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): November 13, 2006

Tegal Corporation
(Exact name of Registrant as Specified in its Charter)

Delaware	000-26824	68-0370244
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

2201 South McDowell Boulevard
Petaluma, CA 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 communication 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))

Item 1.01. Entry into a Material Definitive Agreement

Litigation Settlement

On November 13, 2006, Tegal Corporation (the "***Company***") announced that its wholly-owned subsidiary, Sputtered Films Inc. ("***SFI***") had entered into a Settlement Agreement and Release (the "***Settlement Agreement***") regarding its trade secrets case against Sergey Mishin, Advanced Modular Sputtering ("***AMS***"), Agilent Technologies, Inc., Avago Technologies U.S., Inc., Avago Technologies Wireless (U.S.A) Manufacturing, Inc. and other defendants. Under the terms of the Settlement Agreement, SFI will receive a payment of approximately $13 million, net of litigation-related fees and expenses. Upon receipt of the payment, SFI will file a request for dismissal of all claims, Avago will file a request for dismissal of Avago's claims, and SFI will stipulate to conditional dismissal of claims against AMS and Mishin, which dismissal will be entered at the expiration of a three-year period during which AMS and Mishin will agree to not compete against SFI's business, except in specified circumstances.

Pursuant to the Agreement, AMS will transfer certain assets related to PVD technology to SFI. The transfer transaction is subject to customary due-diligence and closing conditions, but is expected to close on March 1, 2007, and after the transaction is closed, AMS will be dissolved. In addition, SFI will provide Avago a worldwide, royalty-free, nonexclusive and nontransferable license to Avago for certain SFI intellectual property.

The Company issued a press release regarding this settlement, a copy of which is attached to this Report as Exhibit 99.1 and incorporated by reference herein.

Option Grants to Non-Employee Directors

On November 15, 2006, the Compensation Committee of the Board of Directors of the Company, in consultation with third-party compensation consultants, made the following stock option grants to the Company's non-employee directors in accordance with the provisions of the Fifth Amended and Restated Outside Director Plan:

Participant	**Number of Options**
Jeff Krauss	14,673
Duane Wadsworth	10,011
Ed Dohring	15,316

The options shall be immediately vested. The options shall have an exercise price equal to $4.60 per share, which was the closing sales price of the Company's common stock as reported on the Nasdaq Capital Market on November 15, 2006.

Option Grants to Executive Officers

On November 15, 2006, the Compensation Committee of the Board of Directors of the Company, in consultation with third-party compensation consultants, made the following grants of stock options and restricted stock units ("***RSUs***") grants to the Company's executive officers in accordance with the provisions of the Eighth Amended and Restated Equity Participation Plan (the "***Plan***"):

	Number of		
Participant	**Options**	**RSUs**	**Total**
Thomas R. Mika, *Chairman, President and Chief Executive Officer*	16,339	16,339	32,678
Christine T. Hergenrother, *Vice President and Chief Financial Officer*	17,692	17,693	35,385
Murali K. Narasimhan, *Vice President, Marketing*	4,166	4,167	8,333
Steven Selbrede, *Vice President and Chief Technology Officer*	15,757	15,757	31,514
Vahan Tchakerian, *Vice President, Global Sales*	14,166	14,167	28,833
Scott L. Brown, *Vice President, North American Sales*	7,500	7,500	15,000

The options shall have an exercise price equal to $4.60 per share, which was the closing sales price of the Company's common stock as reported on the Nasdaq Capital Market on November 15, 2006. The options and RSUs shall vest in accordance with the following schedule: 25% of the original number of shares on each of the first and second anniversaries of November 15, 2006 (the "***Effective Date***"), and an additional 1/48th of the original number shares on each monthly anniversary of the Effective Date thereafter**,** for so long as the option holder remains an employee of or consultant to the Company.

