

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

FORM 8-K

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

Date of report (Date of earliest event reported): August 10, 2006

Tegal Corporation

(Exact name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction
of incorporation)

000-26824
(Commission
File Number)

68-0370244
(I.R.S. Employer
Identification No.)

2201 South McDowell Boulevard
Petaluma, California 94954
(Address of Principal Executive Offices)

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

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition

On August 10, 2006, Tegal Corporation (the “Company”) issued its first quarter 2007 press release, a copy of which is furnished as Exhibit 99.1 to this Form 8-K and incorporated by reference herein. On August 10, 2006, the Company held a conference call announcing its financial results for the first quarter 2007. The transcript of this conference call is furnished as Exhibit 99.2 to this Form 8-K and is incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated August 10, 2006
99.2	Transcript of Tegal Corporation’s first quarter 2007 conference call held on August 10, 2006

SIGNATURES

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

TEGAL CORPORATION

Date: August 15, 2006

By: /s/ Christine T. Hergenrother

Name: Christine T. Hergenrother
Title: Chief Financial Officer

EXHIBIT INDEX

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99.2	Transcript of Tegal Corporation's first quarter 2007 conference call held on August 10, 2006



Tegal Corporation 2201 S. McDowell Blvd., Petaluma, CA 94954 [T] (707) 763-5600 [F] (707) 765-9311 www.tegal.com

**TEGAL CORPORATION REPORTS
FIRST QUARTER FISCAL 2007 FINANCIAL RESULTS**

*Revenue Increases 116% Year-over Year and 9% Sequentially
Substantial Gross Margin Improvement to 38%*

San Jose, Calif., August 10, 2006 — Tegal Corporation (Nasdaq:TGALD), a leading designer and manufacturer of plasma etch and deposition systems used in the production of integrated circuits and nanotechnology devices, today announced financial results for the First Quarter Fiscal Year 2007, which ended June 30, 2006. Senior management will conduct an investor conference call to discuss these results and the company's financial outlook in more detail today at 2pm Pacific Time, Thursday, August 10, 2006. More information about the conference call is provided below.

First Quarter Highlights

- Revenues during the first quarter of fiscal 2007 were \$6.6 million, an increase of 116% from \$3.1 million reported in the same period last year, and an increase of 9% sequentially from the \$6.1 million recorded for the fourth quarter of fiscal 2006.
 - Tegal recorded a net loss for the first quarter of \$1.8 million or (\$0.26) per share compared to a net loss of \$2.5 million or (\$0.57) per share in the same period last year and a net loss of \$2.3 million or (\$0.33) per share for the fourth quarter of fiscal 2006. All of the per share numbers reflect a one-for-twelve reverse split in Tegal's common stock which became effective on July 25, 2006.
 - Gross margins improved to 38% for the current quarter, compared to 22% in the same period last year and 20% for the fourth quarter of fiscal 2006.
 - Operating losses for the first quarter were \$1.8 million, including approximately \$0.5 million of non-cash charges. This was an improvement over the \$2.4 million loss in the same period last year and the \$2.4 million loss for the fourth quarter of fiscal 2006, which included \$0.4 million and \$0.3 million of non-cash charges, respectively. Litigation expenses amounted to approximately \$0.7 million for the quarter.
 - Tegal's wholly-owned subsidiary, Sputtered Films Inc. (SFI), has made damages claims in court against AMS, Agilent and Avago Technologies in excess of \$100 million, which claims may be subject to punitive multiples. The judge in the case has indicated that no further delays will be tolerated and that the case will go to trial on November 7, 2006 in the Superior Court of Santa Barbara, California.
 - Quarterly shipments included an advanced etch system for high volume manufacturing of integrated passive devices to one of the largest semiconductor companies in the world, an advanced PVD system to the global leader in wafer level packaging technology, and several 901ACS etch tools to a leading US-based wireless component supplier undergoing a significant capacity expansion.
 - Tegal's book-to-bill ratio was 0.9 to 1 for the quarter, and the current backlog is \$6.1 million.
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· Subsequent to the end of the quarter, NASDAQ notified the Company that it had regained compliance with the minimum bid price requirement, as a result of the Company's one-for-twelve reverse split and recent trading history.

