, and within sixty (60) days after the entry thereof, such order shall not have been vacated or stayed on appeal or otherwise, or shall not otherwise have ceased to continue in effect; or

(h) a default by any of the Subsidiaries shall have occurred under any of the Guaranty Agreements executed and delivered by such Subsidiary on the date of initial issuance of the Debentures.

Then, in the case of an Event of Default described in clauses (e), (f) or (g), automatically without any further action or notice, or with respect to any other Event of Default, upon declaration of the Holders of not less than one-fourth (1/4) in aggregate principal amount of all outstanding Debentures, the principal and accrued but unpaid interest of all the Debentures shall be due and payable immediately. At any time after such declaration of acceleration has been made, and before a judgment or decree for payment of money due has been obtained, the Holders of a majority in aggregate principal amount of all outstanding Debentures may, by written notice to the Corporation, rescind and annul such declaration.

9.2 WAIVER. Subject to the provisions of Section 12 hereof, at any time before the date of any declaration accelerating the maturity of this Debenture: (i) the Holders of at least seventy-five percent (75%) in aggregate principal amount of all outstanding Debentures may waive any past Event of Default and its consequences pertaining to the payment of interest on, or the principal of, any of the Debentures; and (ii) the Holders of a majority in aggregate principal amount of all outstanding Debentures may waive any other Event of Default hereunder. Such waivers shall be evidenced by written notice or other document specifying the Event or Events of

Default being waived and shall be binding on all existing or subsequent Holders of outstanding Debentures.

SECTION 10. NOTICES.

10.1 NOTICES TO HOLDER OF DEBENTURES. Any notice required by the provisions of this Debenture to be given to the Holders of Debentures shall be in writing and may be delivered by personal service or sent by fax or email (in each case with answer back confirmed) or sent by registered or certified mail, return receipt requested, with postage thereon fully prepaid. All such communications shall be addressed to the Holder of record at its address appearing on the books of the Corporation

10.2 NOTICES TO THE CORPORATION. Whenever any provision of this Debenture requires a notice to be given to the Corporation by the Holder of any Debenture, the Holder of Common Stock obtained upon the conversion of a Debenture or the Holder of any other security of the Corporation obtained in connection with a recapitalization, merger, dividend or other event affecting a Debenture, then and in each such case, such notice shall be in writing and shall be sent by or sent by fax or email (in each case with answer back confirmed) registered or certified mail, return receipt requested with postage thereon fully prepaid to the Corporation at its principal place of business.

10.3 GENERAL. If sent by fax or email, a confirmed copy of such fax or email notice shall promptly be sent by mail (in the manner provided above) to the recipient. Service of any such communication made (i) by fax or email shall be deemed complete on the date of actual delivery as shown by the addressee's answer back or (ii) only by mail shall be deemed complete on the date of actual delivery as shown by the addressee's registry or certification receipt or at the expiration of the third (3rd) business day after the date of mailing, whichever is earlier in time. No notice under this Section 10 shall be valid unless signed by the Holder of the Debenture or the Conversion Stock giving the notice or in the case of a notice by Holders of a specified percentage in aggregate principal amount of outstanding Debentures unless signed by each Holder of a Debenture whose Debenture has been counted in constituting the requisite percentage of Debentures required to give such notice.

SECTION 11. NO RIGHTS AS STOCKHOLDER. This Debenture, as such, shall not entitle the Holder to any voting rights or other rights as a stockholder of the Corporation.

SECTION 12. AMENDMENTS AND WAIVERS. With the written consent of the Holder or Holders of at least 75% in aggregate principal amount of all outstanding Debentures, any covenant, agreement or condition of the Debentures may be waived (either generally or in a particular instance and either retroactively or prospectively), or such Holder or Holders and the Corporation may from time to time enter into agreements for the purpose of amending any covenant, agreement or condition of the Debentures or changing in any manner the rights of the Holders of the Debentures of the Corporation; provided, however

(a) no such amendment or waiver shall (i) change the stated maturity of the principal of this Debenture or reduce the rate or extend the time of payment of interest hereon, or

reduce the amount of the principal hereof, or modify any of the provisions of this Debenture with respect to the payment or pre-payment hereof, or affect the security interest granted to the Holders' Representative for the benefit of the holders of Debentures, without in any such case the consent of the Holder of this Debenture, or (ii) reduce the percentage of Holders of Debentures required to approve any such amendment or effectuate any such waiver, without the consent of the Holders of all the outstanding Debentures; and

(b) no such waiver shall extend or affect any obligation not expressly waived or impair any right consequent thereon.

Any such amendment or waiver shall apply equally to all Holders of the Debentures and shall be binding upon them, upon each future Holder of any Debenture and upon the Corporation, whether or not such Debenture shall have been marked to indicate such amendment or waiver, but any Debenture issued thereafter shall bear a notation referring to any such amendment or continuing waiver.

SECTION 13. SECTION HEADINGS. The Section headings contained herein are for the purpose of convenience only and are not intended to define or limit the contents of any such Section.