Item 2.02. Results of Operations and Financial Condition

The information in this Item 2.02 of this Report, including Exhibits 99.2 and 99.3 attached hereto, is furnished pursuant to Item 2.02 of this Form 8-K. Consequently, it is not deemed "filed" for the purposes of Section 18 of the Securities and Exchange Act of 1934, or otherwise subject to the liabilities of that section. It may only be incorporated by reference in another filing under the Exchange Act or Securities Act of 1933 if such subsequent filing specifically references this Item 2.02 Form 8-K.

On November 14, 2006, the Company announced its results of operations and financial condition for the quarter and six months ended September 30, 2006 in a press release that is furnished as Exhibit 99.2 to this Form 8-K and incorporated by reference herein. A transcript of the earnings call held on November 14, 2006 is furnished as Exhibit 99.3 to this Form 8-K and incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

Number	Exhibit
99.1	Press Release regarding litigation settlement, dated November 13, 2006.
99.2	Press Release regarding earnings dated November 14, 2006.
99.3	Transcript of Tegal Corporation’s second quarter 2007 conference call held on November 14, 2006.

SIGNATURES

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

Date: November 16, 2006	TEGAL CORPORATION	
	By:	______________________
	Name:	Christine Hergenrother
	Title:	Vice President & Chief Financial Officer

EXHIBIT INDEX

Number	Exhibit
99.1	Press Release regarding litigation settlement, dated November 13, 2006.
99.2	Press Release regarding earnings dated November 14, 2006.
99.3	Transcript of Tegal Corporation’s second quarter 2007 conference call held on November 14, 2006.

TEGAL ANNOUNCES SETTLEMENT IN TRADE SECRET LITIGATION

Santa Barbara, Calif., November 13, 2006 — Tegal Corporation (Nasdaq: TGAL), today announced that its wholly-owned subsidiary, Sputtered Films Inc. (SFI) agreed to terms settling its trade secrets case against Sergey Mishin, Advanced Modular Sputtering (AMS), Agilent Technologies, Inc., Avago Technologies U.S., Inc., Avago Technologies Wireless (U.S.A) Manufacturing, Inc. and other defendants. The settlement terms provide for a payment to the Company of approximately $13 million, net of fees and certain expenses associated with the litigation. The settlement also calls for the transfer of assets related to PVD technology from AMS to SFI and the dissolution of AMS as of March 1, 2007.

The Company plans to announce its financial results for the Second Quarter Fiscal Year 2007, which ended September 30, 2006 before market open, tomorrow, November 14, 2006 and Tegal's senior management will conduct an investor conference call at 10 a.m. Pacific Time (1:00 p.m. Eastern) tomorrow to discuss the financial results and outlook. Information about the investor conference call, which is open to all interested investors, may be found in the Company's earnings press release.

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.

For more information about Tegal Corporation, visit: www.tegal.com

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TEGAL CORPORATION REPORTS
SECOND QUARTER FISCAL 2007 FINANCIAL RESULTS

San Jose, Calif., November 14, 2006 — Tegal Corporation (Nasdaq:TGAL), 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 Second Quarter Fiscal Year 2007, which ended September 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 10 a.m. Pacific Time, Tuesday, November 14, 2006. More information about the conference call is provided below.

Second Quarter Highlights

• Revenues during the second quarter of fiscal 2007 were $5.1 million, a decrease of 20% from $6.4 million reported in the same period last year, and a decrease of 22% sequentially from the $6.6 million recorded for the first quarter of fiscal 2007.

• Tegal recorded a net loss for the second quarter of $3.3 million or ($0.47) per share compared to a net loss of $2.7 million or ($0.51) per share in the same period last year and a net loss of $1.8 million or ($0.26) per share for the first quarter of fiscal 2007. 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 47% for the current quarter, compared to 38% in both the same period last year and the first quarter of fiscal 2007.

