

REGISTRATION NO. 333-

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

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TEGAL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>

<CAPTION>

| | | | |
|--|---|---|--|
| <S> | <C> | <C> | |
| DELAWARE | 2201 SOUTH MCDOWELL BOULEVARD | 68-0370244 | |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | PETALUMA, CALIFORNIA 94954 | (I.R.S. EMPLOYER IDENTIFICATION NUMBER) | |
| | (707) 763-5600 | | |
| | (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) | | |

</TABLE>

MICHAEL L. PARODI
CHAIRMAN OF THE BOARD, PRESIDENT & CHIEF EXECUTIVE OFFICER
TEGAL CORPORATION
2201 SOUTH MCDOWELL BOULEVARD
PETALUMA, CALIFORNIA 94954
(707) 763-5600
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copy To:
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LATHAM & WATKINS LLP
135 COMMONWEALTH DRIVE
MENLO PARK, CALIFORNIA 94025
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
From time to time after this registration statement becomes effective

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☒

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

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<CAPTION>

CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF | PROPOSED AMOUNT TO | PROPOSED MAXIMUM MAXIMUM OFFERING | AMOUNT OF AGGREGATE OFFERING | REGISTRATION |
|------------------------|-----------------------|--------------------------------------|---------------------------------|--------------|
|------------------------|-----------------------|--------------------------------------|---------------------------------|--------------|

| SECURITIES TO BE REGISTERED | BE REGISTERED (1) | PRICE PER UNIT | PRICE | FEE |
|--|----------------------|----------------|--------------|---------------|
| <S> | <C> | <C> | <C> | <C> |
| Common Stock, par value \$0.01 per share | 9,151,661 shares (2) | \$1.725 | \$15,786,615 | \$2,000.17(3) |

- (1) In the event of a stock split, stock dividend or similar transaction involving the Common Stock, in order to prevent dilution, the number of shares registered shall be automatically increased to cover the additional shares in accordance with Rule 416(a) under the Securities Act of 1933.
- (2) Estimated solely for the purpose of computing the registration fee required by Section 6(b) of the Securities Act and computed pursuant to Rule 457(c) under the Securities Act based upon the average (\$1.725) of the high (\$1.82) and low (\$1.63) prices of the common stock on June 23, 2004, as quoted on The Nasdaq SmallCap Market. It is not known how many shares will be purchased under this registration statement or at what price shares will be purchased.
- (3) The registration fee has been satisfied using a fee offset from Registration Statement No. 333-113147 filed on February 27, 2004 and withdrawn on June 30, 2004.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDER MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND THE SELLING STOCKHOLDER IS NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE 30, 2004

PROSPECTUS

TEGAL CORPORATION

9,151,661
SHARES OF COMMON STOCK

This prospectus may be used only for the resale of up to 9,151,661 shares of common stock by Kingsbridge Capital Limited ("Kingsbridge"). Kingsbridge may acquire these shares from us pursuant to a Amended and Restated Common Stock Purchase Agreement (the "Purchase Agreement"), or structured secondary offering facility (the "Structured Secondary"), and a Warrant that we issued to Kingsbridge in connection with entering into such Structured Secondary. Kingsbridge will receive all of the proceeds from the sale of shares of common stock hereunder and will pay all underwriting discounts and selling commissions, if any, applicable to the sale of such shares. We will pay the expenses incurred in registering the shares, including legal and accounting fees. However, we will receive the proceeds from the sale of shares of common stock to Kingsbridge under the Purchase Agreement, which provides for the sale of up to \$25 million of shares of our common stock.

Kingsbridge is an "underwriter" within the meaning of the Securities Act of 1933 with respect to this offering.

OUR COMMON STOCK IS QUOTED ON THE NASDAQ SMALLCAP MARKET UNDER THE SYMBOL "TGAL." ON JUNE 29, 2004, THE LAST REPORTED SALE PRICE FOR OUR COMMON STOCK ON THE NASDAQ SMALLCAP MARKET WAS \$1.90 PER SHARE.

THE SECURITIES OFFERED INVOLVE A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 2 FOR A DISCUSSION OF SOME IMPORTANT RISKS YOU SHOULD CONSIDER BEFORE BUYING ANY SHARES OF OUR COMMON STOCK.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004

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You should rely only on the information we have provided or incorporated by reference in this prospectus. Neither we nor the selling stockholder have authorized anyone to provide you with additional or different information. The selling stockholder is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information in this prospectus is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference. In this prospectus, unless otherwise indicated, "Tegal," "we," "us" or "our" refer to Tegal and its subsidiaries.

SUMMARY

References in this prospectus to "us," "we," the "Company" or "Tegal" shall mean Tegal Corporation and our consolidated subsidiaries, unless the context indicates otherwise.

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission utilizing a "shelf" registration process. Under this shelf process, the selling stockholder may from time to time sell its shares of our common stock in one or more offerings. This prospectus provides you with a general description of the common stock being offered. You should read this prospectus, including any documents incorporated herein by reference, together with additional information described under the heading "Where You Can Find More Information."

THE REGISTRATION STATEMENT THAT CONTAINS THIS PROSPECTUS, INCLUDING THE EXHIBITS TO THE REGISTRATION STATEMENT, CONTAINS ADDITIONAL INFORMATION ABOUT US AND THE SECURITIES OFFERED UNDER THIS PROSPECTUS. THAT REGISTRATION STATEMENT CAN BE READ AT THE SECURITIES AND EXCHANGE COMMISSION'S OFFICES MENTIONED UNDER THE HEADING "WHERE YOU CAN FIND MORE INFORMATION."

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and in any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement as if we had authorized it. This prospectus and any accompanying supplement to this prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus and any accompanying supplement to this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is

unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus and any accompanying supplement to this prospectus is correct on any date after their respective dates, even though this prospectus or any accompanying supplement is delivered or securities are sold on a later date.

THE COMPANY

Tegal Corporation, a Delaware corporation ("Tegal" or the "Company"), designs, manufactures, markets and services plasma etch and deposition systems that enable the production of integrated circuits ("ICs"), memory and related microelectronics devices used in personal computers, wireless voice and data telecommunications, contact-less transaction devices, radio frequency identification devices ("RFID's"), smart cards, data storage and micro-level actuators. Etching and deposition constitute two of the principal IC and related device production process steps and each must be performed numerous times in the production of such devices.

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

Our executive offices are located at 2201 South McDowell Boulevard, Petaluma, California 94954, and our telephone number is (707) 763-5600. All service marks, brand names or trademarks appearing in this prospectus that do not belong to us are the property of their respective holders.

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RISK FACTORS

Investing in our common stock involves a significant amount of risk. You should carefully consider the following risk factors, in addition to the other information set forth in this prospectus and incorporated in this prospectus by reference to our Annual Report on Form 10-K for the fiscal year ended March 31, 2004 and our other filings with the SEC before deciding to purchase our common stock.

RISK FACTORS

WE HAVE INCURRED OPERATING LOSSES AND MAY NOT BE PROFITABLE IN THE FUTURE; OUR PLANS TO MAINTAIN AND INCREASE LIQUIDITY MAY NOT BE SUCCESSFUL; THE REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM INCLUDES A GOING CONCERN UNCERTAINTY EXPLANATORY PARAGRAPH; THE ACCOUNTING FOR THE 2% CONVERTIBLE DEBENTURES RESULTED IN SIGNIFICANT EXPENSE AMOUNTS.

We incurred net losses of \$12,602, \$12,625 and \$8,730 for the years ended March 31, 2004, 2003 and 2002, respectively, and generated negative cash flows from operations of \$3,179, \$5,984 and \$3,603 in these respective years. These factors raise substantial doubt as to our ability to continue as a going concern, and our independent registered public accounting firm has included a going concern uncertainty explanatory paragraph in their report dated June 25, 2004 which is included elsewhere in this Form 10-K. Our plans to maintain and increase liquidity include the restructuring executed during fiscal 2002 and 2003, which reduced headcount from 155 employees to 89 employees and has reduced our cost structure entering fiscal 2005. We believe the cost reduction and a projected increase in sales during fiscal 2005 will generate sufficient cash flows to fund our operations through the end of fiscal 2005. However, these projected sales are to a limited number of new and existing customers and are based, for the most part, on internal and customer provided estimates of future demand, not firm customer orders. If the projected sales do not materialize, we will need to reduce expenses further and raise additional capital through the issuance of debt or equity securities. If additional funds are raised through the issuance of preferred stock or debt, these securities could have rights, privileges or preferences senior to those of our common stock, and debt covenants could impose restrictions on our operations. The sale of equity or debt could result in additional dilution to current stockholders, and such financing may not be available to us on acceptable terms, if at all. Failure to raise additional funds may adversely affect the Company's ability to achieve its intended business objectives. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amount or classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern.

Our 2% convertible debentures due 2011 are convertible at a conversion rate of \$0.35 per share, which was lower than the common stock's prices at June 30, 2003, the commitment date for the first tranche and September 8, 2003, the stockholder approval date for the second tranche. Additionally, we granted a 20% warrant coverage to our debenture holders. The value of both the beneficial

conversion feature and warrants resulted in a significant debt discount which will be accreted as interest expense over the eight-year life of the debentures. This has resulted in substantial interest expense during fiscal 2004 of \$5,251 and will continue to result in substantial interest expense through fiscal 2011 or until the debentures are converted. Approximately 22% of the debentures were not yet converted into shares of our common stock as of March 31, 2004; however as of June 15, 2004 all of these outstanding debentures had been converted into shares of our common stock.

THE EXERCISE OF OUTSTANDING WARRANTS, OPTIONS AND OTHER RIGHTS TO OBTAIN ADDITIONAL SHARES WILL DILUTE THE VALUE OF THE SHARES.

As of March 31, 2004, there were warrants exercisable for approximately 3,199,942 shares of our common stock, advisor warrants convertible into 196,129 shares, 23,900 shares issuable as interest payment on previously issued debentures in lieu of cash and options exercisable for approximately 7,390,328 shares of our common stock. In addition, we have warrants outstanding from previous offerings for approximately 1,610,480 shares of our common stock.

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

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

On October 14, 2003, we registered 3,542,436 shares which can be issued as interest payments to the debenture holders in lieu of cash. The number of shares issuable as interest payments is calculated by dividing total interest due over the life of the debentures at 2% per annum by a price per share of \$0.35. If we elect to use such shares to pay interest, such issuance will result in dilution to our stockholders.

SALES OF SUBSTANTIAL AMOUNTS OF OUR SHARES OF COMMON STOCK COULD CAUSE THE PRICE OF OUR COMMON STOCK TO GO DOWN.

To the extent the holders of our convertible securities and warrants convert or exercise such securities and then sell the shares of our common stock they receive upon conversion or exercise, our stock price may decrease due to the additional amount of shares available in the market. The subsequent sales of these shares could encourage short sales by our stockholders and others which could place further downward pressure on our stock price. Moreover, holders of these convertible securities and warrants may hedge their positions in our common stock by shorting our common stock, which could further adversely affect our stock price. The effect of these activities on our stock price could increase the number of shares issuable upon future conversions of our convertible securities or exercises of our warrants.

We received stockholder approval to increase the number of authorized shares of common stock to 100,000,000 shares. We may issue additional capital stock, convertible securities and/or warrants to raise capital in the future. In addition, we may elect to pay any accrued interest on the outstanding \$1,673 principal amount of debentures as of March 31, 2004 with shares of our common stock. Interest on the debentures is compounded quarter-annually, based on 2% per annum on the principal amount outstanding. In addition, to attract and retain key personnel, we may issue additional securities, including stock options. All of the above could result in additional dilution of the value of our common stock and the voting power represented thereby. No prediction can be made as to the effect, if any, that future sales of shares of our common stock, or the availability of shares for future sale, will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur, may adversely affect the market price of our common stock and may make it more difficult for us to sell our equity securities in the future at a time and price which we deem appropriate. Public or private sales of substantial amounts of shares of our common stock by persons or entities that have exercised options and/or warrants could adversely affect the prevailing market price of the shares of our common stock.

THE SEMICONDUCTOR INDUSTRY IS CYCLICAL AND MAY EXPERIENCE PERIODIC DOWNTURNS THAT MAY NEGATIVELY AFFECT CUSTOMER DEMAND FOR OUR PRODUCTS AND RESULT IN LOSSES SUCH AS THOSE EXPERIENCED IN THE PAST.

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

OUR COMPETITORS HAVE GREATER FINANCIAL RESOURCES AND GREATER NAME RECOGNITION THAN WE DO AND THEREFORE MAY COMPETE MORE SUCCESSFULLY IN THE SEMICONDUCTOR CAPITAL EQUIPMENT INDUSTRY THAN WE CAN.

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

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IF WE FAIL TO MEET THE CONTINUED LISTING REQUIREMENTS OF THE NASDAQ STOCK MARKET, OUR STOCK COULD BE DELISTED.

Our stock is currently listed on The Nasdaq SmallCap Market. The Nasdaq Stock Market's Marketplace Rules impose certain minimum financial requirements on us for the continued listing of our stock. One such requirement is the minimum bid price on our stock of \$1.00 per share. Beginning in 2002, there have been periods of time during which we have been out of compliance with the \$1.00 minimum bid requirements of The Nasdaq SmallCap Market.

On September 6, 2002, we received notification from Nasdaq that for the 30 days prior to the notice, the price of our common stock had closed below the minimum \$1.00 per share bid price requirement for continued inclusion under Marketplace Rule 4450(a)(5) (the "Rule"), and were provided 90 calendar days, or until December 5, 2002, to regain compliance. Our bid price did not close above the minimum during that period. On December 6, 2002, we received notification from Nasdaq that our securities would be delisted from The Nasdaq National Market, the exchange on which our stock was listed prior to May 6, 2003, on December 16, 2002 unless we either (i) applied to transfer our securities to The Nasdaq SmallCap Market, in which case we would be afforded additional time to come into compliance with the minimum \$1.00 bid price requirement; or (ii) appealed the Nasdaq staff's determination to the Nasdaq's Listing Qualifications Panel (the "Panel"). On December 12, 2002 we requested an oral hearing before the Panel and such hearing took place on January 16, 2003 in Washington, D.C. Our appeal was based, among other things, on our intention to seek stockholder approval for a reverse split of our outstanding common stock. On April 28, 2003 at a special meeting of our stockholders, our board of directors was granted the authority to effect a reverse split of our common stock within a range of two-for-one to fifteen-for-one. This authority was reaffirmed by our stockholders at the Annual Meeting on September 8, 2003. The timing and ratio of a reverse split, if any, is at the sole discretion of our board of directors, but it must be completed on or before December 2, 2003. On May 6, 2003, we transferred the listing of our common stock to The Nasdaq SmallCap Market. In connection with this transfer, and by additional notice, Nasdaq granted us an extension until December 31, 2003, to regain compliance with the Rule's minimum \$1.00 per share bid price requirement for continued inclusion on The Nasdaq SmallCap Market. On September 16, 2003, the bid price for our stock had closed at \$1.00 or above for ten consecutive days. On September 17, 2003, we received a letter from Nasdaq confirming that Tegal had regained compliance with the minimum bid price requirement and that the question of its continued listing on The SmallCap Market was now closed.

If we are out of compliance in the future with Nasdaq listing requirements, we may take actions in order to achieve compliance, which actions may include a reverse split of our common stock. If an initial delisting

decision is made by the Nasdaq's staff, we may appeal the decision as permitted by Nasdaq rules. If we are delisted and cannot obtain listing on another major market or exchange, our stock's liquidity would suffer, and we would likely experience reduced investor interest. Such factors may result in a decrease in our stock's trading price. Delisting also may restrict us from issuing additional securities or securing additional financing.

WE DEPEND ON SALES OF OUR ADVANCED PRODUCTS TO CUSTOMERS THAT MAY NOT FULLY ADOPT OUR PRODUCT FOR PRODUCTION USE.

We have designed our advanced etch and deposition products for customer applications in emerging new films, polysilicon and metal which we believe to be the leading edge of critical applications for the production of advanced semiconductor and other microelectronic devices. Revenues from the sale of our advanced etch and deposition systems accounted for 40%, 25% and 36% of total revenues in fiscal 2004, 2003 and 2002, respectively. Our advanced systems are currently being used primarily for research and development activities or low volume production. For our advanced systems to achieve full market adoption, our customers must utilize these systems for volume production. There can be no assurance that the market for devices incorporating emerging films, polysilicon or metal will develop as quickly or to the degree we expect.

If our advanced systems do not achieve significant sales or volume production due to a lack of full customer adoption, our business, financial condition, results of operations and cash flows will be materially adversely affected.

OUR POTENTIAL CUSTOMERS MAY NOT ADOPT OUR PRODUCTS BECAUSE OF THEIR SIGNIFICANT COST OR BECAUSE OUR POTENTIAL CUSTOMERS ARE ALREADY USING A COMPETITOR'S TOOL.

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

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OUR QUARTERLY OPERATING RESULTS MAY CONTINUE TO FLUCTUATE.

Our revenue and operating results have fluctuated and are likely to continue to fluctuate significantly from quarter to quarter, and there can be no assurance as to future profitability.

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

Other factors that could affect our quarterly operating results include:

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

market acceptance of our customers' products.

BECAUSE TECHNOLOGY CHANGES RAPIDLY, WE MAY NOT BE ABLE TO INTRODUCE OUR PRODUCTS IN A TIMELY ENOUGH FASHION.

The semiconductor manufacturing industry is subject to rapid technological change and new system introductions and enhancements. We believe that our future success depends on our ability to continue to enhance our existing systems and their process capabilities, and to develop and manufacture in a timely manner new systems with improved process capabilities. We may incur substantial unanticipated costs to ensure product functionality and reliability early in our products' life cycles. There can be no assurance that we will be successful in the introduction and volume manufacture of new systems or that we will be able to develop and introduce, in a timely manner, new systems or enhancements to our existing systems and processes which satisfy customer needs or achieve market adoption.

SOME OF OUR SALES CYCLES ARE LENGTHY, EXPOSING US TO THE RISKS OF INVENTORY OBSOLESCENCE AND FLUCTUATIONS IN OPERATING RESULTS.

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

WE MAY NOT BE ABLE TO PROTECT OUR INTELLECTUAL PROPERTY OR OBTAIN LICENSES FOR THIRD PARTIES' INTELLECTUAL PROPERTY AND THEREFORE WE MAY BE EXPOSED TO LIABILITY FOR INFRINGEMENT OR THE RISK THAT OUR OPERATIONS MAY BE ADVERSELY AFFECTED.