"We are very pleased with our continued progress on building a sustainable revenue base, improving margins and lowering our cash losses," said Thomas Mika, President & Chief Executive Officer of Tegal Corporation. "Our first quarter Gross Margin resulted principally from product mix, and we are clearly making progress towards our goal of achieving sustainable 40% plus margins for our business. Operating expenses were again affected by the costs associated with SFI's litigation against AMS, Agilent and Avago Technologies. We are now in the final pre-trial stages for this litigation with a firm trial date set for November 7, 2006. Clarity on the trial date allows us to calculate our likely costs through trial, and we anticipate these substantial expenses will be reduced at the end of the calendar year which should improve our overall operating model."

Financial Results

Revenues for the first quarter of fiscal 2007 were \$6.6 million, an increase of 116% from \$3.1 million reported in the same period last year, and an increase of 9% sequentially from the \$6.1 million recorded for the fourth quarter of fiscal 2006. Tegal recorded a net loss for the first quarter of \$1.8 million or (\$0.26) per share compared to a net loss of \$2.5 million or (\$0.57) per share in the same period last year. Sequentially, the Company's net loss decreased from the prior quarter loss of \$2.3 million or (\$0.33) per share. All of the per share numbers reflect a one-for-twelve reverse split in Tegal's common stock which became effective on July 25, 2006.

Gross profits for the first quarter of fiscal 2007 were 38% - an increase from 22% in the same period last year and an increase from 20% for the fourth quarter of fiscal 2006.

Operating expenses for the first quarter of fiscal 2007 were \$4.3 million, an increase of \$1.3 million reported for the same period last year and an increase of \$0.8 million reported for the fourth quarter of fiscal 2006. This resulted in operating losses of \$1.8 million during the current quarter, which was an improvement over the \$2.4 million loss recorded in both the same period last year and the fourth quarter of fiscal 2006.

As a result of the adoption by Tegal on April 1, 2006 of the options expensing requirements of FAS 123R, operating expenses included approximately \$230,000 of non-cash options expense distributed among several categories. Other non-cash expenses for the quarter included depreciation, amortization and warrant expense of approximately \$270,000.

Cash and equivalents at the end of the first quarter of fiscal 2007 were \$12.6 million compared to \$13.8 million in the fourth quarter of last fiscal year.

Total shares outstanding as of June 30, 2006 were 7,039,173, adjusted for the one-for-twelve reverse split in Tegal's common stock which became effective on July 25, 2006.

Investor Conference Call

Tegal Corporation will discuss these results and further details of its first quarter of fiscal 2007 during a conference call today, August 10, 2006, at 5:00 p.m. EST / 2:00 p.m. PST. The call is open to all interested investors. The call-in numbers are (866) 356-4441 or (617) 597-5396. For either dial-in number, investors should reference should reference passcode: 58576156. A digital recording will be made available one hour after the completion of the conference call, and it will be accessible through midnight on Thursday, August 16, 2006. To access, investors should dial (888) 286-8010 or (617) 801-6888 and enter passcode: 28154120. The conference call also will be available online via the Investor Section of the Company's website at: www.tegal.com. An online replay of the teleconference, along with a copy of the Company's earnings release, will also be available on the Company's website.

Safe Harbor Statement

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

About Tegal

Tegal provides process and equipment solutions to leading edge suppliers of advanced semiconductor and nanotechnology devices. Incorporating unique, patented etch and deposition technologies, Tegal's system solutions are backed by over 35 years of advanced development and over 100 patents. Some examples of devices enabled by Tegal technology are energy efficient memories found in portable computers, cellphones, PDAs and RFID applications; megapixel imaging chips used in digital and cellphone cameras; power amplifiers for portable handsets and wireless networking gear; and MEMS devices like accelerometers for automotive airbags, microfluidic control devices for ink jet printers; and laboratory-on-a-chip medical test kits.

More information is available on the Internet at: www.tegal.com.

Contact:

Tegal Corporation
Christine Hergenrother (VP and CFO), 707/763- 5600
or
The Blue Shirt Group
Rakesh Mehta or
Chris Danne, 415/217-7722