• Operating losses for the second quarter were $3.1 million, including approximately $0.5 million of non-cash charges. This compares to a $2.9 million loss in the same period last year and a loss of $1.8 million last quarter, each of which included $2.1 million and $0.5 million of non-cash charges, respectively. Expenses related to litigation and restructuring the Petaluma facilities lease amounted to approximately $2.3 million for the quarter. Excluding these items, Tegal would have reported an operating loss of $0.3 million for the quarter.

• Quarterly shipments included an advanced etch system for the manufacturing of MRAM devices to the well-funded European start-up, Crocus Technologies SA of Grenoble, France, along with several 900 and 980 series etch tools to companies in Japan, Europe and the United States.

• On October 24, 2006, the Company announced that it had signed a distributor agreement with Noah Corporation of Japan. The exclusive agreement, which covers an initial three-year period, calls for Noah to assume responsibility for Tegal's sales and field service support for all existing and future customers in Japan

• On October 30, 2006, Thomas Mika was appointed to the Board of Directors and elected Chairman. Duane Wadsworth assumed the position of "Lead Independent Director", and Ralph Martin and Brad Mattson resigned from their positions as members of the Board of Directors.

• On November 13, 2006, Tegal announced that its wholly-owned subsidiary, Sputtered Films Inc. (SFI) agreed to terms settling its trade secrets case against Sergey Mishin, Advanced Modular Sputtering (AMS), Agilent Technologies, Inc., Avago Technologies U.S., Inc., Avago Technologies Wireless (U.S.A) Manufacturing, Inc. and other defendants. The settlement terms provide for a payment to the Company of approximately $13 million, net of fees and certain expenses associated with the litigation. The settlement also calls for the transfer of assets related to PVD technology from AMS to SFI and the dissolution of AMS as of March 1, 2007.

“We are very pleased with our continued progress in re-engineering our business model in an effort to reach sustainable profitability”, said Thomas Mika, Chairman, President & Chief Executive Officer of Tegal Corporation. “Our gross margins exceeded our targeted goal of 40% as a result of both product mix and lower overhead rates associated with lower manufacturing costs. Excluding the major litigation and lease termination expenses we came much closer to being cash positive during the quarter. In addition, the signing on of Noah Corporation in Japan both improves our sales coverage and lowers our cost to access this important market.”

Mika continued: “We are also pleased to have reached a settlement in the litigation with AMS, Agilent and Avago. The payment will more than double our cash on hand, significantly strengthening the Company’s balance sheet at exactly the right time. We are in the final stages of new product development with the Compact etch platform and our Nano Layer Deposition (NLD) product, and we expect to be into beta sites with both tools within the next few months. We can now put behind us the costs and distraction associated with the litigation, as well as the costs associated with our successful restructuring efforts over the past two years, and focus all of our attention on growth and profitability.”

Financial Results

Revenues for the second quarter of fiscal 2007 were $5.1 million, a decrease of 20% from $6.4 million reported in the same period last year, and a decrease of 22% sequentially from the $6.6 million recorded for the first quarter of fiscal 2007. Tegal recorded a net loss for the second quarter of $3.3 million or ($0.47) per share compared to a net loss of $2.7 million or ($0.51) per share in the same period last year and a net loss of $1.8 million or ($0.26) per share for the first quarter of fiscal 2007. 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 improved to 47% for the current quarter, compared to 38% in both the same period last year and the first quarter of fiscal 2007.

Operating expenses for the second quarter of fiscal 2007 were $5.5 million, an increase of $0.1 million reported for the same period last year and an increase of $1.2 million reported for the first quarter of fiscal 2007. This resulted in operating losses of $3.1 million during the current quarter, compared to the $2.9 million operating loss recorded in the same quarter last year. Compared to first quarter of the fiscal year, the operating loss increased by $1.3 million.

Operating expenses for the quarter included lease termination and moving expenses of approximately $0.7 million and litigation expenses of $1.6 million. Operating expenses also included approximately $0.4 million of non-cash options expense under the provisions of FAS123R and non-cash depreciation, amortization and warrant expense of approximately $0.2 million.