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

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

OUR CUSTOMERS ARE CONCENTRATED AND THEREFORE THE LOSS OF A SIGNIFICANT CUSTOMER MAY HARM OUR BUSINESS.

Our top five customers accounted for 84.8%, 88.2% and 54.4% of our systems revenues in fiscal 2004, 2003 and 2002, respectively. Three customers each accounted for more than 10% of net systems sales in fiscal 2004. Although the composition of the group comprising our largest customers may vary from year to year, the loss of a significant customer or any reduction in orders by any significant customer, including reductions due to market, economic or competitive conditions in the semiconductor manufacturing industry, may have a detrimental effect on our business, financial condition, results of operations and cash flows. Our ability to increase our sales in the future will depend, in part, upon our ability to obtain orders from new customers, as well as the financial condition and success of our existing customers and the general economy, which is largely beyond our ability to control.

WE ARE EXPOSED TO ADDITIONAL RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS.

International sales accounted for 67%, 66% and 67% of total revenue for fiscal 2004, 2003 and 2002, respectively. International sales are subject to

certain risks, including the imposition of government controls, fluctuations in the U.S. dollar (which could increase the sales price in local currencies of our systems in foreign markets), changes in export license and other regulatory requirements, tariffs and other market barriers, political and economic instability, potential hostilities, restrictions on the export or import of technology, difficulties in accounts receivable collection, difficulties in managing representatives, difficulties in staffing and managing international operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a detrimental effect on our operations, financial results and cash flows.

We generally attempt to offset a portion of our U.S. dollar denominated balance sheet exposures subject to foreign exchange rate remeasurement by purchasing forward currency contracts for future delivery. There can be no assurance that our future results of operations and cash flows will not be adversely affected by foreign currency fluctuations. In addition, the laws of certain countries in which our products are sold may not provide our products and intellectual property rights with the same degree of protection as the laws of the United States.

EVOLVING REGULATION OF CORPORATE GOVERNANCE AND PUBLIC DISCLOSURE MAY RESULT IN ADDITIONAL EXPENSES AND CONTINUING UNCERTAINTY.

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

WE MUST INTEGRATE OUR ACQUISITION OF SIMPLUS SYSTEMS CORPORATION AND WE MAY NEED TO MAKE ADDITIONAL FUTURE ACQUISITIONS TO REMAIN COMPETITIVE. THE PROCESS OF IDENTIFYING, ACQUIRING AND INTEGRATING FUTURE ACQUISITIONS MAY CONSTRAIN VALUABLE MANAGEMENT RESOURCES, AND OUR FAILURE TO EFFECTIVELY INTEGRATE FUTURE ACQUISITIONS MAY RESULT IN THE LOSS OF KEY EMPLOYEES AND THE DILUTION OF STOCKHOLDER VALUE AND HAVE AN ADVERSE EFFECT ON OUR OPERATING RESULTS.

On November 11, 2003, we acquired substantially all of the assets of Simplus Systems Corporation. We may in the future seek to acquire or invest in additional businesses, products or technologies that we believe could complement or expand our business, augment our market coverage, enhance our technical capabilities or that may otherwise offer growth opportunities. We may encounter problems with the assimilation of Simplus or businesses, products or technologies acquired in the future including:

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- o difficulties in assimilation of acquired personnel, operations, technologies or products;
- o unanticipated costs associated with acquisitions;
- o diversion of management's attention from other business concerns and potential disruption of our ongoing business;
- o adverse effects on our existing business relationships with our customers;
- o potential patent or trademark infringement from acquired technologies;
- o adverse effects on our current employees and the inability to retain employees of acquired companies;
- o use of substantial portions of our available cash as all or a portion of the purchase price;

- o dilution of our current stockholders due to the issuance of additional securities as consideration for acquisitions; and
- o inability to complete acquired research and development projects.

If we are unable to successfully integrate our acquired companies or to create new or enhanced products and services, we may not achieve the anticipated benefits from our acquisitions. If we fail to achieve the anticipated benefits from the acquisitions, we may incur increased expenses and experience a shortfall in our anticipated revenues and we may not obtain a satisfactory return on our investment. In addition, if a significant number of employees of acquired companies fail to remain employed with us, we may experience difficulties in achieving the expected benefits of the acquisitions.

Completing any potential future acquisitions could cause significant diversions of management time and resources. Financing for future acquisitions may not be available on favorable terms, or at all. If we identify an appropriate acquisition candidate for any of our businesses, we may not be able to negotiate the terms of the acquisition successfully, finance the acquisition or integrate the acquired business, products, technologies or employees into our existing business and operations. Future acquisitions may not be well-received by the investment community, which may cause our stock price to fall. 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.

If we acquire businesses, new products or technologies in the future, we may be required to amortize significant amounts of identifiable intangible assets and we may record significant amounts of goodwill that will be subject to annual testing for impairment. If we consummate one or more significant future acquisitions in which the consideration consists of stock or other securities, our existing stockholders' ownership could be significantly diluted. If we were to proceed with one or more significant future acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash.

OUR FINANCIAL PERFORMANCE MAY ADVERSELY AFFECT THE MORALE AND PERFORMANCE OF OUR PERSONNEL AND OUR ABILITY TO HIRE NEW PERSONNEL.

Our common stock has declined in value below the exercise price of many options granted to employees pursuant to our stock option plans. Thus, the intended benefits of the stock options granted to our employees, the creation of performance and retention incentives, may not be realized. As a result, we may lose employees whom we would prefer to retain. As a result of these factors, our remaining personnel may seek employment with larger, more established companies or companies perceived as having less volatile stock prices.

PROVISIONS IN OUR AGREEMENTS, CHARTER DOCUMENTS, STOCKHOLDER RIGHTS PLAN AND DELAWARE LAW MAY DETER TAKEOVER ATTEMPTS, WHICH COULD DECREASE THE VALUE OF YOUR SHARES.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. Our board of directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. Delaware law imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. In addition, we have adopted a stockholder rights plan that makes it more difficult for a third party to acquire us without the approval of our board of directors. These provisions apply even if the offer may be considered beneficial by some stockholders.

OUR STOCK PRICE IS VOLATILE AND COULD RESULT IN A MATERIAL DECLINE IN THE VALUE OF YOUR INVESTMENT IN TEGAL.

We believe that factors such as announcements of developments related to our business, fluctuations in our operating results, sales of our common stock into the marketplace, failure to meet or changes in analysts' expectations, general conditions in the semiconductor industry or the worldwide economy, announcements of technological innovations or new products or enhancements by us or our competitors, developments in patents or other intellectual property rights, developments in our relationships with our customers and suppliers, natural disasters and outbreaks of hostilities could cause the price of our common stock to fluctuate substantially. In addition, in recent years the stock market in general, and the market for shares of small capitalization stocks in particular, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. There can be no

assurance that the market price of our common stock will not experience significant fluctuations in the future, including fluctuations that are unrelated to our performance.

POTENTIAL DISRUPTION OF OUR SUPPLY OF MATERIALS REQUIRED TO BUILD OUR SYSTEMS COULD HAVE A NEGATIVE EFFECT ON OUR OPERATIONS AND DAMAGE OUR CUSTOMER RELATIONSHIPS.

Materials delays have not been significant in recent years. Nevertheless, we procure certain components and sub-assemblies included in our systems from a limited group of suppliers, and occasionally from a single source supplier. For example, we depend on MECS Corporation, a robotic equipment supplier, as the sole source for the robotic arm used in all of our 6500 series systems. We currently have no existing supply contract with MECS Corporation, and we currently purchase all robotic assemblies from MECS Corporation on a purchase order basis. Disruption or termination of certain of these sources, including our robotic sub-assembly source, could have an adverse effect on our operations and damage our relationship with our customers.

ANY FAILURE BY US TO COMPLY WITH ENVIRONMENTAL REGULATIONS IMPOSED ON US COULD SUBJECT US TO FUTURE LIABILITIES.

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

THE STRUCTURED SECONDARY OFFERING FACILITY WE ENTERED INTO IN FEBRUARY 2004 AND AMENDED IN MAY 2004 MAY HAVE A DILUTIVE IMPACT ON OUR STOCKHOLDERS, AND THE POTENTIAL UNAVAILABILITY OF THIS FACILITY WOULD NEGATIVELY IMPACT OUR FINANCING ACTIVITIES.

On February 11, 2004, we entered into a structured secondary offering facility (the "Structured Secondary") with Kingsbridge Capital Limited ("Kingsbridge"), which was amended on May 19, 2004. Under the terms of an Amended and Restated Common Stock Purchase Agreement (the "Purchase Agreement") entered into by the Company and Kingsbridge on May 19, 2004 with respect to the Structured Secondary, we may, at our sole discretion, sell to Kingsbridge, and Kingsbridge would be obligated to purchase, up to \$25 million of shares of our common stock, par value \$0.01 per share. The price at which we may sell shares of common stock under the Purchase Agreement is based on a discount to the volume weighted average market price of the common stock for a specified number of trading days following each of our respective elections to sell shares thereunder. The lowest threshold price at which our stock may be sold is at the sole discretion of the Company, but in no case may be lower than \$1.00 per share, and in the event the price of our common stock falls below this \$1.00 threshold, the Structured Secondary will not be an available source of financing. We may utilize the Structured Secondary through February 11, 2004 from time to time in our sole discretion, subject to various conditions and terms contained in the Purchase Agreement. Among the terms of the Purchase Agreement is a "Material Adverse Effect" clause which permits Kingsbridge to terminate the Structured Secondary if Kingsbridge determines that an event has occurred that results in any effect on the business, operations, properties or financial condition of the Company and its subsidiaries that is material and adverse to the Company and such subsidiaries, taken as a whole, and/or any condition, circumstance, or situation that would prohibit or otherwise interfere with our ability to perform any of our obligations under the Purchase Agreement.

In connection with our entering into the Structured Secondary, we issued to Kingsbridge a warrant (the "Warrant") to purchase 300,000 shares of common stock at an exercise price of \$4.11 per share. The Warrant will not be exercisable until August 11, 2004, and will expire on August 11, 2009.

There are 9,151,661 shares of our common stock that are reserved for issuance under the Structured Secondary with Kingsbridge, 300,000 of which are issuable under the Warrant we granted to Kingsbridge. The issuance of shares under the Structured Secondary and upon exercise of the Warrant will have a dilutive impact on other stockholders and the issuance or even potential issuance of such shares could have a negative effect on the market price of our common stock. In addition, if we draw down the Structured Secondary, we will issue shares to Kingsbridge at a discount of 10% of the daily volume weighted average prices of our common stock during a specified period of trading days after initiation of each respective draw down. Issuing shares at such a discount will further dilute the interests of other stockholders.

To the extent that Kingsbridge sells shares of our common stock issued under the Structured Secondary to third parties, our stock price may decrease due to the additional selling pressure in the market. The perceived risk of dilution from sales of stock to or by Kingsbridge may cause holders of our common stock to sell their shares, or it may encourage short sales. This could contribute to a decline in our stock price.

THE STRUCTURED SECONDARY IMPOSES CERTAIN LIMITATIONS ON OUR ABILITY TO ISSUE EQUITY OR EQUITY-LINKED SECURITIES.

During the two-year term of the Structured Secondary, we may not engage in certain equity or equity-linked financings without the prior written consent of Kingsbridge, which consent will not be unreasonably withheld, conditioned or delayed. However, we may engage in the following capital raising transactions without Kingsbridge's consent: (1) establish stock option or award plans or agreements (for directors, employees, consultants and/or advisors) and amend such plans or agreements, including increasing the number of shares available thereunder, (2) use equity securities to finance the acquisition of other companies, equipment, technologies or lines of business, (3) issue shares of common stock and/or preferred stock in connection with our option or award plans, stock purchase plans, rights plans, warrants or options, (4) issue shares of common stock and/or preferred stock in connection with the acquisition of products, licenses, equipment or other assets and strategic partnerships or joint ventures (the primary purpose of which is not to raise equity capital); (5) issue shares of common and/or preferred stock to consultants and/or advisors as consideration for services rendered, (6) issue and sell shares in an underwritten public offering of common stock, and (7) issue shares of common stock to Kingsbridge under any other agreement entered into between our company and Kingsbridge.

In addition, we may not issue securities that are, or may become, convertible or exchangeable into shares of common stock where the purchase, conversion or exchange price for such common stock is determined using a floating or otherwise adjustable discount to the market price of the common stock (including pursuant to an equity line or other financing that is substantially similar to an equity line with an investor other than Kingsbridge) during the two-year term of our agreement with Kingsbridge.

WE MAY ISSUE ADDITIONAL SHARES AND DILUTE YOUR OWNERSHIP PERCENTAGE.

Certain events over which you have no control could result in the issuance of additional shares of our common stock, which would dilute your ownership percentage in our company. As of March 31, 2004, there were 36,583,850 shares of our common stock issued and outstanding and there were 533,521 shares of common stock reserved for issuance under our equity incentive and stock purchase plans. In addition, as of March 31, 2004, there were outstanding options, warrants and other rights to acquire up to approximately 7,390,000 shares of common stock. We may also issue additional shares of common stock or preferred stock:

- o to raise additional funds for working capital, commercialization, production and marketing activities;
- o upon the exercise or conversion of additional outstanding options and warrants; and
- o in lieu of cash payment of dividends.

Moreover, although the issuance of our common stock under the Structured Secondary will have no effect on the rights or privileges of existing holders of common stock, the economic and voting interests of each stockholder will be diluted as a result of such issuance. Although the number of shares of common stock that stockholders presently own will not decrease, such shares will represent a smaller percentage of our total shares that will be outstanding after such events. If we satisfy the conditions that allow us to draw down the entire \$25 million available under the Structured Secondary, and we choose to do so, then generally, as the market price of our common stock decreases, the number of shares we will have to issue upon each draw down on the Structured Secondary increases, to a maximum of 8,851,661 shares. Therefore drawing down upon the Structured Secondary when the price of our common stock is decreasing will have an additional dilutive effect to your ownership percentage and may result in additional downward pressure on the price of our common stock.

FORWARD-LOOKING STATEMENTS

This prospectus includes or incorporates 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. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this prospectus are set forth under the caption "Risk Factors" and elsewhere in this prospectus and the documents incorporated by reference in this prospectus. 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 entirety by the cautionary statements in this paragraph.

THE STRUCTURED SECONDARY OFFERING FACILITY

On May 19, 2004, we entered into an Amended and Restated Common Stock Purchase Agreement (the "Purchase Agreement") with Kingsbridge Capital Limited, pursuant to which we may issue and sell, from time to time, shares of our common stock for cash consideration up to an aggregate of \$25 million.

Until February 11, 2006, we may, from time to time, at our sole discretion, and subject to certain conditions that we must satisfy, sell or "draw down," shares of our common stock to Kingsbridge at a purchase price having a discount of 10% off of the volume weighted average of the price of our common stock for each of the 15 trading days following our election to sell shares. This transaction is known as a "Structured Secondary." Such discount will be determined as follows:

| VWAP* | PERCENT OF VWAP (APPLICABLE DISCOUNT) | |
|-------------------------------------|---|-------|
| ----- | ----- | |
| At or greater than \$1.00 per share | 90% | (10)% |
| ----- | ----- | |

* As set forth in the Purchase Agreement, "VWAP" means the volume weighted average price of our common stock during a trading day as reported by Bloomberg, L.P. using the AQR function.

As of June 15, 2004, the maximum number of shares that we are permitted to issue pursuant to the Structured Secondary is 8,851,661. An additional 300,000 shares are registered hereunder with respect to a Warrant that we issued to Kingsbridge in connection with our entering into the Structured Secondary. We will exercise our right to draw down the Structured Secondary, if and to the extent available, at such times as there is a need for additional capital and when sales of stock under the Structured Secondary provide the most effective means of raising capital.

We can make draw downs in amounts up to a maximum of 4.5% of our market capitalization at the time of the draw down, provided that in no event can a single draw down exceed \$7,500,000. The lowest threshold price at which our stock may be sold is determined at the sole discretion of the Company at each draw down, but in no case may be lower than \$1.00 per share. If we fail to draw \$3 million during the term of the Structured Secondary, a fee of \$300,000 will become due to Kingsbridge upon termination of the contract. In no event may we sell to Kingsbridge under the Structured Secondary a number of shares exceeding the applicable percentage under the rules of NASD which would require stockholder approval, generally 20% of our issued and outstanding stock.

Dahlman Rose Weiss, LLC ("Dahlman") served as placement agent for the Structured Secondary. As compensation for its services, at each draw down, Dahlman will receive a fee of 6% of the proceeds of each draw down as it is paid to the Company, plus a warrant to purchase a number of shares equal to 1% of the number of shares issued to Kingsbridge at each draw down. The exercise price of such warrant shall be determined at a mutually agreeable price.

The issuance of our common stock under the Structured Secondary will have no effect on the rights or privileges of existing holders of common stock except that the economic and voting interests of each stockholder will be diluted as a result of such issuance. Although the number of shares of common stock that stockholders presently own will not decrease, such shares will represent a smaller percentage of our total shares that will be outstanding after such events. If we satisfy the conditions that allow us to draw down the entire \$25 million available under the Structured Secondary, and we choose to do so, then generally, as the market price of our common stock decreases, the number of shares we will have to issue upon each draw down on the Structured Secondary

increases, to a maximum of 8,851,661 shares. Drawing down upon the Structured Secondary when the price of our common stock is decreasing will have an additional dilutive effect to the ownership percentage of current stockholders and may result in additional downward pressure on the price of our common stock.

The following are the material conditions that must be met before Kingsbridge is obligated to buy any shares of our common stock pursuant to a draw down:

- o Each of our representations and warranties in the Purchase Agreement shall be true and correct in all material respects as of the date when made and as of the draw down exercise date as though made at that time, except for representations and warranties that are expressly made as of a particular date. One of the representations provides that no event or series of events has or have occurred that would individually or in the aggregate have a "Material Adverse Effect" on the Company, defined as any effect on the business, operations, properties or financial condition of the Company and its consolidated subsidiaries that is material and adverse to the Company and such subsidiaries, taken as a whole, and/or any condition, circumstance, or situation that would prohibit or otherwise interfere with the ability of the Company to perform any of its obligations under the Purchase Agreement, the Registration Rights Agreement or the Warrant in any material respect.
- o We shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Purchase Agreement, the Registration Rights Agreement and the Warrant to be performed, satisfied or complied with by us.
- o We shall have complied in all material respects with all applicable federal, state and local governmental laws, rules, regulations and ordinances in connection with the execution, delivery and performance of the Purchase Agreement and the consummation of the transactions contemplated by such agreement.
- o The registration statement, of which this prospectus is part, shall have previously become effective and shall remain effective. Neither the Company nor Kingsbridge shall have received notice that the Securities and Exchange Commission (the "Commission") has issued or intends to issue a stop order with respect to the registration statement or that the Commission otherwise has suspended or withdrawn effectiveness of the registration statement, either temporarily or permanently, or intends or has threatened to do so (unless the Commission's concerns have been addressed and Kingsbridge is reasonably satisfied that the Commission no longer is considering or intends to take such action). No other suspension of the use or withdrawal of the effectiveness of the registration statement or prospectus shall exist.