SECTION 14. GENERAL. This Debenture shall be binding on and inure to the benefit of the respective parties hereto and their successors and assigns. All references to gender or number in this Debenture shall be deemed interchangeable to refer to the masculine, feminine, neuter, singular or plural, as the sense of the context requires. This Debenture represents the entire understanding of the parties hereto relating to the subject matter hereof, and supersedes any and all other prior Debentures between the parties. The terms and provisions of this Debenture cannot be terminated or modified or amended orally or by course of dealing or conduct, or in any other manner except in a writing signed by the party against whom enforcement is sought. This Debenture shall be construed in accordance with the laws of the State of New York, U.S.A., exclusive of its choice-of-laws principles. Each party hereby irrevocably consents and submits to the jurisdiction of any New York State or United States Federal Court sitting in the State of New York, County of New York, over any action or proceeding arising out of or relating to this Debenture and irrevocably consents to the service of any and all process in any such action or proceeding by registered mail addressed to such party at the address on the books of the Corporation (or as

otherwise noticed to the other party). Each party further waives any objection to venue in New York and any objection to an action or proceeding in such state and county on the basis of forum non conveniens. Each party also waives any right to trial by jury. The provisions of this Debenture are severable, and any invalidity, unenforceability or illegality in any provision or provisions hereof shall not effect the remaining provisions of this Debenture. In any suit, action or proceeding arising out of or in connection with this Debenture, the prevailing party shall be entitled to an award of the reasonable attorneys' fees and disbursements incurred by such party in connection therewith.

IN WITNESS WHEREOF, the Corporation has caused this Debenture to be executed and delivered by its duly authorized officer, on the date first written above.

TEGAL CORPORATION

By:

President

Exhibit 4.5

Void after June 30, 2011 Warrant No. _____
[_____] to acquire [_____] share

THIS WARRANT AND ANY SHARES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THIS WARRANT AND SUCH SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. THIS WARRANT AND SUCH SHARES MAY NOT BE TRANSFERRED EXCEPT UPON THE CONDITIONS SPECIFIED IN THIS WARRANT, AND NO TRANSFER OF THIS WARRANT OR SUCH SHARES SHALL BE VALID OR EFFECTIVE UNLESS AND UNTIL SUCH CONDITIONS SHALL HAVE BEEN COMPLIED WITH.

TEGAL CORPORATION

COMMON STOCK PURCHASE WARRANT

Tegal Corporation (the "Company"), having its principal office at 2201 South McDowell Boulevard, Petaluma, California 94954 hereby certifies that, for value received, _____, or assigns, is entitled, subject to the terms set forth below, to purchase from the Company at any time on or from time to time after June __, 2003 and before ____ P.M., New York City time, on June __, 2011 or as extended in accordance with the terms hereof (the "Expiration Date"), _____ fully paid and non-assessable shares of Common Stock of the Company, at the initial Purchase Price per share (as defined below) of $0.50. The number and character of such shares of Common Stock and the Purchase Price per share are subject to adjustment as provided herein.

BACKGROUND. The Company agreed to issued warrants to purchase an aggregate of up to 4,114,224 shares of Common Stock (subject to adjustment as provided herein) in connection with the Company's private placement of up to 144 units ("Units") each Unit consisting of (i) 28,571 eight-year warrants (each a "Warrant" and, collectively the "Warrants"), each Warrant entitling the Holder thereof to purchase one share of Common Stock and (ii) $50,000 in 2% Secured Convertible Debentures due on the Expiration Date (each a Debenture and collectively, the "Debentures").

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

The term "Company" includes the Company and any corporation which shall succeed to or assume the obligations of the Company hereunder. The term "corporation" shall include an association, joint stock company, business trust, limited liability company or other similar organization.

The term "Common Stock" includes all stock of any class or classes (however designated) of the Company, authorized upon the Original Issue Date or thereafter, the Holders of which shall have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and the Holders of which shall ordinarily, in the absence of contingencies, be entitled to vote for the election of a majority of directors of the Company (even though the right so to vote has been suspended by the happening of such a contingency).

The term "Exchange Act" means the Securities Exchange Act of 1934 as the same shall be in effect at the time.

"Excluded Stock" shall mean shares of Common Stock issued by the Corporation (i) reserved for employees or consultants (up to the available incentive pool), (ii) to bona fide leasing companies, strategic partners, or

major lenders, (iii) as the purchase price in a bona fide acquisition or merger (including reasonable fees paid in connection therewith) or (iv) upon issuance conversion or exercise of the Debentures or Warrants.

"Fair Market Value" shall mean the fair market value of assets or securities as reasonably determined by the Board of Directors of the Corporation in good faith in accordance with generally accepted accounting principles.

The term "Holder" means any record owner of Warrants or Underlying Securities.

The term "Nasdaq" means the Nasdaq SmallCap Market, Nasdaq Stock Market or other principal market on which the Common Stock is traded.

The "Original Issue Date" means June 30, 2003.

The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the Holders of the Warrants at any time shall be entitled to receive, or shall have received, upon the exercise of the Warrants, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 6 or otherwise.

The term "Purchase Price per share" means $0.50 per share, as adjusted from time to time in accordance with the terms hereof.

The terms "registered" and "registration" refer to a registration effected by filing a registration statement in compliance with the Securities Act, to permit the disposition of Common Stock (or Other Securities) issued or issuable upon the exercise of Warrants, and any

post-effective amendments and supplements filed or required to be filed to permit any such disposition.

The term "Securities Act" means the Securities Act of 1933 as the same shall be in effect at the time.