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	<u>June 30 2006</u>	<u>March 31 2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,640	\$ 13,787
Accounts receivable, net of allowances for sales returns and doubtful accounts of \$356 and \$205 at June 30, 2006, and March 31, 2006 respectively	6,344	5,265
Inventories	6,974	7,700
Prepaid expenses and other current assets	1,284	1,270
Total current assets	<u>27,242</u>	<u>28,022</u>
Property and equipment, net	1,692	1,849
Intangible assets, net	1,396	1,474
Other assets	148	146
Total assets	<u>\$ 30,478</u>	<u>\$ 31,491</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and bank lines of credit	\$ 107	\$ 27
Accounts payable	2,708	2,458
Accrued product warranty	668	506
Deferred revenue	564	477
Accrued expenses and other current liabilities	2,264	1,975
Total current liabilities	<u>6,311</u>	<u>5,443</u>
Long-term portion of capital lease obligations	—	2
Other long term obligations	—	6
Total long term liabilities	<u>—</u>	<u>8</u>
Total liabilities	<u>\$ 6,311</u>	<u>\$ 5,451</u>
Stockholders' equity:		
Preferred stock; \$ 0.01 par value; 5,000,000 shares authorized; none issued and outstanding	\$ —	\$ —
Common stock; \$ 0.01 par value; 200,000,000 shares authorized; 7,039,173 and 7,021,088 shares issued and outstanding at June 30, 2006 and March 31, 2006 respectively	844	842
Restricted Share Units	840	1,034
Deferred Compensation	(224)	(224)
Additional paid-in capital	119,471	119,010
Accumulated other comprehensive income (loss)	192	532
Accumulated deficit	(96,956)	(95,154)
Total stockholders' equity	<u>24,167</u>	<u>26,040</u>
Total liabilities and stockholders' equity	<u>\$ 30,478</u>	<u>\$ 31,491</u>

TEGAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended	
	June 30,	
	2006	2005
Revenue	\$ 6,576	\$ 3,052
Cost of sales	4,078	2,377
Gross profit (loss)	2,498	675
Operating expenses:		
Research and development	996	1,176
Sales and marketing	1,044	644
General and administrative	2,302	1,240
Total operating expenses	4,342	3,060
Operating loss	(1,844)	(2,385)
Other income (expense), net	42	(122)
Net loss	\$ (1,802)	\$ (2,507)
Net loss per share, basic and diluted	\$ (0.26)	\$ (0.57)
Shares used in per share computation:		
Basic	7,023	4,409
Diluted	7,023	4,409

Note: Shares used in per share computation for Basic and Diluted reflect a 12 to 1 reverse stock split.

FINAL TRANSCRIPT

Thomson StreetEventsSM

TGALD - Q1 2007 Tegal Corporation Earnings Conference Call

Event Date/Time: Aug. 10. 2006 / 5:00PM ET

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www.streetevents.com

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Aug. 10. 2006 / 5:00PM, TGALD - Q1 2007 Tegal Corporation Earnings Conference Call

CORPORATE PARTICIPANTS

Christine Hergenrother

Tegal Corp. - CFO

Thomas Mika

Tegal Corp. - President, CEO

CONFERENCE CALL PARTICIPANTS

Dan Negrin

- Private Investor

Brian Laden

Bonanza Capital - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2007 Tegal Corporation earnings conference call. My name is Jeff, and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session towards the end of this conference. [OPERATOR INSTRUCTIONS] I would now like to turn the call over to Ms. Christine Hergenrother, Chief Financial Officer. Please proceed.

Christine Hergenrother - Tegal Corp. - CFO

Thank you. Good afternoon, and welcome to Tegal's investor conference call for the first quarter of fiscal 2007, which ended June 30, 2006.

Before I review the financial results for the quarter and the year, I have two housekeeping items. The first is a reminder that a digital recording of this conference call will be made available one hour after the completion of the call, and it will be available through midnight, Wednesday, August 16, 2006. To access, investors should dial 888-286-8010, or 617-801-6888 and enter passcode 28154120.

An online replay of the call along with a copy of the Company's earnings release will be available on the Company's website, as well. The second housekeeping item is a reminder about the all important Safe Harbor statement that should be taken into consideration when listening to comments that will be made on this call.

Except for historical information, matters discussed on this call are forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties, including but not limited to, industry conditions, economic conditions, acceptance of new technology, the growth of target markets, as well as other risks. Actual operations and financial results may differ materially from Tegal's expectations as a result of these factors or unanticipated events.

Specifically, we remind you to review the risks and uncertainties as set forth in the Company's periodic filings with the Securities and Exchange Commission. Following my review of the financial performance for the quarter, I will introduce Tom Mika, President and Chief Executive Officer of Tegal, who will have additional comments. After that, we will entertain questions from the dial-in audience.

