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

Form 10-K/A

(Mark One)

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

For the fiscal year ended March 31, 2012

OR

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

Commission file number: 0-26824

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

Delaware	**68-0370244**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
140 Second Street, Suite 318 **Petaluma, California**	**94952**
(Address of Principal Executive Offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $0.01 Par Value	**The NASDAQ Capital Market**

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Sec.229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☑

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing sale price of the common stock on September 30, 2011 (the last day of the second quarter) as reported on the NASDAQ Capital Market, was $3,124,293. As of June 14, 2012, 1,688,807 shares of the registrant's common stock were outstanding. The number of shares outstanding reflects a 1-for-5 reverse stock split effected by the Registrant on June 15, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant intends to incorporate by reference the information required by Part III of this Annual Report on Form 10-K from the Registrant's definitive proxy statement for its 2012 annual meeting of stockholders, provided that the Registrant understands that such definitive proxy statement must be filed with the Commission no later than July 29, 2012 (120 days after the end of the registrant's fiscal year).

Explanatory Note

This Amendment No. 1 on Form 10-K/A (the "Amendment") amends the Annual Report on Form 10-K of Tegal Corporation for the fiscal year ended March 31, 2012, originally filed with the Securities and Exchange Commission ("SEC") on June 14, 2012 (the "Original Filing"). The Company is filing this amended report on Form 10-K/A to include Exhibit 99.5 as part of its Original Filing. The Exhibit was not included in the Original Filing of the Form 10-K. Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing other than as expressly indicated in this Amendment. Accordingly, this Amendment should be read in conjunction with the Original Filing and our other filings made with the SEC on or subsequent to June 14, 2012.

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PART I

Item 1. *Business*

Information contained or incorporated by reference in this report contains forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology which constitutes projected financial information. These forward-looking statements are subject to risks, uncertainties and assumptions about Tegal Corporation including, but not limited to, industry conditions, economic conditions, acceptance of new technologies and market acceptance of Tegal Corporation's future products and services, if any. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the "Part Item 1A—Risk Factors" and the "Liquidity and Capital Resources" section set forth in "Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," beginning on page 14 and such other risks and uncertainties as set forth below in this report or detailed in our other SEC reports and filings. We assume no obligation to update forward-looking statements.

All dollar amounts are in thousands unless specified otherwise. All share amounts and prices give effect to the 1-for-5 reverse stock split effected by the Company on June 15, 2011.

The Company

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

Until recently, Tegal designed, manufactured, marketed and serviced specialized plasma etch systems used primarily in the production of micro-electrical mechanical systems ("MEMS") devices, such as sensors, accelerometers and power devices. The Company's Deep Reactive Ion Etch ("DRIE") systems were also employed in certain sophisticated manufacturing techniques, involving 3-D interconnect structures formed by intricate silicon etching, also known as Deep Silicon Etch ("DSE") for so-called Through Silicon Vias ("TSVs"). For most of the fiscal year ended March 31, 2011, Tegal also sold systems for the etching and deposition of materials found in other devices, such as integrated circuits ("ICs") and optoelectronic devices found in products such as smart phones, networking gear, solid-state lighting, and digital imaging.

Beginning in the fiscal third quarter of 2009, following the acquisition of the DRIE product lines from Alcatel Micro Machining Systems ("AMMS"), we experienced a sharp decline in revenues related to our legacy etch and physical vapor deposition or "PVD" products, resulting from the collapse of the semiconductor capital equipment market and the global financial crisis. Management and the Board of Directors considered several alternatives for dealing with this decline in revenues, including the sale of assets which the Company could no longer support. On March 19, 2010, we and our wholly owned subsidiary, SFI, sold inventory, equipment, intellectual property and other assets related to our legacy etch and PVD products to OEM Group Inc. ("OEM Group"), a company based in Phoenix, Arizona that specializes in "life cycle management" of legacy product lines for several semiconductor equipment companies. The sale included the product lines and associated spare parts and service business of our 900 and 6500 series plasma etch systems, along with the Endeavor™ and AMS™ PVD systems from Sputtered Films, Incorporated or "SFI". In connection with the sale of the assets, OEM Group assumed our warranty liabilities for recently sold legacy etch and PVD systems.

We retained the DRIE products which we had acquired from AMMS, along with our Compact™ cluster platform and the nano layer deposition ("NLD") technology that we had developed over the past several years. However, the DRIE products and a small amount of associated spares and service revenue, represented our sole source of revenue. Since the DRIE markets were also seriously impacted by the downturn in the semiconductor markets and the lack of available capital for new product development globally, it was not clear that DRIE sales alone would be enough to support the Company, even with significant reductions in operating expenses. As a result, we continued to operate with a focus on DRIE and at the same time sought a strategic partner for our remaining business. We also continued to evaluate various other alternative strategies, including sale of our DRIE products, Compact™ platform and NLD technology, the transition to a new business model, or our voluntary liquidation.

The SPTS Transaction

On February 9, 2011, Tegal and SPP Process Technology Systems Limited, ("SPTS") a company incorporated and registered in England and Wales, entered into an Asset Purchase Agreement (the "Purchase Agreement") pursuant to which the Company sold to SPTS all of the shares of Tegal France, SAS, the Company's wholly-owned subsidiary and product lines and certain equipment, intellectual property and other assets relating to the Company's DRIE systems and certain related technology. SPTS also assumed existing customer contracts, including all installation and warranty obligations of existing customers, and other liabilities arising after the closing of the transaction (the "Assumed Liabilities").

The transaction closed immediately after execution of the Purchase Agreement. The consideration paid by SPTS totaled approximately $2.1 million, comprised of approximately $0.5 million of Assumed Liabilities and $1.6 million in cash.

The descriptions of the Purchase Agreement and the Trademark License Agreement provided above are qualified in their entirety by reference to the full text of such agreements, copies of which have been filed as Exhibits 10.1 and 10.2, respectively, to the announcement of a material and definitive agreement in the Company's 8-K filed report on February 15, 2011 and are incorporated herein by reference.

Discontinued Operations

As a result of the sale of the Company's DRIE assets, and in accordance with generally accepted accounting principles, the DRIE business operations related to the designing, manufacturing, marketing and servicing of systems and parts within the semiconductor industry has been reclassified to discontinued operations in our Consolidated Balance Sheets, Consolidated Statements of Operations and our Consolidated Statements of Cash Flows. Amounts for the prior periods have been reclassified to conform to this presentation. The exit from the DRIE operation was essentially completed by the end of the fourth quarter of our 2011 fiscal year. (See Note 5. Discontinued Operations).

The assets and liabilities of discontinued operations are presented separately under the captions "Assets of discontinued operations" and "Liabilities of discontinued operations," respectively, in the accompanying condensed consolidated balance sheets at March 31, 2012 and 2011, respectively, and consist of the following:

	March 31, 2012	March 31, 2011
Assets of Discontinued Operations:		
Accounts and other receivables, net of allowances for sales returns and doubtful accounts of $0 and $71 at March 31, 2012 and 2011, respectively	$ 410	$ 591
Notes receivable	--	528
Prepaid expenses and other current assets	8	10
Total assets of discontinued operations	$ 418	$ 1,129
Liabilities of Discontinued Operations:		
Accounts payable	$ -	$ 522
Deferred revenue	--	130
Accrued expenses and other current liabilities	246	758
Total liabilities of discontinued operations	$ 246	$ 1,410

In the fiscal year ended March 31, 2012, the Company recognized deferred revenue of $130, offset by related commission expense, as well as income of $89 from the finalization of the sale of the DRIE assets which occurred in the fourth quarter of the prior fiscal year. In the same period, the Company received $440 from OEM in installment payments related to the sale of legacy assets, and recognized $64 in foreign currency transactions. Total revenue from discontinued operations was $0 and $6,629 for the years ended March 31, 2012 and 2011, respectively. The total (income)/loss from discontinued operations, including income tax expense (benefit), was ($3,114) and $1,421, for the same years, respectively, and included the reclassification of operating expenses related to the manufacture, design, marketing and servicing of the DRIE operations including foreign exchange adjustments and income tax expense (benefit). The gain in fiscal year 2012 results primarily from the sale of the NLD patents.

In fiscal year 2012, the Company recognized $3,750 from the sale of the nanolayer deposition, or "NLD" patents. As these assets were internally developed, there was a corresponding zero book value. The NLD revenue is recognized in discontinued operations, along with the related costs of $871, which includes $772 in commission expense. During the fiscal year ended March 31, 2012, the Company, as part of the proposed sale of its intellectual property portfolio for NLD, awarded three of the four offered lots to multiple semiconductor equipment manufacturers. The Company finalized the sale transaction of the first lot on December 23, 2011 and finalized the sale of the second lot on January 13, 2012. While the third lot has been awarded, the Company has not yet finalized that transaction. Sales of NLD patents in future periods will also be recognized in discontinued operations, as well all related expenses to finalize the sales. NLD is a process technology that bridges the gap between high throughput, non-conformal chemical vapor deposition ("CVD") and highly conformal, low throughput atomic layer deposition ("ALD"). The portfolio included over 35 US and international patents in the areas of pulsed-CVD, plasma-enhanced ALD, and NLD. The Company has sold all but nine of those patents to third parties as of March 31, 2012.

Investments

The Sequel Power Transaction

On January 14, 2011, Tegal, se2quel Partners LLC, a California limited liability company and Sequel Power LLC, a newly formed Delaware limited liability company ("Sequel Power"), entered into a Formation and Contribution Agreement (the "Contribution Agreement"). Sequel Power is focused on the promotion of solar power plant development projects worldwide, the development of self-sustaining businesses from such projects, including but not limited to activities relating to and supporting, developing, building and operating solar photovoltaic fabrication facilities and solar farms, and the consideration of other non-photovoltaic renewable energy projects. se2quel Partners is owned by Ferdinand Seemann, who previously served as an independent member of the Company's Board of Directors. Pursuant to the Contribution Agreement, Tegal contributed $2 million in cash to Sequel Power in exchange for an approximate 25% ownership interest in Sequel Power. In addition, Tegal issued warrants (the "Warrants") to se2quel Partners and se2quel Management GmbH, a German limited liability company, to purchase an aggregate of 185,777 shares of the Company's common stock at an exercise price of $3.15 per share. The Warrants are exercisable for a period of four years. On March 31, 2012, Sequel Power irrevocably assigned and transferred unto the Company for cancelation a portion of the Warrants representing the right to purchase 48,310 shares of the Company's common stock. In exchange, the Company agreed to waive receivables related to certain fees earned under its Services Agreement with Sequel Partners.

The descriptions of the Contribution Agreement and the Warrants are qualified in their entirety by reference to the full text of such documents, copies of which are filed as exhibits to the Form 8-K report filed January 21, 2011.

The Company accounts for this transaction as an equity method investment and reviews the investment for impairment whenever events or changes in circumstances indicate that an other than temporary decline in value has occurred. In the fiscal year ended March 31, 2012, we concluded that the market value of our investment in Sequel Power was much less than our carrying value in the current economic environment.

The original value of Sequel Power's solar development model was $1,730. It was determined at the time of the investment that the asset would have a life of ten years, which was management's best estimate of the length of time it would take to build a solar project. The value on the balance sheet of Sequel Power at fiscal year end March 31, 2012, prior to the impairment was approximately $1,377 which represented the unamortized value of Sequel Power's solar development model. We now believe the intangible asset has a value of zero. This valuation is based upon the fact that the business model of Sequel Power is under review by Sequel Power's management. Sequel Power's management is researching other possibilities for the direction of the company and may or may not use its proprietary solar development model in the future. Additionally, there is uncertainty that Sequel Power will be able to continue as a going concern and the survivability of Sequel Power is at risk. The undiscounted expected future cash flows are less than the pre-impairment carrying value of the assets, and an impairment loss was recognized based on the excess of the carrying amount over the fair value of the assets. In fact, their current cash runway gives them less than six months to survive.

The Nano Vibronix Transaction

On November 22, 2011, the Company completed a $300 strategic investment in Nano Vibronix, Inc., a private company that develops medical devices and products that implement its proprietary therapeutic ultrasound technology. Nano Vibronix is focused on creating products utilizing its proprietary low-intensity surface acoustic wave ("SAW") technology. The company's unique, patented approach enables the transmission of low-frequency, low-intensity ultrasound waves through a variety of soft, flexible materials, including skin and tissue, enabling low-cost, breakthrough devices targeted at large, high-growth markets. A copy of the Company's press release was filed as an exhibit to the Company's Form 8-K filed on November 29, 2011 and is incorporated herein by reference.

The Company's investment in Nano Vibronix is in the form of a convertible promissory note that bears interest at a rate of 10% per year compounded annually and matures on November 15, 2014. Principal and accrued interest under the note automatically convert into shares of Series B-1 Participating Convertible Preferred Stock of Nano Vibronix upon the earlier to occur of (i) a $3 million (or larger) equity financing by Nano Vibronix or (ii) a sale of Nano Vibronix. In addition, the Company may convert principal and accrued interest under the note into shares of Nano Vibronix Series B-1 Participating Convertible Preferred Stock at its election at any time. In either case, the conversion price is $0.284 per share.

Business Strategy

In the recent past, our business objective has been to utilize the technologies that we have developed internally or acquired externally in order to increase our market share in process equipment for MEMS and power device fabrication, advanced 3-D packaging, and certain areas of semiconductor manufacturing. In September 2008, we acquired the products lines of AMMS and the related intellectual property of Alcatel, in order to pursue more fully the smaller, but higher-growth markets of MEMS and 3-D packaging. Our acquisition of these products served two purposes: (i) to increase revenue, and (ii) to enable us to focus our various technologies on specific applications that served the common markets of MEMS and 3-D device manufacturing and packaging.

Beginning in December 2008, sales for our legacy etch and PVD systems fell dramatically as the global financial crisis impacted semiconductor manufacturing. According to Semiconductor Materials and Equipment International, total worldwide semiconductor capital equipment sales for calendar year 2009, in total, were only US$15.9B, a decrease of 46.1% over calendar year 2008 capital equipment sales (US$29.5B), which were, in turn, 31% lower than worldwide capital equipment sales in calendar year 2007 (US$42.8B). As a result of such poor business conditions for semiconductor capital equipment, there have been a significant number of consolidations and bankruptcies among semiconductor capital equipment suppliers.

In order to mitigate the effects of the downturn in semiconductor capital equipment spending, we took several actions, including (i) reducing the headcount to approximately 46 from 78 during fiscal 2010; (ii) instituting a 5% salary reduction and a forced one week furlough per quarter; and (iii) eliminating all discretionary spending on internal development projects, which significantly slowed new product development. In fiscal 2011, we took additional staff reductions to focus strictly on our DRIE business. When the decision was made to sell the DRIE assets, our last staff reductions decreased headcount to three full-time employees.

In a series of meetings in late May and early June 2009, our Board of Directors reviewed several basic strategic options presented by management. The Board decided at that time that we should retain an advisor to consider “strategic alternatives” for the Company, and to investigate opportunities for the sale of the Company or its assets. We retained Cowen & Co. for this purpose and received periodic briefings on those efforts during 2009 and 2010. In December 2009, having received no bona fide offers for Tegal as a going concern, the Board and management agreed to continue operations and to offer selected asset groups to potential buyers.

On March 19, 2010, we completed the sale of the legacy Etch and PVD assets to OEM Group, Inc., as described above. In connection with the agreement, OEM Group hired 11 Tegal employees.

Going into fiscal 2011, we continued operations of the Company with the DRIE product lines acquired from AMMS as our main business. Due to limited resources, we discontinued our development efforts in NLD at the end of fiscal 2010, and began offering these assets for sale to third-parties. In connection with our DRIE operations, we continued to operate our Tegal France subsidiary, which was engaged in several joint development projects which were partially supported by customers and the government of France. Tegal France was also the center for the majority of our product and process development efforts and engineering activities related to the improvement of our DRIE product lines. At the same time, we began the process of closing and/or liquidating all of our other wholly-owned subsidiary companies, including SFI and Tegal GmbH, along with branches in Taiwan, Korea and Italy. The subsidiaries are now included in discontinued operations.

The sale of DRIE systems and the small amount of associated spares and service revenue represented the sole source of the Company’s revenue in fiscal 2011. For fiscal 2010, DRIE sales represented approximately 47% of our total revenues. Since the DRIE markets were seriously impacted by the downturn in the semiconductor markets and the lack of available capital for new product development globally, DRIE sales alone were not enough to continue supporting the Company, even with significant reductions in our operating expenses resulting from the sale of the legacy etch and PVD business, as well as the implementation of further cost containment measures. Accordingly, while we focused our efforts on the operation of the DRIE business in the first half of fiscal 2011, we continued to seek and evaluate strategic alternatives, which included a continued operation of the Company as a stand-alone business with a different business plan, a merger with or into another company, a sale of all or substantially all of our remaining assets, and the liquidation or dissolution of the Company, including through a voluntary dissolution or a bankruptcy proceeding.

On January 14, 2011, the Company, se2quel Partners and Sequel Power entered into a Formation and Contribution Agreement. The Company contributed $2 million in cash to Sequel Power in exchange for an approximate 25% ownership interest in Sequel Power. Sequel Power is focused on the promotion of solar power plant development projects worldwide, the development of self-sustaining businesses from such projects, including but not limited to activities relating to and supporting, developing, building and operating solar photovoltaic fabrication facilities and solar farms, and the consideration of other non-photovoltaic renewable energy projects. The project services provided to Sequel Power represented the Company’s sole source of revenue for all of fiscal 2012.

Following our investment in Sequel Power, and as a result of our continuing efforts to reduce our operating losses, on February 9, 2011, the Company and SPTS entered into an Asset Purchase Agreement. That agreement included the sale of all of the shares of Tegal France, SAS, the Company’s wholly-owned subsidiary and product lines and certain equipment, intellectual property and other assets relating to the DRIE Etch plasma etch systems and certain related technology. As a result of these various asset sales and additional lay-offs and attrition that took place during the period 2008 until 2011, our headcount was reduced to 3 as of March 31, 2011.

For the past several years Tegal has been in a process of consolidation and transition, driven by the financial crisis and downturn in the semiconductor and MEMS producing sectors, and worsened by our relatively weak strategic and financial position in those sectors. Our main objective has been to preserve as much value for stockholders as possible as we transitioned to a business model that avoided the high fixed costs of capital equipment and retained our capabilities to attract and exploit emerging technologies related to the semiconductor and MEMS sectors. We successfully sold the majority of our operating assets to companies that are much better positioned to benefit from those technologies and we have invested in one opportunity in a high-growth sector related to semiconductors (photo voltaic (PV) based solar) and a second opportunity in the medical device sector. The Sequel Power model for large scale PV-based solar projects is unique in the industry and has won significant acclaim from governments, industrial companies and industry advocates for its innovation and prospect for success. We intend to engage in supporting the activities of Sequel Power through our direct efforts and through related operations and investments that we may make in the future, should favorable circumstances promote that investment. In addition, Tegal is actively evaluating opportunities for partnerships with other diversified technology-based companies in order to exploit our shared experience and to enhance our value as a public company. However, we cannot assure you that we will be successful in pursuing any of these strategic alternatives.