The term "Stockholder Approval" means the approval of the stockholders of the Company for the issuance of all the Units as required by the applicable rules of The Nasdaq Stock Market.

The term "Underlying Securities" means any Common Stock or Other Securities issued or issuable upon exercise of Warrants.

The term "Warrant" means, as applicable, this Warrant or each right as set forth in this Warrant to purchase one share of Common Stock, as adjusted.

1. REGISTRATION, ETC. The Holder shall have the rights to registration of Underlying Securities issuable upon exercise of the Warrants that are set forth in the Registration Rights Agreement, dated the Original Issue Date, between the Company and the Holder (the "Registration Rights Agreement").

2. SALE OR EXERCISE WITHOUT REGISTRATION. If, at the time of any exercise, transfer or surrender for exchange of a Warrant or of Underlying Securities previously issued upon the exercise of Warrants, such Warrant or Underlying Securities shall not be registered under the Securities Act, the Company may require, as a condition of allowing such exercise, transfer or exchange, that the Holder or transferee of such Warrant or Underlying Securities, as the case may be, furnish to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that such exercise, transfer or exchange may be made without registration under the Securities Act, provided that the disposition thereof shall at all times be within the control of such Holder or transferee, as the case may be, and provided further that nothing contained in this Section 2 shall relieve the Company from complying with any request for registration pursuant to the Registration Rights Agreement.

The first Holder of this Warrant, by acceptance hereof, represents to the Company that it is acquiring the Warrants for investment and not with a view to the distribution thereof.

3. EXERCISE OF WARRANT.

3.1. EXERCISE IN FULL. Subject to the provisions hereof, this Warrant may be exercised in full by the Holder hereof by surrender of this Warrant, with the form of subscription at the end hereof duly executed by such Holder, to the Company at its principal office accompanied by payment, in cash or by certified or official bank check payable to the order of the Company, in the amount obtained by multiplying the number of shares of Common Stock issuable upon exercise of this Warrant by the Purchase Price per share, after giving effect to all adjustments through the date of exercise.

3.2. PARTIAL EXERCISE. Subject to the provisions hereof, this Warrant may be exercised in part by surrender of this Warrant in the manner and at the place provided in Section 3.1 except that the amount payable by the Holder upon any partial exercise shall be the amount obtained by multiplying (a) the number of shares of Common Stock (without giving effect to any adjustment therein) designated by the Holder in the subscription at the end hereof by (b) the Purchase Price per share. Upon any such partial exercise, the Company at its expense will forthwith issue and deliver to or upon the order of the Holder hereof a new Warrant or Warrants of like tenor, in the name of the Holder hereof or as such Holder (upon payment by such Holder of any applicable transfer taxes) may request, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares designated by the Holder in the subscription at the end hereof.

3.3. EXERCISE BY SURRENDER OF WARRANT OR SHARES OF COMMON STOCK. In addition to the method of payment set forth in Sections 3.1 and 3.2 and in lieu of any cash payment required thereunder, the Holder(s) of the Warrants shall have the right at any time and from time to time to exercise the Warrants in full or in part by surrendering shares of Common Stock, this Warrant or other securities issued by the Company in the manner and at the place specified in Section 3.1 as payment of the aggregate Purchase Price per share for the Warrants to be exercised. The number of Warrants or shares of Common Stock to be surrendered in payment of the aggregate Purchase Price for the Warrants to be exercised shall be determined by multiplying the number of Warrants to be exercised by the Purchase Price per share, and then dividing the product thereof by an amount equal to the Market Price (as defined below) . The number of shares of Common Stock or such other securities to be surrendered in payment of the aggregate Purchase Price for the Warrants to be exercised shall be determined in accordance with the preceding sentence as if the other securities had been converted into Common Stock immediately prior to exercise or, in the case the Company has issued other securities which are not convertible into Common Stock, at the Market Price thereof.

3.4. DEFINITION OF MARKET PRICE. As used herein, the phrase "Market Price" at any date shall be deemed to be (i) if the principal trading market for such securities is an exchange, the average of the last reported sale prices per share for the last five previous trading days in which a sale was reported, as officially reported on any consolidated tape, (ii) if the principal market for such securities is the over-the-counter market, the average of the high bid prices per share on such trading days as set forth by Nasdaq or, (iii) if the security is not quoted on Nasdaq, the average of the high bid prices per share on such trading days as set forth in the National Quotation Bureau sheet listing such securities for such days. Notwithstanding the foregoing, if there is no reported closing price or high bid price, as the case may be, on any of the ten trading days preceding the event requiring a determination of Market Price

hereunder, then the Market Price shall be determined in good faith by resolution of the Board of Directors of the Company, based on the best information available to it.

3.5. COMPANY TO REAFFIRM OBLIGATIONS. The Company will, at the time of any exercise of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights (including, without limitation, any right to registration of the Underlying Securities) to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, PROVIDED that if the Holder of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford such Holder any such rights.

3.6. CERTAIN EXERCISES. If an exercise of a Warrant or Warrants is to be made in connection with a registered public offering or sale of the Company, such exercise may, at the election of the Holder, be conditioned on the consummation of the public offering or sale of the Company, in which case such exercise shall not be deemed effective until the consummation of such transaction.

