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

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2000

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.)

2201 SOUTH MCDOWELL BLVD.
PETALUMA, CALIFORNIA 94954
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

TELEPHONE NUMBER (707) 763-5600
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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 [X] No [ ]

As of July 14, 2000, there were 12,488,199 shares of the registrant's Common Stock outstanding.

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TEGAL CORPORATION AND SUBSIDIARIES

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PART I -- FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TEGAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
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	THREE MONTHS ENDED JUNE 30,	
	2000	1999
<S>	<C>	<C>
Revenue	$ 7,684	$ 6,659
Cost of sales	4,438	4,502
Gross profit	3,246	2,157
Operating expenses:		
Research and development	2,468	2,628
Sales and marketing	1,219	1,198
General and administrative	1,922	2,301
Total operating expenses	5,609	6,127
Operating loss	(2,363)	(3,970)
Other income, net	73	205
Net loss	$ (2,290)	$ (3,765)
Net loss per common share:		
Basic/Diluted	$ (0.18)	$ (0.35)
Shares used in per share computation:		
Basic/Diluted	12,453	10,726

</TABLE>

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)
(IN THOUSANDS)

ASSETS

<TABLE>
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<S>	JUNE 30, 2000 (UNAUDITED) <C>	MARCH 31, 2000 <C>
Current assets:		
Cash and cash equivalents	$ 12,671	$ 12,627
Receivables, net	6,014	6,438
Inventories	14,920	13,261
Prepaid expenses and other current assets	1,201	679
Total current assets	34,806	33,005
Property and equipment, net	1,914	2,223
Other assets, net	345	345
	$ 37,065	$ 35,573

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable	$ 4,061	$ 430
Accounts payable	2,839	2,538
Accrued expenses and other current liabilities	4,777	5,044
Total current liabilities	11,677	8,012
Long-term portion of capital lease obligation	109	130
Total liabilities	11,786	8,142
Stockholders' equity:		
Common stock	125	124
Additional paid-in capital	64,798	64,699
Cumulative translation adjustment	299	261
Accumulated deficit	(39,943)	(37,653)
Total stockholders' equity	25,279	27,431
	$ 37,065	$ 35,573

</TABLE>

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

<TABLE>
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<S>	THREE MONTHS ENDED JUNE 30, 2000 <C>	1999 <C>
Cash flows from operating activities:		
Net loss	$ (2,290)	$ (3,765)
Adjustments to reconcile net loss to cash used in operating activities:		

Depreciation and amortization	357	441
Changes in operating assets and liabilities	(1,614)	(3,978)
Net cash used in operating activities	(3,547)	(7,302)
Cash flows used in investing activities -- purchases of property and equipment	(47)	(47)
Cash flows from financing activities:		
Proceeds from issuance of common stock	99	88
Borrowings under lines of credit	10,303	972
Repayments of notes payable	(6,670)	(387)
Repayment of capital lease financing	(126)	(27)
Net cash provided by financing activities	3,606	646
Effect of exchange rates on cash and cash equivalents	32	(81)
Net decrease in cash and cash equivalents	44	(6,784)
Cash and cash equivalents at beginning of period	12,627	17,569
Cash and cash equivalents at end of period	$ 12,671	$ 10,785

</TABLE>

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

1. BASIS OF PRESENTATION:

In the opinion of management, the unaudited condensed consolidated interim financial statements have been prepared on the same basis as the March 31, 2000 audited consolidated financial statements and include all adjustments consisting only of normal recurring adjustments, necessary to fairly state the information set forth herein. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission ("SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles. These interim financial statements should be read in conjunction with the financial statements and footnotes included in the annual report on Form 10-K of Tegal Corporation (the "Company") for the year ended March 31, 2000. The results of operations for the three months ended June 30, 2000 are not necessarily indicative of results to be expected for the entire year.