Revenues for the fiscal first quarter were \$6.6 million, an increase of 116% from \$3.1 million in the fiscal first quarter 2006, and a sequential increase of 9% from \$6.1 million recorded for the fourth quarter of fiscal 2006. Our reported net loss for the first quarter is \$1.8 million, or \$0.26 per share compared to a net loss of \$2.5 million, or \$0.57 per share in the comparable quarter one year ago.

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Sequentially, Tegal's reported loss also decreased from \$2.3 million, or \$0.33 per share in the fiscal fourth quarter of 2006. All of the per share numbers reflect a one for 12 reverse split in Tegal's common stock which became effective on July 25, 2006.

Gross profits for the first quarter improved to 38% compared to 22% in the comparable quarter one year ago and 20% in the fourth quarter of last fiscal year. Improvement in gross profits was mainly attributable to a favorable product mix during the quarter. Overall operating expenses for the first quarter were \$4.3 million, an increase of about \$1.3 million over the same quarter last year and an increase of \$774,000 compared to last quarter. The resulting operating loss for the first quarter was \$1.8 million, compared to a loss of \$2.4 million in both the same quarter one year ago and the fourth quarter of last year. Included in the operating loss were non-cash charges of approximately \$500,000, which included \$230,000 of FAS 123(R) expense for options vesting during the quarter. We adopted FAS 123(R), as required, on April 1 of this year.

The remaining non-cash expenses were depreciation, amortization, and warrant expenses. The large majority of our increase in operating expenses compared to the same quarter last year, and last quarter, came from an increase in G&A expenses which increased by over \$1 million. Included in the quarter were substantially higher litigation and audit fees than we incurred last year. Our litigation expenses for the quarter were approximately \$700,000.

Operating-- excuse me-- sales and marketing expense also increased compared to last year by \$400,000, due principally to commissions paid on higher sales levels. Overall, R&D expense spending was down about \$180,000 from the same quarter last year, coming in at just under \$1 million for the quarter, which represented a reduction of \$331,000 compared to just last quarter. The decrease quarter-to-quarter was the result of the absence of some large non-recurring engineering expenses paid to contract vendors for work related to our Compact, Etch, and NLD development program. Non-operating expenses netted out to a gain for the quarter of \$42,000.

Cash at the end of the first quarter was \$12.6 million, a decrease of \$1.1 million from last quarter. Accounts receivable also increased by \$1.1 million from last quarter, coming in at \$6.3 million. Inventories decreased by \$726,000 from \$7.7 million to \$7.0 million. PP&E, intangibles, and other assets decreased a combined \$233,000 as a result of depreciation and amortization.

Total current liabilities increased by \$868,000 over the last quarter, primarily from a \$250,000 increase in accounts payable, a \$107,000 increase in promissory note borrowing in Japan, and various accruals. The Company had no long-term liabilities at the end of the quarter. The Company's book-to-bill ratio was 0.9 during the quarter, and the backlog at the end of July stood at \$6.1 million.

Total shares outstanding as of June 30, 2006 were 7,039,173, taking into account the one for 12 reverse split which became effective July 25. I would now like to introduce Tom Mika, our President and Chief Executive Officer.

Thomas Mika - Tegal Corp. - President, CEO

Thanks, Christine. I was pleased with our performance this quarter as we continued to execute on our turn around plans, demonstrated by our ability to build a sustainable revenue base, significantly improved margins, and lower our cash losses. As reported at our year end in the last conference call, Tegal experienced a strong year-on-year growth in sales, 46%, while the industry overall declined in shipments of semiconductor capital equipment by 11%.

I'm pleased to report this trend in our sales has continued this quarter with an uptick of 116% compared to the same quarter last year and up 9% sequentially. However, I must add a word of caution, which I have done several times in the past. But due to the selling prices of our equipment and our still relatively low levels of sales, quarterly results can vary substantially with just the shipment of one advanced tool. Nevertheless, our sales trends have been favorable for several quarters and I believe this demonstrates that we are making good progress in our turn around efforts.



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Sales in the quarter were driven by an advanced Etch system for high-volume manufacturing of integrated passive devices to one of the largest semiconductor companies in the world. They were driven by an advanced PVD system to the global leader in wafer level packaging technology and from several 900 Etch tools that we shipped to a leading U.S.-based wireless component supplier, undergoing a significant capacity expansion.