4. DELIVERY OF STOCK CERTIFICATES, ETC., ON EXERCISE. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within three business days thereafter, the Company at its own expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder hereof, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct, a certificate or certificates for the number of fully paid and non-assessable shares of Common Stock or Other Securities to which such Holder shall be entitled upon such exercise, plus, in lieu of any fractional share to which such Holder would otherwise be entitled, cash equal to such fraction multiplied by the then current Market Price of one full share, together with any other stock or other securities and property (including cash, where applicable) to which such Holder is entitled upon such exercise pursuant to Section 5 or otherwise.

5. ADJUSTMENT FOR DIVIDENDS IN OTHER STOCK, PROPERTY, ETC.; RECLASSIFICATION, ETC. In case at any time or from time to time after the Original Issue Date the holders of Common Stock (or, if applicable, Other Securities) shall have received, or (on or after the record date fixed for the determination of stockholders eligible to receive) shall have become entitled to receive, without payment therefor

(i) other or additional stock or other securities or property (other than cash) by way of dividend, or

(i) any cash paid or payable (including, without limitation, by way of dividend), or

(ii) other or additional stock or other securities or property (including cash) by way of spin-off, split-up, reclassification, recapitalization, combination of shares or similar corporate rearrangement,

then, and in each such case the Holder of this Warrant, upon the exercise hereof as provided in Section 3, shall be entitled to receive the amount of stock and other securities and property (including cash in the cases referred to in subdivisions (ii) and (iii) of this Section 5(a)) which

such Holder would hold on the date of such exercise if on the Original Issue Date such Holder had been the Holder of record of the number of shares of Common Stock called for on the face of this Warrant and had thereafter, during the period from the Original Issue Date to and including the date of such exercise, retained such shares and all such other or additional stock and other securities and property (including cash in the cases referred to in subdivisions (ii) and

(iii) of this Section 5(a)) receivable by such Holder as aforesaid during such period, giving effect to all adjustments called for during such period by Sections 6 and 7 hereof. If the number of shares of Common Stock outstanding at any time after the date hereof is decreased by a combination or reverse stock split of the outstanding shares of Common Stock, the Purchase Price per share shall be increased, and the number of shares of Common Stock purchasable under this Warrant shall be decreased in proportion to such decrease in outstanding shares of Common Stock.

6. REORGANIZATION, CONSOLIDATION, MERGER, ETC. In case the Company after the Original Issue Date shall (a) effect a reorganization, (b) consolidate with or merge into any other person, or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Company, then, in each such case, the Holder of this Warrant, upon the exercise hereof as provided in Section 3 at any time after the consummation of such reorganization, consolidation or merger or the effective date of such dissolution, as the case may be, shall be entitled to receive (and the Company shall be entitled to deliver), in lieu of the Underlying Securities issuable upon such exercise prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such Holder would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such Holder had so exercised this Warrant immediately prior thereto, all subject to further adjustment thereafter as provided in Sections 5 and 7 hereof. The Company shall not effect any such reorganization, consolidation, merger or sale, unless prior to or simultaneously with the consummation thereof, the successor corporation resulting from such consolidation or merger or the corporation purchasing such assets or the appropriate corporation or entity shall assume, by written instrument, the obligation to deliver to each Holder the shares of stock, cash, other securities or assets to which, in accordance with the foregoing provisions, each Holder may be entitled to and all other obligations of the Company under this Warrant. In any such case, if necessary, the provisions set forth in this Section 6 with respect to the rights thereafter of the Holders shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any Other Securities or assets thereafter deliverable on the exercise of the Warrants.

7. OTHER ADJUSTMENTS.

7.1. GENERAL. Other than as set forth in Sections 5 and 6, if, after the receipt of Stockholder Approval, the Company shall issue any Common Stock other than Excluded Stock for a consideration per share (determined as set forth below) less than the Purchase Price per share in effect immediately prior to the issuance of such Common Stock (the "New Issuance"), the Purchase Price per share in effect immediately prior to each issuance shall forthwith be reduced to a new Purchase Price per share determined by dividing (x) the sum of (I) the consideration received by the Company in

such issue less (II) the Fair Market Value of any securities or other assets transferred by the Company in units or otherwise together with such Common Stock ("Additional Assets"), by (y) the number of shares of Common Stock (not including shares issuable upon conversion or exercise of Additional Assets) issued in the New Issuance (the "New Purchase Price"), and the number of shares of Common Stock for which this Warrant is exercisable shall be increased to a new number of shares determined by multiplying the number of shares of Common Stock for which this Warrant is exercisable prior to the New Issuance by a fraction, the numerator of which is the Purchase Price per share in effect prior to the New Issuance and the denominator is the New Purchase Price per share.

7.2. CONVERTIBLE SECURITIES. (a) In case the Company shall issue or sell any securities convertible into Common Stock of the Company ("Convertible Securities") after the date hereof, there shall be determined the price per share for which Common Stock is issuable upon the conversion or exchange thereof, such determination to be made by dividing (i) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities,

plus the then current aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof, by (ii) the maximum number of shares of Common Stock of the Company issuable upon the conversion or exchange of all of such Convertible Securities.