Products and Services

Tegal earns project service revenues as a result of its contribution agreement with Sequel Power. Sequel Power is focused on the promotion of solar power plant development projects worldwide, the development of self-sustaining businesses from such projects, including but not limited to activities relating to and supporting, developing, building and operating solar photovoltaic fabrication facilities and solar farms, and the consideration of other non-photovoltaic renewable energy projects.

Customers

The composition of our top five customers has changed from year to year. Prior to 2012, when the Company was actively engaged in capital equipment manufacture and sales, the net system sales to our top five customers in fiscal 2011 accounted for 94.4% of our total net systems sales. A leading precision timing device manufacturer, IMS Fraunhofer, Ulsan National Institute of Science and Technology, ST Microelectronics SA and the Uppsala University accounted for 25.5%, 19.45%, 17.85%, 16.1% and 15.5%, respectively, of our total revenue in fiscal 2011. Other than these customers, no single customer represented more than 10% of our total revenue in fiscal 2011. With the sale of the DRIE etch product line and our exit from our historical core operations, the full amount of balances in Accounts Receivable for the period ended March 31, 2011 is captured in Discontinued Operations in our Balance Sheets. For the fiscal year ended March 31, 2012, Sequel Power accounted for 100% of total revenue, which is included in continuing operations.

Marketing, Sales and Service

With the sale of the DRIE etch product line and our exit from our historical core operations, we do not anticipate having marketing, sales or service operations for the foreseeable future.

Research and Development

We currently do not engage in any research and development (“R&D”) activities. Research and development expenses are captured in Discontinued Operations in our Statement of Operations.

As of March 31, 2012, we had 1 full-time employee that had been formerly dedicated to equipment design engineering, process support and research and development. This employee is currently responsible for managing the activities related to our possible sale of the NLD intellectual property and is our key technologist involved in analyzing and evaluating various opportunities that we are reviewing that either support our investment in Sequel Power or represent merger or acquisition opportunities in other diversified technologies.

Research and development expenses for fiscal 2012 and 2011 were $1,010 and $2,794, respectively. R&D expenses in our last year of actively manufacturing capital equipment, fiscal year 2011, represented 42.0% of total revenue. Such expenditures were primarily used for the development of new processes, continued enhancement and customization of existing systems, processing customer samples in our demonstration labs and providing process engineering support at customer sites. The primary cause of the decrease in research and development expenses in fiscal 2012 was due to the reduction in force and sale of the DRIE assets which included the transfer of the Tegal France research and development center as a result of our exit from our historical core operations.

Competition

The solar energy market is at a relatively early stage of development, and the extent to which solar modules will be widely adopted is uncertain. If PV technology proves unsuitable for widespread adoption at economically attractive rates of return or if demand for solar modules fails to develop sufficiently or takes longer to develop than we anticipate, Sequel Power may be unable to grow its business or generate sufficient net sales to sustain profitability. In addition, demand for solar modules in our targeted markets — including the United States, Latin America and the Middle East — may develop to a lesser extent than we anticipate. Many factors may affect the viability of widespread adoption of PV technology and demand for solar modules.

Intellectual Property

Following the sale of the legacy Etch and PVD Products to OEM Group on March 19, 2010, and the sale of the DRIE assets to SPTS on February 9, 2011, and the sale of most of the remaining patents to an undisclosed party, we now own or hold an exclusive license to approximately 9 U.S. patents, all related to our thin film deposition and IC manufacturing technologies. We no longer hold any corresponding foreign patents.

Of the above-referenced patents held as of March 31, 2012, one expires as early as 2020. Other patents expire as late as 2023 with the average expiration occurring in approximately 2022. We believe that the duration of such patents generally exceeds the life cycles of the technologies disclosed and claimed therein. We have sold most of our NLD intellectual property to third parties. Our remaining non-NLD patents can also have NLD applications. While the Company currently recognizes a zero value for the remaining intellectual property assets, it also believes these assets will likely realize a different rate of return for potential buyers who implement these assets into a different business structure. We believe that although the patents we have exclusively licensed or hold directly will be of value, they will not determine our future success.

Employees

As of March 31, 2012, we had a total of three regular employees and two part-time contract personnel. Of our regular employees, one is in research and development, and two are in executive and administrative positions.

None of our remaining employees are represented by a labor union or covered by a collective bargaining agreement.

Item 1A. *Risk Factors*

We wish to caution you that there are risks and uncertainties that could affect our business. These risks and uncertainties include, but are not limited to, the risks described below and elsewhere in this report, particularly in "Forward-Looking Statements." The following is not intended to be a complete discussion of all potential risks or uncertainties, as it is not possible to predict or identify all risk factors.

Tegal Risk Factors

We have a history of losses, expect to incur substantial further losses and may not achieve or maintain profitability in the future, which in turn could further materially decrease the price of our common stock.

We had net losses of ($1,429) and ($3,130), for the years ended March 31, 2012 and 2011, respectively. We used cash flows from operations of ($3,108) and ($74), in these respective years.

Currently our operations include only Sequel Power, LLC which was formed to pursue utility scale projects in photovoltaic (PV) based energy production and a three person headquarters staff which is administering Tegal's activities, including the evaluation of additional business opportunities for the Company. Sequel Power is generating losses by using the capital invested by Tegal for salaries and operating expenses needed to pursue various speculative projects in the United States, Latin America and the Middle East. None of the projects that Sequel Power is pursuing may come to fruition and Sequel Power may never generate any revenues or profits. If Sequel Power consumes all of the capital provided by Tegal, Sequel Power may be required to discontinue its operations and may cease to exist, in which case, the entire investment made by Tegal will be lost. Even if Sequel Power continues in operation, any losses which it incurs will be reflected in Tegal's financial statements and contribute to Tegal's losses. The administration of Tegal's non-Sequel Power activities is currently also generating losses and will continue to do so until the Company establishes additional revenue and profit generating activities. Tegal may never find or establish another revenue or profit generating activity, in which case the losses will continue. Tegal may be forced to cease all operations, declare bankruptcy or enter into a voluntary liquidation.

Tegal's stock price has been declining over the past 24 months, from $6.65 per share in the third quarter of fiscal 2010 to $3.35 per share in the third quarter of fiscal 2012. Tegal effected a 1-for-5 reverse stock split on June 15, 2011. In addition, on average there is very little trading in Tegal's common stock and our recent announcement of our investment in Nano Vibronix this fiscal year and our investment in Sequel Power last fiscal year was not sufficient to sustain an increase in our stock price. There may be no additional announcements from Sequel Power, and even if there are, we cannot predict how Tegal's stock price will react to Sequel Power's announcements and results.

While we are investigating other opportunities for Tegal, either through direct investment, merger or acquisition, Tegal will continue to sustain losses which may continue to materially decrease the price of our common stock. If Tegal never finds or establishes another revenue or profit generating activity, the price of Tegal's common stock may decline to zero.

We face risks associated with acquisitions, investments and other transactions.

We face risks associated with acquisitions, investments and other transactions. We are continuing to seek and evaluate strategic alternatives in other diversified technology-based markets. In the future we may engage in acquisitions of or significant investments in businesses, products, services and/or technologies in pursuit of a new business plan. Risks associated with any of these transactions include, but are not limited to:

- difficulty in assimilating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies or products with our current products and technologies;
- difficulty in maintaining controls, procedures, and policies during the transition and integration;
- disruption of our ongoing business and distraction of our management from other opportunities and challenges due to integration issues;
- difficulty integrating the acquired company's accounting, management information, and other administrative systems;
- inability to retain key technical and managerial personnel of the acquired business;
- inability to retain key customers, vendors, and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- potential impairment of our relationships with our associates, customers, partners, distributors, or third party providers of technology or products;
- potential failure of the due diligence processes to identify significant issues with product quality, architecture, and development or legal and financial liabilities, among other things;
- potential inability to assert that internal controls over financial reporting are effective;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions; and
- potential delay in customer purchasing decisions due to uncertainty about the direction of our product offerings.

Mergers and acquisitions of companies are inherently risky, and ultimately, if we do not complete the integration of acquired businesses successfully and in a timely manner, we may not realize the anticipated benefits of the acquisitions to the extent anticipated, which could adversely affect our business, financial condition, or results of operations. When we make a decision to sell assets or a business, we may encounter difficulty completing the transaction as a result of a range of possible factors such as new or changed demands from the buyer. These circumstances may cause us to incur additional time or expense or to accept less favorable terms, which may adversely affect the overall benefits of the transaction. Divestitures, acquisitions, and other transactions are inherently risky, and we cannot provide any assurance that our previous or future transactions will be successful. The inability to effectively manage the risks associated with these transactions could materially and adversely affect our business, financial condition or results of operations.

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 we cannot assure you that we will achieve profitability in the future.

Factors that could affect our quarterly operating results include:

- operating results of Sequel Power;
- operating results of any companies that we may acquire in the future;
- adverse changes in the level of economic activity in the United States or other major economies in which we do business;

- foreign currency exchange rate fluctuations; and

- expenses related to, and the financial impact of, the disposition of our assets.

Our future success depends on our ability to retain our key personnel and to successfully integrate them into our management team.

We are dependent on the services of our executive officers and other members of our senior management team. The loss of one or more of these key officers or any other member of our senior management team could have a material adverse effect on us. We may not be able to retain or replace these key personnel, and we may not have adequate succession plans in place. Several of our current key personnel including our executive officers are subject to employment conditions or arrangements that contain post-employment non-competition provisions. However, these arrangements permit the associates to terminate their employment with us upon little or no notice and the enforceability of the non-competition provisions is uncertain.

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, the progress we may or may not achieve with respect to potential strategic alternatives, 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 our 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. We cannot assure you that the market price of our common stock will not experience significant fluctuations in the future, including fluctuations that are unrelated to our performance.

If we fail to maintain compliance with the listing requirements of the NASDAQ Capital Market and NASDAQ delists our common stock, the market liquidity and price of our common stock will likely decline.

Our common stock is currently listed on the NASDAQ Capital Market under the symbol "TGAL" (or "TGALD"). On July 8, 2010, we received a deficiency letter from the NASDAQ Capital Market stating that, based on the closing bid price of our common stock for the 30 consecutive business days preceding such date, we no longer meet the minimum $1.00 per share requirement for continued listing on the NASDAQ Capital Market under Marketplace Rule 5450(a)(1).

On November 12, 2010, we received a letter from the NASDAQ Capital Market notifying us of our eligibility for a second 180 day grace period in which to regain compliance with our bid price deficiency. On January 5, 2011, we requested the additional grace period and it was granted, subject to regaining compliance by July 5, 2011. The Company regained compliance on June 15, 2011 by effecting a 1-for-5 reverse stock split.

On June 15, 2011, the Company filed a Certificate of Amendment to its Certificate of Incorporation with the Secretary of State of the State of Delaware (the "Amendment"). The Amendment effected a one-for-five (1-for-5) reverse stock split of the Company's outstanding common stock, par value $0.01 per share. The reverse stock split became effective at 5:00 pm Eastern Time on June 15, 2011. We do not know whether the reverse stock split will have the intended effect of curing our bid price deficiency.

It is possible, however, that our stock may not continue to meet the NASDAQ bid price requirement, in which case we would be unable to continue to meet the listing requirements of the NASDAQ Capital Market, for that or any other reason, our stockholders will be adversely affected.

Among other adverse consequences of a delisting, there will likely cease to be a trading market for our shares other than in the Pink Sheets or the OTC Bulletin Board. It could become more difficult to dispose of, or obtain accurate quotations for the price of, our common stock, and there would likely also be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further.

We are subject to anti-takeover provisions in our charter and by-laws and under Delaware law that could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders.

Provisions of our certificate of incorporation and by-laws, each as amended, as well as Delaware law, could make it more difficult and expensive for a third party to pursue a tender offer, change in control transaction or takeover attempt that is opposed by our Board of Directors. Stockholders who wish to participate in these transactions may not have the opportunity to do so. In addition, our Board of Directors has also adopted a shareholder rights plan, or "poison pill," which has the effect of making it more difficult for a person to acquire control of us in a transaction not approved by our Board of Directors. If a tender offer, change in control transaction, takeover attempt or change in our Board of Directors is prevented or delayed, the market price of our common stock could decline. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

We can issue shares of preferred stock that may adversely affect the rights of stockholders of our common stock.

Our certificate of incorporation authorizes us to issue up to 5,000,000 shares of preferred stock, with designations, rights and preferences determined from time-to-time by our Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of stockholders of our common stock. For example, an issuance of shares of preferred stock could:

- Adversely affect the voting power of the stockholders of our common stock:

- Discourage bids for our common stock at a premium and make it more difficult for a third party to acquire a majority or our common stock;

- Limit or eliminate any payments that the stockholders of our common stock could expect to receive upon our liquidation; or

- Otherwise adversely affect the market price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. *Properties*

We maintain our headquarters, encompassing our executive offices and storage areas in leased facilities in Petaluma, California. We have a primary lease for office space, consisting of 2,187 square feet, which expires in August of 2012. We rent storage/workspace areas on a monthly basis. We own all of the equipment used in our facilities. Such equipment consists primarily of computer related assets.

Item 3. *Legal Proceedings*

As of March 31, 2012, we had no pending material legal proceedings. From time to time, we are involved in legal proceedings in the normal course of business and do not expect them to have a material adverse effect on our business.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock is currently traded on the NASDAQ Capital Market under the symbol TGAL. The following table sets forth the range of high and low closing prices for our common stock for each quarter during the prior two fiscal years after giving effect to a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

	High	Low
FISCAL YEAR 2011		
First Quarter	$ 6.50	$ 3.70
Second Quarter	$ 4.00	$ 1.80
Third Quarter	$ 3.00	$ 2.05
Fourth Quarter	$ 4.75	$ 2.55
FISCAL YEAR 2012		
First Quarter	$ 3.20	$ 1.74
Second Quarter	$ 3.75	$ 1.85
Third Quarter	$ 3.35	$ 1.55
Fourth Quarter	$ 4.17	$ 2.87

The approximate number of holders on record of our common stock as of March 31, 2012 was 51. We have not paid any cash dividends since our inception and do not anticipate paying cash dividends in the foreseeable future.

The following table sets forth the number and weighted-average exercise price of securities to be issued upon exercise of outstanding options and restricted stock awards, and the number of securities remaining available for future issuance under all of our equity compensation plans, at March 31, 2012:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options and restricted stock awards	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)
	(a)	(b)	(c)
Equity compensation Plans approved by security holders:			
1998 Equity Participation Plan	17,926	$ 32.13	6,453
2007 Equity Participation Plan	332,386	$ 5.59	140,582
Directors Stock Option Plan	14,062	$ 37.22	-
Total	364,374	$ 8.12	147,035

	Year Ended March 31, 2012	Year Ended March 31, 2011
Number of securities to be issued upon exercise of outstanding warrants	8,825	25,896
Weighted-average exercise price of outstanding warrants	$ 32.27	$ 31.43

The shares amounts and share prices reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

Unregistered sales of equity securities and use of proceeds

None.

Item 6. ***Selected Financial Data***

	Year Ended March 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue	$ 100	$ 16	$ -	$ -	$ -
Gross profit (loss)	100	16	-	-	-
(Loss) from continuing operations	(4,543)	(1,709)	(2,190)	(2,266)	(1,733)
Discontinued operations income/(loss)	3,114	(1,421)	(16,279)	(5,636)	19,837
Income tax expense (benefit)	-	-	-	-	-
Net (loss) income	$ (1,429)	$ (3,130)	$ (18,469)	$ (7,902)	$ 18,104
Net (loss) income per share - continuing operations:					
Basic	$ (2.69)	$ (1.01)	$ (1.30)	$ (1.44)	$ (1.21)
Diluted	$ (2.69)	$ (1.01)	$ (1.30)	$ (1.44)	$ (1.19)
Net income (loss) per share - discontinued operations:					
Basic	$ 1.84	$ (0.84)	$ (9.66)	$ (3.59)	$ 13.85
Diluted	$ 1.84	$ (0.84)	$ (9.66)	$ (3.59)	$ 13.61
Net (loss) income per share:					
Basic	$ (0.85)	$ (1.85)	$ (10.96)	$ (5.03)	$ 12.64
Diluted	$ (0.85)	$ (1.85)	$ (10.96)	$ (5.03)	$ 12.42
Weighted average shares used in per share computation:					
Basic	1,689	1,689	1,685	1,572	1,432
Diluted	1,689	1,689	1,685	1,572	1,458

	March 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 7,820	$ 7,575	$ 7,298	$ 12,491	$ 19,271
Working capital	$ 7,712	$ 7,252	$ 9,859	$ 25,811	$ 30,724
Total assets	$ 8,662	$ 11,201	$ 16,303	$ 34,337	$ 40,079
Stockholders' equity	$ 8,080	$ 9,409	$ 11,937	$ 30,031	$ 32,930

The weighted-average number of shares and the (loss) income per share reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

All dollar amounts are in thousands unless specified otherwise.

Company Overview

Until recently, Tegal Corporation, a Delaware corporation ("Tegal", the "Company", or "we", "our" and "us"), designed, manufactured, marketed and serviced specialized plasma etch systems used primarily in the production of micro-electrical mechanical systems ("MEMS") devices, such as sensors, accelerometers and power devices. The Company's Deep Reactive Ion Etch ("DRIE") systems were also employed in certain sophisticated manufacturing techniques involving 3-D interconnect structures formed by intricate silicon etching, also known as Deep Silicon Etch ("DSE") for so-called Through Silicon Vias ("TSVs"). For most of the fiscal year ended March 31, 2011, Tegal also sold systems for the etching and deposition of materials found in other devices, such as integrated circuits ("ICs") and optoelectronic devices found in products such as smart phones, networking gear, solid-state lighting, and digital imaging.

Beginning in the fiscal third quarter of 2009, we experienced a sharp decline in revenues related to our legacy etch and PVD products resulting from the collapse of the semiconductor capital equipment market and the global financial crisis. The management and the Board of Directors considered several alternatives for dealing with this decline in revenues, including the sale of assets which the Company could no longer support. On March 19, 2010, we and our wholly owned subsidiary, SFI, sold inventory, equipment, intellectual property and other assets related to our legacy etch and PVD products to OEM Group Inc. ("OEM Group"), a company based in Phoenix, Arizona that specializes in "life cycle management" of legacy product lines for several semiconductor equipment companies. The sale included the product lines and associated spare parts and service business of our 900 and 6500 series plasma etch systems, along with the Endeavor and AMS PVD systems from SFI. In connection with the sale of the assets, OEM Group assumed our warranty liabilities for recently sold legacy etch and PVD systems.