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- o We shall not have knowledge of any event more likely than not to have the effect of causing the registration statement applicable to the resale of shares of our common stock by the investor issued under the Structured Secondary arrangement to be suspended or otherwise ineffective.
- o Trading in our common stock shall not have been suspended by the Commission, the Nasdaq SmallCap Market or the National Association of Securities Dealers and trading in securities generally on the Nasdaq SmallCap Market shall not have been suspended or limited.
- o We shall have no knowledge of any event more likely than not to have the effect of causing the registration statement registering the offer and sale of the shares to be suspended or otherwise ineffective (which event is more likely than not to occur within fifteen trading days following the trading day on which a draw down notice is delivered).
- o The number of shares of our common stock beneficially owned by Kingsbridge, together with those shares that we propose to sell to Kingsbridge in connection with a draw down, cannot exceed 9.9% of the total amount of our common stock that would be outstanding upon completion of the draw down.
- o No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by the Purchase Agreement.

- o No action, suit or proceedings before any arbitrator or any governmental authority shall have been commenced, and no investigation by any governmental authority shall have been threatened, against the Company or any subsidiary, or any of the officers, directors or affiliates of the Company or any subsidiary seeking to enjoin, prevent or change the transactions contemplated by the Purchase Agreement.

There is no guarantee that we will be able to meet these or any other conditions under the Purchase Agreement or that we will be able to draw down any portion of the \$25 million Structured Secondary.

In connection with the Purchase Agreement, we issued to Kingsbridge a Warrant to purchase 300,000 shares of common stock at an exercise price of \$4.11 per share. Such warrant will not be exercisable until August 11, 2004, and will expire on August 11, 2009.

We also entered into a Registration Rights Agreement with Kingsbridge in connection with the Structured Secondary. As contemplated by the Registration Rights Agreement, we have filed a registration statement, of which this prospectus is part, with the Securities and Exchange Commission relating to the resale by Kingsbridge of 9,151,661 shares of common stock purchased by Kingsbridge under the Purchase Agreement or issued to Kingsbridge as a result of the exercise of the Warrant. The effectiveness of such registration statement is a condition precedent to our ability to sell common stock to Kingsbridge under the Purchase Agreement.

If we determine, in consultation with our legal counsel, that resales by Kingsbridge of our shares of our common stock under an effective registration statement would be detrimental to us due to either (i) the existence of a material development or potential material development involving us that we would be obligated to disclose in the registration statement, which disclosure would be premature or otherwise inadvisable at such time or would have a Material Adverse Effect on us or our stockholders, or (ii) a filing of a Company-initiated registration of our common stock, which, in our good faith judgment, would adversely effect or require premature disclosure of the filing of such Company-initiated registration, we may declare, not more than twice in any twelve-month period, a "Blackout Period" and suspend the use of the registration statement by Kingsbridge for a period of not more than thirty days. If the Company declares a Blackout Period within sixty days after the settlement date of any purchase of our common stock by Kingsbridge where the VWAP on the trading day immediately preceding such Blackout Period ("Old VWAP") is greater than the VWAP on the first trading day following such Blackout Period that the Kingsbridge may sell its shares pursuant to the registration statement ("New VWAP"), then the Company is required to either (i) issue to Kingsbridge the number of additional shares of common stock, known as Blackout Shares, equal to one hundred twenty percent (120%) of the difference between (1) the product of the number of shares purchased by the Investor during the preceding sixty (60) calendar days under the Purchase Agreement and actually held by Kingsbridge immediately prior to the Blackout Period multiplied by the Old VWAP, divided by the New VWAP, and (2) the number of shares of common stock purchased by the Investor under the Purchase Agreement during the preceding sixty (60) calendar days and actually held by Kingsbridge immediately prior to the Blackout Period or (ii) pay to Kingsbridge an amount equal to the product of (1) the number of shares purchased by Kingsbridge under the Purchase Agreement during the preceding sixty (60) calendar days and actually held by Kingsbridge immediately prior to the Blackout Period and (2) the result obtained by subtracting the New VWAP from the Old VWAP.

If on any date on which we are required to deliver shares of common stock to Kingsbridge following a draw down on the Structured Secondary, we fail to deliver the shares to be purchased by Kingsbridge within ten trading days following the date on which Kingsbridge delivers payment for such shares, we are required to pay to Kingsbridge a "Make Whole Amount" equal to the sum of the draw down amount actually paid by Kingsbridge in respect of such shares plus an amount equal to actual loss suffered by Kingsbridge in respect of sales of such shares to subsequent purchasers, which is generally the difference between (A) the price per share paid by Kingsbridge to purchase such number of shares of common stock minus the average draw down price during the applicable draw down pricing period. In the event that the Make Whole Amount is not paid within two trading days, the Make Whole Amount accrues interest compounded daily at a rate of five percent (5%) annually until the Make Whole Amount is paid.

The foregoing summary of the Structured Secondary does not purport to be complete and is qualified in its entirety by reference to the Amended and Restated Common Stock Purchase Agreement, filed as Exhibit 10.3 to the registration statement on Form S-3 (SEC File No. 333-) of which this prospectus

is part, the Registration Rights Agreement and the Warrant, filed as exhibits to our Current Report on Form 8-K (SEC File No. 000-26824), filed on February 13, 2004, and are incorporated by reference herein.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares of our common stock by Kingsbridge pursuant to this prospectus. Any proceeds from the sale of the shares by us to Kingsbridge under the Purchase Agreement or received in connection with the exercise of the Warrant will be used for support of recent and future acquisitions and other corporate development activities. Pending the application of the proceeds from the sale of the shares by us to Kingsbridge, we expect to invest such proceeds in short-term, interest-bearing instruments or other investment-grade securities.

SELLING STOCKHOLDER

The following table sets forth certain information regarding beneficial ownership of our common stock by Kingsbridge as of June 15, 2004. Kingsbridge has not had a material relationship with our company within the past three years, except as a result of entering into the Structured Secondary described herein.

<TABLE>

<CAPTION>

| | COMMON STOCK BENEFICIALLY OWNED PRIOR TO OFFERING (1) | | | COMMON STOCK BENEFICIALLY OWNED AFTER OFFERING (2) | | |
|--------------------------------|--|-----------|-----------|---|---------|--|
| | COMMON STOCK TO BE SOLD | | | | | |
| | NUMBER | PERCENT | | NUMBER | PERCENT | |
| <S> | <C> | <C> | <C> | <C> | <C> | |
| Kingsbridge Capital Limited(3) | 9,151,661 | 17.13%(4) | 9,151,661 | 0 | 0 | |

</TABLE>

(1) The number of shares of common stock beneficially owned by Kingsbridge prior to the offering is deemed to include 8,851,661 shares of common stock registered hereunder and issuable in connection with the Purchase Agreement (16.57% of our common stock) and 300,000 shares of common stock that may be acquired by Kingsbridge pursuant to the Warrant (0.56% of our common stock).

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(2) Assumes that all shares registered hereunder are sold pursuant to this prospectus and that Kingsbridge does not acquire any additional shares of common stock.

(3) We have been advised that Kingsbridge is controlled by Valentine O'Donoghue and does not accept third party investments. Accordingly, Mr. O'Donoghue beneficially owns the shares of common stock acquired by Kingsbridge.

(4) Based on the 44,258,309 issued and outstanding shares of common stock as of June 15, 2004, plus the 8,851,661 shares of common stock issuable in connection with the Purchase Agreement and the 300,000 shares of common stock that may be acquired by Kingsbridge pursuant to the Warrant.

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PLAN OF DISTRIBUTION

We are registering 9,151,661 shares of common stock under this prospectus on behalf of Kingsbridge. All or a portion of the shares offered hereby by Kingsbridge may be delivered and/or sold in transactions from time to time on the Nasdaq SmallCap Market, on the over-the-counter market, in privately-negotiated transactions, or a combination of such methods of sale, at market prices prevailing at the time, at prices related to such prevailing prices or at negotiated prices. Kingsbridge may effect such transactions by selling to or through one or more broker-dealers, and such broker-dealers may receive compensation in the form of underwriting discounts, concessions or commissions from Kingsbridge. Kingsbridge is an "underwriter" within the meaning of the Securities Act. Kingsbridge has advised us that it will effect resales of our common stock through any one or more of the following registered broker dealers: Brean Murray & Co., Inc. and Dahlman Rose Weiss LLC. Dahlman Rose Weiss LLC served as the placement agent for the Structured Secondary. Each such broker dealer is an underwriter in respect of such shares sold by it on behalf of Kingsbridge. We have agreed to indemnify Kingsbridge with respect to the shares offered hereby against certain liabilities, including, without limitation, certain liabilities under the Securities Act, or, if such indemnity is

unavailable, to contribute toward amounts required to be paid in respect of such liabilities.

Any broker-dealer participating in such transactions as agent may receive commissions from Kingsbridge (and, if they act as agent for the purchaser of such shares, from such purchaser). Broker-dealers may agree with Kingsbridge to sell a specified number of shares at a stipulated price per share, and, to the extent such a broker-dealer is unable to do so acting as agent for Kingsbridge, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to Kingsbridge. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions (which may involve crosses and block transactions and which may involve sales to and through other broker-dealers, including transactions of the nature described above) on the Nasdaq SmallCap Market, on the over-the-counter market, in privately-negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices, and in connection with such resales may pay to or receive from the purchasers of such shares commissions computed as described above. To the extent required under the Securities Act, a supplemental prospectus will be filed, disclosing:

- o the name of any such broker-dealers;
- o the number of shares involved;
- o the price at which such shares are to be sold;
- o the commissions paid or discounts or concessions allowed to such broker-dealers, where applicable;
- o that such broker-dealers did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, as supplemented; and
- o other facts material to the transaction.

Kingsbridge and any other persons participating in the sale or distribution of the shares will be subject to the applicable provisions of the Securities Exchange Act of 1934 and the rules and regulations under such Act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of, purchases by the selling stockholder or other persons or entities. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

Kingsbridge will pay all commissions, transfer taxes, and certain other expenses associated with the sale of securities. The shares offered hereby are being registered pursuant to contractual obligations and we have paid the expenses of the preparation of this prospectus.

We have also agreed to reimburse the selling stockholder for certain costs and expenses incurred in connection with this offering. These may include the fees, expenses and disbursements of counsel for the selling stockholder incurred in the preparation of the Purchase Agreement and associated documentation and the registration statement of which this prospectus forms a part.

The selling stockholder may sell the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions from the selling stockholder or the purchasers. These discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be in excess of those customary in the types of transactions involved.

The common stock may be sold in one or more transactions at:

- o fixed prices;
- o prevailing market prices at the time of sale;
- o prices related to the prevailing market prices;
- o varying prices determined at the time of sale; or
- o negotiated prices.

These sales may be effected in transactions:

- o on any national securities exchange or quotation service on which our common stock may be listed or quoted at the time of sale, including The Nasdaq SmallCap Market;
- o in the over-the-counter market;
- o otherwise than on such exchanges or services or in the over-the-counter market;
- o through the writing of options, whether the options are listed on an options exchange or otherwise; or
- o through the settlement of short sales.

These transactions may include block transactions or crosses. Crosses are transactions in which the same broker acts as agent on both sides of the trade.

In connection with the sale of the common stock or otherwise, the selling stockholder may enter into hedging transactions with broker-dealers or other financial institutions. These broker-dealers or financial institutions may in turn engage in short sales of the common stock in the course of hedging the positions they assume with the selling stockholder. The selling stockholder may also sell the common stock short and deliver these securities to close out such short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities.

The aggregate proceeds to the selling stockholder from the sale of the common stock offered by them hereby will be the purchase price of the common stock less discounts and commissions, if any. The selling stockholder reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering.

Our outstanding common stock is listed for trading on The Nasdaq SmallCap Market.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in certain jurisdictions, the common stock may not be offered or sold unless they have been registered or qualified for sale or an exemption is available and complied with.

Broker-dealers or agents that participate in the sale of the common stock may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act. Profits on the sale of the common stock by the selling stockholder and any discounts, commissions or concessions received by any broker-dealers or agents might be deemed to be underwriting discounts and commissions under the Securities Act. The selling stockholder will be subject to the prospectus delivery requirements of the Securities Act. To the extent the selling stockholder may be deemed to be an "underwriter," it may be subject to statutory liabilities, including, but not limited to, Sections 11, 12 and 17 of the Securities Act.

The selling stockholder and any other person participating in a distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder. Regulation M of the Exchange Act may limit the timing of purchases and sales of any of the securities by the selling stockholder and any other person. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making activities with respect to the particular securities being distributed for a period of up to five business days before the distribution. The selling stockholder has acknowledged that it understands its obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation, particularly Regulation M, and has agreed that it will not engage in any transaction in violation of such provisions.

To our knowledge, there are currently no plans, arrangements or understandings between the selling stockholder and any underwriter, broker-dealer or agent regarding the sale of the common stock by the selling stockholder.

The selling stockholder may decide not to sell any common stock described in this prospectus. We cannot assure holders that the selling stockholder will use this prospectus to sell any or all of the common stock. Any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule

144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. In addition, the selling stockholder may transfer, devise or gift the common stock by other means not described in this prospectus.

With respect to a particular offering of the common stock, to the extent required, an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part will be prepared and will set forth the following information:

- o the specific common stock to be offered and sold;
- o the names of the selling stockholder;
- o the respective purchase prices and public offering prices and other material terms of the offering;
- o the names of any participating agents, broker-dealers or underwriters; and
- o any applicable commissions, discounts, concessions and other items constituting, compensation from the selling stockholder.

We entered into a registration rights agreement for the benefit of the selling stockholder to register its common stock under applicable federal and state securities laws under certain circumstances and at certain times. The registration rights agreement provides that the selling stockholder and Tegal will indemnify each other and their respective directors, officers and controlling persons against specific liabilities in connection with the offer and sale of the common stock, including liabilities under the Securities Act, or will be entitled to contribution in connection with those liabilities. We will pay all of our expenses and specified expenses incurred by the selling stockholder incidental to the registration, offering and sale of the common stock to the public, but the selling stockholder will be responsible for payment of commissions, concessions, fees and discounts of underwriters, broker-dealers and agents.

LEGAL MATTERS

Certain legal matters relating to the offering will be passed upon for Tegal by Latham & Watkins LLP, San Francisco, California. Certain legal matters will be passed upon for any agents or underwriters by counsel for such agents or underwriters identified in the applicable prospectus supplement.

EXPERTS

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended March 31, 2004 have been so incorporated in reliance on the report (which contains an explanatory paragraph relating to the ability of Tegal Corporation to continue as a going concern, as described in Note 1 to the financial statements) of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended. Accordingly, we file annual, quarterly and periodic reports, proxy statements and other information with the SEC relating to our business, financial statements and other matters. You may read and copy any documents we have filed with the SEC at prescribed rates at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to you free of charge at the SEC's web site at <http://www.sec.gov> and at our web site at <http://www.tegal.com>. Information contained in our web site is not part of this prospectus.

This prospectus is only part of a registration statement on Form S-3 that we have filed with the SEC under the Securities Act, and therefore omits certain information contained in the registration statement. We have also filed exhibits with the registration statement that are not included in this prospectus, and you should refer to the applicable exhibit for a complete description of any statement referring to any contract or other document. A copy of the registration statement, including the exhibits thereto, may be inspected without charge at the Public Reference Room of the SEC described above, and copies of such material may be obtained from such office upon payment of the fees

prescribed by the SEC.

We have elected to "incorporate by reference" certain information into this prospectus. By incorporating by reference, we can disclose important information to you by referring you to another document we have filed with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except for information incorporated by reference that is superseded by information contained in this prospectus. This prospectus incorporates by reference the documents set forth below that we have previously filed with the SEC:

| TEGAL CORPORATION SEC FILINGS | PERIOD ENDED |
|-------------------------------|--------------|
|-------------------------------|--------------|

| | |
|---|----------------|
| ----- | ----- |
| Annual Report on Form 10-K..... | March 31, 2004 |
| The description of our common stock as set forth in our Registration Statement on Form 8-A..... filed on September 21, 1995 | |

All documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus to the end of the offering of the common stock under this prospectus shall also be deemed to be incorporated in this prospectus by reference.

You may obtain copies of these documents from us without charge (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such documents) by writing to us at Tegal Corporation, 2201 South McDowell Boulevard, Petaluma, California 94954 or calling us at (707) 763-5600.

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9,151,661 SHARES OF COMMON STOCK

TEGAL CORPORATION

PROSPECTUS

WE HAVE NOT AUTHORIZED ANY DEALER, SALESMAN OR OTHER PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS AND ANY APPLICABLE SUPPLEMENT TO THIS PROSPECTUS. YOU MUST NOT RELY UPON ANY INFORMATION OR REPRESENTATION NOT CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS OR ANY APPLICABLE SUPPLEMENT TO THIS PROSPECTUS. NEITHER THIS PROSPECTUS NOR ANY APPLICABLE SUPPLEMENT TO THIS PROSPECTUS CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE REGISTERED COMMON STOCK TO WHICH IT RELATES, NOR DOES THIS PROSPECTUS OR ANY SUPPLEMENT TO THIS PROSPECTUS CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS OR ANY SUPPLEMENT TO THIS PROSPECTUS IS ACCURATE ON ANY DATE SUBSEQUENT TO THE DATE SET FORTH ON THE FRONT OF THIS PROSPECTUS OR ANY SUPPLEMENT TO THIS PROSPECTUS OR THAT ANY INFORMATION WE HAVE INCORPORATED BY REFERENCE IS CORRECT ON ANY DATE SUBSEQUENT TO THE DATE OF THE DOCUMENT INCORPORATED BY REFERENCE, EVEN THOUGH THIS PROSPECTUS AND ANY APPLICABLE SUPPLEMENT TO THIS PROSPECTUS IS DELIVERED OR SECURITIES ISSUED ON A LATER DATE.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses payable by the registrant in connection with the registration for resale of our common stock. All of the amounts shown are estimates except the Securities and Exchange Commission (the "Commission") registration fee.