(b) If the price per share so determined shall be less than the applicable Purchase Price per share, then such issue or sale shall be deemed to be an issue or sale for cash (as of the date of issue or sale of such Convertible Securities) of such maximum number of shares of Common Stock at the price per share so determined, provided that, if such Convertible Securities shall by their terms provide for an increase or increases or decrease or decreases, with the passage of time, in the amount of additional consideration, if any, to the Company, or in the rate of exchange, upon the conversion or exchange thereof, the adjusted Purchase Price per share shall, forthwith upon any such increase or decrease becoming effective, be readjusted to reflect the same, and provided further, that upon the expiration of such rights of conversion or exchange of such Convertible Securities, if any thereof shall not have been exercised, the adjusted Purchase Price per share shall forthwith be readjusted and thereafter be the price which it would have been had an adjustment been made on the basis that the only shares of Common Stock so issued or sold were issued or sold upon the conversion or exchange of such Convertible Securities, and that they were issued or sold for the consideration actually received by the Company upon such conversion or exchange, plus the consideration, if any, actually received by the Company for the issue or sale of all of such Convertible Securities which shall have been converted or exchanged.

7.3. RIGHTS AND OPTIONS. (a) In case the Company shall grant any rights or options to subscribe for, purchase or otherwise acquire Common Stock, other than Excluded Stock, there shall be determined the price per share for which Common Stock is issuable upon the exercise of such rights or options, such determination to be made by dividing (i) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the then current amount of additional consideration payable to the Company upon the exercise of such rights or

options, by (ii) the maximum number of shares of Common Stock of the Company issuable upon the exercise of such rights or options.

(b) If the price per share so determined shall be less than the applicable Purchase Price per share, then the granting of such rights or options shall be deemed to be an issue or sale for cash (as of the date of the granting of such rights or options) of such maximum number of shares of Common Stock at the price per share so determined, provided that, if such rights or options shall by their terms provide for an increase or increases or decrease or decreases, with the passage of time, in the amount of additional consideration payable to the Company upon the exercise thereof, the adjusted Purchase Price per share shall, forthwith upon any such increase or decrease becoming effective, be readjusted to reflect the same, and provided, further, that upon the expiration of such rights or options, if any thereof shall not have been exercised, the adjusted Purchase Price per share shall forthwith be readjusted and thereafter be the price which it would have been had an adjustment been made on the basis that the only shares of Common Stock so issued or sold were those issued or sold upon the exercise of such rights or options and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of all such rights or options, whether or not exercised.

7.4. OTHER SECURITIES. If any event occurs as to which the provisions of this Warrant are strictly applicable and the application thereof would not fairly protect the rights of the Holders in accordance with the essential intent and principles of such

provisions, then the Company shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as the Board of Directors, in good faith, determines to be reasonably necessary to protect such rights as aforesaid. In case at any time or from time to time the Company shall take any action in respect of its Common Stock, other than any action described in Sections 5, 6 and 7, then, unless such action will not have a materially adverse effect upon the rights of the Holders, the number of shares of Common Stock or other stock for which this Warrant is exercisable and the Purchase Price per share shall be adjusted in such manner as the Board of Directors, in good faith, determines to be equitable in the circumstances. In furtherance and not in limitation of the foregoing, if any event occurs of the type contemplated by Section 7 but not expressly provided for by such Section (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's Board of Directors shall make an appropriate adjustment in the Purchase Price per share and the number of shares of Common Stock or Other Securities issuable upon the exercise of a Warrant so as to protect the rights of the Holders of such Warrants. No adjustment made pursuant to this Section 7.4 shall increase the Purchase Price per share or decrease the number of shares of Common Stock or Other Securities issuable upon exercise of the Warrants.

8. FURTHER ASSURANCES. The Company will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of stock upon the exercise of all Warrants from time to time outstanding.

9. ACCOUNTANTS' CERTIFICATE AS TO ADJUSTMENTS. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable upon the exercise of the Warrants, the Company at its expense will promptly cause the Company's regularly retained auditor to compute such adjustment or readjustment in accordance with the terms of the Warrants and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, and the number of shares of Common Stock outstanding or deemed to be outstanding. The Company will forthwith mail a copy of each such certificate to each Holder.

10. NOTICES OF RECORD DATE, ETC. In the event of

(a) any taking by the Company of a record of its stockholders for the purpose of determining the stockholders thereof who are entitled to receive any dividend or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or for the purpose of determining stockholders who are entitled to vote in connection with any proposed capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all the assets of the Company to or consolidation or merger of the Company with or into any other person, or

(b) any voluntary or involuntary dissolution, liquidation or winding-up of the Company, or

(c) any proposed issue or grant by the Company of any shares of stock of any class or any other securities, or any right or option to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities (other than the issue of Common Stock on the exercise of the Warrants), then and in each such event the Company will mail or cause to be mailed to each Holder of a Warrant a notice specifying (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution,

liquidation or winding-up is to take place, and the time, if any, as of which the Holders of record of Underlying Securities shall be entitled to exchange their shares of Underlying Securities for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up, and (iii) the amount and character of any stock or other securities, or rights or options with respect thereto, proposed to be issued or granted, the date of such proposed issue or grant and the persons or class of persons to whom such proposed issue or grant and the persons or class of persons to whom such proposed issue or grant is to be offered or made. Such notice shall be mailed at least 20 days prior to the date therein specified.