We retained the DRIE products which we had acquired from AMMS, along with our Compact *(TM)* cluster platform and the NLD technology that we had developed over the past several years. However, the DRIE products and a small amount of associated spares and service revenue represented our sole source of revenue. Since the DRIE markets were also seriously impacted by the downturn in the semiconductor markets and the lack of available capital for new product development globally, it was not clear that DRIE sales alone would be enough to support the Company, even with significant reductions in operating expenses. As a result, we continued to operate with a focus on DRIE and at the same time sought a strategic partner for our remaining business. We also continued to evaluate various other alternative strategies, including sale of its DRIE products, Compact*(TM)* platform and NLD technology, the transition to a new business model, or our voluntary liquidation

Going into fiscal 2011, we continued operations of the Company with the DRIE product lines acquired from AMMS as our main business. Due to limited resources, we discontinued our development efforts in NLD at the end of fiscal 2010, and began offering these assets for sale to third-parties. In connection with our DRIE operations, we continued to operate our Tegal France subsidiary, which was engaged in several joint development projects which were partially supported by customers and the government of France. Tegal France was also the center for the majority of our product and process development efforts and engineering activities related to the improvement of our DRIE product lines. At the same time, we began the process of closing and/or liquidating all of our other wholly-owned subsidiary companies, including SFI and Tegal GmbH, along with branches in Taiwan, Korea and Italy.

The sale of DRIE systems and the small amount of associated spares and service revenue represented the sole source of the Company's revenue in fiscal 2011. For all of fiscal 2010, DRIE sales represented approximately 47% of our total revenues. Since the DRIE markets were also seriously impacted by the downturn in the semiconductor markets and the lack of available capital for new product development globally, DRIE sales alone were not enough to continue supporting the Company, even with significant reductions in our operating expenses resulting from the sale of the legacy etch and PVD business, as well as of the implementation of further cost containment measures. Accordingly, while we focused our efforts on the operation of the DRIE business in the first half of fiscal 2011, we continued to seek and evaluate strategic alternatives, which included a continued operation of the Company as a stand-alone business with a different business plan, a merger with or into another company, a sale of all or substantially all of our remaining assets, and the liquidation or dissolution of the Company, including through a voluntary dissolution or a bankruptcy proceeding.

On January 14, 2011, the Company, se2quel Partners and Sequel Power entered into a Formation and Contribution Agreement. The Company contributed $2 million in cash to Sequel Power in exchange for an approximate 25% ownership interest in Sequel Power. Sequel Power is focused on the promotion of solar power plant development projects worldwide, the development of self-sustaining businesses from such projects, including but not limited to activities relating to and supporting, developing, building and operating solar photovoltaic fabrication facilities and solar farms, and the consideration of other non-photovoltaic renewable energy projects. The project services provided to Sequel Power represented the Company's sole source of revenue for all of fiscal 2012.

Following our investment in Sequel Power, and as a result of our continuing efforts to reduce our operating losses, on February 9, 2011, the Company and SPTS entered into an Asset Purchase Agreement. That agreement included the sale of all of the shares of Tegal France, SAS, the Company's wholly-owned subsidiary and product lines and certain equipment, intellectual property and other assets relating to the DRIE Etch plasma etch systems and certain related technology. In the fiscal year ended March 31, 2012 we concluded that the market value of our investment in Sequel Power was much less than our carrying values in the current economic environment. The original value of Sequel Power's solar development model was $1,730, which represented the net difference between our investment and the underlying equity of the unconsolidated affiliate. It was determined at the time of the investment that the asset would have a life of ten years, which was management's best estimate of the length of a time it would take to build a solar project. The value on the balance sheet of Sequel Power at fiscal year end March 31, 2012, prior to the impairment was approximately $1,377 which represented the unamortized value of our investment in Sequel Power's solar development model. We now believe the intangible asset has a value of zero. This valuation is based upon the fact that the business model of Sequel Power is under review by Sequel Power's management. Sequel Power's management is researching other possibilities for the direction of the company and may or may not use its proprietary solar development model in the future. Additionally, there is uncertainty that Sequel Power will be able to continue as a going concern and its survivability is at risk. The undiscounted expected future cash flows are less than the pre-impairment carrying value of the assets, and an impairment loss was recognized based on the excess of the carrying amount over the fair value of the assets.

On November 22, 2011, the Company completed a $300 strategic investment in Nano Vibronix, Inc., a private company that develops medical devices and products that implement its proprietary therapeutic ultrasound technology. Nano Vibronix is focused on creating products utilizing its proprietary low-intensity surface acoustic wave (“SAW”) technology. The company's unique, patented approach enables the transmission of low-frequency, low-intensity ultrasound waves through a variety of soft, flexible materials, including skin and tissue, enabling low-cost, breakthrough devices targeted at large, high-growth markets.

For the past several years Tegal has been in a process of consolidation and transition, driven by the financial crisis and downturn in the semiconductor and MEMS producing sectors, and worsened by our relatively weak strategic and financial position in those sectors. Our main objective has been to preserve as much value for stockholders as possible as we transitioned to a business model that avoided the high fixed costs of capital equipment and retained our capabilities to attract and exploit emerging technologies related to the semiconductor and MEMS sectors. We sold the majority of our operating assets to companies that are much better positioned to benefit from those technologies and we have invested in one opportunity in a high-growth sector related to semiconductors (photo voltaic (PV) based solar) and one opportunity in the medical device sector. We intend to engage in supporting the activities of Sequel Power through our direct efforts and through related operations and investments we may make in the future. In addition, Tegal is actively evaluating opportunities for partnerships with other diversified technology-based companies in order to exploit our shared experience and to enhance our value as a public company.

The consolidated financial statements have been prepared using the going concern basis, which assumes that we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. The consolidated financial statements are prepared in conformity with GAAP.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, bad debts, sales returns allowance, inventory, intangible and long lived assets, warranty obligations, restructure expenses, deferred taxes and freight charged to customers. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies are the most significant to the presentation of our consolidated financial statements:

Revenue Recognition

Until February 9, 2011, each sale of our equipment was evaluated on an individual basis in regard to revenue recognition. We had integrated in our evaluation the related guidance included in Accounting Standards Codification (“ASC”) Topic 605 – “Revenue Recognition”. We recognized revenue when persuasive evidence of an arrangement exists, the seller’s price is fixed or determinable and collectability is reasonably assured.

For products produced according to our published specifications, where no installation was required or installation was deemed perfunctory and no substantive customer acceptance provisions existed, revenue was recognized when title passed to the customer, generally upon shipment. Installation was not deemed to be essential to the functionality of the equipment since installation did not involve significant changes to the features or capabilities of the equipment or building complex interfaces and connections. In addition, the equipment could be installed by the customer or other vendors and generally the cost of installation approximates only 1% of the sales value of the related equipment.

Prior to February 9, 2011, for products produced according to a particular customer’s specifications, revenue was recognized when the product had been tested and it had been demonstrated that it met the customer’s specifications and title passed to the customer. The amount of revenue recorded was reduced by the amount (generally 10%), which was not payable by the customer until installation was completed and final customer acceptance was achieved.

Prior to February 9, 2011, for new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance could not be fully assessed prior to meeting customer specifications at the customer site, 100% of revenue was recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passed to the customer upon shipment and 90% of the contract amount became payable at that time, inventory was relieved and accounts receivable were recorded for the entire contract amount. The Company relieved the entire amount from inventory at the time of sale, and the related deferred revenue liability was recognized upon installation and customer acceptance. The revenue on these transactions was deferred and recorded as deferred revenue. We reserved for warranty costs at the time the related revenue was recognized. As of March 31, 2012 and 2011, deferred revenue related to systems was $0 and $130, respectively.

Revenue related to sales of spare parts was recognized upon shipment. Revenue related to maintenance and service contracts was recognized ratably over the duration of the contracts. Unearned maintenance and service revenue was included in deferred revenue. For both fiscal years ended in March 31, 2012 and 2011, the Company had $0 deferred revenue related to service contracts.

Prior to the sale of the Company's manufacturing assets, the Company's return policy was for spare parts and components only. A right of return did not exist for systems. Customers were allowed to return spare parts if they were defective upon receipt. The potential returns were offset against gross revenue on a monthly basis. During the existence for the Company's return policy, management reviewed outstanding requests for returns on a quarterly basis to determine that the reserves were adequate.

All revenue related to manufacturing assets has been reclassified to discontinued operations. Revenue related to project services is recognized upon completion of performance of those services.

Accounts Receivable – Allowance for Doubtful Accounts

The Company no longer maintains reserves for potential credit losses as such risk has been determined to be immaterial. Write-offs during the periods presented have been insignificant. The Company previously maintained an allowance for doubtful accounts receivable for estimated losses resulting from the inability of the Company's customers to make required payments for system sales. As of March 31, 2012, the balance in accounts receivable was $7. As of March 31, 2011, two customers accounted for approximately 98% of the accounts receivable balance.

Inventories

Until February 9, 2011, inventories were stated at the lower of cost or market. Cost was computed using standard cost, which approximates actual cost on a first-in, first-out basis and includes material, labor and manufacturing overhead costs. Prior to issuing a going-concern announcement in fiscal year 2010, inventory values were reduced by provisions for excess and obsolescence, and the Company estimated the effects of excess and obsolescence on the carrying values of our inventories based upon estimates of future demand and market conditions, and established a provision for related inventories in excess of production demand. Any excess and obsolete provision was only released if and when the related inventory was sold or scrapped.

As a result of the sale of DRIE related assets to SPTS, the Company wrote off the value of the NLD hardware inventory. The value of the NLD hardware inventory during fiscal year 2011 was $398. This amount was included in the loss from discontinued operations. While the Company recognized a zero value for the NLD inventory, the related patents realized $3,750 in revenue in discontinued operations in fiscal year 2012. The NLD patent portfolio provides a unique, exploitable, and defendable intellectual property position in thin film deposition technology combining unique aspects of pulsed chemical vapor deposition (PCVD) and atomic layer deposition (ALD) technologies. The Company has offered the remaining patents to third parties.

Prior to the sale of our legacy Etch and PVD assets to OEM Group Inc. and the sale of our DRIE assets to SPTS, the Company periodically analyzed any systems that were in finished goods inventory to determine if they were suitable for current customer requirements. It was the Company's policy that, if after approximately 18 months, it determined that a sale would not take place within the next 12 months and the system would be useable for customer demonstrations or training, it would be transferred to fixed assets. Otherwise, it was expensed.

The carrying value of systems used for demonstrations or training was determined by assessing the cost of the components that were suitable for sale. Any parts that had been rendered unsellable as a result of such use were removed from the system and were not included in finished goods inventory. The remaining saleable parts were valued at the lower of cost or market, representing the system's net realizable value. The depreciation period for systems that were transferred to fixed assets was determined based on the age of the system and its remaining useful life (typically five to eight years).

Fair Value Measurements

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and we consider what assumptions market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

- Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

- Level 3: Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

The Company's financial instruments consist primarily of money market funds. At March 31, 2012, all of the Company's current assets in financial instruments investments were classified as cash equivalents in the consolidated balance sheet. The investment portfolio at March 31, 2011 was comprised of money market funds. The carrying amounts of the Company's cash equivalents are valued using Level 1 inputs. The Company also has warrant liabilities which are valued using Level 3 inputs.

	Year Ended March 31,	
	2012	**2011**
Balance at the beginning of the period	$ 26	$ 363
Issuance of warrants	-	-
Change in fair value recorded in earnings	(7)	(337)
Balance at the end of the period	$ 19	$ 26

Identified Intangible Assets

Intangibles include patents and trademarks that are amortized on a straight-line basis over periods ranging from 5 years to 15 years. The Company performs an ongoing review of its identified intangible assets to determine if facts and circumstances exist that indicate the useful life is shorter than originally estimated or the carrying amount may not be recoverable. If such facts and circumstances exist, the Company assesses the recoverability of identified intangible assets by comparing the projected undiscounted net cash flow associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

No impairment charges for intangible assets were recorded for the fiscal years ended 2012 and 2011. As of fiscal year 2011, all of the Company's remaining intangible assets, other than those related to NLD and Compact, were included in the asset sale of the DRIE product line to SPTS.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable as well as at fiscal year end. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. No impairment charges for intangible assets or other long lived assets were recorded for the fiscal years ended 2012 and 2011, respectively, since all of the Company's remaining intangible assets were included in the asset sale of the DRIE product line to SPTS. As the Company's NLD patents and intellectual property were all internally developed (except for those acquired in connection with the Simplus acquisition, which were subsequently written-off) the value of the Company's NLD technology had no recorded value prior to sale.

Warranty Obligations

Prior to the sale of our legacy Etch and PVD assets to OEM Group and the sale of our DRIE assets to SPTS, we provided for the estimated cost of our product warranties at the time revenue was recognized. Our warranty obligation was affected by product failure rates, material usage rates and the efficiency by which the product failure was corrected. The warranty reserve was based on historical cost data related to warranty. Should actual product failure rates, material usage rates and labor efficiencies have differed from our estimates, revisions to the estimated warranty liability would have been required. Actual warranty expense was typically low in the period immediately following installation. The Company has no warranty liabilities as these liabilities were included in the consideration for the DRIE and associated asset sale to SPTS on February 9, 2011.

Pension Obligations

Going into 2011, the Company began the process of closing and/or liquidating all of our wholly-owned subsidiary companies, not already sold, including Tegal Germany. The subsidiaries are now included in discontinued operations. The Company had recognized an ongoing liability for pensions related to the Tegal Germany subsidiary. However, in fiscal year 2011, the Company recognized an additional liability for the independent third-party administration of the pension program once this subsidiary is closed. The total pension liability for the fiscal years ended March 31, 2012 and 2011 was $0 and $700, respectively. The pension liability was settled on October 6, 2011. The settlement of the pension obligation is classified as a reduction of liabilities of discontinued operations. The related foreign exchange gain or loss is classified as a gain or loss on the sale of discontinued operations in the third quarter of the current fiscal year.

Deferred Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Based on the uncertainty of future taxable income, we have fully reserved our deferred tax assets as of March 31, 2012 and 2011. In the event we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such determination was made.

Accounting for Stock-Based Compensation

The Company has adopted several stock plans that provide for issuance of equity instruments to our employees and non-employee directors. Our plans include incentive and non-statutory stock options and restricted stock awards. These equity awards generally vest ratably over a four-year period on the anniversary date of the grant, and stock options expire ten years after the grant date. Certain restricted stock awards may vest on the achievement of specific performance targets. The Company also has an ESPP that allows qualified employees to purchase Tegal shares at 85% of the fair market value on specified dates.

Accounting for Freight Charged to Customers

Prior to the sale of our legacy Etch and PVD assets to OEM Group and the sale of our DRIE assets to SPTS, spares and systems were typically shipped "freight collect," therefore no shipping revenue or cost was associated with the sale. When freight was charged, the amount charged to customers was booked to revenue and freight costs incurred were offset in the cost of revenue accounts pursuant to Financial Accounting Standards Board's ("FASB") EITF 00-10 (Topic 603). The Company no longer engages in the sale or shipment of manufactured products.

Results of Operations

The following table sets forth certain financial items for the years indicated:

	Year Ended March 31,	
	2012	2011
Revenue - related party	$ 100	$ 16
Operating expenses:		
General and administrative expenses	2,615	1,883
Total operating expenses	2,615	1,883
Operating loss	(2,515)	(1,867)
Equity in (loss) and impairment of unconsolidated affiliate	(2,046)	(179)
Other income (expense), net	18	337
Loss before income tax benefit	(4,543)	(1,709)
Income tax expense (benefit)	--	--
Loss from continuing operations	(4,543)	(1,709)
Gain on sale of discontinued operations, net of taxes	2,930	506
Income (loss) from discontinued operations, net of taxes	184	(1,927)
Income (loss) from discontinued operations	3,114	(1,421)
Net loss	(1,429)	(3,130)
Other comprehensive income (loss)	25	(18)
Total comprehensive (loss)	$ (1,404)	$ (3,148)
Net loss per share from continuing operations:		
Basic and diluted	$ (2.69)	$ (1.01)
Net income/(loss) income per share from discontinued operations:		
Basic and diluted	$ 1.84	$ (0.84)
Net (loss) per share:		
Basic and diluted	$ (0.85)	$ (1.85)
Weighted-average shares used in per share computation:		
Basic and diluted	1,689	1,689

The weighted-average number of shares and the (loss) income per share reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

Years Ended March 31, 2012 and 2011

Revenue

Prior to February 9, 2011, our revenue was derived from sales of new and refurbished systems, spare parts and non-warranty service. Comparing revenue for the prior period before reclassification into discontinued operations, revenue decreased by $6,545 in fiscal 2012 from fiscal 2011 (to $100 from $6,645). The revenue decrease was due to our exit from our core historical operations, when the Company sold its DRIE assets to SPTS in the fourth quarter of fiscal year 2011.

In fiscal 2011, prior to February 9, 2011, all revenue was generated from the DRIE business and a small amount of associated spares and service. At the present time, our sole potential source of revenue is from the project activities of Sequel Power. In fiscal 2012 and 2011, Sequel Power generated $100 and $16, respectively, in revenues for the Company.

As a percentage of total revenue for the fiscal year 2012, international sales were 0%. International sales accounted for approximately 91% of total revenue in fiscal 2011. The decrease in international sales as a percentage of revenue can be attributed to the sale of our legacy Etch and PVD assets to OEM Group and the sale of our DRIE assets to SPTS.

We expect that international sales may account for a significant portion of any future revenue, since Sequel Power's development projects are located in several countries outside the United States.

All DRIE related revenues and product costs are captured in Discontinued Operations in our Income Statement.

Gross (Loss) Profit

Comparing gross profit for the prior period before reclassification into discontinued operations, our gross profit as a percentage of revenue (gross margin) increased to 100% in fiscal 2012 compared to 19.1% in fiscal 2011. The increase in the gross margin in fiscal 2012 compared to 2011 was primarily due to our exit from our core historical operations. The gross profit of 19.1% in fiscal 2011 was generated from the specific number and mix of systems sold that year.

Prior to February 9, 2011, our gross profit as a percentage of revenue was affected by a variety of factors, including the mix and average selling prices of systems sold and the costs to manufacture, service and support new product introductions and enhancements.

At the present time we are engaged primarily in supporting the activities of Sequel Power through our direct efforts and through related operations and investments we may make in the future. In addition, we are actively evaluating opportunities for partnerships, mergers or acquisitions with other diversified technology-based companies.

During the fiscal year ended March 31, 2012, we did not record any severance charges. During the fiscal year ended March 31, 2011, we recorded a severance charge of approximately $474 related to staff reductions of 30 employees, of which approximately $116 was classified as engineering and research and development, $174 as sales and marketing, $47 as general and administration, and $137 as cost of sales. We had no outstanding severance liability as of March 31, 2011. The entire amount of severance expense was reclassified to discontinued operations.