Cash and equivalents at the end of the second quarter of fiscal 2007 were $10.5 million compared to $12.6 million at the end of the first quarter of this fiscal year.

Total shares outstanding as of September 30, 2006 were 7,055,623, 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 second quarter of fiscal 2007 during a conference call today, November 14, 2006, at 1:00 p.m. EST / 10:00 a.m. PST. The call is open to all interested investors. The call-in numbers are (888) 396-2384 or (617) 847-8711. For either dial-in number, investors should reference should reference passcode: 22287980. A digital recording will be made available one hour after the completion of the conference call, and it will be accessible through midnight on Monday, November 20, 2006. To access, investors should dial (888) 286-8010 or (617) 801-6888 and enter passcode: 20906350. 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 forwardlooking 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:

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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)

	September 30 2006	March 31 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,465	$ 13,787
Accounts receivable, net of allowances for sales returns and doubtful accounts of $506 and $205 at September 30, 2006, and March 31, 2006, respectively	4,412	5,265
Inventories, net	7,780	7,700
Prepaid expenses and other current assets	1,643	1,270
Total current assets	24,300	28,022
Property and equipment, net	1,088	1,849
Intangible assets, net	1,317	1,474
Other assets	143	146
Total assets	$ 26,848	$ 31,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and bank lines of credit	$ 25	$ 27
Accounts payable	2,263	2,458
Accrued product warranty	799	506
Deferred revenue	551	477
Accrued expenses and other current liabilities	1,987	1,975
Total current liabilities	5,625	5,443
Long-term portion of capital lease obligations	—	2
Other long term obligations	2	6
Total long term liabilities	2	8
Total liabilities	5,627	5,451
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; 7,055,623 and 7,021,088 shares issued and outstanding at September 30, 2006 and March 31,2006 respectively	71	70
Restricted Share Units	422	810
Additional paid-in capital	120,822	119,782
Accumulated other comprehensive income	143	532
Accumulated deficit	(100,238)	(95,154)
Total stockholders' equity	21,221	26,040
Total liabilities and stockholders' equity	$ 26,848	$ 31,491

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenue	$ 5,113	$ 6,406	$ 11,689	$ 9,458
Cost of revenue	2,713	3,963	6,791	6,340
Gross profit (loss)	2,400	2,443	4,898	3,118
Operating expenses:				
Research and development	1,066	1,211	2,062	2,387
Sales and marketing	964	757	2,008	1,401
General and administrative	3,485	3,398	5,787	4,638
Total operating expenses	5,515	5,366	9,857	8,426
Operating loss	(3,115)	(2,923)	(4,958)	(5,308)
Other income (expense), net	(166)	242	(124)	120
Net loss	$ (3,281)	$ (2,681)	$ (5,083)	$ (5,188)
Net loss per share, basic and diluted	$ (0.47)	$ (0.51)	$ (0.72)	$ (1.13)
Shares used in per share computation:				
Basic	7,045	5,227	7,029	4,608
Diluted	7,045	5,227	7,029	4,608

Event ID: 1386507
Culture: en-US
Event Name: Q2 2007 Tegal Corporation Earnings Conference Call
Event Date: 2006-11-14T18:00:00 UTC

P: Operator;;
C: Christine Hergenrother;Tegal Corporation;CFO, PAO, VP, Sec. and Treasurer
C: Thomas Mika;Tegal Corporation;Chairman, President and CEO
P: Steve Sullivan;Horizon Financial Group;Analyst

+++ presentation
Operator: Good day, ladies and gentlemen. Welcome to the Q2 2007 Tegal Corporation earnings conference call. [OPERATOR INSTRUCTIONS] I would now like the turn the call over to Ms. Christine Hergenrother, Tegal's Chief Financial Officer. Please proceed, ma'am.