Our gross margin increase is another good indicator of a positive trend in our fundamentals. This quarter had a particularly good product mix, but I do think that it demonstrates that our 40% plus growth-- or excuse me-- gross margin target is achievable. I was pleased, given these improved margins in our revenue level, that our operating loss for the quarter, excluding legal expenses related to the SFI lawsuit and FAS 123(R), was only about \$500,000. This is clearly a step in the right direction towards our goal of reaching sustainable profitability.

On July 21, the stockholders of Tegal met during the annual meeting and approved all of the resolutions recommended by management by overwhelming margins, which included most importantly the one for 12 reverse split, which the board of directors put into effect as of July 25. The reverse split, though painful, has fulfilled its purpose, which was to bring us back into compliance with the NASDAQ's minimum bid price requirement. We were informed by the NASDAQ that we had come back into compliance on August 8, as expected, which we announced before the market opened yesterday.

Just a reminder, our symbol will change back to the normal TGAL on August 22. We believe the recent drop off in our stock price is a result of the reverse split being digested by the market, however, despite the stock price drop we believe the fundamentals and positioning at Tegal clearly continue to improve.

I had the opportunity to speak at the Security Research Associate's conference earlier this week in San Francisco, and at the conference I presented some data on these improving fundamentals and our growth picture that I thought would be of interest to a wider audience. As many of you know, Tegal's growth is driven not by PCs or server markets, but by cell phones, wireless devices, and other consumer electronics products, such as MP3 players and digital video recorders.

In addition, we serve markets that incorporate MEMS devices into other products including accelerometers and pressure sensors for automobiles. We are also on the forefront of advanced packaging schemes for semiconductors and high brightness LEDs. While some of these products have been long in coming, we believe that our customers' need to make the investment required to incorporate new materials in new devices is beginning to take hold, with good business prospects for Tegal now and into the future.

Based on this need from our customers, we estimate that our served market for equipment sales this year is about \$270 million. And we see this ramping to about \$470 million in 2009.

Let me review some of these areas in more detail. First area is non-volatile memories. Tegal's has pursued Etch process technologies and applications know-how in non-volatile memories for a number of years. There are still development efforts underway to achieve low cost, high efficiency devices to replace flash memory past the 32-nanometer node.

You may have seen recently that we announced the system sale to Crocus Technology in Grenoble, France, which is a company that recently raised one of the largest first-round financings ever in Europe and is focused on commercializing MRAM. We are also the Etch supplier of record to the NEC/Toshiba joint venture in MRAM, and we supplied an advanced Etch system to a development effort focused on RRAM, or Resistive Random Access Memory.

RRAM development is a focus for several device manufacturers because of its ideal attributes for high density, low cost, and low power consumption. Our second area of focus is MEMS. Both our Etch and PVD systems are used for the production of so-called MEMS devices. Predominant applications in MEMS are sensors, including accelerometers and pressure sensors, that are increasingly used in automobiles. In addition, our systems are used for the production of biosensors, ink jet print devices, nanoscale solar cells, and acoustic filters in cell phones, and other wireless devices, which I referred to in previous calls as FBARs, or film bulk acoustic resonators.



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The third area is power devices, and power devices are ubiquitous. They are in any electronic device that incorporates a battery, or is powered directly by DC current. The interesting thing about power devices is that their performance improves with the use of less silicon. As a result, power device manufacturers, such as RIC, use ultra thin wafers, some as thin as a sheet of paper. The Endeavor PVD system, developed by Sputtered Films, has some unique wafer handling and stress control technology that make it deal for processing the ultra thin wafers that are preferred by all manufacturers of power devices.

Fourth area of focus is advanced packaging. Form factors in electronics are shrinking rapidly and the next horizon for gaining real estate is in advanced packaging, sometimes referred to as wafer-level packaging. Relatively small number of devices today use under-bumper flip chip technology, but its importance and market size is increasing rapidly. Sputtered Films is the principal supplier of PVD systems to the leading U.S.-based developer and licensor of advanced packaging technologies. Just this quarter, SFI shipped its fifth production tool to this company.

On the R&D front, we continued to develop our Nano Layer Deposition product, which is targeted at the capacitor/conductor segment of DRAM production, which is currently served by MOCVD technology. Atomic Layer Deposition systems are expected to begin to take over traditional MOCVD systems sometime this year or next at about the 45-nanometer node. We believe that our NLD system will compete effectively against ALD systems because of its inherently lower temperature process, and potentially higher throughput.

The existing competitors in the ALD market include some of the biggest companies in our industry. However, we believe that there is room for Tegal at the \$3 million price point for a high performance tool targeted at the capacitor electrode formation in DRAM device fabrication. We are able to achieve this price point because of our development over the past two years of a low cost 300-millimeter bridge platform that we call Compact.