Research and Development

Prior to the sale of the DRIE related assets, research and development ("R&D") expenses consisted primarily of salaries, prototype material and other costs associated with our ongoing systems and process technology development, applications and field process support efforts. As a result of the sale of the Company's DRIE related assets, and in accordance with generally accepted accounting principles, the DRIE business operation, including related R&D expenses, have been reclassified to discontinued operations. At the time of the sale, all the Company's R&D expenses were related to the DRIE operations.

As of March 31, 2012, we had 1 full-time employee that had been formerly dedicated to equipment design engineering, process support and R&D. This employee is currently responsible for managing the activities related to the sale of our intellectual property and is our key technologist involved in analyzing and evaluating various opportunities that we are reviewing that either support our investment in Sequel Power or represent merger or acquisition opportunities in other diversified technologies.

R&D expenses for fiscal 2012 and 2011 were $1,010 and $2,794, respectively. Prior to the sale of the DRIE related assets, such expenditures were primarily used for the development of new processes, continued enhancement and customization of existing systems, processing customer samples in our demonstration labs and providing process engineering support at customer sites. The primary cause of the decrease in research and development expenses in fiscal 2011 was due to the reduction in force and sale of the DRIE assets which included the transfer of the Tegal France research and development center.

Sales and Marketing

Prior to the sale of the DRIE related assets, our sales and marketing expenses consisted primarily of salaries, commissions, trade show promotion and advertising expenses. The Company currently does not maintain a sales and marketing force. Expenses decreased to $0 in fiscal 2012 from $674 in fiscal 2011. The decrease in spending was due to the reduction in force as a result of the sale of the DRIE and related assets on February 9, 2011 and the exit from our core historical operations. As a result of the sale of the Company's DRIE related assets, and in accordance with generally accepted accounting principles, the DRIE business operation, including related sales and marketing expenses, have been reclassified to discontinued operations. At the time of the sale, all the Company's sales and marketing expenses were related to the DRIE operations.

General and Administrative

Our general and administrative expenses consist of salaries, legal, accounting and related administrative services and expenses associated with general management, finance, information systems, human resources and investor relations activities. General and administrative costs decreased to $2,630 in fiscal 2012 from $3,880 in fiscal 2011 primarily due to the decrease in payroll costs and reduced stock-based compensation expense. As a result of the sale of the Company's DRIE related assets, and in accordance with generally accepted accounting principles, the DRIE business operation, including related general and administrative expenses, have been reclassified to discontinued operations. At the time of the sale, approximately 50% of the Company's general and administrative expenses were related to the DRIE operations.

Equity in (loss) of unconsolidated affiliate

In fiscal 2012, the Company recorded a $499 net loss in earnings of the unconsolidated affiliate and $170 of amortization expenses related to the difference between the net book value of Sequel's assets and the cost of the investment. In fiscal 2011, the Company recorded a $134 net loss in earnings of the unconsolidated affiliate and $45 of amortization expenses related to the difference between the net book value of Sequel's assets and the cost of the investment. The Company did not have an investment in an unconsolidated affiliate until the fourth quarter of fiscal 2011. We incurred an impairment of our investment in our unconsolidated affiliates during the year ended March 31, 2012 in the amount of $1,377.

Other Income (expense), net

Other income (expense), net consists of the change in fair value of the common stock warrant liability and interest earned on our Nano Vibronix investment.

Discontinued Operations

Discontinued operations consists of interest income, other income, reimbursements for expenses from the French government for research and development, gains and losses on the disposal of fixed assets of discontinued operations, gains and losses on foreign exchange and interest income on money market accounts, as well as the reclassification of net expenses associated with our exit from our historical core operations. In fiscal 2012, discontinued operations included $2,879 in net gain on the sale of NLD patents. In fiscal 2011, discontinued operations included $377 in tax refunds and $662 in reimbursements received from the French government for R&D projects being performed at our Tegal France subsidiary, gains and losses on foreign exchange and interest income on money market accounts, as well as the reclassification of net expenses associated with our exit from our historical core operations.

Income Taxes

In both fiscal 2012 and 2011, our effective tax rate was 0%. All deferred tax assets have been fully reserved.

Liquidity and Capital Resources

In fiscal years 2012 and 2011, we financed our operations through the use of existing cash balances. The primary significant changes in our cash flow statement for fiscal 2012 were the net gain in discontinued operations due to the sale of the NLD patents and the net gain on proceeds from contingent payments in discontinued operations, offset by the $1,377 impairment in the Company's unconsolidated affiliate and our net loss of ($1,429). The overall decrease in the Company's revenue performance in both continuing and discontinued operations is related to the sale of the DRIE and related assets to SPTS in the fourth quarter of fiscal 2011.

As the result of our exit from our historical core operations with the sale of DRIE to SPTS on February 9, 2011, in fiscal year 2012, the Company recognized a net gain of $2,930 from the sale of NLD patents and a net gain of $445 from contingent payments owed as a result of the sale of legacy etch and PVD related assets to OEM Group in the fourth quarter of fiscal year 2010. This was offset by the impairment of $1,377 of our unconsolidated affiliate and the net loss in the unconsolidated affiliate of $669. The Company also settled its pension obligation of $700 related to its German subsidiary in fiscal 2012. The settlement of the pension obligation is included in the change in liabilities from discontinued operations.

In fiscal year 2011, as a result of reduced operations and the sale to SPTS of DRIE and related assets, accrued expenses and other current liabilities decreased by $976. Notes receivable decreased $569 as a result of payments made by OEM Group for the legacy etch and PVD assets sold to it in fiscal 2010. Prepaid expenses and other assets also decreased by $1,088 as a result of accrued reimbursement payments received for R&D expense from the French government as well as decreases resulting from the Company's reduced operations.

Net cash used in operations in fiscal 2012 was $3,108. Net cash used in operations in fiscal 2011 was $74, primarily due to the sale of the DRIE and related assets to SPTS.

Net cash generated by investing activities totaled $3,328 and $585, in fiscal years 2012 and 2011, respectively. Fiscal 2012 included net cash generated from the sale of NLD patents and the net payments of the outstanding note receivable and contingent payments related to the sale of legacy related assets to OEM Group, Inc. Cash used in fiscal 2012 was for the investment in Nano Vibronix. Fiscal 2011 primarily included net cash of $2,000 used for the investment in Sequel Power and net cash generated from the sale of the DRIE related assets to SPTS.

The Company had no notes receivable due at the end of fiscal year 2012. In fiscal year 2011, notes receivable consisted of the outstanding payments owed by OEM Group in connection with the sale of legacy etch and PVD assets. There was a $0 balance at the end of fiscal year 2012 and a $500 balance at the end of 2011 for notes payable.

Our consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. We incurred net losses of ($1,429) and ($3,130), for fiscal years 2012 and 2011, respectively. Cash flows used in operations were ($3,108) and ($74), for fiscal years 2012 and 2011, respectively. We believe that our outstanding cash balances are adequate to fund operations through fiscal year 2013.

The following summarizes our contractual obligations at March 31, 2012, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands).

Contractual obligations:	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Non-cancelable operating lease obligations	$ 36	$ 36	$ -	$ -	$ -
Total contractual cash obligations	$ 36	$ 36	$ -	$ -	$ -

Prior to the sale of our legacy Etch and PVD assets to OEM Group and the sale of our DRIE assets to SPTS, certain of our sales contracts included provisions under which customers would be indemnified by us in the event of, among other things, a third-party claim against the customer for intellectual property rights infringement related to our products. There are no limitations on the maximum potential future payments under these guarantees. We have accrued no amounts in relation to these provisions as no such claims have been made and we believe we have valid, enforceable rights to the intellectual property embedded in its products.

Off Balance Sheet Arrangements

None.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, Accounting Standards Update ("ASU") which amends ASC Topic 820, *Fair Value Measurement.* The purpose of ASU 2011-04 is to clarify the intent about the application of existing fair value measurement and disclosure requirements and to change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of the provisions of ASU 2011-04 did not have a material impact to our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which amends ASC Topic 220, *Comprehensive Income*. The objective of ASU 2011-05 is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The update requires entities to present items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two separate consecutive statements, and entities will no longer be allowed to present items of other comprehensive income in the statement of stockholders' equity. Reclassification adjustments between other comprehensive income and net income will be presented separately on the face of the financial statements. We have adopted the presentation methodology for the year ended March 31, 2012 and 2011.

In September 2011, the FASB issued ASU 2011-08, Intangibles – *Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We do not expect the provisions of ASU 2011-05 to have a material impact to our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosure about Offsetting Assets and Liabilities*, which requires an entity to include additional disclosures associated with its financial instruments. The new guidance requires the disclosure of gross amounts subject to offset, the amounts of the offsets in accordance with the accounting standards followed, and the related net exposure. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not expect the provisions of ASU 2011-11 to have a material impact on our consolidated financial statements.

Item 7A. *Quantitative and Qualitative Disclosure about Market Risk*

Market Risk Disclosure

Foreign Currency Exchange Risk

At March 31, 2012, all of the Company's investments were classified as cash equivalents in the consolidated balance sheet. At March 31, 2011, all but 3% of the Company's investments were classified as cash equivalents in the consolidated balance sheet. The balance of the Company's fiscal 2011 investments was classified as restricted cash. The investment portfolio at fiscal 2012 and fiscal 2011 was comprised of money market funds. With the sale of the DRIE related assets and the closure of the Tegal France subsidiary, our exposure to foreign currency fluctuations has been mostly eliminated. Prior to the sale of the Company's operating assets, our exposure to foreign currency fluctuations was primarily related to purchases in Europe and Japan, which were denominated in the Euro and Yen, as well as inventories held in Europe, which are denominated in the Euro. For the fiscal year ended March 31, 2012, fluctuations of the U.S. dollar in relation to the Euro were immaterial to our financial statements. In fiscal year 2012, these fluctuations primarily affected the balance of the pension obligation in Germany, which was settled in the third quarter of fiscal year 2012. In fiscal year 2011, these obligations primarily affected cost of goods sold as it related to varying levels of inventory held in Europe and denominated in the Euro. The inventory held in Europe was reduced to zero as of March 31, 2011, as a result of the sale to SPTS.

Changes in the exchange rate between the Euro and the U.S. dollar are currently immaterial to our operating results. Exposure to foreign currency exchange rate risk may increase over time as our business evolves. We expect that sales in international markets may account for a significant portion of any future revenue, since Sequel Power's development projects are located in several countries outside the United States.

Periodically, the Company would enter into foreign exchange contracts to sell Euros, which are used to hedge a sales transaction in which costs were denominated in U.S. dollars and the related revenue was generated in Euros. As of March 31, 2012, there were no outstanding foreign exchange contracts.

Interest Rate Risk

We are only marginally exposed to interest rate risk through interest earned on money market accounts. Interest rates that may affect these items in the future will depend on market conditions and may differ from the rates we have experienced in the past. We do not hold or issue derivatives, commodity instruments or other financial instruments for trading purposes.

Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Tegal Corporation:

We have audited the accompanying consolidated balance sheets of Tegal Corporation and its subsidiaries ("the Company") as of March 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended March 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor have we been engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tegal Corporation and its subsidiaries as of March 31, 2012 and 2011 and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/Burr Pilger Mayer, Inc.
San Francisco, California
June 14, 2012

TEGAL CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2012	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,820	$ 7,575
Restricted cash	--	200
Prepaid expenses and other current assets	56	139
Other assets of discontinued operations	418	1,129
Total current assets	8,294	9,043
Property and equipment, net	56	112
Investment in unconsolidated affiliate	--	2,046
Investment in convertible promissory note	312	-
Long term assets of discontinued operations	--	-
Total assets	$ 8,662	$ 11,201
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1	$ 262
Common stock warrant liability	19	26
Accrued expenses and other current liabilities	316	94
Liabilities of discontinued operations	246	1,410
Total current liabilities	582	1,792
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $0.01 par value; 50,000,000 shares authorized; 1,688,807 and 1,688,943 shares issued and outstanding at March 31, 2012 and 2011, respectively	17	17
Additional paid-in capital	129,052	128,977
Accumulated other comprehensive loss	(142)	(167)
Accumulated deficit	(120,847)	(119,418)
Total stockholders' equity	8,080	9,409
Total liabilities and stockholders' equity	$ 8,662	$ 11,201

The number of shares issued and outstanding reflects a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share data)

	Year Ended March 31, 2012	2011
Revenue - related party	$ 100	$ 16
Operating expenses:		
General and administrative expenses	2,615	1,883
Total operating expenses	2,615	1,883
Operating loss	(2,515)	(1,867)
Equity in (loss) and impairment of unconsolidated affiliate	(2,046)	(179)
Other income (expense), net	18	337
Loss before income tax benefit	(4,543)	(1,709)
Income tax expense (benefit)	--	--
Loss from continuing operations	(4,543)	(1,709)
Gain on sale of discontinued operations, net of taxes	2,930	506
Income (loss) from discontinued operations, net of taxes	184	(1,927)
Income (loss) from discontinued operations	3,114	(1,421)
Net loss	(1,429)	(3,130)
Other comprehensive income (loss)	25	(18)
Total comprehensive (loss)	$ (1,404)	$ (3,148)
Net loss per share from continuing operations:		
Basic and diluted	$ (2.69)	$ (1.01)
Net income/(loss) income per share from discontinued operations:		
Basic and diluted	$ 1.84	$ (0.84)
Net (loss) per share:		
Basic and diluted	$ (0.85)	$ (1.85)
Weighted-average shares used in per share computation:		
Basic and diluted	1,689	1,689

The weighted-average number of shares and the (loss) income per share reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid - in Capital	Accumulated Other Comprehensive Income (loss)	Accum-ulated Deficit	Total Stock-holder's Equity
	Shares	Amount				
Balances at March 31, 2010	1,687,623	17	128,357	(149)	(116,288)	11,937
Common stock issued stock purchase plans	396	-	1	-	-	1
Restricted stock units - vested	924	-	(6)	-	-	(6)
Stock compensation expense	-	-	395	-	-	395
Warrants issued for asset purchase	-	-	230	-	-	230
Net loss	-	-	-	-	(3,130)	(3,130)
Cumulative translation adjustment	-	-	-	(18)	-	(18)
Balances at March 31, 2011	1,688,943	17	128,977	(167)	(119,418)	9,409
Common stock repurchases	(136)	-	-	-	-	-
Stock compensation expense	-	-	175	-	-	175
Warrants exchanged for services	-	-	(100)	-	-	(100)
Net loss	-	-	-	-	(1,429)	(1,429)
Cumulative translation adjustment	-	-	-	25	-	25
Balances at March 31, 2012	1,688,807	17	129,052	(142)	(120,847)	8,080

The number of common stock shares reflects a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

See accompanying notes to consolidated financial statements.

TEGAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended March 31, 2012	Year Ended March 31, 2011
Cash flows from operating activities:		
Net loss	$ (1,429)	$ (3,130)
Adjustments to reconcile net loss to net cash (used in)/provided by operating activities:		
Stock compensation expense	175	389
Stock issued under stock purchase plan	--	1
Fair value adjustment of common stock warrants	(7)	(337)
Depreciation and amortization - continuing operations	9	180
Depreciation and amortization - discontinued operations	--	449
Inventory impairment charge - assets held for sale	--	398
Net gain on sale of intangible asset - discontinued operations	(2,930)	--
Provision for doubtful accounts and sales returns allowances - discontinued operations	(71)	(253)
Intangible assets - discontinued operations	--	1,230
Loss on disposal of property and equipment - continuing operations	51	--
Loss on disposal of property and equipment - discontinued operations	--	37
Gain on proceeds received from contingent payments - discontinued operations	(445)	--
Interest earned on note receivable	(12)	--
Gain on asset disposition - SPTS - discontinued operations	--	(506)
Equity in (loss) of unconsolidated affiliate	669	179
Impairment of unconsolidated affiliate	1,377	--
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	8	84
Accounts payable	(261)	(196)
Accrued expenses and other current liabilities	197	(1)
Current assets and liabilities from discontinued operations	(439)	1,402
Net cash (used in) operating activities	(3,108)	(74)
Cash flows from investing activities:		
Acquisition of property and equipment - continuing operations	(4)	(65)
Net proceeds received from sale of intangible asset - discontinued operations	2,930	--
Net cash received on OEM asset disposition - discontinued operations	502	1,250
Net unrestricted cash received on SPTS asset disposition - discontinued operations	--	1,600
Net cash, restricted, received on SPTS asset disposition - discontinued operations	200	(200)
Purchase of interest of unconsolidated affiliate	--	(2,000)
Issuance of note receivable	(300)	--
Net cash provided by investing activities:	3,328	585
Cash flows from financing activities:		
Net cash used in financing activities	--	--
Effect of exchange rates on cash and cash equivalents	25	(234)
Net increase in cash and cash equivalents	245	277
Cash and cash equivalents at beginning of period	7,575	7,298
Cash and cash equivalents at end of period	$ 7,820	$ 7,575
Supplemental disclosure of non-cash activities:		
Warrants issued in purchase of interest in consolidated affiliate	$ --	$ 230

See accompanying notes to Consolidated Financial Statements.

TEGAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise noted)

Note 1. ***Description of Business and Summary of Significant Accounting Policies***

The Company

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

Until recently, Tegal Corporation, a Delaware corporation ("Tegal", the "Company", "we", "our" and "us"), designed, manufactured, marketed and serviced specialized plasma etch systems used primarily in the production of micro-electrical mechanical systems ("MEMS") devices, such as sensors, accelerometers and power devices. The Company's Deep Reactive Ion Etch ("DRIE") systems were also employed in certain sophisticated manufacturing techniques involving 3-D interconnect structures formed by intricate silicon etching, also known as Deep Silicon Etch ("DSE") for so-called Through Silicon Vias ("TSVs"). For most of the fiscal year ended March 31, 2011, Tegal also sold systems for the etching and deposition of materials found in other devices, such as integrated circuits ("ICs") and optoelectronic devices found in products such as smart phones, networking gear, solid-state lighting, and digital imaging.

Beginning in the fiscal third quarter of 2009, we experienced a sharp decline in revenues related to our legacy etch and PVD products resulting from the collapse of the semiconductor capital equipment market and the global financial crisis. The management and the Board of Directors of the Company considered several alternatives for dealing with this decline in revenues, including the sale of assets which the Company could no longer support. On March 19, 2010, we and our wholly owned subsidiary, SFI, sold inventory, equipment, intellectual property and other assets related to our legacy etch and PVD products to OEM Group Inc. ("OEM Group"), a company based in Phoenix, Arizona that specializes in "life cycle management" of legacy product lines for several semiconductor equipment companies. The sale included the product lines and associated spare parts and service business of our 900 and 6500 series plasma etch systems, along with the Endeavor and AMS PVD systems from SFI. In connection with the sale of the assets, OEM Group assumed our warranty liabilities for recently sold legacy etch and PVD systems.