Christine Hergenrother: Thank you and good morning. Welcome to Tegal's investor conference call for the second quarter of fiscal 2007, which ended September 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 on Monday, November 20, 2006. To access, investors should dial 888-286-8010 or 617-801-688 and enter passcode 20906350. 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 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 refer to you the risks and uncertainties as set forth in the Company's periodic filings with the Securities & Exchange Commission. Following my review of the financial performance for the quarter, I will introduce Tom Mika, Chairman, President and Chief Executive Officer of Tegal, who will have some additional comments. After that we will entertain questions from the dial-in audience.

Revenues for the fiscal second quarter were $5.1 million, a decrease of 20% from the $6.4 million reported in the same period last year and a decrease of 22% sequentially from the $6.6 million recorded the first fiscal quarter of this -- first quarter of this fiscal year. Our reported net loss for the second quarter is $3.3 million or $0.47 per share, compared to a net loss of $2.7 million or $0.51 per share in the comparable quarter one year ago. Sequentially, Tegal's reported net loss increased from last quarter's $1.8 million or $0.26 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 second quarter improved to 47% compared to 38% in the comparable quarter one year ago and in the first quarter of this fiscal year. The improvement in gross profits was attributable to both a favorable product mix compared to the prior quarters, as well as a reduction in our manufacturing overhead rates resulting from the downsizing of our leased space in Petaluma. Overall, operating expenses for the second quarter were $5.5 million, an increase of about $100,000 over the same quarter last year and an increase of $1.2 million compared to last quarter.

The resulting operating loss for the second quarter was $3.1 million, compared to a loss of $2.9 million for the same quarter one year ago and $1.8 million in the first quarter of this year. Included in operating loss were non-cash charges of approximately $500,000, which included $200,000 of FAS 123R expense for options vesting during the quarter. The remaining non-cash expenses of $300,000 were for depreciation, amortization and warrants. Again in the second quarter, the large majority of our increase in operating expense compared to the same quarter last year and last quarter came from an increase in G&A expense, which increased by over $1.2 million compared to last quarter.

G&A expense at $3.5 million was about even with one year ago, but that quarter also included significant non-cash expenses for restricted stock awards and the first cash installment of the lease termination fee. This quarter's operating expenses included the second and final installment for lease termination and some one-time move related costs totaling $650,000, along with litigation related expenses of $1.6 million. The total of these one-time expenses was approximately $2.3 million. Without these and the non-cash expenses of $500,000, the Company would have had a cash loss of about $300,000 for the quarter. Going forward, we expect G&A expense to stabilize by Q4 to a range of $1.5 to $2 million per quarter.

Sales and marketing expense at just under $1 million increased compared to the same quarter last year by about $200,000, due principally to a reclassification of some service overhead expenses. We expect sales and marketing expenses to remain at about $1 to $1.2 million per quarter going forward, depending on sales commissions paid. Overall, R&D spending was down about $150,000 from the same quarter last year, coming in at just over $1 million for the quarter. Again, we expect that R&D spending will remain at about $1 to $1.2 million per quarter going forward.

There were only two significant changes in the balance sheets accounts since the end of last fiscal year. Cash at the end of the second quarter was $10.5 million, a decrease of $2.1 million from the end of the first quarter and $3.3 million from the end of last fiscal year. Property and equipment net decreased by about $800,000, as a result of the sale of one of our demo systems. The Company's book-to-bill ratio was less than 1 during the quarter. However, subsequent to the end of the quarter, the Company received one purchase order for an advanced deposition system, which was recently announced and letters of intent for another two advanced systems, one Etch and one PVD.

Officially, our backlog today stands at $4.4 million. Including letters of intent for which we expect to receive purchase orders shortly, the backlog would be $7.8 million. Total shares outstanding as of September 30, 2006, were 7,055,623, taking into account the one-for-twelve reverse split, which became effective July 25. I would now like the introduce Thomas Mika our Chairman, President and Chief Executive Officer.