AMOUNT

| | |
|----------------------------------|-------------|
| Commission Registration Fee..... | \$ 2,000.00 |
|----------------------------------|-------------|

| | |
|------------------------------------|---------------|
| *Costs of Printing..... | 10,000.00 |
| *Legal Fees and Expenses..... | 50,000.00 |
| *Accounting Fees and Expenses..... | 30,000.00 |
| *Miscellaneous Expenses..... | 10,000.00 |
| *Total..... | \$ 102,000.00 |

*Estimated

ITEM 15. LIABILITY AND INDEMNIFICATION OF DIRECTORS AND OFFICERS.

We are a Delaware corporation. Subsection (b)(7) of Section 102 of the Delaware General Corporation Law (the "DGCL"), enables a corporation in its original certificate of incorporation or an amendment thereto to eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of the director's fiduciary duty, except (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the DGCL (providing for liability of directors for unlawful payment of dividends or unlawful stock purchases or redemptions) or (iv) for any transaction from which the director derived an improper personal benefit.

Subsection (a) of Section 145 of the DGCL empowers a corporation to indemnify any present or former director, officer, employee or agent of the corporation, or any individual serving at the corporation's request as a director, officer, employee or agent of another organization, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding provided that such director, officer, employee or agent acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, provided further that such director, officer, employee or agent had no reasonable cause to believe his conduct was unlawful.

Subsection (b) of Section 145 empowers a corporation to indemnify any present or former director, officer, employee or agent who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit provided that such director, officer, employee or agent acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification may be made in respect to any claim, issue or matter as to which such director, officer, employee or agent shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such director or officer is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

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Section 145 further provides that to the extent a director, officer, employee or agent has been successful in the defense of any action, suit or proceeding referred to in subsections (a) and (b) or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith; that indemnification and advancement of expenses provided for, by, or granted pursuant to, Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and empowers the corporation to purchase and maintain insurance on behalf of a present or former director, officer, employee or agent of the corporation, or any individual serving at the corporation's request as a director, officer or employee of another organization, against any liability asserted against him or incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liabilities under Section 145.

Our Certificate of Incorporation provides that to the fullest extent permitted by the Delaware General Corporation Law ("DGCL"), a director of Tegal shall not be liable to Tegal or its stockholders for monetary damages for breach of fiduciary duty as a director.

ITEM 16. INDEX TO EXHIBITS.

-
- 4.1 Tegal's Certificate of Incorporation, as amended, filed as Exhibits 3(i)1 and 3(i)2 to Tegal's Registration Statement on Form S-1 (SEC File No. 033-84702) filed on October 3, 1994 and incorporated herein by reference.
 - 4.2 Tegal's Certificate of Amendment to the Certificate of Incorporation, filed as Exhibit 4.2 to Tegal's Registration Statement on Form S-3 (SEC File No. 333-108921), filed on September 18, 2003 and incorporated herein by reference.
 - 4.3 Tegal's By-Laws, as amended, filed as Exhibit 3(ii) to Tegal's Registration Statement on Form S-1 (SEC File No. 033-84702) filed on October 3, 1994 and incorporated herein by reference.
 - 4.4 Rights Agreement between Tegal and ChaseMellon Shareholder Services, LLC, as Rights Agent, dated as of June 11, 1996, filed as Exhibit 4.1 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on June 28, 1996 and incorporated herein by reference.
 - 4.5 First Amendment to Rights Agreement between Tegal and ChaseMellon Shareholder Services, LLC, as Rights Agent, dated as of January 15, 1999, filed as Exhibit 99.1 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on January 15, 1999 and incorporated herein by reference.
 - 4.6 Registration Rights Agreement by and between Tegal Corporation and Kingsbridge Capital Limited, dated as of February 11, 2004, filed as Exhibit 10.2 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on February 13, 2004 and incorporated herein by reference.
 - 4.7 Form of Certificate for Common Stock filed as Exhibit 4.1 to Tegal's Registration Statement on Form S-1 (SEC File No. 033-84702), filed on October 3, 1994 and incorporated herein by reference.
 - 5.1 Opinion of Latham & Watkins LLP.
 - 10.1 Common Stock Purchase Agreement by and between Kingsbridge Capital Limited and Tegal Corporation, dated as of February 11, 2004, filed as Exhibit 10.1 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on February 13, 2004 and incorporated herein by reference.
 - 10.2 Warrant to purchase 300,000 shares of common stock of Tegal Corporation, issued to Kingsbridge Capital Limited, dated February 11, 2004, filed as Exhibit 10.3 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on February 13, 2004 and incorporated herein by reference.
 - 10.3 Amended and Restated Common Stock Purchase Agreement by and between Kingsbridge Capital Limited and Tegal Corporation, dated as of May 19, 2004.

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- 23.1 Consent of Latham & Watkins LLP (included in Exhibit 5.1).
- 23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney (included on signature page).

ITEM 17. UNDERTAKINGS.

A. The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent

post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (A)(1)(i) and (A)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

B. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

C. The undersigned registrant hereby undertakes to supplement the prospectus, after the expiration of the subscription period for any subscription rights, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by the underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters is to be made on terms differing from those set forth on the cover page of the prospectus with respect to a subscription rights offering, a post-effective amendment will be filed to set forth the terms of such offering.

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D. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Petaluma, state of California, on this 30th day of

June, 2004.

TEGAL CORPORATION

By /s/ Michael L. Parodi

Michael L. Parodi
Chairman of the Board, President &
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael L. Parodi, and Thomas R. Mika, and each or either of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the 30th day of June, 2004.

<TABLE>

<CAPTION>

| SIGNATURE | TITLE |
|------------------------|--|
| ----- | ---- |
| <S> | <C> |
| /s/ Michael L. Parodi | Chairman of the Board, President & Chief Executive Officer (Principal Executive Officer) |
| ----- | |
| Michael L. Parodi | |
| /s/ Thomas R. Mika | Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer) |
| ----- | |
| Thomas R. Mika | |
| /s/ Edward A. Dohring | |
| ----- | |
| Edward A. Dohring | Director |
| /s/ Jeffrey M. Krauss | |
| ----- | |
| Jeffrey M. Krauss | Director |
| /s/ H. Duane Wadsworth | |
| ----- | |
| H. Duane Wadsworth | Director |

</TABLE>

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EXHIBIT INDEX

Number Exhibit

- 4.1 Tegal's Certificate of Incorporation, as amended, filed as Exhibits 3(i)1 and 3(i)2 to Tegal's Registration Statement on Form S-1 (SEC File No. 033-84702) filed on October 3, 1994 and incorporated herein by reference.
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- 4.5 First Amendment to Rights Agreement between Tegal and ChaseMellon Shareholder Services, LLC, as Rights Agent, dated as of January 15, 1999, filed as Exhibit 99.1 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on January 15, 1999 and incorporated herein by reference.
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- 4.7 Form of Certificate for Common Stock filed as Exhibit 4.1 to Tegal's Registration Statement on Form S-1 (SEC File No. 033-84702), filed on October 3, 1994 and incorporated herein by reference.
- 5.1 Opinion of Latham & Watkins LLP.
- 10.1 Common Stock Purchase Agreement by and between Kingsbridge Capital Limited and Tegal Corporation, dated as of February 11, 2004, filed as Exhibit 10.1 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on February 13, 2004 and incorporated herein by reference.
- 10.2 Warrant to purchase 300,000 shares of common stock of Tegal Corporation, issued to Kingsbridge Capital Limited, dated February 11, 2004, filed as Exhibit 10.3 to Tegal's Current Report on Form 8-K (SEC File No. 000-26824) filed on February 13, 2004 and incorporated herein by reference.
- 10.3 Amended and Restated Common Stock Purchase Agreement by and between Kingsbridge Capital Limited and Tegal Corporation, dated as of May 19, 2004.
- 23.1 Consent of Latham & Watkins LLP (included in Exhibit 5.1).
- 23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney (included on signature page).

EXHIBIT 5.1

OPINION OF LATHAM & WATKINS LLP

Latham & Watkins LLP
505 Montgomery St. Ste 1900
San Francisco, CA 94111-2562

June 30, 2004

Tegal Corporation
2201 South McDowell Blvd.
Petaluma, California 94954

Re: Registration Statement on Form S-3
9,151,661 shares of Common Stock, par value \$0.01 per share

Ladies and Gentlemen:

In connection with the registration by Tegal Corporation, a Delaware corporation (the "COMPANY"), of the resale of 9,151,661 shares (the "SHARES") of the Company's common stock, par value \$ 0.01 per share (the "COMMON STOCK"), including 8,851,661 shares (the "PURCHASED SHARES") to be issued and sold at the discretion of the Company to Kingsbridge Capital Limited under an Amended and Restated Common Stock Purchase Agreement dated as of May 19, 2004 (the "PURCHASE AGREEMENT") and 300,000 shares (the "WARRANT SHARES") issuable to Kingsbridge Capital Limited upon its exercise of a warrant to purchase Common Stock (the "WARRANT"), under the Securities Act of 1933, as amended, on Form S-3 filed with the Securities and Exchange Commission on June 30, 2004, (the "REGISTRATION STATEMENT"), you have requested our opinion set forth below.

In our capacity as your special counsel in connection with such registration, we are familiar with the proceedings taken and proposed to be taken by the Company in connection with the authorization, issuance and sale of the Shares, and for the purposes of this opinion, have assumed such proceedings will be timely completed in the manner presently proposed. In addition, we have examined such matters of fact and questions of law as we have considered appropriate for purposes of this letter.

We are opining herein as to the effect on the subject transaction only of the General Corporation Law of the State of Delaware, and we express no opinion with respect to the applicability thereto, or the effect thereon, of any other laws.

Subject to the foregoing, it is our opinion that as of the date hereof, (a) the Purchased Shares have been duly authorized by all necessary corporate action of the Company, and upon issuance, delivery and payment therefor in the manner contemplated by the Registration Statement and the Purchase Agreement, will be validly issued, fully paid and nonassessable, and (b) the Warrant Shares have been duly authorized by all necessary corporate action of the Company, and upon issuance, delivery and payment therefor in the manner contemplated by the Registration Statement and the Warrant, will be validly issued, fully paid and nonassessable.

We consent to your filing this opinion as an exhibit to the Registration Statement and to the reference to our firm contained under the heading "Legal Matters" in the prospectus included in the Registration Statement.

Very truly yours,

EXHIBIT 10.3

AMENDED AND RESTATED
COMMON STOCK PURCHASE AGREEMENT
BY AND BETWEEN
KINGSBRIDGE CAPITAL LIMITED
AND
TEGAL CORPORATION
DATED AS OF MAY 19, 2004

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AMENDED AND RESTATED
COMMON STOCK PURCHASE AGREEMENT

BY AND BETWEEN
KINGSBRIDGE CAPITAL LIMITED

AND
TEGAL CORPORATION

dated as of May 19, 2004

This AMENDED AND RESTATED COMMON STOCK PURCHASE AGREEMENT is entered into as of the 19th day of May, 2004 (this "Agreement"), by and between Kingsbridge Capital Limited, a company organized and existing under the laws of the British Virgin Islands (the "Investor") and TEGAL CORPORATION, a corporation organized and existing under the laws of the State of Delaware (the "Company").

WHEREAS, the parties desire that, upon the terms and subject to the conditions set forth herein, the Company may issue and sell to the Investor, from time to time as provided herein, and the Investor shall purchase from the Company, Common Stock (as defined below) for an aggregate of up to \$25 million; and

WHEREAS, such investments will be made in reliance upon the provisions of Section 4(2) ("Section 4(2)") and Regulation D ("Regulation D") of the United States Securities Act of 1933, as amended and the rules and regulations promulgated thereunder (the "Securities Act"), and/or upon such other exemption from the registration requirements of the Securities Act as may be available with respect to any or all of the investments in Common Stock to be made hereunder; and

WHEREAS, the parties hereto have previously entered into a Common Stock Purchase Agreement dated February 11, 2004, which the parties intend to be superceded in its entirety by this Agreement; and

WHEREAS, the parties have entered into a Registration Rights Agreement in the form of Exhibit A hereto (the "Registration Rights Agreement") pursuant to which the Company shall register the Common Stock issued and sold to the Investor under this Agreement and under the Warrant (as defined below), upon the terms and subject to the conditions set forth therein; and

WHEREAS, in consideration for the Investor's execution and delivery of, and its performance of its obligations under, this Agreement, the Company has issued to the Investor a Warrant in the form of Exhibit B hereto (the "Warrant") pursuant to which the Investor may purchase from the Company up to 300,000 shares of Common Stock, upon the terms and subject to the conditions set forth therein;

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NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 "Blackout Shares" shall have the meaning assigned to such term in the Registration Rights Agreement.

Section 1.02 "Certificate" shall have the meaning assigned to such term in Section 4.03 hereof.

Section 1.03 "Closing Date" means the date on which this Agreement is executed and delivered by the Company and the Investor.

Section 1.04 "Commission" means the United States Securities Exchange Commission.

Section 1.05 "Commission Documents" shall have the meaning assigned to such term in Section 4.06 hereof.

Section 1.06 "Commitment Period" means the period commencing on the Effective Date and expiring on the earliest to occur of (x) the date on which the Investor shall have purchased Shares pursuant to this Agreement for an aggregate purchase price equal to the Maximum Commitment Amount, (y) the date this Agreement is terminated pursuant to Article IX hereof, and (z) the date occurring 24 months from the Effective Date.

Section 1.07 "Common Stock" means the common stock of the Company, \$0.01 par value per share.

Section 1.08 "Condition Satisfaction Date" shall have the meaning assigned to such term in Article VII hereof.

Section 1.09 "Damages" means any loss, claim, damage, liability, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses and costs and reasonable expenses of expert witnesses and investigation).

Section 1.10 "Draw Down" shall have the meaning assigned to such term in Section 3.01 hereof.

Section 1.11 "Draw Down Amount" means the actual amount of a Draw Down paid to the Company.

Section 1.12 "Draw Down Notice" shall have the meaning assigned to such term in Section 3.01 hereof.

Section 1.13 "Draw Down Price" means 90% of the VWAP on any Trading Day during the Draw Down Pricing Period when the VWAP equals to or exceeds \$1.00.

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Section 1.14 "Draw Down Pricing Period" shall mean, with respect to each Draw Down, a period of fifteen (15) consecutive Trading Days beginning on the first Trading Day specified in a Draw Down Notice.

Section 1.15 "DTC" means the Depository Trust Corporation, or any successor thereto.

Section 1.16 "Effective Date" means the first Trading Day immediately following the date on which the Registration Statement is declared effective by the Commission.

Section 1.17 "Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Section 1.18 "Knowledge" means the actual knowledge of the Chief Executive Officer, Chief Financial Officer or any Executive Vice President or Vice President of the Company.

Section 1.19 "Legend" shall have the meaning specified in Section 8.1.

Section 1.20 "Make Whole Amount" shall have the meaning specified in Section 3.10.

Section 1.21 "Material Adverse Effect" means any effect on the business, operations, properties or financial condition of the Company and its consolidated subsidiaries that is material and adverse to the Company and such subsidiaries, taken as a whole, and/or any condition, circumstance, or situation that would prohibit or otherwise interfere with the ability of the Company to perform any of its obligations under this Agreement, the Registration Rights Agreement or the Warrant in any material respect; provided, that none of the following shall constitute a "Material Adverse Effect": (i) the effects of conditions or events that are generally applicable to the capital, financial, banking or currency markets and (ii) any changes or effects resulting from the announcement or consummation of the transactions contemplated by this Agreement,

including, without limitation, any changes or effects associated with any particular Draw Down.

Section 1.22 "Maximum Commitment Amount" means \$25 million in aggregate Draw Down Amounts; provided, however, that in no event shall the Investor be obligated to purchase, nor shall the Company issue and/or sell, Common Stock, including any Blackout Shares, in the aggregate under this Agreement representing twenty percent (20%) or more of the voting power in the Company outstanding.

Section 1.23 "Maximum Draw Down Amount" means 4.5% of the Company's Market Capitalization (as defined and calculated in accordance with Annex A) at the time of the Draw Down; provided, however, that such amount shall not exceed \$7.5 million in respect of any Draw Down.

Section 1.24 "NASD" means the National Association of Securities Dealers, Inc.

Section 1.25 "Other Financing" shall have the meaning assigned to such term in Section 6.07 hereof.

Section 1.26 "Permitted Transaction" shall have the meaning assigned to such term in Section 6.07 hereof.

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Section 1.27 "Person" means any individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including any government or political subdivision or an agency or instrumentality thereof.

Section 1.28 "Principal Market" means the Nasdaq National Market, the Nasdaq SmallCap Market, the American Stock Exchange or the New York Stock Exchange, whichever is at the time the principal trading exchange or market for the Common Stock.

Section 1.29 "Prohibited Transaction" shall have the meaning assigned to such term in Section 6.08 hereof.

Section 1.30 "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement, as supplemented from time to time pursuant to Rule 424(b) of the Securities Act.

Section 1.31 "Registrable Securities" means (i) the Shares, (ii) the Warrant Shares, and (iii) any securities issued or issuable with respect to any of the foregoing by way of exchange, stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to any particular Registrable Securities, once issued such securities shall cease to be Registrable Securities when (w) the Registration Statement has been declared effective by the SEC and such Registrable Securities have been disposed of pursuant to the Registration Statement, (x) such Registrable Securities have been sold under circumstances under which all of the applicable conditions of Rule 144 (or any similar provision then in force) under the Securities Act ("Rule 144") are met, (y) such time as such Registrable Securities have been otherwise transferred to holders who may trade such shares without restriction under the Securities Act, and the Company has delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend or (z) in the opinion of counsel to the Company such Registrable Securities may be sold without registration and without any time, volume or manner limitations pursuant to Rule 144(k) (or any similar provision then in effect) under the Securities Act.

Section 1.32 "Registration Rights Agreement" shall have the meaning set forth in the recitals of this Agreement.

Section 1.33 "Registration Statement" shall have the meaning assigned to such term in the Registration Rights Agreement.

Section 1.34 "Regulation D" shall have the meaning set forth in the recitals of this Agreement.

Section 1.35 "Section 4(2)" shall have the meaning set forth in the

recitals of this Agreement.