We retained the DRIE products which we had acquired from AMMS, along with our Compact*(TM)* cluster platform and the NLD technology that we had developed over the past several years. However, the DRIE products and a small amount of associated spares and service revenue represented our sole source of revenue. Since the DRIE markets were also seriously impacted by the downturn in the semiconductor markets and the lack of available capital for new product development globally, it was not clear that DRIE sales alone would be enough to support the Company, even with significant reductions in operating expenses. As a result, we continued to operate with a focus on DRIE and at the same time sought a strategic partner for our remaining business. We also continued to evaluate various other alternative strategies, including sale of its DRIE products, Compact*(TM)* platform and NLD technology, the transition to a new business model, or our voluntary liquidation.

The Sequel Power Transaction

On January 14, 2011, Tegal, se2quel Partners LLC, a California limited liability company, and Sequel Power LLC, a newly formed Delaware limited liability company ("Sequel Power"), entered into a Formation and Contribution Agreement. Sequel Power is focused on the promotion of solar power plant development projects worldwide, the development of self-sustaining businesses from such projects, including but not limited to activities relating to and supporting, developing, building and operating solar photovoltaic fabrication facilities and solar farms, and the consideration of other non-photovoltaic renewable energy projects. se2quel Partners is owned by Ferdinand Seemann, who previously served as an independent member of the Company's Board of Directors. Pursuant to the Formation and Contribution Agreement, Tegal contributed $2 million in cash to Sequel Power in exchange for an approximate 25% ownership interest in Sequel Power. In addition, Tegal issued warrants ("Warrants") to se2quel Partners and se2quel Management GmbH, a German limited liability company, to purchase an aggregate of 185,777 shares of the Company's common stock at an exercise price of $3.15 per share. The Warrants are exercisable for a period of four years. On March 31, 2012, Sequel Power irrevocably assigned and transferred unto the Company for cancelation a portion of warrants representing the right to purchase 48,310 shares of the Company's common stock. In exchange, the Company agreed to waive receivables related to certain fees earned under its Services Agreement with Sequel Partners.

The descriptions of the Formation and Contribution Agreement and the Warrants are qualified in their entirety by reference to the full text of such documents, copies of which were filed as exhibits to the Form 8-K report filed on January 21, 2011.

The SPTS Transaction

On February 9, 2011, Tegal and SPP Process Technology Systems Limited, ("SPTS"), a company incorporated and registered in England and Wales, entered into an Asset Purchase Agreement (the "Purchase Agreement") pursuant to which the Company sold to SPTS all of the shares of Tegal France, SAS, the Company's wholly-owned subsidiary, and product lines and certain equipment, intellectual property and other assets relating to the Company's DRIE systems and certain related technology SPTS also assumed existing customer contracts, including all installation and warranty obligations of existing customers, and other liabilities arising after the closing of the transaction (the "Assumed Liabilities"). The transaction closed immediately after execution of the Purchase Agreement. The consideration paid by SPTS totaled approximately $2.1 million, comprised of approximately $0.5 million of Assumed Liabilities and $1.6 million in cash.

Principles of Consolidation and Foreign Currency Transactions

The consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in conformity with accounting principles generally accepted in the United States. Intercompany transactions and balances are eliminated in consolidation. Accounts denominated in foreign currencies are translated using the foreign currencies as the functional currencies. Assets and liabilities of foreign operations are translated to U.S. dollars at current rates of exchange and revenues and expenses are translated using weighted-average rates. The effects of translating the financial statements of foreign subsidiaries into U.S. dollars are reported as accumulated other comprehensive income (loss), a separate component of stockholders' equity. Gains and losses from foreign currency transactions are included in the statements of operations and comprehensive loss as a component of other income (expense), net, and were not material in all periods presented.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could vary from those estimates.

Reclassifications

As a result of the sale of the Company's DRIE assets in the prior fiscal year, and in accordance with GAAP, the DRIE business operations related to the designing, manufacturing, marketing and servicing of systems and parts within the semiconductor industry has been reclassified to discontinued operations in our condensed consolidated financial statements. Amounts for the prior periods have been reclassified to conform to this presentation. The exit from the DRIE operation was essentially completed by the end of the fourth quarter of our 2011 fiscal year.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments having a maturity of three months or less on the date of purchase to be cash equivalents.

At March 31, 2012 and 2011, all of the Company's current investments are classified as cash equivalents in the consolidated balance sheets. The investment portfolio at March 31, 2012 and 2011 is comprised of money market funds. At March 31, 2012 and 2011 the fair value of the Company's investments approximated cost.

Financial Instruments

The carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, notes receivable, accrued expenses and other liabilities approximates fair value due to their relatively short maturity. Prior to February 9, 2011, the Company had foreign subsidiaries, which operated and sold the Company's products in various global markets. With the sale of the DRIE related assets and the closure of the Tegal France subsidiary, our exposure to foreign currency fluctuations has been mostly eliminated. The Company does not hold derivative financial instruments for speculative purposes. Periodically, the Company would enter into foreign exchange contracts to sell Euros, which are used to hedge a sales transaction in which costs were denominated in U.S. dollars and the related revenue was generated in Euros. On March 31, 2012 and 2011, the Company had no open foreign exchange contracts to sell Euros or any other foreign currencies.

Changes in the exchange rate between the Euro and the U.S. dollar are currently immaterial to our operating results. Exposure to foreign currency exchange rate risk may increase over time as our business evolves.

The balance in notes receivable for fiscal year ended March 31, 2012 was zero. Notes receivable for the fiscal year ended March 31, 2011 consisted of the outstanding payments owed by OEM Group in connection with the sale of legacy assets, and was included in assets of discontinued operations.

Fair Value Measurements

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and we consider what assumptions market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

- Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

- Level 3: Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

The Company's financial instruments consist primarily of money market funds. At March 31, 2012, all of the Company's current assets in financial instruments investments were classified as cash equivalents in the consolidated balance sheet. The investment portfolio at March 31, 2011 was comprised of money market funds. The carrying amounts of the Company's cash equivalents are valued using Level 1 inputs. The Company also has warrant liabilities which are valued using Level 3 inputs.

Investment in Unconsolidated Affiliate

The Company evaluates our joint venture arrangements to determine whether they should be recorded on a consolidated basis. The percentage of ownership interest in the joint venture, an evaluation of control and whether a variable interest entity ("VIE") exists are all considered in the consolidation assessment.

We account for our investment in joint ventures where we own a non-controlling interest or where we are not the primary beneficiary of a VIE using the equity method of accounting. Under the equity method, our cost of investment is adjusted for our share of equity in the earnings of the unconsolidated affiliate and reduced by distributions received.

Any differences between the cost of our investment in an unconsolidated affiliate and our underlying equity as reflected in the unconsolidated affiliate's financial statements generally result from a different basis in assets contributed to the joint venture. The net difference between our investment in unconsolidated affiliates and the underlying equity of unconsolidated affiliates is generally amortized over a period of ten years, which is determined to be the estimated useful life of the underlying intangibles which created the difference in carrying amount. As a result of the impairment charge taken against our unconsolidated affiliate, the net difference at March 31, 2012 was $0. The amortization expense related to this difference for the fiscal year ended March 31, 2012 was $171.

On a periodic basis, we assess whether there are any indicators that the fair value of our investments in unconsolidated affiliates may be impaired. An investment is impaired only if our estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment. Our estimates of fair value for each investment are based on a number of assumptions such as future revenue projections, operating forecasts, discount rates and capitalization rates, among others. These assumptions are subject to economic and market uncertainties. As these factors are difficult to predict and are subject to future events that may alter our assumptions, the fair values estimated in the impairment analyses may not be realized. Our estimate of the fair value of our investment is $0; accordingly we incurred an impairment charge of our investment in our unconsolidated affiliates during the year ended March 31, 2012 in the amount of $1,377.

Investment in Convertible Promissory Note

The Company's carrying amount of its investment in a Convertible Promissory Note approximates fair value. On a periodic basis, we assess whether there are any indicators that the fair value of our investment in Convertible Promissory Note may be impaired. An investment is impaired only if our estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment.

As of March 31, 2012, the Company's investment in Convertible Promissory Note consisted solely of the investment in Nano Vibronix. That note bears interest at a rate of 10% per year compounded annually and matures on November 15, 2014. Interest is accrued and recognized quarterly. As of March 31, 2012, the Convertible Promissory Note balance was $312 consisting of the original $300 investment and $12 in accrued interest.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash investments. Substantially all of the Company's liquid investments are invested in money market funds. The Company's accounts receivable are derived primarily from sales to customers located in the United States, Europe and Asia. Prior to our exit from our historical core operations, the Company performed ongoing credit evaluations of its customers and generally required no collateral. The Company no longer maintains reserves for potential credit losses. Write-offs during the periods presented have been insignificant.

As of March 31, 2012, the Company's accounts receivable balance was wholly related to one customer in discontinued operations. As of March 31, 2011 two customers accounted for approximately 98% of the accounts receivable balance.

As of March 31, 2012, the Company's Note Receivable balance was zero. The Company's Note Receivable at March 31, 2011 consisted of the outstanding payments owed by OEM Group in connection with the sale of legacy etch and PVD assets completed in March 2010.

Inventories

Until February 9, 2011, inventories were stated at the lower of cost or market. Cost was computed using standard cost, which approximates actual cost on a first-in, first-out basis and includes material, labor and manufacturing overhead costs. Prior to issuing a going-concern announcement, inventory values were reduced by provisions for excess and obsolescence, and the Company estimated the effects of excess and obsolescence on the carrying values of our inventories based upon estimates of future demand and market conditions, and established a provision for related inventories in excess of production demand. Any excess and obsolete provision was only released if and when the related inventory was sold or scrapped.

As a result of the sale of DRIE related assets to SPTS, the Company wrote off the value of the NLD hardware inventory. The value of the NLD hardware inventory during fiscal year 2011 was $398. This amount was included in the loss from discontinued operations. The Company recognized a zero value for the NLD hardware inventory. This inventory was included in the first sale of related patents in fiscal year 2012. The Company retained the internally developed NLD patents and has sold all but nine of those patents to third parties as of March 31, 2012. The remaining patents are being offered for sale to third parties. The NLD patent portfolio provides a unique, exploitable, and defendable intellectual property position in thin film deposition technology combining unique aspects of pulsed chemical vapor deposition (PCVD) and atomic layer deposition (ALD) technologies.

Warranty Costs

The Company provided for the estimated cost of our product warranties at the time revenue was recognized. Our warranty obligation was affected by product failure rates, material usage rates and the efficiency by which the product failure was corrected. The warranty reserve was based on historical cost data related to warranty. Should actual product failure rates, material usage rates and labor efficiencies have differed from our estimates, revisions to the estimated warranty liability would have been required. Actual warranty expense was typically low in the period immediately following installation. As of March 31, 2012, the Company had no warranty liabilities, as these liabilities were included in the consideration for the DRIE and associated asset sale to SPTS on February 9, 2011.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are stated at cost and are amortized using the straight-line method over the shorter of the estimated useful life of the improvements or the lease term. Significant additions and improvements are capitalized, while repairs and maintenance are charged to expense as incurred. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in the results of operations. The Company generally depreciates its assets over the following periods:

	Years
Furniture and machinery and equipment	7
Computer and software	3 – 5
Leasehold improvements	5 or remaining lease life

Identified Intangible Assets

Intangibles include patents and trademarks that are amortized on a straight-line basis over periods ranging from 5 years to 15 years. The Company performs an ongoing review of its identified intangible assets to determine if facts and circumstances exist that indicate the useful life is shorter than originally estimated or the carrying amount may not be recoverable in accordance with Accounting Standards Codification ("ASC") Topic 350, "Intangibles, Goodwill and Other". If such facts and circumstances exist, the Company assesses the recoverability of identified intangible assets by comparing the projected undiscounted net cash flow associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

No impairment charges were recorded for intangible assets in the fiscal years ended 2012 and 2011. As of fiscal year 2011, all of the Company's remaining intangible assets with a carrying value greater than zero were included in the asset sale of the DRIE product line to SPTS.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as well as at our fiscal year end. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. There were no indicators of impairment and no impairment charges for long-lived assets were recorded for the fiscal years ended March 31, 2012 and 2011.

Accounts Receivable – Allowance for Sales Returns and Doubtful Accounts

The Company no longer maintains reserves for potential credit losses as such risk has been determined to be immaterial. Write offs during the periods presented have been insignificant. The Company previously maintained an allowance for doubtful accounts receivable for estimated losses resulting from the inability of the Company's customers to make required payments for systems sales.

Prior to the sale of the Company's manufacturing assets, the Company's return policy was for spare parts and components only. A right of return did not exist for systems. Customers were allowed to return spare parts if they were defective upon receipt. The potential returns were offset against gross revenue on a monthly basis. During the existence for the Company's return policy, management reviewed outstanding requests for returns on a quarterly basis to determine that the reserves were adequate.

Revenue Recognition

Until February 9, 2011, each sale of our equipment was evaluated on an individual basis in regard to revenue recognition. We had integrated in our evaluation the related guidance included in ASC Topic 605 – "Revenue Recognition". We recognize revenue when persuasive evidence of an arrangement exists, the seller's price is fixed or determinable and collectability is reasonably assured.

For products produced according to our published specifications, where no installation was required or installation was deemed perfunctory and no substantive customer acceptance provisions existed, revenue was recognized when title passed to the customer, generally upon shipment. Installation was not deemed to be essential to the functionality of the equipment since installation did not involve significant changes to the features or capabilities of the equipment or building complex interfaces and connections. In addition, the equipment could be installed by the customer or other vendors and generally the cost of installation approximated only 1% of the sales value of the related equipment.

Prior to February 9, 2011, for products produced according to a particular customer's specifications, revenue was recognized when the product had been tested and it had been demonstrated that it met the customer's specifications and title passed to the customer. The amount of revenue recorded was reduced by the amount (generally 10%), which was not payable by the customer until installation was completed and final customer acceptance was achieved.

Prior to February 9, 2011, for new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance could not be fully assessed prior to meeting customer specifications at the customer site, 100% of revenue was recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passed to the customer upon shipment and 90% of the contract amount became payable at that time, inventory was relieved and accounts receivable was recorded for the entire contract amount. The Company relieved the entire amount from inventory at the time of sale, and the related deferred revenue liability was recognized upon installation and customer acceptance. The revenue on these transactions was deferred and recorded as deferred revenue. As of March 31, 2012 and 2011, deferred revenue as related to systems was $0 and $130, respectively. Prior to our exit from our core operations, we reserved for warranty costs at the time the related revenue is recognized.

Revenue related to sales of spare parts was recognized upon shipment. Revenue related to maintenance and service contracts was recognized ratably over the duration of the contracts. Unearned maintenance and service revenue was included in deferred revenue. For each year ended March 31, 2012 and 2011, there was no deferred revenue related to service contracts. The Company no longer offers maintenance and service contracts. Revenue related to project services is recognized upon completion of performance of those services.

Prior to the sale of the Company's manufacturing assets, the Company's return policy was for spare parts and components only. A right of return did not exist for systems. Customers were allowed to return spare parts if they were defective upon receipt. The potential returns were offset against gross revenue on a monthly basis. During the existence of the Company's return policy, management reviewed outstanding requests for returns on a quarterly basis to determine that the reserves were adequate.

Accounting for Freight Charged to Customers

Prior to the sale of our legacy Etch and PVD assets to OEM Group and the sale of our DRIE assets to SPTS, spares and systems were typically shipped "freight collect," therefore no shipping revenue or cost was associated with the sale. When freight was charged, the amount charged to customers is booked to revenue and freight costs incurred are offset in the cost of revenue accounts pursuant to Financial Accounting Standards Board's ("FASB") EITF 00-10 (Topic 605). The Company no longer engages in the sale or shipment of manufactured products.

Income Taxes

We account for income taxes in accordance with ASC Topic 740 – "Income Taxes", which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Under ASC 740, the liability method is used in accounting for income taxes. Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. We evaluate annually the realizability of our deferred tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. In 2012 and 2011, we have recorded a full valuation allowance for our deferred tax assets based on our past losses and uncertainty regarding our ability to project future taxable income. In future periods, if we are able to generate income we may reduce or eliminate the valuation allowance.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed using the weighted-average number of common shares outstanding plus any potentially dilutive securities, except when the effect of including such changes is antidilutive. The weighted-average number of shares and the (loss) income per share reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC Topic 718 – "Compensation-Stock Compensation" which establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee's service period.

We have adopted several stock plans that provide for issuance of equity instruments to our employees and non-employee directors. Our plans include incentive and non-statutory stock options and restricted stock awards. These equity awards generally vest ratably over a four-year period on the anniversary date of the grant, and stock options expire ten years after the grant date. Certain restricted stock awards may vest on the achievement of specific performance targets. We also have an Employee Stock Purchase Plan ("ESPP") that allows qualified employees to purchase Tegal shares at 85% of the fair market value on specified dates.

Comprehensive (Loss)

Comprehensive (loss) is defined as the change in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. The primary difference between net income (loss) and comprehensive income (loss) for the Company is attributable to foreign currency translation adjustments.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends ASC Topic 820, *Fair Value Measurement*. The purpose of ASU 2011-04 is to clarify the intent about the application of existing fair value measurement and disclosure requirements and to change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of the provisions of ASU 2011-04 did not have a material impact to our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which amends ASC Topic 220, *Comprehensive Income*. The objective of ASU 2011-05 is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The update requires entities to present items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two separate consecutive statements, and entities will no longer be allowed to present items of other comprehensive income in the statement of stockholders' equity. Reclassification adjustments between other comprehensive income and net income will be presented separately on the face of the financial statements. We have adopted the presentation methodology for the years ended March 31, 2012 and 2011.

In September 2011, the FASB issued ASU 2011-08, Intangibles – *Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We do not expect the provisions of ASU 2011-05 to have a material impact to our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosure about Offsetting Assets and Liabilities*, which requires an entity to include additional disclosures associated with its financial instruments. The new guidance requires the disclosure of gross amounts subject to offset, the amounts of the offsets in accordance with the accounting standards followed, and the related net exposure. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not expect the provisions of ASU 2011-11 to have a material impact on our consolidated financial statements.

Note 2. *Balance Sheet and Statement of Operations Detail*

Net inventories for the periods presented were zero. With the sale of our legacy Etch and PVD assets to OEM Group and the sale of our DRIE assets to SPTS, the company no longer maintains inventory. The Company did not sell or scrap previously reserved inventory during the twelve months ended March 31, 2012 and 2011. The inventory provision balance for the periods ended March 31, 2012 and 2011 was $0. In the fiscal year ended March 31, 2012, the Company's inventory consisted of the NLD hardware, which was held for sale, and had a book value of zero. The NLD hardware was included in the sale of the first lot of patents completed in the third quarter of the current fiscal year. The Company no longer engages in the sale or shipment of manufactured products.

Previously, the Company's policy was that inventories were stated at the lower of cost or market. Cost was computed using standard cost, which approximates actual cost on a first-in, first-out basis and included material, labor and manufacturing overhead costs. Any excess and obsolete provision was only released if and when the related inventory is sold or scrapped.