Thomas Mika: Thanks, Christine. Before we get into the lawsuit, I would like to review our performance for this quarter. We have made substantial progress on our turnaround. The trend over the past several quarters has shown increasing revenues compared to one or two years ago. However, our quarterly performance continues to be affected by the timing of single advanced system orders. This is evident in the backlog numbers that Christine mentioned earlier. The slip of just one order outside the quarter impacts both revenues and operating profits.

Despite this lumpiness in our business, we have made significant efforts and substantial progress on improving our gross margins and lowering our overall break even point. In addition, we continue to expand our sales channels and addressable markets to continue growing and also to diversify our revenue stream, which should also lead to more consistent results. While we do not typically give guidance on future quarters, I think you can tell by the timing of the recent purchase orders and letters of intent and keeping in mind our normal build schedule; that we are likely to have a good sales quarter in our fiscal fourth quarter but sales in the current December quarter are likely to be somewhat softer than in September.

The September quarter included shipments to several key customers. Including: i) an advanced Etch system for the development and manufacturing of MRAM devices to Crocus Technologies of Grenoble, France. Crocus is a well funded start-up with very promising technology for commercializing next generation nonvolatile memory devices. ii) We shipped several 901 Etch tools to two customers in Japan and one in Europe for MEMS and wireless device fabrication. And, iii) we shipped another 981ACS Etch tool to a leading U.S.-based wireless components supplier undergoing a significant capacity expansion.

Two more points about revenues. One, I think that our announcement of a distributor agreement with Noah Corporation in Japan is a very significant move to improve our sales coverage in a market that has several customers that are an excellent fit with Tegal's capabilities. Japan has a number of companies that direct their device development towards consumer products, wireless and MEMS. Areas that rely on advanced 200mm Etch and deposition technologies, all areas, which are increasingly likely on adopt new materials. I believe that we should begin to see sales growth over the next several quarters in Japan, as a result of this agreement and partnership with Noah.

Second point about revenues. As I emphasized in past conference calls, our process development teams are working in some very promising areas that have multiple system sales potential. Including thin film heads, compound semiconductors, the replacement of wet cleaning processes with dry cleaning processes, which are important to many companies around the world now, and power device manufacturers using ultra thin wafers. I expect these efforts to yield sales, as we bridge to our new Compact Etch and Compact NLD products during the next calendar year. All of this gives me confidence that our sales trend is up despite quarterly fluctuations.

We enjoyed a significant improvement in our gross margins in the quarter to 47%, which is beyond our target of 40+%. This improvement is due about equally to product mix and the lowering of our overhead rates resulting from a reduction of floor space in our Petaluma facility. As a result of the various moves that we have made both in Petaluma and San Jose, we were able to slash our overhead burden in half. This is very significant, both to our bottom line, as well as to the competitiveness of our products in some very price sensitive segments.

However, I still have to add a word of caution about gross margins related mainly to the second quarter's high level. We expect a contraction in Q3 related to the shipment of the last of four new tools to ST Micro to Singapore that carry relatively lower margins. However, by the fourth quarter, our margins should rebound to our target level.

Christine also mentioned that without the significant litigation move related in non-cash expenses related to FAS 123R, our cash burn would have been about $300,000 this quarter. The litigation expenses will repeat in the current quarter, though we hope somewhat lower than in September quarter. And FAS 123R expenses will increase. Fortunately, as a result of the settlement of the litigation, we can expect a drastic reduction in our legal fees following the December quarter.

Now, let me close with a few comments on the settlement we announced yesterday. I am very pleased with the final result. The litigation process has been ongoing for three years. And at least twice during this time it seemed that we could no longer afford to continue the case. But we did, largely as a result of our lead attorney's willingness to share in the risk of a positive outcome and the courage of our Board of Directors to persevere in the defense of our technology.