Central to our growth strategy is an emphasis on further development of our sales channels throughout the world, especially in Asia. Over the past two years, we have built a strong direct sales force in the U.S. and Europe, which is reflected in our sales results. However, we are really missing the part of the world where most of the growth in semiconductor fabs is taking place.

So we are moving to strengthen our Japan operation, exploring strategic relationships in China for the licensing of our considerable technology for the development of mainstream CMOS processes, and refocusing our efforts on Taiwan, Korea, and Singapore. In addition to focusing on growing markets and developing our sales channels, we continue to drive more operational efficiencies throughout our business.

An example of this is recently we moved our office space into our manufacturing space here in Petaluma. Once completed, this move will save us approximately \$150,000 to \$250,000 a quarter in operating expenses. Over the next year, we are also developing a demo facility in San Jose, which we believe will allow us to more easily interact with potential customers due to its proximity to our major competitors.

Finally, with respect to the lawsuit, as you may have seen in today's press release, Tegal's wholly-owned subsidiary Sputtered Films has made damages claims in court against AMS, Agilent, and Avago Technologies in excess of \$100 million, which claims may be subject to punitive multiples.

The judge in the case has indicated that no further delays will be tolerated and that the case will go to trial on November 7, 2006 in the Superior Court of Santa Barbara, California. Clarity on the trial date allows us to calculate our likely costs through trial and we anticipate these substantial expenses will be reduced at the end of the calendar year which should be another factor that improves our overall operating model. I'll now turn the call over to our listeners for any questions that you may have.

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QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] And your first question comes from the line of [Dan Negrin], a private investor. Please proceed.

Dan Negrin—*Private Investor*

Yes. My question is regarding the Nano Layer Deposition system. I would like know what Tegal's current time line is for demoing or deploying a beta system of that Nano Layer Deposition system with customers?

Thomas Mika - *Tegal Corp. - President, CEO*

We have actually begun doing customer demos with the NLD system. As it happens, not in the DRAM area, but in another area of focus for it. We're-- our target for placing a-- or I should say getting an order for a beta tool is sometime this fiscal year, so we would expect to place that beta tool sometime next fiscal year. So sometime after April 1.

Dan Negrin— *Private Investor*

Thank you.

Thomas Mika - *Tegal Corp. - President, CEO*

You're welcome.

Operator

[OPERATOR INSTRUCTIONS] And your next question comes from the line of Brian Laden with Bonanza. Please proceed.

Brian Laden - *Bonanza Capital - Analyst*

Hi, Tom.

Thomas Mika - *Tegal Corp. - President, CEO*

Hello, Brian.

Brian Laden - *Bonanza Capital - Analyst*

Question for you, can you quantify for us how you guys arrived at the \$100 million damages number in the Sputtered Films case?



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Thomas Mika - *Tegal Corp. - President, CEO*

The— actually that level of damages was noticed to the court by our attorneys, and the court had asked our attorneys to-- to calculate those damages. I really don't want to go into the exact calculations that they used except that they were guidance provided to the court. What is actually going to occur is that later this month, we will be getting expert witness testimony from a damages expert who will try to narrow the ranges on-- on what we expect from each of the parties.

Brian Laden - *Bonanza Capital - Analyst*

Is there an ongoing line of business at Agilent or Avago that utilizes some of the technology that's in question?

Thomas Mika - *Tegal Corp. - President, CEO*

Yes. In December of 2005, Agilent sold its semiconductor products group to Avago Technologies, which were several entities that are backed by KKR and Silver Lake Partners, so, in fact, the Avago Technologies entities, which, by the way, are the largest privately held semiconductor company in the world presently, are actually currently, to our knowledge, still producing these devices, and our central allegation is that these devices are being produced on machines that incorporate our trade secrets.

Brian Laden - *Bonanza Capital - Analyst*

Okay. Thanks.

Thomas Mika - *Tegal Corp. - President, CEO*

You're welcome.

Operator

And you have no further questions at this time.

Thomas Mika - *Tegal Corp. - President, CEO*

Well, okay. If there aren't any other questions, I would just like to thank you for joining us today, and we look forward to talking to you next quarter.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.



Aug. 10, 2006 / 5:00PM, TGALD - Q1 2007 Tegal Corporation Earnings Conference Call

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