Prior to the sale of the Company's inventory assets, the Company periodically analyzed any systems that were in finished goods inventory to determine if they were suitable for current customer requirements. At that time, the Company's policy was that, if after approximately 18 months, it determines that a sale will not take place within the next twelve months and the system would be useable for customer demonstrations or training, it is transferred to fixed assets. Otherwise, it was expensed.

Property and equipment, net, consisted of:

Long-lived assets at period-end:	March 31 2012	2011
Discontinued Operations:		
United States	$ -	$ -
Europe	-	-
Continuing Operations:		
United States	56	112
Total Long-lived assets	$ 56	$ 112

Depreciation expense for years ended March 31, 2012 and 2011 was $9 and $442, respectively.

A summary of accrued expenses and other current liabilities follows, including accrued liabilities related to discontinued operations:

	March 31, 2012	2011
Discontinued Operations		
Accrued compensation costs	$ 66	$ 700
Taxes payable	76	58
German subsidiary closing legal expenses	104	-
Continuing Operations		
Accrued compensation costs	245	55
Other	71	39
	$ 562	$ 852

Product warranty and guarantees:

Prior to our exit from our historical core operations, the Company provided warranty on all system sales based on the estimated cost of product warranties at the time revenue is recognized. The warranty obligation was affected by product failure rates, material usage rates, and the efficiency by which the product failure was corrected. The Company's warranty obligation was assumed by SPTS as part of the sale of the DRIE assets. Warranty activity for the years ended March 31, 2012 and 2011, is as follows:

	Warranty Activity for the Year Ending March 31, 2012	2011
Balance at the beginning of the period	$ -	$ 374
Additional warranty accruals for warranties issued during the period	--	544
Warranty liability transferred to SPTS	--	(495)
Warranty expense during the period	--	(423)
Balance at the end of the period	$ -	$ -

Certain of the Company's sales contracts included provisions under which customers would be indemnified by the Company in the event of, among other things, a third-party claim against the customer for intellectual property rights infringement related to the Company's products. There are no limitations on the maximum potential future payments under these guarantees. The Company has accrued no amounts in relation to these provisions as no such claims have been made and the Company believes it has valid, enforceable rights to the intellectual property embedded in its products.

Note 3. *Intangible Assets*

On February 9, 2011, Tegal and SPTS entered into an Asset Purchase Agreement pursuant to which the Company sold to SPTS all of the shares of Tegal France, SAS, the Company's wholly-owned subsidiary and product lines and certain equipment, intellectual property and other assets relating to the Company's DRIE systems and certain related technology.

In connection with the sale, as of March 31, 2011, the Company's intangible assets net value was zero. As of March 31, 2012, the Company's intangible assets net value was also zero.

Amortization expense was $0 and $187 in fiscal 2012 and fiscal 2011, respectively. The Company sold all remaining intangibles, except the NLD related patents, to SPTS on February 9, 2011. The Company retained the internally developed NLD patents and has sold all but nine of those patents to third parties as of March 31, 2012. The remaining patents are being offered for sale to third parties.

Note 4. *Earnings Per Share (EPS)*

Basic EPS is computed by dividing income (loss) available to common stockholders (numerator) by the weighted-average number of common shares outstanding (denominator) for the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period. The computation of diluted EPS uses the average market prices during the period. All amounts in the following table are in thousands except per share data. The weighted-average number of shares and the (loss) income per share reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

Basic net income (loss) per common share is computed using the weighted-average number of shares of common stock outstanding.

The following table represents the calculation of basic and diluted net income (loss) per common share (in thousands, except per share data):

	Year Ended March 31, 2012	Year Ended March 31, 2011
(Loss) from continuing operations	$ (4,543)	$ (1,709)
Income (loss) from discontinued operations, net of taxes	3,114	(1,421)
Net (loss) applicable to common stockholders	$ (1,429)	$ (3,130)
Basic and diluted:		
Weighted-average common shares outstanding	1,689	1,689
Net (loss) per share from continuing operations:		
Basic and diluted	$ (2.69)	$ (1.01)
Net income/(loss) income per share from discontinued operations:		
Basic and diluted	$ 1.84	$ (0.84)
Net (loss) per share:		
Basic and diluted	$ (0.85)	$ (1.85)

Outstanding options, warrants and Restricted Stock Units ("RSUs") of 365,580 and 329,700, at a weighted-average exercise price of $8.85 and $13.65, on March 31, 2012 and 2011, respectively, were not included in the computation of diluted net (loss) income per common share for the periods presented as a result of their anti-dilutive effect. Such securities could potentially dilute earnings per share in future periods.

Note 5. *Discontinued Operations*

On February 9, 2011, the Company and SPTS entered into an Asset Purchase Agreement pursuant to which the Company sold to SPTS all of the shares of Tegal France, SAS, the Company's wholly-owned subsidiary and product lines and certain equipment, intellectual property and other assets relating to the Company's DRIE systems and certain related technology. SPTS also assumed existing customer contracts, including all installation and warranty obligations of existing customers, and other liabilities arising after the closing of the transaction.

The transaction closed immediately after execution of the Asset Purchase Agreement. The consideration paid by SPTS totaled approximately $2.1 million, comprised of approximately $0.5 million of Assumed Liabilities and $1.6 million in cash, of which $200,000 in cash will be held in escrow for one year after the closing of the transaction to satisfy any indemnification obligations of the Company under the Asset Purchase Agreement.

The assets and liabilities of discontinued operations are presented separately under the captions "Other assets of discontinued operations" and "Liabilities of discontinued operations," respectively, in the accompanying consolidated balance sheets at March 31, 2012 and 2011 and consist of the following:

	March 31, 2012	March 31, 2011
Assets of Discontinued Operations:		
Accounts and other receivables, net of allowances for sales returns and doubtful accounts of $0 and $71 at March 31, 2012 and 2011, respectively	$ 410	$ 591
Notes receivable	--	528
Prepaid expenses and other current assets	8	10
Total assets of discontinued operations	$ 418	$ 1,129
Liabilities of Discontinued Operations:		
Accounts payable	$ -	$ 522
Deferred revenue	--	130
Accrued expenses and other current liabilities	246	758
Total liabilities of discontinued operations	$ 246	$ 1,410

In fiscal year 2011, the Company recognized a gain of $506 from the sale of the DRIE assets. Total revenue from discontinued operations was $0 and $6,629 for the years ended March 31, 2012 and 2011, respectively. The total (gain)/loss from discontinued operations, including income tax expense (benefit), was ($184) and $1,927, for the same years respectively. Total losses from discontinued operations for the years ended March 31, 2012 and 2011 included the reclassification of operating expenses related to the manufacture, design, marketing and servicing of the DRIE operations including foreign exchange adjustments and income tax expense (benefit). The gain in fiscal year ended 2012 results primarily from the sale of the NLD patents.

The Company also recognized $3,750 from the sale of the NLD patents. As these assets were internally developed, there was a corresponding zero book value. The NLD gain is recognized in discontinued operations, along with the related costs of $820, which includes $772 in commission expense, resulting in a gain of $2,930. During the fiscal year ended March 31, 2012, the Company, as part of its proposed sale of its intellectual property portfolio for Nanolayer Deposition Technology (NLD), awarded three of the four offered lots to multiple semiconductor equipment manufacturers. The Company finalized the sale transaction of the first of the four lots on December 23, 2011. The Company finalized the sale transaction of the second lot on January 13, 2012. While the third lot has been awarded, the Company has not yet finalized that transaction. Sales of NLD patents in future periods will also be recognized in discontinued operations, as well all related expenses to finalize the sales. NLD is a process technology that bridges the gap between high throughput, non-conformal chemical vapor deposition (CVD) and highly conformal, low throughput atomic layer deposition (ALD). The portfolio included over 35 US and international patents in the areas of pulsed-CVD, plasma-enhanced ALD, and NLD. The Company has sold all but nine of those patents to third parties as of March 31, 2012. The remaining patents are being offered for sale to third parties.

In fiscal year 2012, the Company also recognized deferred revenue of $130, offset by related commission expense, as well as revenue of $89 from the finalization of the sale of the DRIE assets which occurred in the fourth quarter of the prior fiscal year. In the same period, the Company received $440 from OEM in installment payments related to the sale of legacy assets, and recognized $64 in foreign currency transactions.

Note 6. ***Income Taxes***

The deferred tax asset valuation allowance as of March 31, 2012 is attributed to U.S. federal, and state deferred tax assets, which result primarily from future deductible accruals, reserves, net operating loss carryforwards, and tax credit carryforwards. We believe that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding our ability to realize the deferred tax assets such that a full valuation allowance has been recorded. These factors include our history of losses, and the lack of carryback capacity to realize deferred tax assets.

In accordance with Section 382 of the Internal Revenue Code, the amounts of and benefits from net operating loss and tax credit carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses or credits that we may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% as defined, over a three year period.

We recognize interest and penalties related to uncertain tax positions in income tax expense. Income tax expense for the year ended March 31, 2012 includes no interest and penalties. As of March 31, 2011, we have no accrued interest and penalties related to uncertain tax positions.

Components of income (loss) from continuing operations before income taxes is attributed to the following geographic locations for the years ended March 31, 2012 and 2011 (in thousands):

Year ended March 31,	**2012**	**2011**
Domestic	$ (4,543)	$ (1,709)
Foreign	-	-
Income (loss) from continuing operations before income tax expense (benefit)	$ (4,543)	$ (1,709)

Components of income tax expense (benefit) for the years ended March 31, 2012 and 2011 consisted of the following (in thousands):

Year ended March 31,	**2012**	**2011**
Current:		
U.S. Federal	$ -	$ -
State and Local	-	-
Foreign (credit)	-	-
Total current tax expense (benefit)	-	-
Deferred		
U.S. Federal	-	-
State and Local	-	-
Foreign (credit)	-	-
Total deferred tax expense	-	-
Total income tax expense (benefit)	$ -	$ -

The income tax expense (benefit) for the years ended March 31, 2012 and 2011 differed from the amounts computed by applying the statutory U.S. federal income tax rate as follows (in thousands):

Year ended March 31,	**2012**	**2011**
Federal tax expense (benefit) at U.S. Statutory Rate	$ (486)	$ (1,592)
State tax expense (benefit) net of federal tax effect	(90)	(93)
Change in valuation allowance	26	(385)
Other items	550	2,070
Total income tax expense/(income)	$ -	$ -

Components of deferred taxes are as follows (in thousands):

Year ended March 31,	**2012**	**2011**
Deferred revenue	$ -	$ 52
Accruals, reserves and other	1,566	1,530
Net operating loss carryforwards	38,140	38,636
Credit carryforward	2,233	2,276
Uniform cap adjustment	-	12
Impairment on investment	548	-
Other	848	803
Gross deferred tax assets	43,335	43,309
Valuation allowance	(43,335)	(43,309)
Net deferred tax asset	$ -	$ -

The Company adopted FASB Interpretation No. 48, "*Accounting for Uncertainty in Taxes*", (ASC Topic 740), on January 1, 2007. As a result of the implementation of ASC Topic 740, the Company did not recognize any adjustment to the liability for uncertain tax positions and therefore did not record any adjustment to the beginning balance of accumulated deficit on the consolidated balance sheet. As of the date of adoption, the Company recorded a $1.4 million reduction to deferred tax assets for unrecognized tax benefits, all of which is currently offset by a full valuation allowance and therefore did not record any adjustment to the beginning balance of accumulated deficit on the balance sheet at that time.

Tabular Reconciliation of Unrecognized Tax Benefits

Ending Balance at March 31, 2010	1,036
Increase/(Decrease) of unrecognized tax benefits taken in prior years	-
Increase/(Decrease) of unrecognized tax benefits related to current year	-
Increase/(Decrease) of unrecognized tax benefits related to settlements	-
Reductions to unrecognized tax benefits related to lapsing statute of limitations	(192)
Ending Balance at March 31, 2011	844
Increase/(Decrease) of unrecognized tax benefits taken in prior years	-
Increase/(Decrease) of unrecognized tax benefits related to current year	3
Increase/(Decrease) of unrecognized tax benefits related to settlements	-
Reductions to unrecognized tax benefits related to lapsing statute of limitations	(14)
Ending Balance at March 31, 2012	833

There are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

Because the statute of limitations does not expire until after the net operating loss and credit carryforwards are actually used, the statues are still open on fiscal years ended March 31, 1995 forward for federal purposes, and for fiscal years ended March 31, 2002 forward for state purposes. For the years prior to March 31, 2008 for federal purposes and prior to March 31, 2007 for state purposes, any adjustments would be limited to reduction in the net operating loss and credit carryforwards.

Total interest and penalties included in the statement of operations for the year ended March 31, 2012 is zero. It is the Company's policy to include interest and penalties related to uncertain tax positions in tax expense.

We have recorded no net deferred tax assets for the years ended March 31, 2012 and 2011, respectively. The Company has provided a valuation allowance of $43.3 million at March 31, 2012 . The valuation allowance fully reserves all net operating loss carryforwards, credits and non-deductible accruals and reserves, for which realization of future benefit is uncertain. The realization of net operating losses may be limited due to change of ownership rules. The valuation allowance remained materially consistent during fiscal 2012 and decreased by $0.4 million in fiscal 2011.

At March 31, 2012, the Company has net operating loss carryforwards of approximately $98.7 million and $47.5 million for federal and state tax purposes, respectively. The federal net operating loss carryforward will begin to expire in the year ended March 31, 2020 and the state of California will start to expire in the year ended March 31, 2013.

At March 31, 2012, the Company also has research and experimentation credit carryforwards of $1.3 million and $0.8 million for federal and state income tax purposes, respectively. A portion of the federal credit began to expire in the year ended March 31, 2012 and the state of California will never expire under current law.

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carry-forwards in certain situations where changes occur in the stock ownership of a corporation during a certain time period. In the event the Company had incurred a change in ownership, utilization of the carry-forwards could be significantly restricted

Note 7. ***Reduction in Force***

During the fiscal year ended March 31, 2012, we had no severance charges and no outstanding severance liability.

During the fiscal year ended March 31, 2011, we recorded a severance charge of approximately $474 related to staff reductions of 30 employees. We had no outstanding severance liability as of March 31, 2011. The entire amount of severance expense is included in discontinued operations.

Note 8. ***Commitments and Contingencies***

The Company has several non-cancelable operating leases, primarily for general office space, that expire over the next two years. We have no capital leases at this time. Future minimum lease payments under these leases are as follows:

Year Ending March 31,	Operating Leases
2013	$ 36
Total minimum lease payments	$ 36

Most leases provide for the Company to pay real estate taxes and other maintenance expenses. Rent expense for operating leases related to discontinued operations, net of sublease income, was $12 and $271, during the years ended March 31, 2012 and 2011, respectively. Rent expense for operating leases related to continuing operations, net of sublease income, was $60 and $34, during the years ended March 31, 2012 and 2011, respectively.

We maintain our headquarters, encompassing our executive office and storage areas in Petaluma, California. We have a primary lease for office space, consisting of 2,187 square feet, which expires in August of 2012. We rent storage/workspace areas on a monthly basis. Previously we had a primary lease which encompassed our executive office, manufacturing, engineering and research and development operations, in one leased 39,717 square foot facility in Petaluma, California. Our primary lease expired in September 2010, and we did not extend it further. We own all of the equipment used in our facilities. Such equipment consists primarily of computer related assets.

We also had a lease for research and development space in a facility in Annecy, France until it was taken over by SPTS as part of the asset sale of Tegal's DRIE etch business.

Note 9. ***Sale of Common Stock and Warrants***

During fiscal year 2006, the Company entered into a contract with certain consultants of the Company pursuant to which the Company will issue warrants on a monthly basis in lieu of cash payments for two years, dependent upon the continuation of the contract and the achievement of certain performance goals. These warrants are valued and expensed on a monthly basis upon issuance.

- During fiscal year 2008, the Company issued 5,000 warrants valued at $29 using the Black-Scholes model with an exercise price at the market value on the day of the grant and an average interest rate of 3.75% and a 5 year life.

- During the fiscal year 2009, the Company issued no warrants. The Company booked $15 of expense for warrants previously issued.

- During the fiscal year 2010, the Company issued no warrants. The Company booked $0 of expense for warrants previously issued.

- During the fiscal year 2011, the Company issued 185,777 warrants valued at $1,645 using the Black-Scholes model with an exercise price at the market value on the day of the grant (the date the Formation and Contribution Agreement was signed) and an average interest rate of 1.62% and a four year life. The Company booked $0 of expense for warrants previously issued.

- During the fiscal year 2012, the Company issued no warrants. The Company booked $0 of expense for warrants previously issued.

At March 31, 2012, there were 8,825 warrants outstanding, with an average exercise price of $32.27.

Note 10. ***Employee Benefit Plans***

The number of shares indicated in the following employee benefit plans reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

Eighth Amended and Restated 1998 Equity Participation Plan (Eighth Amended and Restated)

Pursuant to the terms of the Company's Eighth Amended and Restated 1998 Equity Participation Plan ("1998 Equity Plan"), aggregate of 333,333 shares of common stock were reserved for issuance pursuant to granted stock options and stock appreciation rights or upon the vesting of granted restricted stock awards. The exercise price of options generally was the fair value of the Company's common stock on the date of grant. Options are generally subject to vesting at the discretion of the Compensation Committee of the Board of Directors (the "Committee"). At the discretion of the Committee, vesting may be accelerated when the fair market value of the Company's stock equals a certain price established by the Committee on the date of grant. Incentive stock options will be exercisable for up to ten years from the grant date of the option. Non-qualified stock options will be exercisable for a maximum term to be set by the Committee upon grant. Upon the adoption of the 2007 Equity Plan, no further awards were issued under the 1998 Equity Plan.

2007 Incentive Award Plan

Pursuant to the terms of the Company's 2007 Equity Participation Plan ("2007 Equity Plan"), which was authorized as a successor plan to the Company's 1998 Equity Incentive Plan and Director Option Plan, an aggregate of 200,000 shares of common stock is available for grant pursuant to the 2007 Equity Plan, plus the number of shares of common stock which are or become available for issuance under the 1998 Equity Plan and the Director Option Plan and which are not thereafter issued under such plans. The 2007 Equity Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards, and performance-based awards. The option exercise price of all stock options granted pursuant to the 2007 Equity Plan will not be less than 100% of the fair market value of the common stock on the date of grant. Stock options may be exercised as determined by the Board, but in no event after the tenth anniversary date of grant, provided that a vested nonqualified stock option may be exercised up to 12 months after the optionee's death. Awards granted under the 2007 Equity Plan are generally subject to vesting at the discretion of the Committee. As of March 31, 2012, 472,968 shares were available for issuance under the 2007 Equity Plan.