11. RESERVATION OF STOCK, ETC., ISSUABLE ON EXERCISE OF WARRANTS. The Company will at all times reserve and keep available, solely for issuance and delivery upon the

exercise of the Warrants, all shares of Common Stock (or Other Securities) from time to time issuable upon the exercise of the Warrants.

12. LISTING ON SECURITIES EXCHANGES; REGISTRATION; ISSUANCE OF CERTAIN SECURITIES.

12.1. In furtherance and not in limitation of any other provision of this Warrant, if the Company at any time shall list any Common Stock on any national securities exchange and shall register such Common Stock under the Exchange Act, the Company will, at its expense, simultaneously list on such exchange or Nasdaq, upon official notice of issuance upon the exercise of the Warrants, and maintain such listing of all shares of Common Stock from time to time issuable upon the exercise of the Warrants; and the Company will so list on any national securities exchange or Nasdaq, will so register and will maintain such listing of, any Other Securities if and at the time that any securities of like class or similar type shall be listed on such national securities exchange or Nasdaq by the Company.

12.2. The Company shall not issue any (a) Convertible Securities or similar securities that contain a provision that provides for any change or determination of the applicable conversion price, conversion rate, or exercise price (or a similar provision which might have a similar effect) based on the Fair Market Value or any other determination of the market price or value of the Company's securities or any other market based or contingent standard, (b) any preferred stock, debt instruments or similar securities or investment instruments providing for (i) preferences or other payments substantially in excess of the original investment by purchasers thereof or (ii) dividends, interest or similar payments other than dividends, interest or similar payments computed on an annual basis and not in excess, directly or indirectly, of a rate equal to twice the interest rate on 10 year US Treasury Notes or (c) prior to the receipt of the Stockholder Approval, any Common Stock, Convertible Securities, options or other rights for consideration less than the Purchase Price or take any other action which would have the effect of triggering an adjustment in the Purchase Price as provided in Section 7 above.

13. EXCHANGE OF WARRANTS. Subject to the provisions of Section 2 hereof, upon surrender for exchange of any Warrant, properly endorsed, to the Company, as soon as practicable (and in any event within three business days) the Company at its own expense will issue and deliver to or upon the order of the Holder thereof a new Warrant or Warrants of like tenor, in the name of such Holder or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant or Warrants so surrendered.

14. REPLACEMENT OF WARRANTS. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon

surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

15. WARRANT AGENT. The Company may, by written notice to each Holder of a Warrant, appoint an agent having an office in New York, New York, for the purpose of issuing Common Stock (or Other Securities) upon the exercise of the Warrants pursuant to Section 3, exchanging Warrants pursuant to Section 13, and replacing Warrants pursuant to Section 14, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

16. REMEDIES. The Company stipulates that the remedies at law of the Holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

17. NEGOTIABILITY, ETC. Subject to Section 2 above, this Warrant is issued upon the following terms, to all of which each Holder or owner hereof by the taking hereof consents and agrees:

(a) subject to the provisions hereof, title to this Warrant may be transferred by endorsement (by the Holder hereof executing the form of assignment at the end hereof) and delivery in the same manner as in the case of a negotiable instrument transferable by endorsement and delivery;

(b) subject to the foregoing, any person in possession of this Warrant properly endorsed is authorized to represent himself as absolute owner hereof and is empowered to transfer absolute title hereto by endorsement and delivery hereof to a bona fide purchaser hereof for value; each prior taker or owner waives and renounces all of his equities or rights in this Warrant in favor of each such bona fide purchaser and each such bona fide purchaser shall acquire absolute title hereto and to all rights represented hereby; and

(c) until this Warrant is transferred on the books of the Company, the Company may treat the registered Holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

18. NOTICES, ETC. All notices and other communications from the Company to the Holder of this Warrant shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by such Holder, or, until an address is so furnished, to and at the address of the last Holder of this Warrant who has so furnished an address to the Company.

19. MISCELLANEOUS. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant is being delivered in the State of New York and shall be construed and enforced in accordance with and

governed by the laws of such State. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof.

20. ASSIGNABILITY. Subject to Section 2 hereof, this Warrant is fully assignable at any time.

Dated: June __, 2003

TEGAL CORPORATION

By:

Name:
Title:

Attest:

FORM OF SUBSCRIPTION
(To be signed only upon exercise of Warrant)

To: TEGAL CORPORATION

The undersigned, the Holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, shares of Common Stock of Tegal Corporation, and herewith makes payment of $ * therefor, and requests that the certificates for such shares be issued in the name of, and delivered to, , whose address is

Dated:

(Signature must conform in all respects to name of Holder as specified on the face of the Warrant)

(Address)

* Insert here the number of shares called for on the face of the Warrant (or, in the case of a partial exercise, the portion thereof as to which the Warrant is being exercised), in either case without making any adjustment for additional Common Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the Warrant, may be deliverable upon exercise.

FORM OF ASSIGNMENT

(To be signed only upon transfer of Warrant)

For value received, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the within Warrant to purchase _____ of Common Stock of Tegal Corporation to which the within Warrant relates, and appoints _____ Attorney to transfer such right on the books of Tegal Corporation with full power of substitution in the premises. The Warrant being transferred hereby is one of the Warrants issued by Tegal Corporation as of June __, 2003 to purchase an aggregate of _____ shares of Common Stock.