While I believe that we had a strong case, I have always maintained that this is a complex process, including especially a jury trial, which was completely unpredictable in terms of a positive outcome. By settling the case now, we were able to avoid the additional cost of the trial itself, the possibility of an unfavorable verdict, the lengthy appeals should the jury have rendered a positive verdict, and the cost of defending of cross complaints. The $13 million, net of fees and certain litigation related expenses, more than doubles our current cash and puts us on par with the rest of the semiconductor capital equipment industry, with cash balances roughly equal to one year's sales.

While this is not a windfall for Tegal, it does represent a major capital raise without the corresponding dilution. We don't yet know the value of the assets that will be transferred to us as a result of the settlement. We believe that most of the sales of aluminum nitride deposition tools sold by AMS were without competition.

So, in our own efforts to break into the FBAR market, we did not have much visibility into the size of the market and the companies participating. However, those customers who have purchased tools from AMS will have to come to Sputtered Films for service and additional tools. And we intend to capitalize on this and make AMS' customers our own. We have eliminated a major competitor and believe me, AMS did not willingly give up its assets to us.

The additional capital comes at exactly the right time for Tegal. We have made a significant investments in restructuring the Company to reduce and eliminate our cash losses and many of these investments are now behind us. They include: First, the consolidation of operations, restructuring leases, a move and opening a new location in San Jose. This effort cost us about $2 million but it will save us net about $1 to $1.5 million a year. Second, the closing of our Taiwan branch and by the end of Q4, the closing of our Japan branch office, this will save us between $1.5 and $2 million a year. Finally, just ending the litigation, which just in the past two quarters has cost us over $2.2 million.

The restructuring has had the additional benefit of allowing to us price our tools more competitively and we are already seeing the result. In those areas where we do have competition, it tends to be pretty weak. And, I believe that we can begin to take market share from Aviza, formally Trikon, and Unaxis.

At the same time, we have continued our new product development. We're in the final stage with the Compact Etch platform and our nanolayer deposition product. We expect to be into beta sites with both tools within the next few months. The Compact Etch system is being readied for a new application in the thin film head market. And the initial application for NLD is for the deposition of Ti-Nitride films in the high brightness LED market. Both of these are pretty exciting growth markets.

So to recap, we can now put aside all of the expense and distraction associated with the move and with this massive litigation. We can now focus all of our attention on winning in new materials, opening up new applications for our existing tools and bringing some exciting new products to market. And we expect to do all of this profitably. I will now turn the call over to our listeners for any questions that you may have.

+++ q-and-a
Operator: [OPERATOR INSTRUCTIONS] There are no questions in queue at this time.

Thomas Mika: Operator, let's leave a couple of minutes still to see if anybody has a question. I am very surprised that there are no questions.

Operator: And your first question comes from the line of Steve Sullivan with Horizon Financial Group. Please proceed.

Steve Sullivan: Tom.

Thomas Mike: Hello, Steve. How are you doing?

Steve Sullivan: I was trying to keep up with you. The legal expenses were how much in the last twelve months?

Thomas Mike: Just in the last -- well, let me give you a slightly different number. Because I have them differently. If you go back through the past couple of years, they cost us through the September quarter over $4 million, between $4 and $5 million.

Steve Sullivan: Okay.

Thomas Mika: Just in the last two quarters, we've spent over $2.2 million. So as we got closer to trial, the cost started going up exponentially.

Steve Sullivan: And the closure of Japan and Korea were saving how much?

Thomas Mika: Japan and Taiwan save us about $1.5 million to $2 million a year.

Steve Sullivan: Okay. Great. Congratulations on a hard fought battle.

Operator: Thank you very much. [OPERATOR INSTRUCTIONS]

Thomas Mika: Well, Operator, I would just like to thank our listeners for participating in the call today and look forward to talking with some of you by telephone. Thank you very much.

Operator: Thank you for your attendance in today's conference. This concludes the presentation. You may now disconnect. Good day.