Directors Stock Option Plan

Pursuant to the terms of the Fifth Amended and Restated Stock Option Plan for Outside Directors, as amended, ("Director Option Plan"), an aggregate of 66,667 shares of common stock were reserved for issuance pursuant to stock options granted to outside directors. Each outside director who was elected or appointed to the Board on or after September 15, 1998 was eligible to be granted an option to purchase 1,667 shares of common stock and on each second anniversary after the applicable election or appointment shall receive an additional option to purchase 833 shares, provided that such outside director continued to serve as an outside director on that date. For each outside director, 1/12th of the total number of shares will vest on the first day of each calendar month following the date of Option grant, contingent upon continued service as a director. Following the adoption of the 2007 Equity Plan, no further awards were issued under the Director Option Plan.

Employee Qualified Stock Purchase Plan

The Company has offered an employee qualified stock purchase plan ("Employee Plan") under which rights are granted to purchase shares of common stock at 85% of the lower of the market value of such shares at the beginning of a six month offering period or at the end of that six month period. Under the Employee Plan, the Company is authorized to issue up to 16,667 shares of common stock. There were no common stock shares purchased in fiscal 2012. Some 396 common stock shares were purchased in fiscal 2011. Shares available for future purchase under the Employee Plan were 3,705 at March 31, 2012.

Savings and Investment Plan

The Company has established a defined contribution plan that covers substantially all U.S. employees. Employee contributions of up to 4% of each U.S. employee's compensation will be matched by the Company based upon a percentage to be determined annually by the Board. Employees may contribute up to 15% of their compensation, not to exceed a prescribed maximum amount. The Company made contributions to the plan of $12 and $7, in the years ended March 31, 2012 and 2011, respectively.

Note 11. ***Stock Based Compensation***

The share amounts and share prices reflect a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

A summary of stock option and warrant activity during the year ended March 31, 2012 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Beginning outstanding	154,938	$ 21.63		
Granted	2,499	$ 3.43		
Expired	(29,604)	$ 30.38		
Ending outstanding	127,833	$ 19.24	5.87	$ -
Ending vested and expected to vest	127,764	$ 19.21	5.87	$ -
Ending exercisable	116,469	$ 20.12	5.73	$ -

The aggregate intrinsic value of options and warrants outstanding at March 31, 2012 is calculated as the difference between the exercise price of the underlying options and the market price of our common stock as of March 31, 2012.

The weighted-average estimated grant date fair value, as defined by ASC Topic 718 for stock options granted during fiscal 2012 and 2011, was $3.43 and $2.90, per option, respectively.

The following table summarizes information with respect to stock options and warrants outstanding as of March 31, 2012:

Range of Exercise Prices		Number Outstanding As of March 31, 2012	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable As of March 31, 2012	Weighted Average Exercise Price As of March 31, 2012
$ 2.90	$ 6.00	8,330	8.89	$ 4.30	5,831	$ 4.67
6.25	11.70	54,435	6.64	11.53	45,639	11.50
17.80	28.10	49,648	5.40	21.73	49,623	21.73
30.56	61.80	14,506	3.08	43.49	14,498	43.48
61.94	151.94	854	2.41	88.99	832	89.52
152.21	285.00	58	1.33	174.08	46	174.00
286.72	300.27	2	0.00	293.50	-	-
$ 2.90	$ 300.27	127,833	5.87	$ 19.24	116,469	$ 20.12

The weighted-average estimated grant date fair values per share, for rights granted under the Employee Stock Purchase Plan during fiscal 2011 was $2.75. No shares were granted under the Employee Stock Purchase Plan during fiscal 2012.

The Company used the following valuation assumptions to estimate the fair value of options granted for the years ended March 31, 2012 and 2011, respectively:

STOCK OPTIONS:	**2012**	**2011**
Expected life (years)	6.0	6.0
Volatility	155%	75%
Risk-free interest rate	1.04%	1.62%
Dividend yield	0%	0%

ESPP awards were valued using the Black-Scholes model with expected volatility calculated using a six-month historical volatility.

ESPP:	**2012**	**2011**
Expected life (years)	0.5	0.5
Volatility	55%	65%
Risk-free interest rate	0.07%	0.15%
Dividend yield	0%	0%

Valuation and Other Assumptions for Stock Options

Valuation and Amortization Method. The Company estimates the fair value of stock options granted using the Black-Scholes option model. We estimate the fair value using a single option approach and amortize the fair value on a straight-line basis for options expected to vest. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods.

Expected Term. The expected term of options granted represents the period of time that the options are expected to be outstanding. We estimate the expected term of options granted based on our historical experience of exercises including post-vesting exercises and termination.

Expected Volatility. The Company estimates the volatility of our stock options at the date of grant using historical volatilities. Historical volatilities are calculated based on the historical prices of our common stock over a period at least equal to the expected term of our option grants.

Risk-Free Interest Rate. The Company bases the risk-free interest rate used in the Black-Scholes option valuation model on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with remaining terms equivalent to the expected term of our option grants.

Dividends. The Company has never paid any cash dividends on common stock and we do not anticipate paying any cash dividends in the foreseeable future.

Forfeitures. The Company uses historical data to estimate pre-vesting option forfeitures. We record stock-based compensation expense only for those awards that are expected to vest.

The Company does not use multiple share-based payment arrangements.

Restricted Stock Units

The following table summarizes the Company's restricted stock award activity for the period ended March 31, 2012:

	Number of Shares		Weighted- Average Grant Date Fair Value
Balance March 31, 2011	123,416	$	2.66
Granted	148,989	$	1.79
Forfeited	-	$	-
Vested	(35,864)	$	2.69
Balance, March 31, 2012	236,541	$	2.11

The weighted-average estimated grant date fair value, as defined by ASC Topic 718 for restricted stock awards granted during fiscal 2012 and 2011 was $1.79 and $2.70, per award, respectively.

As of March 31, 2012 there was $416 of total unrecognized compensation cost related to restricted stock which is expected to be recognized over a weighted-average period of 2.85 years.

Total stock-based compensation expense related to stock options and RSUs for the years ended March 31, 2012 and 2011 was $175 and $390, respectively. The total compensation expense related to non-vested stock options and RSUs not yet recognized at March 31, 2012 is $429 which is expected to be recognized over a weighted-average period of 2.77 years.

Note 12. *Geographical Information*

The Company operates in one segment through its earnings of project service revenues as a result of its contribution agreement with Sequel Power. Sequel Power is focused on the promotion of solar power plant development projects worldwide, the development of self-sustaining businesses from such projects, including but not limited to activities relating to and supporting, developing, building and operating solar photovoltaic fabrication facilities and solar farms, and the consideration of other non-photovoltaic renewable energy projects.

For geographical reporting, revenues are attributed to the geographic location in which the main offices of the Company's unconsolidated affiliate are located. Long-lived assets consist of property, plant and equipment, and are attributed to the geographic location in which they are located. Net sales and long-lived assets by geographic region were as follows:

	Revenue for the Years Ended March 31, 2012	2011
Sales to customers located in:		
United States	$ 100	$ 16
Total sales	$ 100	$ 16

	March 31 2012	2011
Long-lived assets at period-end:		
Discontinued Operations:		
United States	$ -	$ -
Europe	-	-
Continuing Operations:		
United States	56	112
Total Long-lived assets	$ 56	$ 112

Revenues for each period presented are all part of continuing operations. Revenues of $0 and $6,629 for the fiscal years 2012 and 2011, respectively, have been reclassified to discontinued operations. All revenues of continuing operations are attributed to the United States.

Until February 9, 2011, the Company's sales were primarily to manufacturers. The composition of our top five customers has changed from year to year. In fiscal year 2012, one customer, Sequel Power, accounted for 100% of project service related sales. Prior to 2012, when the Company was actively engaged in capital equipment manufacture and sales, the net system sales to our top five customers in fiscal 2011 accounted for 94.4% of our total net systems sales. A leading precision timing device manufacturer, IMS Fraunhofer, Ulsan National Institute of Science and Technology, ST Microelectronics SA and the Uppsala University accounted for 25.5%, 19.45%, 17.85%, 16.1% and 15.5%, respectively of our total revenue in fiscal 2011. Other than these customers, no single customer represented more than 10% of our total revenue in fiscal 2011. With the sale of the DRIE etch product line and our exit from our historical core operations, we currently have only one customer.

Note 13. ***Investment in Unconsolidated Affiliate***

On January 14, 2011, Tegal, se2quel Partners LLC, a California limited liability company and Sequel Power LLC, a newly formed Delaware limited liability company ("Sequel Power"), entered into a Formation and Contribution Agreement (the "Contribution Agreement"). Sequel Power is focused on the promotion of solar power plant development projects worldwide, the development of self-sustaining businesses from such projects, including but not limited to activities relating to and supporting, developing, building and operating solar photovoltaic fabrication facilities and solar farms, and the consideration of other non-photovoltaic renewable energy projects. se2quel Partners is owned by Ferdinand Seemann, who previously served as an independent member of the Company's Board of Directors. Pursuant to the Formation and Contribution Agreement, Tegal contributed $2 million in cash to Sequel Power in exchange for an approximate 25% ownership interest in Sequel Power. In addition, Tegal issued warrants ("Warrants") to se2quel Partners and se2quel Management GmbH, a German limited liability company, to purchase an aggregate of 185,777 shares of the Company's common stock at an exercise price of $3.15 per share. The warrants are exercisable for a period of four years. On March 31, 2012, Sequel Power irrevocably assigned and transferred unto the Company for cancelation a portion of warrants representing the right to purchase 48,310 shares of the Company's common stock. In exchange, the Company agreed to waive the collection of certain earned fees under its Services Agreement with Sequel Partners.

The descriptions of the Formation and Contribution Agreement and the warrants are qualified in their entirety by reference to the full text of such documents, copies of which were filed as exhibits to the Form 8-K report on January 21, 2011.

The Company reviews the investment for impairment whenever events or changes in circumstances indicate that an other than temporary decline in value has occurred. In the fiscal year ended March 31, 2012, we concluded that the market value of our investment in Sequel Power was less than our carrying values in the current economic environment.

The value on the balance sheet of Sequel Power at fiscal year end March 31, 2012, prior to the impairment was approximately $1,377 which represented our investment in the value of Sequel Power. We now believe the intangible asset has a value of zero. This valuation is based upon the fact that the business model of Sequel Power is under review by Sequel Power's management. Sequel Power's management is researching other possibilities for the direction of the company and may or may not use its proprietary solar development model in the future. Additionally, there is uncertainty that Sequel Power will be able to continue as a going concern and its survivability is at risk. The undiscounted expected future cash flows are less than the pre-impairment carrying value of the assets, and an impairment loss was recognized based on the excess of the carrying amount over the fair value of the assets. Based on these facts, the Company took an impairment charge of its Sequel investment in the amount of $1,377.

Note 14. ***Subsequent Events***

On May 7, 2012, the Company received a VAT refund related to discontinued operations in its former French subsidiary in the amount of 312,296 euros. As of March 31, 2012, this amount was recognized in Other Assets of Discontinued Operations. The settlement of this outstanding amount due will be classified as a reduction of asset of discontinued operations. The related foreign exchange gain or loss will be classified as a gain or loss on the sale of discontinued operations in the first quarter of the next fiscal year.

On May 4, 2012, the Company loaned $300 to an early stage technology company in connection with a potential strategic transaction. The loan bears interest at an annual rate of 0.28%, matures no later than November 4, 2012 and is subject to partial offset under certain circumstances.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of disclosure controls and procedures. As of March 31, 2012, management performed, with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2012 such disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

Our internal control over financial reporting includes those policies and procedures that:

• pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets;

• provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

• provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Chief Executive Officer and our Chief Financial Officer, an assessment, including testing of the effectiveness of our internal control over financial reporting as of March 31, 2012. Management's assessment of internal control over financial reporting was based on the framework in *Internal Control over Financial Reporting – Guidance for Smaller Public Companies* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management concluded that our system of internal control over financial reporting was effective as of March 31, 2012.

Evaluation of disclosure controls and procedures. As of March 31, 2012, management performed, with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2010, such disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

Our internal control over financial reporting includes those policies and procedures that:

• pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets;

• provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

• provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Chief Executive Officer and our Chief Financial Officer, an assessment, including testing of the effectiveness of our internal control over financial reporting as of March 31, 2012. Management's assessment of internal control over financial reporting was based on the framework in *Internal Control-Integrated Framework (1992)* created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, Management concluded that our system of internal control over financial reporting was effective as of March 31, 2012.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting during the fourth quarter ended March 31, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of March 31, 2012 has not been audited by Burr Pilger Mayer, Inc., an independent registered public accounting firm, as stated in their report appearing above. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 9B. ***Other Information***

Submission of Matters to a Vote of Security Holders

On March 27, 2012, the Company held its annual meeting of the stockholders. Present at the meeting, in person or by proxy, were the holders of 1,290,296 shares of common stock of the Company, representing 75.3% of the total votes eligible to be cast, constituting a majority and more than a quorum of the outstanding shares entitled to vote.

At least 236,140 votes have been cast for each of the four nominated candidates for director of the Company and that Jeffrey Krauss, Thomas Mika, Carl Muscari and Gilbert Bellini have therefore been elected director of Tegal Corporation for a period of one year and until their respective successors have been duly elected and qualified.

The vote to ratify the appointment of Burr Pilger Mayer, Inc. as our Independent Registered Public Accounting Firm for the fiscal year ended March 31, 2012 was approved by stockholders as follows:

	Total Votes
For	1,272,112
Against	11,076
Abstain	7,108

The number of votes or shares indicated reflects a 1-for-5 reverse stock split effected by the Company on June 15, 2011.

The results of the Company's special meeting of stockholders held on June 15, 2011 are not provided herein. The results of that meeting are included in the Form 8-K report filed on June 21, 2011 and are incorporated herein by reference.

PART III

Certain information required by Part III is allowed to be incorporated by reference from a definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") that is filed with the SEC no later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference. Such incorporation does not include the Compensation Committee Report or the Audit Committee Report included in the Proxy Statement.

Item 10. *Directors, Executive Officers and Corporate Governance*

The information concerning our directors and executive officers required by this Item is incorporated by reference to our Proxy Statement under the caption "Election of Directors" and "Executive Officers."

The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference to the Company's Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

The additional information required by this Item is incorporated by reference to our Proxy Statement.

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to our Proxy Statement under the caption "Executive Compensation."

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this Item is incorporated by reference to our Proxy Statement under the captions "Principal Stockholders" and "Ownership of Stock by Management."

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to our Proxy Statement under the caption "Certain Relationships and Related Transactions."

Item 14. *Principal Accountant Fees and Services*

The information required by this Item is incorporated by reference to our Proxy Statement under the caption "Independent Registered Public Accounting Firm".

PART IV

Item 15. *Exhibits, Financial Statement Schedule*

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements

The Company's Financial Statements and notes thereto appear in this Form 10-K according to the following Index of Consolidated Financial Statements:

Schedules other than those listed above have been omitted since they are either not required, not applicable, or the required information is shown in the consolidated financial statements or related notes.

(b) Exhibits

The following exhibits are referenced or included in this report:

Exhibit Number	Description
3.1	Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.1 included in the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2007, filed with the Securities and Exchange Commission on June 29, 2007).
3.2	Restated By-laws of Registrant (incorporated by reference to Exhibit 3.2 included in Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 2006).
**10.1	Fifth Amended and Restated Stock Option Plan for Outside Directors (incorporated by reference to the Registrant's Quarterly Report on 10-Q, for the quarter ended June 30, 2006, filed with the Securities and Exchange Commission on August 14, 2006.)
**10.2	Eighth Amended and Restated 1998 Equity Participation Plan of Tegal Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission on August 14, 2006.)
**10.3	2007 Incentive Award Plan (incorporated by reference to Appendix A to the Registrant's definitive proxy statement on Schedule 14A, filed with the Securities and Exchange Commission on July 29, 2007).
**10.4	Second Amended and Restated Employee Qualified Stock Purchase Plan (incorporated by reference to Appendix C to the Registrant's revised definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on July 29, 2004).
10.5	Form of Stock Option Agreement for Employees from the 2007 Incentive Award Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2007.
**10.6	Form of Non-Qualified Stock Option Agreement for Employees from the Eighth Amended and Restated 1998 Equity Participation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2004).
**10.7	Form of Restricted Stock Unit Award Agreement from the Eighth Amended and Restated 1998 Equity Participation (incorporated by reference to Exhibit 10.5.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
**10.8	Employment Agreement between the Registrant and Thomas Mika dated as of July 27, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 2, 2007).

Exhibit Number	Description
**10.9	Employment Agreement between the Registrant and Christine Hergenrother dated as of July 27, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 2, 2007).
**10.10	Restricted Stock Unit Award Agreement between Tegal Corporation and Tom Mika, dated July 5, 2005, (incorporate by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.13	Asset Purchase Agreement between Tegal Corporation, Sputtered Films, Inc., OEM Group, Inc. and OEG-TEG, LLC., dated March 19, 2010.
10.14	Trademark Assignment Agreement between Tegal Corporation, Sputtered Films, Inc. and OEG-TEG, LLC dated March 19, 2010.
10.15	Trademark License Agreement between Tegal Corporation, Sputtered Films, Inc. and OEG-TEG, LLC dated March 19, 2010.
10.16	Patent Assignment Agreement between Tegal Corporation, Sputtered Films, Inc. and OEG-TEG, LLC dated March 19, 2010.
10.17	Intellectual Property Cross-License Agreement between Tegal Corporation, Sputtered Films, Inc. and OEG-TEG, LLC dated March 19, 2010.
**10.18	Restricted Stock Unit Awards between Tegal Corporation and each of Thomas Mika and Christine Hergenrother, each dated October 7, 2010, (incorporated by reference on Form 8-K filed with the Securities and Exchange Commission on October 8, 2010).
10.19	Formation and Contribution Agreement between Tegal Corporation and se2quel Partners LLC and sequel Power LLC, dated January 14, 2011 (incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 21, 2011).
10.20	Warrant issued to se2quel Partners LLC dated January 14, 2011 (incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 21, 2011).
10.21	Warrant issued to se2quel Management GmbH dated January 14, 2011 (incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 21, 2011).
10.22	Asset Purchase Agreement between Tegal Corporation and SPP Process Technology Systems Limited dated February 9, 2011 (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2011).
10.23	Trademark License Agreement between Tegal Corporation and SPP Process Technology Systems Limited dated February 9, 2011 (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2011).
99.5	Warrant Transfer Agreement and replacement Warrants issued dated March 31, 2012.
21.1	List of Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm – Burr Pilger Mayer, Inc.
24.1	Power of Attorney (included on signature page hereto).
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

** Management contract for compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Tegal Corporation

By: /s/ thomas r. mika
Thomas R. Mika
President, Chief Executive Officer and Chairman of the Board

Dated: June 14, 2012

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas R. Mika and Christine T. Hergenrother, his or her attorney-in-fact and agent, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS R. MIKA Thomas R. Mika	President, CEO, and Chairman of the Board (Principal Executive Officer)	June 14, 2012
/s/ CHRISTINE T. HERGENROTHER Christine T. Hergenrother	Chief Financial Officer (Principal Financial and Accounting Officer)	June 14, 2012
/s/ JEFFREY M. KRAUSS Jeffrey M. Krauss	Director	June 14, 2012
/s/ CARL MUSCARI Carl Muscari	Director	June 14, 2012
/s/ GILBERT BELLINI Gilbert Bellini	Director	June 14, 2012

INDEX TO EXHIBITS

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31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

** Management contract for compensatory plan or arrangement.

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas R. Mika, certify that:

1. I have reviewed this annual report on Form 10-K of Tegal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 14, 2012

/s/ Thomas R. Mika
Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christine Hergenrother, certify that:

1. I have reviewed this annual report on Form 10-K of Tegal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 14, 2012

/s/ Christine Hergenrother
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the amended Annual Report of Tegal Corporation, a Delaware corporation (the “Company”), on Form 10-K for the year ended March 31, 2012 as filed with the Securities and Exchange Commission (the “Report”), I, Thomas R. Mika, President and Chief Executive Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Thomas R. Mika
Chief Executive Officer and President
June 14, 2012

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the amended Annual Report of Tegal Corporation, a Delaware corporation (the “Company”), on Form 10-K for the year ended March 31, 2012 as filed with the Securities and Exchange Commission (the “Report”), I, Christine Hergenrother, Chief Financial Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Christine Hergenrother
Chief Financial Officer
June 14, 2012

Exhibit 99.5

WARRANT TRANSFER AGREEMENT

This Warrant Transfer Agreement (this "Agreement"), dated as of March 31, 2012, is made and entered into by and among Tegal Corporation, a Delaware corporation ("Tegal"), se2quel Partners LLC, a California limited liability company ("Warrantholder"), and sequel Power LLC, a Delaware limited liability company (the "Company").