Dated:

(Signature must conform in all respects to name of Holder as specified on the face of the Warrant)

(Address)

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Signature guaranteed by a Bank or Trust Company having its principal office in New York City or by a Member Firm of the New York or American Stock Exchange

Exhibit 99.1

TEGAL CORPORATION REPORTS FOURTH QUARTER AND FISCAL YEAR 2003 FINANACIAL RESULTS - ANNOUNCES CONVERTIBLE DEBT FINANCING

PETALUMA, CALIF., JULY 1, 2003 -- Tegal Corporation (Nasdaq:TGAL), a leading designer and manufacturer of plasma etch and deposition systems used in the production of integrated circuits, today announced financial results for the Fourth Quarter and Fiscal Year 2003, which ended March 31, 2003.

Revenues for the fiscal Fourth Quarter were $4 million, a decrease of 43% from $7 million for the fiscal Fourth quarter of 2002, and an increase of 8% from $3.7 million in the fiscal third quarter of 2003. Tegal reported a net loss of $1.7 million, or $0.09 per share, for the quarter, compared to a net loss of $1.2 million, or $0.09 per share in the comparable quarter one year ago. Sequentially, Tegal's reported loss declined from $3.3 million, or $0.20 per share, in the fiscal third quarter of 2003.

For Fiscal 2003, revenues were $14.1 million, a decrease of 35% from $21.6 million for Fiscal 2002. Tegal reported a net loss of $12.6 million, or $0.82 per share, for the Fiscal Year, compared to a net loss of $8.7 million, or $0.67 per share in the previous fiscal year.

In recent months, Tegal has achieved a number of revenue-generating business wins, and completed a $20-million cost-reduction program. These milestones have significantly advanced the company's initiative to extend its leadership to adjacent markets that are integral to etch and deposition processes related to new materials. Industry analysts forecast substantial growth in these markets, which are driven by increased demand for wireless and hand-held products, PDAs, cell phones, smart cards, and RFIDs (radio frequency identification devices).

Also of note, as stated in Tegal's recently filed Form 10K for Fiscal 2003, the company's backlog stood at $6.0 million, compared with $2.0 million a year ago. In an update as of June 30, Tegal said that its backlog stood at approximately $4.3 million.

Tegal also announced today the signing of definitive agreements with investors to raise up to $7.2 million in a private placement of convertible debt financing to be completed in two steps. The first step, completed yesterday, involved the infusion of approximately $1 million into the Company. The second step, which will make available the balance of the financing, will be completed following shareholder approval. This matter will be brought to the shareholders in Tegal's Annual Meeting, currently scheduled for August 26, 2003. Shareholders of record as of July 10, 2003 will be allowed to vote at the meeting. The proceeds of this financing will be used to fund Tegal's general working capital requirements. Under the terms of the proposed financing, Tegal will issue convertible debentures with a conversion price of $0.35 per share plus warrants to purchase up to an additional 4.1 million shares of the company at $0.50.

"Several recent business wins are positive signs that the markets in which we specialize are improving", said Tegal Chairman and Chief Executive Officer Michael Parodi. "Our cost-reduction program, which has provided a cumulative savings going forward of more than $20 million annually compared to two years ago, combined with the financing announced today, will significantly improve the financial health of the Company," Mr. Parodi said.

"We are extremely pleased that we were able to secure financing in a very difficult capital market for semiconductor equipment manufacturers and micro-cap companies in general " said Mr. Parodi. "We will be calling on our shareholders to back our recommendation for the issuance of additional shares to these investors, confident that we have explored many other alternatives. We believe that this is the best alternative for our stockholders to achieve the highest value for their shareholding."

Performance highlights in recent months include:

|_| The sale to a leading semiconductor manufacturer of an EndeavorEUV(TM) PVD cluster tool for use in producing state-of- the-art photomasks using extreme ultraviolet (EUV) radiation. This sale was the second major

publicly announced order this year by Tegal's Sputtered Films subsidiary. Earlier in the year, the Company announced a repeat order for an Endeavor PVD cluster tool from another leading worldwide supplier of semiconductors. Tegal expects to sell additional systems to that customer over the next 18 months.

|_| The sale of a 903e plasma etch system to a leading sensor and power device manufacturer in the United Kingdom. The tool will join other 903 systems already installed at this location and be used in the manufacture of a variety of high power RF sensors, automotive devices and imaging components. Tegal's 900 Series systems are widely recognized for their low cost of ownership and high throughput. More than 1,300 of the 900 Series systems have been installed worldwide and are supported by Tegal's extensive worldwide field process and service organization.

|_| A repeat order from a leading Japanese charge-coupled device (CCD) manufacturer for a model 6510 HRe-(TM) advanced etch system. The system is needed to meet rapidly expanding production requirements for CCD arrays. CCDs are critical components used in many high resolution digital imaging applications including digital cameras, video recorders, and the new picture-taking cellular phones.

|_| An order from a leading Japanese semiconductor manufacturer for an extensive system upgrade of one of its advanced etch systems. The upgrade is needed to meet rapidly expanding production requirements for advanced non-volatile memory devices known as Ferroelectric Random Access Memory (FeRAM). The upgrade includes extensive productivity enhancements to the existing system, as well as the addition of a second production chamber. The upgraded tool is to be transferred into mainstream manufacturing alongside other Tegal advanced etch systems already being used in FeRAM production.

|_| Tegal was granted two patents in the Fourth Quarter for producing sub 0.15 micron devices via a unique apparatus and solid source method. One of the patents' focus is on the production of controlled vertical profiles. The second patent enables manufacturers to produce advanced devices using solid source technology thereby extending the capabilities of standard etchers that rely on source gases to define the features for advanced devices. The vertical profiles from both patents can be used for the production of next generation MPU's, MRAM, DRAM, FeRAM, Thin Film Head, Compound Semiconductors, and system-on-a-chip products.