Section 1.36 "Securities Act" shall have the meaning set forth in the recitals of this Agreement..

Section 1.37 "Settlement Date" shall have the meaning assigned to such term in Section 3.06 hereof.

Section 1.38 "Shares" means the shares of Common Stock of the Company that are and/or may be purchased hereunder.

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Section 1.39 "Threshold Price" means the lowest "Draw Down Price" (as specified in a Draw Down Notice) at which the Company will agree to sell Shares during the applicable Draw Down Pricing Period, which price shall not be less than \$1.00 per share.

Section 1.40 "Trading Day" means any day other than a Saturday or a Sunday on which the Principal Market is open for trading in equity securities.

Section 1.41 "Underwriter" shall mean any underwriter participating in any disposition of the Registrable Securities on behalf of the Investor pursuant to the Registration Statement.

Section 1.42 "VWAP" means the daily volume weighted average price (the aggregate sales price of all trades of Common Stock during each Trading Day divided by the total number of shares of Common Stock traded during such Trading Day) of the Common Stock during any Trading Day as reported by Bloomberg, L.P. using the AQR function.

Section 1.43 "Warrant" shall have the meaning set forth in the recitals of this Agreement. Section 1.44....."Warrant Shares" means the shares of Common Stock issuable to the Investor upon exercise of the Warrant.

ARTICLE II

PURCHASE AND SALE OF COMMON STOCK

Section 2.01 Purchase and Sale of Stock. Upon the terms and subject to the conditions set forth in this Agreement, the Company shall issue and sell to the Investor and the Investor shall purchase from the Company Common Stock for an aggregate (in Draw Down Amounts) of up to the Maximum Commitment Amount, consisting of purchases based on Draw Downs in accordance with Article III hereof.

Section 2.02 Closing. In consideration of and in express reliance upon the representations, warranties, covenants, terms and conditions of this Agreement, the Company agrees to issue and sell to the Investor, and the Investor agrees to purchase from the Company, that number of the Shares to be issued in connection with each Draw Down. The closing of the execution and delivery of this Agreement (the "Closing") shall take place at the offices of Clifford Chance US LLP, 200 Park Avenue, New York, NY 10166 at 11:00 a.m. local time on May 19, 2004, or at such other time and place or on such date as the Investor and the Company may agree upon (the "Closing Date"). Each party shall deliver all documents, instruments and writings required to be delivered by such party pursuant to this Agreement at or prior to the Closing.

Section 2.03 Registration Statement and Prospectus. Promptly after the Closing, the Company shall prepare and file with the Commission the Registration Statement (including the Prospectus) in accordance with the provisions of the Securities Act and the Registration Rights Agreement.

Section 2.04 Warrant. On the Closing Date, the Company shall issue and deliver the Warrant to the Investor.

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Section 2.05 Blackout Shares. The Company shall issue and deliver any Blackout Shares, if any, to the Investor in accordance with Section 1(e) of the Registration Rights Agreement and Section 1.22 hereof.

ARTICLE III

DRAW DOWN TERMS

Subject to the satisfaction of the conditions hereinafter set forth in this Agreement, the parties agree as follows:

Section 3.01 Draw Down Notice. The Company, may, in its sole discretion, issue a Draw Down Notice with respect to a Draw Down up to a Draw Down Amount equal to the Maximum Draw Down Amount (each, a "Draw Down") during the Commitment Period, which Draw Down the Investor will be obligated to accept. The Company shall inform the Investor via facsimile transmission, with a copy to the Investor's counsel, as to the Draw Down Amount the Company wishes to exercise before commencement of trading on the first Trading Day of any Draw Down Pricing Period (the "Draw Down Notice"). In addition to the Draw Down Amount, each Draw Down Notice shall specify the Threshold Price in respect of the applicable Draw Down and shall designate the first Trading Day of the Draw Down Pricing Period. In no event shall any Draw Down Amount exceed the Maximum Draw Down Amount or shall the aggregate of all Draw Down Amounts exceed the Maximum Commitment Amount. Each Draw Down Notice shall be accompanied by a certificate, signed by the Chief Executive Officer or Chief Financial Officer dated, as of the date of such Draw Down Notice, in the form of Exhibit C hereof.

Section 3.02 Number of Shares. The number of Shares to be issued in connection with each Draw Down shall be equal to the sum of the quotients (for each Trading Day of the Draw Down Pricing Period for which the Draw Down Price equals or exceeds the Threshold Price) of one fifteenth (1/15th) of the Draw Down Amount divided by the applicable Draw Down Price.

Section 3.03 Limitation on Draw Downs. Only one Draw Down shall be permitted for each Draw Down Pricing Period.

Section 3.04 Trading Cushion. Unless the parties agree in writing otherwise, there shall be a minimum of five (5) Trading Days between the expiration of any Draw Down Pricing Period and the beginning of the next succeeding Draw Down Pricing Period.

Section 3.05 Expiration of Draw Downs. Each Draw Down will expire on the last Trading Day of each Draw Down Pricing Period.

Section 3.06 Settlement. The number of Shares purchased by the Investor with respect to each Draw Down shall be determined and settled on a periodic basis in respect of the applicable Draw Down Pricing Period. Settlement in respect of each determination shall be made no later than the third Trading Day after the fifth, tenth and fifteenth Trading Day of the Draw Down Pricing Period. Each date on which settlement of the purchase and sale of Shares occurs hereunder shall be referred to as a "Settlement Date." The Investor shall provide the Company with delivery instructions for the Shares to be issued at each Settlement Date at least two Trading Days in advance of such Settlement Date (except to the extent previously provided). The number of Shares actually issued shall be rounded to the nearest whole number of Shares.

Section 3.07 Delivery of Shares; Payment of Draw Down Amount. On each Settlement Date, the Company shall deliver the Shares purchased by the Investor to the Investor or its designees via book-entry through the Depositary Trust Company to an account designated by the Investor, and upon receipt of the Shares, the Investor shall cause payment therefor to be made to the Company's designated account by wire transfer of immediately available funds, if the Shares are received by the Investor no later than 1:00 p.m. (Eastern Time), or next day available funds, if the Shares are received thereafter.

Section 3.08 Threshold Price. For each Trading Day during a Draw Down Pricing Period that the Draw Down Price is less than the Threshold Price, no Shares shall be purchased or sold on such Trading Day and the total amount of the Draw Down Amount in respect of such Draw Down Pricing Period shall be reduced by one fifteenth (1/15th). At no time shall the Threshold Price be set below \$1.00. If trading in the Company's Common Stock is suspended for any reason for more than three (3) consecutive or non-consecutive hours during any Trading Day during a Draw Down Pricing Period, the Draw Down Price shall be

deemed to be less than the Threshold Price for that Trading Day.

Section 3.09 Other Issuances. If during any Draw Down Pricing Period the Company shall (with the consent of the Investor pursuant to Section 6.07 or 6.08 hereof, if applicable) issue any shares of Common Stock to any Person other than the Investor (other than shares of Common Stock issued in connection with a Permitted Transaction), that the applicable Draw Down Notice shall be deemed null and void and the Investor shall promptly return to the Company any and all Shares transferred to the Investor in respect of any Settlement Date(s) during such Draw Down Pricing Period and the Company shall promptly thereafter pay to the Investor by wire transfer of immediately available funds to an account designated by the Investor that portion of the applicable Draw Down Amount paid to the Company in respect of such Settlement Date(s).

Section 3.10 Failure to Deliver Shares. If on any Settlement Date, the Company fails to deliver the Shares to be purchased by the Investor, and such failure is not cured within ten (10) Trading Days following the date on which the Investor delivered payment for such Shares, the Company shall pay to the Investor on demand in cash by wire transfer of immediately available funds to an account designated by the Investor the "Make Whole Amount;" provided, however, that in the event that the Company is prevented from delivering Shares in respect of any such Settlement Date in a timely manner by any fact or circumstance that is reasonably within the control of, or directly attributable to, the Investor, then such ten (10) Trading Day period shall be automatically extended until such time as such fact or circumstance is cured. As used herein, the Make Whole Amount shall be an amount equal to the sum of (i) the Draw Down Amount actually paid by the Investor in respect of such Shares plus (ii) an amount equal to actual loss suffered by the Investor in respect of sales of such Shares to subsequent purchasers, which shall be based upon documentation reasonably satisfactory to the Company demonstrating the difference (if greater than zero) between (A) the price per share paid by the Investor to purchase such number of shares of Common Stock necessary for the Investor to meet its share delivery obligations to such subsequent purchasers minus (B) the average Draw Down Price during the applicable Draw Down Pricing Period. In the event that the Make Whole Amount is not paid within two (2) Trading Days following a demand therefor from the Investor, the Make Whole Amount shall accrue interest compounded daily at a rate of five percent (5%) per annum up to and including the date on which the Make Whole Amount is actually paid. Notwithstanding anything to the contrary set forth in this Agreement, in the event that the Company pays the Make Whole Amount (plus interest, if applicable) in respect of any Settlement Date in accordance with this Section 3.10, such payment shall be the Investor's sole remedy in respect of the Company's failure to deliver Shares in respect of such Settlement Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby makes the following representations and warranties to the Investor:

Section 4.01 Organization, Good Standing and Power. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Except as set forth in the Commission Documents (as defined below), the Company does not own more than fifty percent (50%) of the outstanding capital stock of or control any other business entity, other than any wholly-owned subsidiary that is not "significant" within the meaning of Regulation S-X promulgated by the Commission. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, other than those in which the failure so to qualify or be in good standing would not have a Material Adverse Effect.

Section 4.02 Authorization; Enforcement. (i) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Registration Rights Agreement and the Warrant and to issue the Shares, the Warrant, the Warrant Shares and any Blackout Shares (except to the extent that the number of Blackout Shares required to be issued exceeds the

number of authorized shares of Common Stock under the Certificate); (ii) the execution and delivery of this Agreement and the Registration Rights Agreement, and the execution, issuance and delivery of the Warrant, by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action and no further consent or authorization of the Company or its Board of Directors or stockholders is required (other than as contemplated by Section 6.05); and (iii) each of this Agreement and the Registration Rights Agreement has been duly executed and delivered, and the Warrant has been duly executed, issued and delivered, by the Company and constitute the valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation, receivership, or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application.

Section 4.03 Capitalization. The authorized capital stock of the Company and the shares thereof issued and outstanding as of May 19, 2004 are set forth on Schedule 4.03 attached hereto. All of the outstanding shares of the Common Stock have been duly and validly authorized and issued, and are fully paid and non-assessable. Except as set forth in this Agreement or on Schedule 4.03 attached hereto, as of the date hereof no shares of Common Stock are entitled to preemptive rights or registration rights and there are no outstanding options, warrants, scrip, rights to subscribe to, call or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for or giving any right to subscribe for, any shares of capital stock of the Company. Except as set forth in this Agreement or on Schedule 4.03, as of the date hereof, there are no contracts, commitments, understandings, or arrangements by which the Company is or may become bound to issue additional shares of the capital stock of the Company or options, securities or rights convertible into or exchangeable for or giving any right to subscribe for any shares of capital stock of the Company. Except as set forth on Schedule 4.03, as of the date hereof the Company is not a party to any agreement granting registration rights to any Person with respect to any of its equity or debt securities. Except as set forth on Schedule 4.03, as of the date hereof the Company is not a party to, and it has no Knowledge of, any agreement restricting the voting or transfer of any shares of the capital stock of the Company. The

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offer and sale of all capital stock, convertible securities, rights, warrants, or options of the Company issued during the twenty-four month period immediately prior to the Closing complied with all applicable federal and state securities laws, and no stockholder has a right of rescission or damages with respect thereto that could reasonably be expected to have a Material Adverse Effect. The Company has furnished or made available to the Investor true and correct copies of the Company's Certificate of Incorporation, as amended and in effect on the date hereof (the "Certificate"), and the Company's Bylaws, as amended and in effect on the date hereof (the "Bylaws").

Section 4.04 Issuance of Shares. The Shares, the Warrant and the Warrant Shares have been, and any Blackout Shares will be, duly authorized by all necessary corporate action (except to the extent that the number of Blackout Shares required to be issued exceeds the number of authorized shares of Common Stock under the Certificate) and, when issued and paid for in accordance with the terms of this Agreement, the Registration Rights Agreement and the Warrant, the Shares and the Warrant Shares shall be validly issued and outstanding, fully paid and non-assessable, and the Investor shall be entitled to all rights accorded to a holder of shares of Common Stock.

Section 4.05 No Conflicts. The execution, delivery and performance of this Agreement, the Registration Rights Agreement, the Warrant and any other document or instrument contemplated hereby or thereby, by the Company and the consummation by the Company of the transactions contemplated hereby and thereby do not: (i) violate any provision of the Certificate or Bylaws, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, mortgage, deed of trust, indenture, note, bond, license, lease agreement, instrument or obligation to which the Company is a party, (iii) create or impose a lien, charge or encumbrance on any property of the Company under any agreement or any commitment to which the Company is a party or by which the Company is bound or by which any of its respective properties or assets are bound, or (iv) result in

a violation of any federal, state, local or foreign statute, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries are bound or affected, except, in all cases, for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect. The Company is not required under federal, state or local law, rule or regulation to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement, the Registration Rights Agreement or the Warrant, or issue and sell the Shares, the Warrant Shares or the Blackout Shares (except to the extent that the number of Blackout Shares required to be issued exceeds the number of authorized shares of Common Stock under the Certificate) in accordance with the terms hereof and thereof (other than any filings that may be required to be made by the Company with the Commission, the NASD/Nasdaq or state securities commissions subsequent to the Closing, and, any registration statement (including any amendment or supplement thereto) which may be filed pursuant hereto); provided that, for purposes of the representation made in this sentence, the Company is assuming and relying upon the accuracy of the relevant representations, warranties and agreements of the Investor herein.

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Section 4.06 Commission Documents, Financial Statements. The Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act and, except as disclosed in the Commission Documents, the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the Commission pursuant to the reporting requirements of the Exchange Act, including material filed pursuant to Section 13(a) or 15(d) of the Exchange Act (all of the foregoing, including filings incorporated by reference therein, being referred to herein as the "Commission Documents"). The Company has maintained all requirements for the continued listing or quotation of its Common Stock, and such Common Stock is currently listed or quoted on the Nasdaq SmallCap Market. The Company has made available to the Investor true and complete copies of the Commission Documents filed with the Commission since December 31, 2003 and prior to the Closing Date. The Company has not provided to the Investor any information which, according to applicable law, rule or regulation, should have been disclosed publicly by the Company but which has not been so disclosed, other than with respect to the transactions contemplated by this Agreement. As of its date, the Company's Form 10-K for the fiscal year ended March 31, 2003 complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the Commission promulgated thereunder applicable to such document, and, as of its date, after giving effect to the information disclosed and incorporated by reference therein, such Form 10-K did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates, the financial statements of the Company included in the Commission Documents filed with the Commission since December 31, 2002 complied as to form and substance in all material respects with applicable accounting requirements and the published rules and regulations of the Commission or other applicable rules and regulations with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements), and fairly present in all material respects the financial position of the Company and its subsidiaries as of the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

Section 4.07 No Material Adverse Change. Except as disclosed in the Commission Documents and for continued losses from operations in the ordinary course of the Company's business, since December 31, 2003 no event or series of events has or have occurred that would, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 4.08 No Undisclosed Liabilities. Neither the Company nor any of its subsidiaries has any liabilities, obligations, claims or losses (whether

liquidated or unliquidated, secured or unsecured, absolute, accrued, contingent or otherwise) that would be required to be disclosed on a balance sheet of the Company or any subsidiary (including the notes thereto) in conformity with GAAP and are not disclosed in the Commission Documents, other than those incurred in the ordinary course of the Company's or its subsidiaries' respective businesses since December 31, 2003 and which, individually or in the aggregate, do not or would not have a Material Adverse Effect on the Company.

Section 4.09 No Undisclosed Events or Circumstances. No event or circumstance has occurred or exists with respect to the Company or its subsidiaries or their respective businesses, properties, operations or financial condition, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed and which, individually or in the aggregate, do not or would not have a Material Adverse Effect on the Company.

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Section 4.10 Actions Pending. There is no action, suit, claim, investigation or proceeding pending or, to the Knowledge of the Company, threatened against the Company or any subsidiary which questions the validity of this Agreement or the transactions contemplated hereby or any action taken or to be taken pursuant hereto or thereto. Except as set forth in the Commission Documents or on Schedule 4.10, there is no action, suit, claim, investigation or proceeding pending or, to the Knowledge of the Company, threatened, against or involving the Company, any subsidiary or any of their respective properties or assets that could be reasonably expected to have a Material Adverse Effect on the Company. Except as set forth in the Commission Documents or on Schedule 4.10, no judgment, order, writ, injunction or decree or award has been issued by or, so far as is known by the Company, requested of any court, arbitrator or governmental agency which might result in a Material Adverse Effect.

Section 4.11 Compliance with Law. The businesses of the Company and its subsidiaries have been and are presently being conducted in accordance with all applicable federal, state and local governmental laws, rules, regulations and ordinances, except as set forth in the Commission Documents or such that would not reasonably be expected to cause a Material Adverse Effect. The Company and each of its subsidiaries have all franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals necessary for the conduct of its business as now being conducted by it, except for such franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals, the failure to possess which, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

Section 4.12 Certain Fees. Except as set forth on Schedule 4.12, no brokers, finders or financial advisory fees or commissions will be payable by the Company or any of its subsidiaries in respect of the transactions contemplated by this Agreement.

Section 4.13 Disclosure. To the best of the Company's Knowledge, neither this Agreement nor the Schedules hereto nor any other documents, certificates or instruments furnished to the Investor by or on behalf of the Company or any subsidiary in connection with the transactions contemplated by this Agreement contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein or therein, in the light of the circumstances under which they were made herein or therein, not misleading.

Section 4.14 Material Non-Public Information. Except for this Agreement and the transactions contemplated hereby, neither the Company nor its agents have disclosed to the Investor, any material non-public information that, according to applicable law, rule or regulation, should have been disclosed publicly by the Company prior to the date hereof but which has not been so disclosed.