RECITALS:

WHEREAS, in connection with the transactions contemplated by the Formation and Contribution Agreement, dated as of January 14, 2011 (the "Formation and Contribution Agreement"), by and among Tegal, Warrantholder and the Company, among other things (i) the Company and Tegal entered into a Tegal Services Agreement (the "Services Agreement") and (ii) the Company issued Warrantholder a warrant to purchase an aggregate of 92,888 shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), at a per share exercise price equal to $3.15 (in each case after giving effect to a 1-for-5 reverse stock split effected by the Company on June 15, 2011) (the "Warrant");

WHEREAS, the Company owes Tegal an aggregate of $75,000 in fees under the Services Agreement as of the date of this Agreement (the "Current Fees"), and the parties hereto expect the Company to incur an additional $25,000 in fees under the Services Agreement for the period from April 1, 2012 through June 30, 2012 (the "Future Fees" and, together with the Current Fees, the "Fees"); and

WHEREAS, the parties hereto desire that Warrantholder transfer a portion of the Warrant to Tegal in consideration for the Fees otherwise due to Tegal under the Services Agreement.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual promises of the parties hereto, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the parties hereto agree as follows:

1. In consideration of Tegal's obligations set forth in Section 2, Warrantholder hereby irrevocably assigns and transfers unto Tegal for cancelation a portion of the Warrant representing the right to purchase 48,310 shares of Common Stock, and does hereby constitute and appoint Tegal as the undersigned's attorney-in-fact to transfer such securities on the books of Tegal with full power of substitution in the premises. In connection with the foregoing, warrantholder represents to Tegal as follows:

    a. Warrantholder owns all right, title and interest (legal and beneficial) in and to the Warrant, free and clear of all encumbrances, and has the right to assign and transfer the same to Tegal.

    b. Warrantholder is an "accredited investor" under applicable state and federal securities laws and is a sophisticated person familiar with transactions similar to those contemplated by this Agreement. Warrantholder has received or had access to all the information Warrantholder considers necessary or appropriate for making an informed decision whether or not to enter into this Agreement and transfer a portion of the Warrant. Warrantholder is capable of evaluating the value of the Warrant and has not been induced by, and has not relied upon, any representations, warranties or statements, whether express or implied, made by Tegal or any officer, director or other representative of Tegal. Warrantholder acknowledges and agrees that (i) if not assigned and transferred pursuant to this Agreement, the value of the Warrant may significantly appreciate over time and (ii) Warrantholder is giving up the opportunity to receive the benefit of future appreciation, if any, in the value of the Warrant.

(c) Warrantholder understands that Tegal will rely on the accuracy and truth of the foregoing representations, and Warrantholder hereby consents to such reliance.

2. In consideration of Warrantholders' obligations and representations set forth in Section 1, Tegal hereby (a) irrevocably waives the Fees and (b) delivers to Warrantholder a warrant to purchase an aggregate of 44,578 shares of Common Stock at a per share exercise price equal to $3.15 (the "New Warrant") representing the portion of the Warrant not transferred to Tegal pursuant to Section 1.

3. Any notices given under this Agreement shall be in writing and shall be given in accordance with Section 13.3 of the Formation and Contribution Agreement. The laws of the State of Delaware shall govern the validity of this Agreement and the construction and interpretation of its terms. This Agreement, together with the New Warrant, constitute the entire agreement among the parties hereto pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussion, whether oral or written, of the parties hereto. This Agreement may be executed in one or more counterparts, each of which shall be deemed and original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered by telecopy or email transmission.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Transfer Agreement to be executed as of the date set forth above.

SE2QUEL PARTNERS LLC

By: ______________________________
Name: Ferdinand Seemann
Title: President and Chief Executive Officer

TEGAL CORPORATION

By: ______________________________
Name: Thomas R. Mika
Title: Chairman, President and CEO

SEQUEL POWER LLC

By: ______________________________
Name: Ferdinand Seemann
Title: Chief Executive Officer

FINAL

WARRANT

THE SECURITIES REPRESENTED HEREBY MAY NOT BE TRANSFERRED UNLESS (I) SUCH SECURITIES HAVE BEEN REGISTERED FOR SALE PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), (II) SUCH SECURITIES MAY BE SOLD PURSUANT TO RULE 144, OR (III) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSFER MAY LAWFULLY BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT OR QUALIFICATION UNDER APPLICABLE STATE SECURITIES LAWS.

THIS WARRANT SHALL BE VOID AFTER 5:00 P.M., CALIFORNIA TIME, ON JANUARY 14, 2015 (THE "EXPIRATION DATE").

TEGAL CORPORATION

WARRANT TO PURCHASE 44,578 SHARES OF COMMON STOCK, PAR VALUE $0.01 PER SHARE

For VALUE RECEIVED, se2quel Partners LLC, a California limited liability company (" Warrantholder"), is entitled to purchase, subject to the provisions of this Warrant, from Tegal Corporation, a Delaware corporation ("Company"), at any time not later than 5:00 P.M., California time, on the Expiration Date (as defined above), at an exercise price per share equal to $3.15 (the exercise price in effect being herein called the "Warrant Price"), 44,578 shares ("Warrant Shares") of the Company's common stock, par value $0.01 per share ("Common Stock"). The number of Warrant Shares purchasable upon exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time as described herein.

Section 1. Registration. The Company shall maintain books for the transfer and registration of this Warrant. Upon the initial issuance of this Warrant, the Company shall issue and register the Warrant in the name of the Warrantholder.

Section 2. Transfers. As provided herein, this Warrant and the Warrant Shares may be transferred only pursuant to a registration statement filed under the Securities Act of 1933, as amended (the "Securities Act"), or an exemption from such registration. Subject to such restrictions, the Company shall transfer this Warrant from time to time upon the books to be maintained by the Company for that purpose, upon surrender thereof for transfer properly endorsed or accompanied by appropriate instructions for transfer and such other documents as may be reasonably required by the Company, including an opinion of counsel to the effect that such transfer is exempt from the registration requirements of the Securities Act, to establish that such transfer is being made in accordance with the terms hereof, and a new Warrant shall be issued to the transferee and the surrendered Warrant shall be canceled by the Company.

Section 3. Exercise of Warrant. Subject to the provisions hereof, the Warrantholder may exercise this Warrant in whole or in part at any time prior to its expiration upon surrender of the Warrant, together with delivery of the duly executed Warrant Exercise Form attached hereto as Appendix A (the "Exercise Agreement") and payment by cash, certified check or wire transfer of funds (or, in certain circumstances, by cash-less exercise as provided below) for the aggregate Warrant Price for that number of Warrant Shares then being purchased, to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the Warrantholder). The Warrant Shares so purchased shall be deemed to be issued to the Warrantholder or the Warrantholder's designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered (or evidence of loss, theft or destruction thereof and security or indemnity satisfactory to the Company), the Warrant Price shall have been paid and the completed Exercise Agreement shall have been delivered. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the Warrantholder within a reasonable time, not exceeding three (3) business days, after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the Warrantholder and shall be registered in the name of the Warrantholder or such other name as shall be designated by the Warrantholder, subject to the restrictions on transfer set forth in this Warrant. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the Warrantholder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised. As used herein, "business day" means a day, other than a Saturday or Sunday, on which banks in San Francisco, California are open for the general transaction of business.

Section 4. Compliance with the Securities Act of 1933. The Company may cause the legend set forth on the first page of this Warrant to be set forth on each Warrant or similar legend on any security issued or issuable upon exercise of this Warrant, unless counsel for the Company is of the opinion as to any such security that such legend is unnecessary.

Section 5. Payment of Taxes. The Company will pay any documentary stamp taxes attributable to the initial issuance of Warrant Shares issuable upon the exercise of the Warrant; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificates for Warrant Shares in a name other than that of the Warrantholder in respect of which such shares are issued, and in such case, the Company shall not be required to issue or deliver any certificate for Warrant Shares or any Warrant until the person requesting the same has paid to the Company the amount of such tax or has established to the Company's reasonable satisfaction that such tax has been paid. The Warrantholder shall be responsible for income taxes due under federal, state or other law, if any such tax is due.

Section 6. Mutilated or Missing Warrants. In case this Warrant shall be mutilated, lost, stolen or destroyed, the Company shall issue in exchange and substitution of and upon cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor and for the purchase of a like number of Warrant Shares, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of the Warrant, and with respect to a lost, stolen or destroyed Warrant, reasonable indemnity or bond with respect thereto, if requested by the Company.

Section 7. Reservation of Common Stock. The Company hereby represents and warrants that there have been reserved, and the Company shall at all applicable times keep reserved until issued (if necessary) as contemplated by this Section 7, out of the authorized and unissued shares of Common Stock, sufficient shares to provide for the exercise of the rights of purchase represented by this Warrant. The Company agrees that all Warrant Shares issued upon due exercise of this Warrant shall be, at the time of delivery of the certificates for such Warrant Shares, duly authorized, validly issued, fully paid and non-assessable shares of Common Stock of the Company.

Section 8. Adjustments. Subject and pursuant to the provisions of this Section 8, the Warrant Price and number of Warrant Shares subject to this Warrant shall be subject to adjustment from time to time as set forth hereinafter.

(a) If the Company shall, at any time or from time to time while this Warrant is outstanding, pay a dividend or make a distribution on its Common Stock in shares of Common Stock, subdivide its outstanding shares of Common Stock into a greater number of shares or combine its outstanding shares of Common Stock into a smaller number of shares or issue by reclassification of its outstanding shares of Common Stock any shares of its capital stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then the number of Warrant Shares purchasable upon exercise of the Warrant and the Warrant Price in effect immediately prior to the date upon which such change shall become effective, shall be adjusted by the Company so that the Warrantholder thereafter exercising the Warrant shall be entitled to receive the number of shares of Common Stock or other capital stock which the Warrantholder would have received if the Warrant had been exercised immediately prior to such event upon payment of a Warrant Price that has been adjusted to reflect a fair allocation of the economics of such event to the Warrantholder. Such adjustments shall be made successively whenever any event listed above shall occur.

(b) If any capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation shall be effected, then, as a condition of such reorganization, reclassification, consolidation, merger, sale, transfer or other disposition, lawful and adequate provision shall be made whereby each Warrantholder shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions herein specified and in lieu of the Warrant Shares immediately theretofore issuable upon exercise of the Warrant, such shares of stock, securities or assets as would have been issuable or payable with respect to or in exchange for a number of Warrant Shares equal to the number of Warrant Shares immediately theretofore issuable upon exercise of the Warrant, had such reorganization, reclassification, consolidation, merger, sale, transfer or other disposition not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of each Warrantholder to the end that the provisions hereof (including, without limitation, provision for adjustment of the Warrant Price) shall thereafter be applicable, as nearly equivalent as may be practicable in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof.

(c) An adjustment to the Warrant Price shall become effective immediately after the effective date of each other event which requires an adjustment.

(d) In the event that, as a result of an adjustment made pursuant to this Section 8, the Warrantholder shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, the number of such other shares so receivable upon exercise of this Warrant shall be subject thereafter to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Warrant Shares contained in this Warrant.

Section 9. Fractional Interest. The Company shall not be required to issue fractions of Warrant Shares upon the exercise of this Warrant. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 9, be deliverable upon such exercise, the Company, in lieu of delivering such fractional share, shall pay to the exercising Warrantholder an amount in cash equal to the fair market value as determined by the Board of Directors of the Company of such fractional share of Common Stock on the date of exercise.

Section 10. Benefits. Nothing in this Warrant shall be construed to give any person, firm or corporation (other than the Company and the Warrantholder) any legal or equitable right, remedy or claim, it being agreed that this Warrant shall be for the sole and exclusive benefit of the Company and the Warrantholder.

Section 11. Notices to Warrantholder. Upon the happening of any event requiring an adjustment of the Warrant Price, the Company shall promptly give written notice thereof to the Warrantholder at the address appearing in the records of the Company, stating the adjusted Warrant Price and the adjusted number of Warrant Shares resulting from such event and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Failure to give such notice to the Warrantholder or any defect therein shall not affect the legality or validity of the subject adjustment.

Section 12. Notices. Unless otherwise provided, any notice required or permitted under this Warrant shall be given in writing and shall be deemed effectively given as hereinafter described (i) if given by personal delivery, then such notice shall be deemed given upon such delivery, (ii) if given by telex or facsimile, then such notice shall be deemed given upon receipt of confirmation of complete transmittal, (iii) if given by electronic mail, upon confirmation of delivery when directed to the electronic mail address set forth below, (iv) if given by mail, then such notice shall be deemed given upon the earlier of (A) receipt of such notice by the recipient or (B) three days after such notice is deposited in first class mail, postage prepaid, and (v) if given by an internationally recognized overnight air courier, then such notice shall be deemed given one business day after delivery to such carrier. All notices shall be addressed as follows: if to the Warrantholder, at its address as set forth in the Company's books and records and, if to the Company, at the address as follows, or at such other address as the Warrantholder or the Company may designate by ten days' advance written notice to the other: Tegal Corporation, 140 2nd Street, Ste 318, Petaluma CA 94952, Attention: Chief Executive Officer, Fax: (707) 773-2854, e-mail: tmika@tegal.com.

Section 13. Successors. All the covenants and provisions hereof by or for the benefit of the Warrantholder shall bind and inure to the benefit of its respective successors and assigns hereunder.

Section 14. Governing Law; Consent to Exclusive Jurisdiction; Dispute Resolution. The laws of the State of Delaware shall govern the validity of this Warrant and the construction and interpretation of its terms. Any legal action or proceeding with respect to this Warrant shall be brought in the Court of Chancery of the State of Delaware. By delivery or acceptance of this Agreement, each of the Company and Warrantholder accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid court and irrevocably consents to the service of process of the aforementioned court in any such action or proceeding by the mailing of copies thereof by certified mail, postage prepaid, to the Party pursuant to Section 12.

Section 15. Cashless Exercise.Notwithstanding any other provision contained herein to the contrary, the Warrantholder may elect to receive, without the payment by the Warrantholder of the aggregate Warrant Price in respect of the shares of Common Stock to be acquired, shares of Common Stock equal to the value of this Warrant or any portion hereof by the surrender of this Warrant (or such portion of this Warrant being so exercised) together with the Net Issue Election Notice annexed hereto as Appendix B duly executed, at the office of the Company. Thereupon, the Company shall issue to the Warrantholder such number of fully paid, validly issued and nonassessable shares of Common Stock as is computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

where

X = the number of shares of Common Stock which the Warrantholder has then requested be issued to the Warrantholder;

Y = the total number of shares of Common Stock covered by this Warrant which the Warrantholder has surrendered at such time for cash-less exercise (including both shares to be issued to the Warrantholder and shares to be canceled as payment therefor);

A = the average closing price of the Common Stock on its principal trading market or exchange for the 10-trading day period immediately prior to date the net issue election is made; and

B = the Warrant Price in effect under this Warrant at the time the net issue election is made.

Section 16. No Rights as Stockholder. Prior to the exercise of this Warrant, the Warrantholder shall not have or exercise any rights as a stockholder of the Company by virtue of its ownership of this Warrant.

Section 17. Amendment; Waiver. Any term of this Warrant may be amended or waived upon the written consent of the Company and the Warrantholder.

Section 18. Section Headings. The section headings in this Warrant are for the convenience of the Company and the Warrantholder and in no way alter, modify, amend, limit or restrict the provisions hereof.

[*Signature page to follow*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed, as of the 31st day of March 2012.

TEGAL CORPORATION

By: ______________________________
Name: Thomas R. Mika
Title: Chairman, President and CEO

APPENDIX A
TEGAL CORPORATION
WARRANT EXERCISE FORM

To Tegal Corporation:

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant ("Warrant") for, and to purchase thereunder by the payment of the Warrant Price and surrender of the Warrant, ________________ shares of Common Stock ("Warrant Shares") provided for therein, and requests that certificates for the Warrant Shares be issued as follows:

____
Name

____
Address

____
Federal Tax ID or Social Security No.

and delivered by certified mail to the above address, or (other (specify): ______________________________).

and, if the number of Warrant Shares shall not be all the Warrant Shares purchasable upon exercise of the Warrant, that a new Warrant for the balance of the Warrant Shares purchasable upon exercise of this Warrant be registered in the name of the undersigned Warrantholder or the undersigned's Assignee as below indicated and delivered to the address stated below.

Dated: ______________________, ______

____
Name:

____

____
Address

____
Federal Identification or Social Security No.

Assignee:

____

____

____

Note: The signature must correspond with the name of Warrantholder as written on the first page of the Warrant in every particular, without alteration or enlargement or any change whatsoever, unless the Warrant has been assigned.

APPENDIX B
TEGAL CORPORATION
NET ISSUE ELECTION NOTICE

To Tegal Corporation:

Date: [_________________________]

The undersigned hereby elects under Section 15 of this Warrant to surrender the right to purchase [_____________] shares of Common Stock pursuant to this Warrant and hereby requests the issuance of [_____________] shares of Common Stock. The certificate(s) for the shares issuable upon such net issue election shall be issued in the name of the undersigned or as otherwise indicated below.

____
Signature

____
Name for Registration

____
Mailing Address