Additionally, in an action designed to ensure an orderly trading environment for its stock, Tegal announced in May the transfer of the listing of its common stock to the Nasdaq SmallCap Market. The Company's continued listing on the Nasdaq SmallCap Market is contingent upon the successful completion of an application and review process. Tegal also announced that its stockholders have given its Board of Directors the authority to effect, should it elect to do so, a reverse split of the company's common stock within a range of two-for-one to fifteen-for-one.

The timing and ratio of a reverse split, if any, is at the sole discretion of the Tegal Board of Directors. The action was approved on April 28, 2003, at a special meeting of Tegal stockholders.

Tegal is the incumbent provider of integrated etch and deposition solutions to more than 20 major IC manufacturers now actively engaged in the development and production of advanced semiconductor devices incorporating new materials. More than half of Tegal's 80+ patents are essential in the development and production of these devices. Tegal has established a leading position in the Non-volatile Memory market, which includes such devices as FeRAM - now moving into production in the form of 4 Meg devices for newest generation cell phones and wireless devices. Non-volatile Memory also includes MRAM devices, a market driven by the need for faster, lower power, longer lasting replacement for Flash, Eprom, and other memory devices. While still in the development stage, Tegal is actively engaged with nearly all of the major IC manufactures around the world with programs in this area, and it has produced results that are unmatched by any of its competitors.

In addition to the Non-Volatile Memory market, Tegal's etch and deposition systems are targeted at several other niche markets, including compound

semiconductors, MEMS, device-level packaging and EUV photomask production.

INVESTOR CONFERENCE CALL
Tegal will host an investor conference call today, July 1, 2003, at 4:00 p.m. (EST), which is open to all interested investors. The call-in numbers are (800) 299-7098 or (617) 801-9715. For either dial-in number, investors should reference Tegal or reservation number: 49431371. A digital recording will be made available one hour after the completion of the conference call, and it will be accessible through Friday, July 4, 2003. To access, investors should dial (888) 286-8010 or (617) 801-6888 and enter reservation number: 20715072.

The conference call also will be available online via the Investor Section of the Company's website at: www.tegal.com. An online replay of the teleconference, along with a copy of the Company's earnings release, will be available on the Company's website, as well.

SPECIAL NOTE

The securities sold in the private placement have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. This press release shall not constitute an offer to sell or the solicitation of an offer to buy any of these securities.

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

ABOUT TEGAL
Tegal Corporation, headquartered in Petaluma, California, is a leading designer and manufacturer of plasma etch and deposition systems used in the production of smart cards, opto-telecom devices, integrated circuits (ICs), and other related microelectronics devices. Both etching and deposition are key process steps and must be repeated multiple times in the production of these devices. Tegal markets and services its systems in all major IC-producing regions of the world. More information is available on the Internet at: www.tegal.com.

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CONTACT:

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

(Financial Exhibits Follow)

TEGAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	--THREE MONTHS ENDED-- MARCH 31,		--TWELVE MONTHS ENDED-- MARCH 31,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Revenue	$ 4,002	$ 6,969	$ 14,100	$ 21,606
Cost of sales	2,727	5,025	14,166	14,930
Gross profit (loss)	1,275	1,944	(66)	6,676
Operating expenses:				
Research and development	1,418	1,233	4,815	5,928
Sales and marketing	662	820	2,922	3,996
General and administrative	1,038	1,114	4,814	4,987
Total operating expenses	3,118	3,170	12,551	14,911
Operating income (loss)	(1,843)	(1,223)	(12,617)	(8,235)
Other income (expense), net	148	(2)	(8)	(495)
Net Income (Loss) Before Taxes	(1,695)	(1,225)	(12,625)	(8,730)
Income Tax Expense	0	0	0	0
Net income (loss) After Tax	$ (1,695)	$ (1,225)	$(12,625)	$ (8,730)
Net income (loss) per common share:				
Basic	$ (0.09)	$ (0.09)	$ (0.82)	$ (0.67)
Diluted	$ (0.09)	$ (0.09)	$ (0.82)	$ (0.67)
Shares used in per share computation				
Basic	16,064	14,311	15,311	13,030
Diluted	16,064	14,311	15,311	13,030

</TABLE>

TEGAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	MARCH 31, 2003	MARCH 31, 2002
ASSETS		
Current assets:		
Cash	$ 912	$ 8,100
Net receivables	2,681	2,579
Net inventory	7,032	15,577
Other current assets	465	1,492
Total current assets	11,090	27,748
Intangible assets, net	959	0
Property and equipment, net	4,916	1,382
Other assets, net	244	97
Total assets	$17,209	$29,227
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 6,049	$ 6,932
Long-term liabilities	37	9
Stockholders' equity	11,123	22,286

Total liabilities and stockholders' equity	$17,209	$29,227