Section 4.15 Exemption from Registration; Valid Issuances. The issuance and sale of the Shares, the Warrant, the Warrant Shares and any Blackout Shares in accordance with the terms and on the bases of the representations and warranties set forth in this Agreement, may and shall be properly issued pursuant to Section 4(2), Regulation D and/or any other applicable federal and state securities laws. Neither the sales of the Shares, the Warrant, the Warrant

Shares or any Blackout Shares pursuant to, nor the Company's performance of its obligations under, this Agreement, the Registration Rights Agreement, or the Warrant shall (i) result in the creation or imposition of any liens, charges, claims or other encumbrances upon the Shares, the Warrant Shares, any Blackout Shares or any of the assets of the Company, or (ii) entitle the holders of any outstanding shares of capital stock of the Company to preemptive or other rights to subscribe to or acquire the shares of Common Stock or other securities of the Company. The Shares, the Warrant Shares and any Blackout Shares shall not subject the Investor to personal liability by reason of the ownership thereof.

Section 4.16 No General Solicitation or Advertising in Regard to this Transaction. Neither the Company nor any of its affiliates or any person acting on its or their behalf (i) has conducted any general solicitation (as that term is used in Rule 502(c) of Regulation D) or general advertising with respect to any of the Shares, the Warrant, the Warrant Shares or any Blackout Shares or (ii) has made any offers or sales of any security or solicited any offers to buy any security under any circumstances that would require registration of the Shares under the Securities Act.

Section 4.17 No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, other than pursuant to this Agreement and employee benefit plans, under circumstances that would require registration under the Securities Act of shares of the Common Stock issuable hereunder with any other offers or sales of securities of the Company.

Section 4.18 Acknowledgment Regarding Investor's Purchase of Shares. The Company acknowledges and agrees that the Investor is acting solely in the capacity of an arm's length Investor with respect to this Agreement and the transactions contemplated hereunder. The Company further acknowledges that the Investor is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereunder and any advice given by the Investor or any of its representatives or agents in connection with this Agreement and the transactions contemplated hereunder is merely incidental to the Investor's purchase of the Shares.

ARTICLE V REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE INVESTOR

The Investor hereby makes the following representations, warranties and covenants to the Company:

Section 5.01 Organization and Standing of the Investor. The Investor is a company duly organized, validly existing and in good standing under the laws of the British Virgin Islands.

Section 5.02 Authorization and Power. The Investor has the requisite power and authority to enter into and perform its obligations under this Agreement, the Registration Rights Agreement and the Warrant and to purchase the Shares in accordance with the terms hereof. The execution, delivery and performance of this Agreement by Investor and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary corporate action, and no further consent or authorization of the Investor, its Board of Directors or stockholders is required. This Agreement has been duly executed and delivered by the Investor and constitutes a valid and binding obligation of the Investor enforceable against the Investor in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation, conservatorship, receivership, or similar laws relating to, or affecting generally the enforcement of creditor's rights and remedies or by other equitable principles of general application.

Section 5.03 No Conflicts. The execution, delivery and performance of this Agreement, the Registration Rights Agreement, the Warrant and any other document or instrument contemplated hereby, by the Investor and the consummation of the transactions contemplated thereby do not (i) violate any provision of the

Investor's charter documents or bylaws, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, mortgage, deed of trust, indenture, note, bond, license, lease agreement, instrument or obligation to which the Investor is a party, (iii) create or impose a lien, charge or encumbrance on any property of the Investor under any agreement or any commitment to which the Investor is a party or by which the Investor is bound or by which any of its respective properties or assets are bound or (iv) result in a violation of any federal, state, local or foreign statute, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations) applicable to the Investor or by which any property or asset of the Investor are bound or affected, except in all cases, for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, prohibit or otherwise interfere with the ability of the Investor to enter into and perform its obligations under this Agreement in any material respect. The Investor is not required under federal, state or local law, rule or regulation to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or to purchase the Shares in accordance with the terms hereof, provided that, for purposes of the representation made in this sentence, the Investor is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

Section 5.04 Financial Capability The Investor has the financial capability to perform all of its obligations under this Agreement, including the capability to purchase the Shares in accordance with the terms hereof.

Section 5.05 Information. The Investor and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Shares which have been requested by the Investor. The Investor and its advisors, if any, have been afforded the opportunity to ask questions of the Company. The Investor has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Shares. The Investor understands that it (and not the Company) shall be responsible for its own tax liabilities that may arise as a result of this investment or the transactions contemplated by this Agreement.

Section 5.06 Selling Restrictions. The Investor covenants that during the Commitment Period, neither the Investor nor any of its affiliates nor any entity managed by the Investor will ever (i) be in a short position with respect to shares of the Common Stock in any accounts directly or indirectly managed by the Investor or any affiliate of the Investor or any entity managed by the Investor or (ii) engage in any transaction intended to reduce the economic risk of ownership of shares of Common Stock (including, without limitation, the purchase of any option or contract to sell) that would, directly or indirectly, have an effect substantially equivalent to selling short such shares of Common Stock that are subject to, underlie or may be deliverable in satisfaction of such transaction or otherwise may be reasonably be expected to adversely affect the market price of the Common Stock. Notwithstanding the foregoing, the Investor shall have the right during any Draw Down Pricing Period to sell shares of the Company's Common Stock equal in number to the aggregate number of the Shares to be purchased pursuant to the applicable Draw Down Notice.

ARTICLE VI

COVENANTS OF THE COMPANY

The Company covenants with the Investor as follows, which covenants are for the benefit of the Investor and its permitted assignees (as defined herein):

Section 6.01 Securities. The Company shall notify the Commission and the Principal Market, if and as applicable, in accordance with their rules and regulations, of the transactions contemplated by this Agreement, and shall use commercially reasonable efforts to take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Shares, the Warrant Shares and the Blackout Shares, if any, to the Investor.

Section 6.02 Reservation of Common Stock. As of the date hereof, the Company has available and the Company shall reserve and keep available at all times, free of preemptive rights and other similar contractual rights of stockholders, shares of Common Stock for the purpose of enabling the Company to satisfy any obligation to issue the Shares in connection with all Draw Downs contemplated hereunder and the Warrant Shares. The number of shares so reserved from time to time, as theretofore increased or reduced as hereinafter provided, may be reduced by the number of shares actually delivered hereunder.

Section 6.03 Registration and Listing. During the Commitment Period, the Company shall use commercially reasonable efforts: (i) to take all action necessary to cause its Common Stock to continue to be registered under Section 12(b) or 12(g) of the Exchange Act, (ii) to comply in all respects with its reporting and filing obligations under the Exchange Act, (iii) to prevent the termination or suspension such registration, or the termination or suspension of its reporting and filing obligations under the Exchange Act or Securities Act (except as expressly permitted herein). The Company shall use commercially reasonable efforts necessary to maintain the listing and trading of its Common Stock and the listing of the Shares purchased by Investor hereunder on the Principal Market (including, without limitation, maintaining sufficient net tangible assets) and will comply in all material respects with the Company's reporting, filing and other obligations under the bylaws or rules of the NASD and the Principal Market.

Section 6.04 Registration Statement. Without the prior written consent of the Investor, the Registration Statement shall be used solely in connection with the transactions between the Company and the Investor contemplated hereby.

Section 6.05 Compliance with Laws.

(a) The Company shall comply, and cause each subsidiary to comply, with all applicable laws, rules, regulations and orders, noncompliance with which could reasonably be expected to have a Material Adverse Effect.

(b) Without the consent of its stockholders in accordance with NASD rules, the Company will not be obligated to issue, and the Investor will not be obligated to purchase, any Shares which would result in the issuance under this Agreement of Shares representing more than the applicable percentage under the rules of the NASD that would require stockholder approval of the issuance thereof.

Section 6.06 Reporting Requirements. Upon reasonable written request of the Investor during the Commitment Period, the Company shall furnish copies of the following to the Investor within three Trading Days of such request (but not sooner than filed with or submitted to the Commission):

(a) Quarterly Reports on Form 10-Q;

(b) Annual Reports on Form 10-K;

(c) Periodic Reports on Form 8-K; and

(d) any other documents publicly furnished or submitted to the Commission.

Section 6.07 Other Financing. During the term of this Agreement, the Company shall not enter into any other financing agreement for the issuance, sale or other disposition of equity or equity-linked securities, including, without limitation, any securities or other instruments that are convertible into or exchangeable for Common Stock or Preferred Stock ("Other Financing") without the prior written consent of the Investor, which consent will not be unreasonably withheld, conditioned or delayed; provided, however, that without the prior written consent of the Investor the Company may (i) establish stock option or award plans or agreements (for directors, employees, consultants and/or advisors) and amend such plans or agreements, including increasing the number of shares available thereunder, (ii) use equity securities to finance the acquisition of other companies, equipment, technologies or lines of business, (iii) issue shares of Common Stock and/or Preferred Stock in connection with the Company's option or award plans, stock purchase plans, rights plans, warrants or

options, (iv) issue shares of Common Stock and/or Preferred Stock in connection with the acquisition of products, licenses, equipment or other assets and strategic partnerships or joint ventures (the primary purpose of which is not to raise equity capital); (v) issue shares of Common and/or Preferred Stock to consultants and/or advisors as consideration for services rendered, (vi) issue and sell shares in an underwritten public offering of Common Stock, and (vii) issue shares of Common Stock to the Investor under any other agreement entered into between the Investor and the Company (each a "Permitted Transaction").

Section 6.08 Prohibited Transactions. During the term of this Agreement, the Company shall not enter into any Prohibited Transaction without the prior written consent of the Investor, which consent may be withheld at the sole discretion of the Investor. For the purposes of this Agreement, the term "Prohibited Transaction" shall refer to the issuance by the Company of any "future priced securities," which shall be deemed to mean the issuance of shares of Common Stock or securities of any type whatsoever that are, or may become, convertible or exchangeable into shares of Common Stock where the purchase, conversion or exchange price for such Common Stock is determined using any floating or otherwise adjustable discount to the market price of Common Stock, including, without limitation, pursuant to any equity line or other financing that is substantially similar to the financing provided for under this Agreement.

Section 6.09 Corporate Existence. The Company shall take all steps necessary to preserve and continue the corporate existence of the Company.

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Section 6.10 Non-Disclosure of Non-Public Information. None of the Company, its officers, directors, employees nor agents shall disclose material non-public information to the Investor, its advisors or representatives.

Section 6.11 Notice of Certain Events Affecting Registration; Suspension of Right to Request a Draw Down. Notwithstanding the provisions of Section 6.10, the Company shall immediately notify the Investor upon the occurrence of any of the following events in respect of the Registration Statement or the Prospectus related to the offer, issuance and sale of the Shares and the Warrant Shares hereunder: (i) receipt of any request for additional information by the Commission 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 the Prospectus; (ii) the issuance by the Commission 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; and (iii) receipt of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company shall not request a Draw Down during the continuation of any of the foregoing events.

Section 6.12 Amendments to the Registration Statement. When the Registration Statement is declared effective by the Commission, the Company shall not (i) file any amendment to the Registration Statement or make any amendment or supplement to the Prospectus of which the Investor shall not previously have been advised or to which the Investor shall reasonably object after being so advised or (ii) so long as, in the reasonable opinion of counsel for the Investor, a Prospectus is required to be delivered in connection with sales of the Shares by the Investor, file any information, documents or reports pursuant to the Exchange Act without delivering a copy of such information, documents or reports to the Investor promptly following such filing.

Section 6.13 Prospectus Delivery. From time to time for such period as in the opinion of counsel for the Investor a prospectus is required by the Securities Act to be delivered in connection with sales by the Investor, the Company will expeditiously deliver to the Investor, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as the Investor may reasonably request. The Company consents to the use of the Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Securities Act and state securities laws in connection with the offering and sale of the Shares and the Warrant Shares and for such period of time thereafter as the Prospectus is required by the Securities Act to be delivered in connection with sales of the Shares and the Warrant Shares.

Section 6.14 Expectations Regarding Draw Downs. Within ten (10) calendar days after the commencement of each calendar quarter occurring subsequent to the date hereof, the Company shall notify the Investor as to its reasonable expectations as to the dollar amount it intends to raise during such calendar quarter, if any, through the issuance of Draw Down Notices. Such notification shall constitute only the Company's good faith estimate with respect to such calendar quarter and shall in no way obligate the Company to raise such amount during such calendar quarter or otherwise limit its ability to deliver Draw Down Notices during such calendar quarter. The failure by the Company to comply with this provision can be cured by the Company's notifying the Investor at any time as to its reasonable expectations with respect to the current calendar quarter.

ARTICLE VII

CONDITIONS TO THE OBLIGATION OF THE INVESTOR TO ACCEPT A DRAW DOWN

The obligation of the Investor hereunder to accept a Draw Down Notice and to acquire and pay for the Shares in accordance therewith is subject to the satisfaction or waiver, at each Condition Satisfaction Date, of each of the conditions set forth below. The conditions are for the Investor's sole benefit and may be waived by the Investor at any time in its sole discretion. As used in this Agreement, the term "Condition Satisfaction Date" shall mean, with respect to each Draw Down, the date on which the applicable Draw Down Notice is delivered to the Investor and each Settlement Date in respect of the applicable Draw Down Pricing Period.

Section 7.01 Accuracy of the Company's Representations and Warranties. Each of the representations and warranties of the Company shall be true and correct in all material respects as of the date when made as though made at that time, except for representations and warranties that are expressly made as of a particular date.

Section 7.02 Performance by the Company. The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement, the Registration Rights Agreement and the Warrant to be performed, satisfied or complied with by the Company.

Section 7.03 Compliance with Law. The Company shall have complied in all material respects with all applicable federal, state and local governmental laws, rules, regulations and ordinances in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby.

Section 7.04 Effective Registration Statement. Upon the terms and subject to the conditions as set forth in the Registration Rights Agreement, the Registration Statement shall have previously become effective and shall remain effective and (i) neither the Company nor the Investor shall have received notice that the Commission has issued or intends to issue a stop order with respect to the Registration Statement or that the Commission otherwise has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently, or intends or has threatened to do so (unless the Commission's concerns have been addressed and the Investor is reasonably satisfied that the Commission no longer is considering or intends to take such action), and (ii) no other suspension of the use or withdrawal of the effectiveness of the Registration Statement or the Prospectus shall exist.

Section 7.05 No Knowledge. The Company shall have no Knowledge of any event more likely than not to have the effect of causing the Registration Statement with respect to the resale of the Registrable Securities by the Investor to be suspended or otherwise ineffective (which event is more likely than not to occur within fifteen Trading Days following the Trading Day on which a Draw Down Notice is delivered).

Section 7.06 No Suspension. Trading in the Company's Common Stock shall not have been suspended by the Commission, the Principal Market or the NASD and trading in securities generally as reported on the Principal Market shall not have been suspended or limited.

Section 7.07 No Injunction. No statute, rule, regulation, executive order,

decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

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Section 7.08 No Proceedings or Litigation. No action, suit or proceeding before any arbitrator or any governmental authority shall have been commenced, and no investigation by any governmental authority shall have been threatened, against the Company or any subsidiary, or any of the officers, directors or affiliates of the Company or any subsidiary seeking to enjoin, prevent or change the transactions contemplated by this Agreement.

Section 7.09 Section 16 Limitation. On each Settlement Date, the number of Shares then to be purchased by the Investor shall not exceed the number of such shares that, when aggregated with all other Registrable Securities then owned by the Investor beneficially or deemed beneficially owned by the Investor, would result in the Investor owning more than 9.9% of all of such Common Stock as would be outstanding on such Settlement Date, as determined in accordance with Section 16 of the Exchange Act. For purposes of this Section 7.09, in the event that the amount of Common Stock outstanding as determined in accordance with Section 16 of the Exchange Act and the regulations promulgated thereunder is greater on a Settlement Date than on the date upon which the Draw Down Notice associated with such Settlement Date is given, the amount of Common Stock outstanding on such Settlement Date shall govern for purposes of determining whether the Investor, when aggregating all purchases of Common Stock made pursuant to this Agreement and, if any, Warrant Shares and Blackout Shares, would own more than 9.9% of the Common Stock following such Settlement Date.

Section 7.10 Sufficient Shares Registered for Resale. The Company shall have sufficient Shares, calculated using the closing trade price of the Common Stock as of the Trading Day immediately preceding such Draw Down Notice, registered under the Registration Statement to issue and sell such Shares in accordance with such Draw Down Notice.

Section 7.11 Warrant. The Warrant shall have been duly executed, delivered and issued to the Investor, and the Company shall not be in default in any material respect under any of the provisions thereof (it being acknowledged and agreed that any refusal by or failure of the Company to issue Warrant Shares when and as requested by the Investor in accordance with the terms of the Warrant shall be deemed to be a material default).

Section 7.12 Opinion of Counsel. The Investor shall have received an opinion of counsel to the Company, dated as of the Effective Date, in the form of Exhibit D hereof, or in such other form reasonably satisfactory to the Investor and its counsel.

ARTICLE VIII

CONDITIONS TO THE OBLIGATIONS OF THE COMPANY TO SELL, ISSUE AND DELIVER THE SHARES TO THE INVESTOR

The obligation of the Company hereunder to sell, issue and deliver Shares to the Investor in accordance with the terms of any Draw Down notice is subject to the satisfaction or waiver, at each Settlement Date, of each of the conditions set forth below. The conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion.

Section 8.01 Accuracy of the Investor's Representations and Warranties. Each of the representations and warranties of the Investor shall be true and correct in all material respects as of the date when made as though made at that time, except for representations and warranties that are expressly made as of a particular date.

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Section 8.02 Performance by the Investor. The Investor shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement, the Registration Rights Agreement and the Warrant to be performed, satisfied or complied with by the

Investor.

Section 8.03 Compliance with Law. The Investor shall have complied in all material respects with all applicable federal, state and local governmental laws, rules, regulations and ordinances, including all NASD rules and regulations, in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby.

Section 8.04 Effective Registration Statement. Neither the Company nor the Investor shall have received notice that the Commission has issued or intends to issue a stop order with respect to the Registration Statement or that the Commission otherwise has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently, or intends or has threatened to do so (unless the Commission's concerns have been addressed and the Company is reasonably satisfied that the Commission no longer is considering or intends to take such action), and no other suspension of the use or withdrawal of the effectiveness of the Registration Statement or the Prospectus shall exist.

Section 8.05 No Knowledge. The Investor shall have no Knowledge of any event more likely than not to have the effect of causing the Registration Statement with respect to the resale of the Registrable Securities by the Investor to be suspended or otherwise ineffective (which event is more likely than not to occur within fifteen Trading Days following the Trading Day on which a Draw Down Notice is delivered).

Section 8.06 No Suspension. Trading in the Company's Common Stock shall not have been suspended by the Commission, the Principal Market or the NASD and trading in securities generally as reported on the Principal Market shall not have been suspended or limited.

Section 8.07 No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

Section 8.08 No Proceedings or Litigation. No action, suit or proceeding before any arbitrator or any governmental authority shall have been commenced, and no investigation by any governmental authority shall have been threatened, against the Investor, the Company or any subsidiary, or any of the officers, directors or affiliates of the Investor or the Company or any subsidiary seeking to enjoin, prevent or change the transactions contemplated by this Agreement.

ARTICLE IX

LEGENDS

Section 9.01 Legends. Unless otherwise provided below, each certificate representing Registrable Securities will bear the following legend (the "Legend"):

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE SECURITIES LAWS AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED, HYPOTHECATED OR OTHERWISE DISPOSED OF, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO A TRANSACTION THAT IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS CERTIFICATE IS THE BENEFICIARY OF CERTAIN OBLIGATIONS OF THE COMPANY SET FORTH IN A COMMON STOCK PURCHASE AGREEMENT BETWEEN TEGAL CORPORATION AND KINGSBRIDGE CAPITAL LIMITED DATED AS OF FEBRUARY 11, 2004. A COPY OF THE PORTION OF THE AFORESAID AGREEMENT EVIDENCING SUCH OBLIGATIONS MAY BE OBTAINED FROM THE COMPANY'S EXECUTIVE OFFICES.

As soon as practicable after the execution and delivery hereof, but in any event within ten (10) Trading Days hereafter, the Company shall issue to the transfer

agent for its Common Stock (and to any substitute or replacement transfer agent for its Common Stock upon the Company's appointment of any such substitute or replacement transfer agent) instructions, with a copy to the Investor. Such instructions shall be irrevocable by the Company from and after the date hereof or from and after the issuance thereof to any such substitute or replacement transfer agent, as the case may be, except as otherwise expressly provided in the Registration Rights Agreement. It is the intent and purpose of such instructions, as provided therein, to require the transfer agent for the Common Stock from time to time upon transfer of Registrable Securities by the Investor to issue certificates or make DTC entries (as the case may be) evidencing such Registrable Securities free of the Legend during the following periods and under the following circumstances and without consultation by the transfer agent with the Company or its counsel and without the need for any further advice or instruction or documentation to the transfer agent by or from the Company or its counsel or the Investor, unless an opinion of Investor's counsel is reasonably required by the transfer agent or the Company:

(a) At any time after the Effective Date to the extent accompanied by a notice requesting the issuance of certificates free of the Legend; provided that (i) the Company is reasonably able to confirm to the transfer agent that the Registration Statement shall then be effective and (ii) if reasonably requested by the transfer agent the Investor confirms to the transfer agent that the Investor has complied with the prospectus delivery requirement under the Securities Act.

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(b) At any time upon any surrender of one or more certificates evidencing Registrable Securities that bear the Legend, to the extent accompanied by a notice requesting the issuance of new certificates free of the Legend to replace those surrendered and containing representations that (i) the Investor is permitted to dispose of such Registrable Securities without limitation as to amount or manner of sale pursuant to Rule 144(k) under the Securities Act and there is no requirement for the Investor to deliver a prospectus or (ii) the Investor has sold, pledged or otherwise transferred or agreed to sell, pledge or otherwise transfer such Registrable Securities in a manner other than pursuant to an effective registration statement, to a transferee who shall upon such transfer be entitled to freely tradeable securities.

Section 9.02 No Other Legend or Stock Transfer Restrictions. No legend other than the one specified in Section 9.01 has been or shall be placed on the share certificates representing the Common Stock issued to the Investor and no instructions or "stop transfer orders," so called "stock transfer restrictions," or other restrictions have been or shall be given to the Company's transfer agent with respect thereto other than as expressly set forth in this Article IX.

ARTICLE X TERMINATION

Section 10.01 Term. Unless otherwise terminated in accordance with Section 10.02 below, this Agreement shall terminate upon the expiration of the Commitment Period.

Section 10.02 Other Termination.

(a) The Investor may terminate this Agreement upon (x) one (1) day's notice if the Company enters into any Other Financing as set forth in Section 6.07 or any Prohibited Transaction as set forth in Section 6.08 without the Investor's prior written consent, or (y) one (1) day's notice within ten (10) Trading Days after the Investor obtains actual knowledge that an event resulting in a Material Adverse Effect has occurred; provided, however, that the Investor shall be deemed to possess such actual knowledge within five (5) Trading Days after such event has been publicly disclosed by the Company in accordance with its periodic reporting requirements under the Exchange Act.

(b) The Investor may terminate this Agreement upon one (1) day's notice to the Company at any time in the event that the Registration Statement is not declared effective in accordance with the Registration Rights Agreement.

(c) The Company may terminate this Agreement upon one (1) day's notice; provided, however, that the Company shall not terminate this Agreement

pursuant to this Section 10.02(c) during any Draw Down Pricing Period; provided further; that, in the event of any termination of this Agreement by the Company hereunder, so long as the Investor owns Shares purchased hereunder and/or Warrant Shares, unless all of such shares of Common Stock may be resold by the Investor without registration and without any time, volume or manner limitations pursuant to Rule 144(k) (or any similar provision then in effect) under the Securities Act, the Company shall not suspend or withdraw the Registration Statement or otherwise cause the Registration Statement to become ineffective, or delist the Common Stock from the Principal Market.

(d) Each of the parties hereto may terminate this Agreement upon one (1) day's notice if the other party has breached a material representation, warranty or covenant to this Agreement and such breach is not remedied within ten (10) Trading Days after notice of such breach is delivered to the breaching party.

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(e) The obligation of the Investor to purchase shares of Common Stock shall terminate permanently in the event that there shall occur any stop order or suspension of effectiveness of the Registration Statement for an aggregate of thirty (30) calendar days during the Commitment Period.

Section 10.03 Effect of Termination.

(a) In the event of termination by the Company or the Investor, written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement shall be terminated without further action by either party. If this Agreement is terminated as provided in Section 10.01 or 10.02 herein, this Agreement shall become void and of no further force and effect, except as provided in Section 12.13. Nothing in this Section 10.03 shall be deemed to release the Company or the Investor from any liability for any breach under this Agreement, or to impair the rights of the Company and the Investor to compel specific performance by the other party of its obligations under this Agreement.

(b) In the event that the Company fails to issue and sell Common Stock to the Investor for an amount (in aggregate Draw Down Amounts) at least equal to \$3,000,000 under this Agreement during the Commitment Period, on the first Trading Day following the expiration of the Commitment Period, the Company shall pay to Investor by wire transfer of immediately available funds to an account designated by the Investor an amount equal to \$300,000. The parties hereto acknowledge and agree that the sum payable under this Section 9.03(b) shall represent liquidated damages and not a penalty. The parties further acknowledge that such amount (i) bears a reasonable relation to the commitment fee that the Investor would have, in light of its reasonable investment expectations, otherwise charged the Company in consideration for the Investor's commitment to purchase Common Stock hereunder and (ii) is not plainly or grossly disproportionate to the probable loss likely to be incurred by the Investor in connection with the failure by the Company to issue and sell Common Stock to the Investor for an amount (in aggregate Draw Down Amounts) at least equal to \$3,000,000 under this Agreement during the Commitment Period.

ARTICLE XI

INDEMNIFICATION

Section 11.01 Indemnification.

(a) Except as otherwise provided in this Article XI, unless disputed as set forth in Section 11.02, the Company agrees to indemnify, defend and hold harmless the Investor and its affiliates and their respective officers, directors, agents, employees, subsidiaries, partners, members and controlling persons (each, an "Investor Indemnified Party"), to the fullest extent permitted by law from and against any and all Damages directly resulting from or directly arising out of any breach of any representation or warranty, covenant or agreement by the Company in this Agreement, the Registration Rights Agreement or the Warrant; provided, however, that the Company shall not be liable under this Article XI to an Investor Indemnified Party to the extent that such Damages resulted or arose from the breach by an Investor Indemnified Party of any representation or warranty of an Investor Indemnified Party contained in this

Agreement or the gross negligence, recklessness, willful misconduct or bad faith of an Investor Indemnified Party. The parties intend that any Damages subject to indemnification pursuant to this Article XI will be net of insurance proceeds. Accordingly, the amount which the Company is required to pay to any Investor Indemnified Party hereunder (a "Company Indemnity Payment") will be reduced by any insurance proceeds actually recovered by or on behalf of any Investor Indemnified Party in reduction of the related Damages. In addition, if an Investor Indemnified Party receives a Company Indemnity Payment required by this Article XI in respect of any Damages and subsequently receives any such insurance proceeds, then the Investor Indemnified Party will pay to the Company an amount equal to the Company Indemnity Payment received less the amount of the Company Indemnity Payment that would have been due if the insurance proceeds had been received, realized or recovered before the Company Indemnity Payment was made.

(b) Except as otherwise provided in this Article XI, unless disputed as set forth in Section 11.02, the Investor agrees to indemnify, defend and hold harmless the Company and its affiliates and their respective officers, directors, agents, employees, subsidiaries, partners, members and controlling persons (each, a "Company Indemnified Party"), to the fullest extent permitted by law from and against any and all Damages directly resulting from or directly arising out of any breach of any representation or warranty, covenant or agreement by the Investor in this Agreement; provided, however, that the Investor shall not be liable under this Article XI to a Company Indemnified Party to the extent that such Damages resulted or arose from the breach by a Company Indemnified Party of any representation or warranty of a Company Indemnified Party contained in this Agreement or gross negligence, recklessness, willful misconduct or bad faith of a Company Indemnified Party. The parties intend that any Damages subject to indemnification pursuant to this Article XI will be net of insurance proceeds. Accordingly, the amount which the Investor is required to pay to any Company Indemnified Party hereunder (a "Investor Indemnity Payment") will be reduced by any insurance proceeds theretofore actually recovered by or on behalf of any Company Indemnified Party in reduction of the related Damages. In addition, if a Company Indemnified Party receives a Investor Indemnity Payment required by this Article XI in respect of any Damages and subsequently receives insurance such proceeds, then the Company Indemnified Party will pay to the Investor an amount equal to the Investor Indemnity Payment received less the amount of the Investor Indemnity Payment that would have been due if the insurance proceeds had been received, realized or recovered before the Investor Indemnity Payment was made.

Section 11.02 Notification of Claims for Indemnification. Each party entitled to indemnification under this Article XI (an "Indemnified Party") shall, promptly after the receipt of notice of the commencement of any claim against such Indemnified Party in respect of which indemnity may be sought from the party obligated to indemnify such Indemnified Party under this Article XI (the "Indemnifying Party"), notify the Indemnifying Party in writing of the commencement thereof. Any such notice shall describe the claim in reasonable detail. The failure of any Indemnified Party to so notify the Indemnifying Party of any such action shall not relieve the Indemnifying Party from any liability which it may have to such Indemnified Party (a) other than pursuant to this Article XI or (b) under this Article XI unless, and only to the extent that, such failure results in the Indemnifying Party's forfeiture of substantive rights or defenses or the Indemnifying Party is prejudiced by such delay. The procedures listed below shall govern the procedures for the handling of indemnification claims.

(a) Any claim for indemnification for Damages that do not result from a Third Party Claim as defined in the following paragraph, shall be asserted by written notice given by the Indemnified Party to the Indemnifying Party. Such Indemnifying Party shall have a period of thirty (30) days after the receipt of such notice within which to respond thereto. If such Indemnifying Party does not respond within such thirty (30) day period, such Indemnifying Party shall be deemed to have refused to accept responsibility to make payment as set forth in Section 10.01. If such Indemnifying Party does not respond within such thirty (30) day period or rejects such claim in whole or in part, the Indemnified Party shall be free to pursue such remedies as specified in this Agreement, including the dispute resolution provisions set forth in Section 11.03 below.

(b) If an Indemnified Party shall receive notice or otherwise learn of the assertion by a person or entity not a party to this Agreement of any threatened legal action or claim (collectively a "Third Party Claim"), with respect to which an Indemnifying Party may be obligated to provide indemnification, the Indemnified Party shall give such Indemnifying Party written notice thereof within twenty (20) days after becoming aware of such Third Party Claim.

(c) An Indemnifying Party may elect to defend (and, unless the Indemnifying Party has specified any reservations or exceptions, to seek to settle or compromise) at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any Third Party Claim. Within thirty (30) days after the receipt of notice from an Indemnified Party (or sooner if the nature of such Third Party Claim so requires), the Indemnifying Party shall notify the Indemnified Party whether the Indemnifying Party will assume responsibility for defending such Third Party Claim, which election shall specify any reservations or exceptions. If such Indemnifying Party does not respond within such thirty (30) day period or rejects such claim in whole or in part, the Indemnified Party shall be free to pursue such remedies as specified in this Agreement, including the dispute resolution provisions set forth in Section 11.03 below. In case any such Third Party Claim shall be brought against any Indemnified Party, and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to assume the defense thereof at its own expense, with counsel satisfactory to such Indemnified Party in its reasonable judgment; provided, however, that at any Indemnified Party may, at its own expense, retain separate counsel to participate in such defense at its own expense. Notwithstanding the foregoing, in any claim in which both the Indemnifying Party, on the one hand, and an Indemnified Party, on the other hand, are, or are reasonably likely to become, a party, such Indemnified Party shall have the right to employ separate counsel and to control its own defense of such claim if, in the reasonable opinion of counsel to such Indemnified Party, either (x) one or more defenses are available to the Indemnified Party that are not available to the Indemnifying Party or (y) a conflict or potential conflict exists between the Indemnifying Party, on the one hand, and such Indemnified Party, on the other hand, that would make such separate representation advisable; provided, however, that the Indemnifying Party (i) shall not be liable for the fees and expenses of more than one counsel to all Indemnified Parties and (ii) shall reimburse the Indemnified Parties for such reasonable fees and expenses of such counsel incurred in any such action between the Indemnifying Party and the Indemnified Parties or between such Indemnified Parties and any third party, as such expenses are incurred. The Indemnifying Party agrees that it will not, without the prior written consent of the Indemnified Party, settle, compromise or consent to the entry of any judgment in any pending or threatened claim relating to the matters contemplated hereby (if any Indemnified Party is a party thereto or has been actually threatened to be made a party thereto) unless such settlement, compromise or consent includes an unconditional release of such Indemnified Party from all liability arising or that may arise out of such claim. The Indemnifying Party shall not be liable for any settlement of any claim effected against an Indemnified Party without the Indemnifying Party's written consent, which consent shall not be unreasonably withheld, conditioned or delayed. The rights accorded to an Indemnified Party hereunder shall be in addition to any rights that any Indemnified Party may have at common law, by separate agreement or otherwise; provided, however, that notwithstanding the foregoing or anything to the contrary contained in this Agreement, nothing in this Article XI (other than Section 11.03) shall restrict or limit any rights that any Indemnified Party may have to seek equitable relief.

Section 11.03 Dispute Resolution. Any dispute under this Agreement, the Registration Rights Agreement or the Warrant shall be submitted to arbitration (including, without limitation, pursuant to this Article XI) and shall be finally and conclusively determined by the decision of a board of arbitration consisting of three (3) members (the "Board of Arbitration") selected as hereinafter provided. Each of the Indemnified Party and the Indemnifying Party shall select one (1) member and the third member shall be selected by mutual agreement of the other members, or if the other members fail to reach agreement on a third member within twenty (20) days after their selection, such third

member shall thereafter be selected by the American Arbitration Association upon application made to it for such purpose by the Indemnified Party. The Board of Arbitration shall meet on consecutive business days in San Francisco, California or such other place as a majority of the members of the Board of Arbitration determines more appropriate, and shall reach and render a decision in writing (concurring in by a majority of the members of the Board of Arbitration) with respect to the amount, if any, which the Indemnifying Party is required to pay to the Indemnified Party in respect of a claim filed by the Indemnified Party. In connection with rendering its decisions, the Board of Arbitration shall adopt and follow such rules and procedures as a majority of the members of the Board of Arbitration deems necessary or appropriate. To the extent practical, decisions of the Board of Arbitration shall be rendered no more than thirty (30) calendar days following commencement of proceedings with respect thereto. The Board of Arbitration shall cause its written decision to be delivered to the Indemnified Party and the Indemnifying Party. Any decision made by the Board of Arbitration (either prior to or after the expiration of such thirty (30) calendar day period) shall be final, binding and conclusive on the Indemnified Party and the Indemnifying Party and entitled to be enforced to the fullest extent permitted by law and entered in any court of competent jurisdiction. Each party to any arbitration shall bear its own expense in relation thereto, including but not limited to such party's attorneys' fees, if any, and the expenses and fees of the Board of Arbitration shall be divided between the Indemnifying Party and the Indemnified Party in the same proportion as the portion of the related claim determined by the Board of Arbitration to be payable to the Indemnified Party bears to the portion of such claim determined not to be so payable.

ARTICLE XII

MISCELLANEOUS

Section 12.01 Fees and Expenses.

(a) The Company shall pay on demand all reasonable fees and expenses, including, without limitation, all reasonable attorneys fees and expenses, incurred by the Investor in connection with the preparation, negotiation, execution and delivery of this Agreement, the Registration Rights Agreement and the Warrant, which payment shall be made whether or not any transactions contemplated hereunder are actually consummated.

(b) The Company shall pay on demand \$12,500 per calendar quarter to cover due diligence expenses incurred by the Investor during the term of this Agreement; provided, however, that the Company shall not be required to pay such amounts with respect to the second and third calendar quarters of 2004.

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(c) The Company shall be solely responsible for (i) all reasonable fees and expenses incurred by the Investor in connection with any amendments, modifications or waivers of this Agreement or incurred in connection with the Investor's enforcement of this Agreement, including, without limitation, all reasonable attorneys fees and expenses, and (ii) all stamp or other similar taxes and duties, if any, levied in connection with issuance of the Shares pursuant hereto.

Section 12.02 Reporting Entity for the Common Stock. The reporting entity relied upon for the determination of the trading price or trading volume of the Common Stock on any given Trading Day for the purposes of this Agreement shall be Bloomberg, L.P. or any successor thereto. The written mutual consent of the Investor and the Company shall be required to employ any other reporting entity.

Section 12.03 Brokerage. Except as set forth on Schedule 4.12, each of the parties hereto represents that it has had no dealings in connection with this transaction with any finder or broker who will demand payment of any fee or commission from the other party. The Company on the one hand, and the Investor, on the other hand, agree to indemnify the other against and hold the other harmless from any and all liabilities to any Persons claiming brokerage commissions or finder's fees on account of services purported to have been rendered on behalf of the indemnifying party in connection with this Agreement or the transactions contemplated hereby.

Section 12.04 Notices. All notices, demands, requests, consents,

approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice given in accordance herewith. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company:

Tegal Corporation
2201 South McDowell Blvd.
Petaluma, California 94954
Telephone: (707) 763-5600
Facsimile: (707) 763 0436

Attention: Thomas R. Mika, Chief Financial Officer

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with a copy (which shall not constitute notice) to:

Scott Willoughby, Esq.
Latham & Watkins LLP
505 Montgomery Street #1900
San Francisco, CA 94111
Telephone: (415) 646-8345
Facsimile: (415) 395-8095

if to the Investor:

Kingsbridge Capital Limited/ c/o Kingsbridge Corporate Services Limited
Main Street
Kilcullen, County Kildare
Republic of Ireland

Telephone: 011-353-45-481-811
Facsimile: 011-353-45-482-003
Attention: Adam Gurney, Managing Director

with a copy (which shall not constitute notice) to:

Keith M. Andruschak, Esq.
Clifford Chance US LLP
200 Park Avenue
New York, NY 10166
Telephone: (212) 878-8000
Facsimile: (212) 878-8375

Either party hereto may from time to time change its address or facsimile number for notices under this Section by giving at least ten (10) days' prior written notice of such changed address or facsimile number to the other party hereto.

Section 12.05 Assignment. Neither this Agreement nor any rights of the Investor or the Company hereunder may be assigned by either party to any other Person. Notwithstanding the foregoing, the provisions of this Agreement shall inure to the benefit of, and be enforceable by, any private transferee of any of the Common Stock purchased or acquired by the Investor hereunder with respect to the Common Stock held by such Person.

Section 12.06 Amendment; No Waiver. No party shall be liable or bound to

any other party in any manner by any warranties, representations or covenants except as specifically set forth in this Agreement or therein. Except as expressly provided in this Agreement, neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by both parties hereto. The failure of the either party to insist on strict compliance with this Agreement, or to exercise any right or remedy under this Agreement, shall not constitute a waiver of any rights provided under this Agreement, nor estop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising such a right or remedy in the future.

Section 12.07 Entire Agreement. This Agreement, the Registration Rights Agreement and the Warrant set forth the entire agreement and understanding of the parties relating to the subject matter hereof and supersedes all prior and contemporaneous agreements, negotiations and understandings between the parties, both oral and written, relating to the subject matter hereof, including the Common Stock Purchase Agreement by and between the Company and the Investor, dated February 11, 2004.

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Section 12.08 Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision; provided that, such severability shall be ineffective if it materially changes the economic benefit of this Agreement to any party.

Section 12.09 Title and Subtitles. The titles and subtitles used in this Agreement are used for the convenience of reference and are not to be considered in construing or interpreting this Agreement.

Section 12.10 Counterparts. This Agreement may be executed in multiple counterparts, each of which may be executed by less than all of the parties and shall be deemed to be an original instrument which shall be enforceable against the parties actually executing such counterparts and all of which together shall constitute one and the same instrument.

Section 12.11 Choice of Law. This Agreement shall be construed under the laws of the State of New York.

Section 12.12 Specific Enforcement, Consent to Jurisdiction.

(a) The Company and the Investor acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof or thereof, this being in addition to any other remedy to which any of them may be entitled by law or equity.

(b) Subject to Section 11.03, each of the Company and the Investor (i) hereby irrevocably submits to the jurisdiction of the United States District Court and other courts of the United States sitting in the State of New York for the purposes of any suit, action or proceeding arising out of or relating to this Agreement and (ii) hereby waives, and agrees not to assert in any such suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. Each of the Company and the Investor consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this Section shall affect or limit any right to serve process in any other manner permitted by law.

Section 12.13 Survival. The representations and warranties of the Company and the Investor contained in Articles IV and V and the covenants contained in Article V and Article VI shall survive the execution and delivery hereof and the Closing until the termination of this Agreement, and the agreements and covenants set forth in Article X and Article XI of this Agreement shall survive

the execution and delivery hereof and the Closing hereunder.

Section 12.14 Publicity. Prior to the Closing, neither the Company nor the Investor shall issue any press release or otherwise make any public statement or announcement with respect to this Agreement or the transactions contemplated hereby or the existence of this Agreement. In the event the Company is required by law, based upon an opinion of the Company's counsel, to issue a press release or otherwise make a public statement or announcement with respect to this Agreement prior to the Closing, the Company shall consult with the Investor on the form and substance of such press release. Promptly after the Closing, each party may issue a press release or otherwise make a public statement or announcement with respect to this Agreement or the transactions contemplated hereby or the existence of this Agreement; provided that, prior to issuing any such press release, making any such public statement or announcement, the party wishing to make such release, statement or announcement consults and cooperates in good faith with the other party in order to formulate such press release, public statement or announcement in form and substance reasonably acceptable to both parties.

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Section 12.15 Further Assurances. From and after the date of this Agreement, upon the request of the Investor or the Company, each of the Company and the Investor shall execute and deliver such instruments, documents and other writings as may be reasonably necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement.

[Remainder of this page intentionally left blank]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officer as of the date first written.

KINGSBRIDGE CAPITAL LIMITED

By: /s/ Valentine O'Donoghue

Valentine O'Donoghue
Director

TEGAL CORPORATION

By: /s/ Thomas R. Mika

Thomas R. Mika
Executive Vice President and Chief Financial Officer

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ANNEX A

MARKET CAPITALIZATION

The market capitalization of Tegal Corporation shall be calculated on the Trading Day preceding the first Trading Day of the Draw Down Pricing Period and shall be based upon the product of (x) the closing bid price of the Company's Common Stock as reported by Bloomberg L.P. using the AQR function, (y) the number of outstanding shares of Common Stock of the Company as reported by Bloomberg L.P. using the DES function (such product, the "Market Capitalization").

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SCHEDULE 4.03

CAPITALIZATION AND RIGHTS

CAPITALIZATION

TOTAL SHARES ISSUED AND OUTSTANDING (5/19/04)

44,031,658

OTHER REGISTRATION RIGHTS

Registration Rights Agreements covering stock:

1. Registration Rights Agreements, by and among the Company, Simplus Systems corporation and Kiet Nguyen, dated as of December 5, 2003. (1,500,000 shares). The Registration Rights Agreement between the Company and the shareholders of Sputtered Films, Inc, dated as of August 30, 2002 was satisfied by that S-3 Registration Statement dated June 30, 2003, which became effective August 21, 2003.

Registration Rights Agreements covering unexercised warrants:

1. Registration Rights Agreements, by and among the Company and Financial West Group, including Messrs. Schacter, R., Schacter, D., Griesel, T., Pelletier, K. and Shayne, A., dated as of February 15, 2000. (50,000 warrants unexercised; \$7.71 strike price).
2. Registration Rights Agreements, by and among the Company and Financial West Group, including Messrs. Schacter, R., Schacter, D., Griesel, T., Pelletier, K. and Shayne, A., dated as of March 28, 2000. (30,000 warrants unexercised; \$6.14 strike price).
3. Registration Rights Agreements, by and among the Company and Financial West Group, including Messrs. Schacter, R., Schacter, D., Griesel, T., Pelletier, K. and Shayne, A., dated as of April 13, 2000. (75,000 warrants unexercised; \$4.69 strike price).
4. Registration Rights Agreements, by and among the Company and Hultquist Capital, LLC, dated as of February 15, 2001. (150,000 warrants unexercised; \$5.00 strike price).
5. Registration Rights Agreements between the Company and the Investors listed thereto, dated as of December 31, 2001, including Messrs. Beattie, M., Arnold, A., Allen Zaring Holdings, Inc., Berol, J., Berol, D., Eyeman, E., Paterson, J., Polar Global, Niehoff, K., Bunyon, E., Boal, H. Gerber, M., Laudien, G., Power, J., and Berman, A., (819,000 warrants unexercised; \$2.50 strike price)
6. Registration Rights Agreements, by and among the Company and Fechtor, Detweiler, LLC, including Messrs. Wood, M., Walsh, R., Ramberg, F., McShane, D., Mitchell, J., Crowley, P., Frank, S., Hughes, E., Niehoff, K., Martino, S., Power, J., dated as of December 31, 2001. (31,665 warrants unexercised; \$5.00 strike price).

7. Registration Rights Agreements, by and among the Company and Hultquist Capital, LLC, Block, Bowman Associates, LLC, including Friends School, San Francisco, Double H Investment Partners, and Adams, P., dated as of August 30, 2002 (154,063 warrants unexercised; \$1.20 strike price).
8. Registration Rights Agreements between the Company and the Investors listed thereto, dated as of June 30, 2003 (429,921 warrants unexercised; \$0.50 strike price).
9. Registration Rights Agreements between the Company and the Investors listed thereto, dated as of September 9, 2003 (3,132,952 warrants unexercised; \$0.50 strike price).
10. Registration Rights Agreements by and among TSD Trading, including Messrs.

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SCHEDULE 4.10

ACTIONS PENDING

None

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SCHEDULE 4.12

BROKERS

Dahlman Rose Weiss, LLC is serving as a broker to the Company in connection with the transactions contemplated by the Agreement and will receive a broker's fee of 6% of the proceeds of each Draw Down Amount as it is paid to the Company, plus a warrant to purchase a number of shares equal to 1% of the number of shares issued to the Investor at each Draw Down.

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EXHIBIT A

Form of Registration Rights Agreement

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EXHIBIT B

Form of Warrant

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EXHIBIT C

Officer's Certificate

I, [NAME OF OFFICER], do hereby certify to Kingsbridge Capital Limited (the "Investor"), with respect to the common stock of Tegal Corporation (the "Company") issuable in connection with the Draw Down Notice, dated _____ (the "Notice") attached hereto and delivered pursuant to Article II of the Common Stock Purchase Agreement, dated [DATE], 2004 (the "Agreement"), by and between the Company and the Investor, as follows:

1. I am the duly elected [OFFICER] of the Company.
2. The representations and warranties of the Company set forth in Article IV of the Agreement are true and correct in all material respects as though made on and as of the date hereof (except for such representations and warranties that are made as of a particular date).
3. The Company has performed in all material respects all covenants and agreements to be performed by the Company on or prior to the date hereof related to the Notice and has satisfied each of the conditions to the obligation of the Investor set forth in Article VII of the Agreement.

The undersigned has executed this Certificate this ____ day of ____, 2004.

Name:
Title:

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EXHIBIT D

FORM OF OPINION OF COUNSEL TO THE COMPANY

[Date]

Kingsbridge Capital Limited
c/o Kingsbridge Corporate Services Ltd.
Main Street
Kilcullen, County Kildare
Republic of Ireland

Re: Tegal Corporation

Ladies and Gentlemen:

We have acted as special counsel to Tegal Corporation, a Delaware corporation (the "Company"), in connection with the sale to you (the "Selling Stockholder") on the date hereof by the Company of shares (the "Shares") of common stock of the Company, par value \$0.01 per share (the "Common Stock"), pursuant to an Amended and Restated Common Stock Purchase Agreement dated May 19, 2004 between you and the Company (the "Purchase Agreement"). Reference is also made to a Registration Rights Agreement, dated as of February 11, 2004 (the "Registration Rights Agreement"), between you and the Company and a warrant to purchase up to 300,000 shares of Common Stock dated February 11, 2004 (the "Warrant", and the shares of Common Stock issuable pursuant to exercise of the Warrant, the "Warrant Shares"). This letter is being delivered to you pursuant to Section 7.12 of the Purchase Agreement. Capitalized terms defined in the Purchase Agreement, used herein and not otherwise defined herein, shall have the meanings given them in the Purchase Agreement.

As such counsel, we have examined such matters of fact and questions of law as we have considered appropriate for purposes of this letter, except where a specified fact confirmation procedure is stated to have been performed (in which case we have with your consent performed the stated procedure), and except where a statement is qualified as to knowledge (in which case we have with your consent made no or limited inquiry as specified below). We have examined, among other things, the following:

(a) the Purchase Agreement, the Registration Rights Agreement and the Warrant (the "Transaction Documents"); and

(b) the Certificate of Incorporation and the Bylaws of the Company (the "Governing Documents") and certain resolutions of the Board of Directors of the Company.

As to facts material to the opinions, statements and assumptions expressed herein, we have, with your consent, relied upon oral or written statements and representations of officers and other representatives of the Company and others, including the representations and warranties of the Company and the Selling Stockholder in the Transaction Documents. We have not independently verified such factual matters.

Whenever a statement herein is qualified as to knowledge, awareness or a similar phrase, it is intended to indicate that those attorneys in this firm who have rendered legal services in connection with the transaction referenced above do not have current actual knowledge of the inaccuracy of such statement. However, except as otherwise expressly indicated, we have not undertaken any independent investigation to determine the accuracy of any such statement.

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We are opining herein as to the effect on the subject transaction

only of the federal laws of the United States, the internal laws of the State of New York and in numbered paragraphs 1, 2, 3, 5 and 7 of this letter, the General Corporation Law of Delaware (the "DGCL"), and we express no opinion with respect to the applicability thereto, or the effect thereon, of the laws of any other jurisdiction or, in the case of Delaware, any other laws, or as to matters of municipal law or the laws of any local agencies within any state. Our opinions and confirmations herein are based upon our consideration of only those statutes, rules and regulations which, in our experience, are normally applicable to private placements of common equity securities, provided that no opinion or confirmation is expressed herein with respect to federal or state securities laws (except to the extent stated in paragraph 6 herein), tax laws, antitrust or trade regulation laws, insolvency or fraudulent transfer laws, antifraud laws, NASD rules, pension or employee benefit laws or other laws excluded by customary practice. We express no opinion as to any state or federal laws or regulations applicable to the subject transactions because of the nature or extent of the business of any parties to the Transaction Documents.

Subject to the foregoing and the other matters set forth herein, it is our opinion that, as of the date hereof:

1. The Company is a corporation under the DGCL. Based on certificates from public officials, we confirm that the Company is validly existing and in good standing under the laws of the State of Delaware.

2. The Company has the corporate power and corporate authority to enter into the Transaction Documents and perform its obligations thereunder.

3. The execution, delivery and performance of the Transaction Documents have been duly authorized by all necessary corporate action of the Company, and each of the Transaction Documents has been duly executed and delivered by the Company.

4. Each of the Transaction Documents constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

5. The execution and delivery of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereunder on the date hereof do not (i) violate the provisions of the Governing Documents or (ii) violate any federal or New York statute, rule or regulation known to us to be applicable to the Company.

6. Assuming that the representations and warranties of the Company and the Investor contained in the Transaction Documents are true and correct as of the date hereof, (i) the issuance on the date hereof of the Shares in accordance with the Transaction Documents is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act"), (ii) the issuance of any shares of Common Stock issued pursuant to Section 1.1(e) of the Registration Rights Agreement (the "Blackout Shares"), assuming issuance on the date hereof, in accordance with the Transaction Documents, would be exempt from the registration requirements of the Act and (iii) the issuance of the Warrant Shares, assuming exercise of the Warrant on the date hereof, and issuance and delivery and payment therefor in the manner described in the Transaction Documents, would be exempt from the registration requirements of the Act. We express no opinion, however, as to when or under what circumstances the Shares, the Blackout Shares and the Warrant Shares may be resold or as to the effect of subsequent issuances of securities of the Company or transfers of the Shares, the Blackout Shares or the Warrant Shares to the extent that such issuances or transfers may be integrated with the issuance of the Shares, the Blackout Shares or the Warrant Shares.

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7. The Shares, when issued to and paid for by you in accordance with the terms of the Purchase Agreement, and the Warrant Shares, when issued to and paid for by you upon due exercise of the Warrant by you in accordance with the terms of the Warrant, will be validly issued, fully paid and non-assessable and free of preemptive rights arising from the Governing Documents.

The opinions expressed in paragraph 4 above are further subject to the following limitations, qualifications and exceptions: (a) the effect of bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other

similar laws related to or affecting the rights or remedies of creditors; (b) the effects of general principles of equity, whether considered in a proceeding in equity or at law (including the possible unavailability of specific performance or injunctive relief), concepts of materiality, reasonableness, good faith and fair dealing, and the discretion of the court before which a proceeding is brought; (c) the unenforceability under certain circumstances under law or court decisions of provisions for the indemnification of or contribution to a party with respect to a liability where such indemnification or contribution is contrary to public policy; and (d) we express no opinion with respect to the enforceability of (i) consents to, or restrictions upon, judicial relief, jurisdiction or venue; (ii) advance waivers of claims, defenses, rights granted by law, or notice, opportunity for hearing, evidentiary requirements, statutes of limitation, trial by jury or at law, or other procedural rights; (iii) provisions for exclusivity, election or cumulation of rights or remedies; (iv) restrictions upon non-written modifications and waivers; (v) provisions authorizing or validating conclusive or discretionary determinations; (vi) grants of setoff rights; (vii) provisions for the payment of attorneys' fees where such payment is contrary to law or public policy; (viii) proxies, powers and trusts; (ix) provisions prohibiting, restricting or requiring consent to assignment or transfer of any right or property; (x) provisions for liquidated damages, default interest, late charges, monetary penalties, prepayment or make-whole premiums or other economic remedies; and (xi) provisions for specific enforcement.

With your consent, we have assumed for purposes of this opinion that: all parties to the Transaction Documents other than the Company have complied with any applicable requirement to file returns and pay taxes under the Franchise Tax Law of the State of California; all parties to the Transaction Documents other than the Company are duly organized, validly existing and in good standing under the laws of their respective jurisdictions of organization; all parties to the Transaction Documents other than the Company have the requisite power and authority to execute and deliver the Transaction Documents and to perform their respective obligations under the Transaction Documents to which they are a party; and the Transaction Documents to which such parties other than the Company are a party have been duly authorized, executed and delivered by such parties and constitute their legally valid and binding obligations, enforceable against them in accordance with their terms.

This opinion is furnished only to you and is solely for your benefit in connection with the transactions covered hereby. This letter may not be relied upon by you for any other purpose, or furnished to, assigned to, quoted to or relied upon by any other person, firm or other entity for any purpose, without our prior consent, which may be granted or withheld in our discretion.

Very truly yours,

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in this Registration Statement on Form S-3 of our report dated June 25, 2004, relating to the consolidated financial statements and the financial statement schedule, which appears in Tegal Corporation's Annual Report on Form 10-K for the year ended March 31, 2004. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

San Jose, California
June 29, 2004