2. INVENTORIES:

Inventories consisted of:

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<S>	JUNE 30, 2000 <C>	MARCH 31, 2000 <C>
Raw materials	$ 2,576	$ 2,579
Work in progress	2,165	633
Finished goods and spares	10,179	10,049
	$ 14,920	$ 13,261

</TABLE>

3. NET LOSS PER COMMON SHARE:

Options to purchase 3,071,672 and 2,545,538 shares of common stock were

outstanding at June 30, 2000 and June 30, 1999, respectively, but were not reflected in the computations of diluted Earnings Per Share ("EPS") because we recorded a net loss in those periods and to do so would have been anti-dilutive.

4. INCOME TAX EXPENSE:

We did not record a provision for federal or state income tax for the three month periods ended June 30, 2000 and 1999, respectively, because we have recorded a net loss before taxes for those periods. We did not recognize a benefit for these net losses before taxes because any benefit derived would require offsetting current losses against future profitability where such profitability's timing and magnitude are uncertain.

5. NEW ACCOUNTING PRONOUNCEMENTS:

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing accounting standards. SFAS 133 requires that all derivatives be recognized in the balance sheet at their fair market value, and the corresponding derivative gains or losses be either reported in the statement of operations or as a deferred item depending on the type of hedge relationship that exists with respect to such derivative. Adopting the provisions of SFAS 133 are not expected to have a material effect on our consolidated financial statements, which will be effective for Tegal's fiscal year ending March 31, 2002.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principals ("GAAP") to revenue recognition in financial statements. The Company is required to adopt SAB 101 in the quarter ending March 31, 2001 and is currently evaluating its impact on its financial statements and related disclosures.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information herein contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified 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 or which constitute projected financial information. The forward-looking statements relate to the near-term semiconductor capital equipment industry outlook, demand for our products, our quarterly revenue and earnings prospects for the near-term future and other matters contained herein. Such statements are based on current expectations and beliefs and involve a number of uncertainties and risks that could cause the actual results to differ materially from those projected. Such uncertainties and risks include, but are not limited to, the cyclicality of the semiconductor industry, impediments to customer acceptance, fluctuations in quarterly operating results, competitive pricing pressures, the introduction of competitor products having technological and/or pricing advantages, product volume and mix and other risks detailed from time to time in our SEC reports. For further information, refer to the business description and risk factors sections included in our Form 10-K for the year ended March 31, 2000, and the risk factors section included in this Form 10-Q (Part II, Item 5) as filed with the SEC.

RESULTS OF OPERATIONS

Tegal designs, manufactures, markets and services plasma etch systems used in the fabrication of integrated circuits, read-write heads for the disk drive industry, printer heads, telecommunications equipment, and small flat panel displays.

The following table sets forth certain financial items as a percentage of revenue for the three periods ended June 30, 2000 and 1999:

<TABLE>
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<S>	THREE MONTHS ENDED JUNE 30, 2000 <C>	1999 <C>
Revenue	100.0%	100.0%
Cost of sales	57.8	67.6
Gross profit	42.2	32.4
Operating expenses:		
Research and development	32.1	39.5
Sales and marketing	15.9	18.0
General and administrative	25.0	34.5
Total operating expenses	73.0	92.0
Operating loss	(30.8)	(59.6)
Other income, net	1.0	3.1
Net loss	(29.8)%	(56.5)%

</TABLE>

Revenue. Revenue for the three months ended June 30, 2000 was $7.7 million, an increase of $1.0 million or 15% over the comparable period in 1999. The increase for the three months ended June 30, 2000 was principally due to the sale of 16 additional 900 series systems over the same period in the prior year offset, in part, by a 6500 series upgrade with associated revenue of $150,000 compared to the shipment of a 6500 series system during the same period in the prior year with $2.5 million in related revenue.

Revenue from spare parts and service sales was $3.6 million for the three month period ended June 30, 2000, up slightly from $3.4 million for the three month period ended June 30, 1999, which we believe is a result of customers' increased utilization of Tegal's etch systems.

International sales as a percentage of our revenue was approximately 69% and 72% for the three months ended June 30, 2000 and 1999, respectively. We believe that international sales will continue to represent a significant portion of our revenue.

Gross profit. Gross profit as a percentage of revenue (gross margin) was 42% and 32% for the three months ended June 30, 2000 and 1999, respectively. The increase in gross margin for the three months ended June 30, 2000, compared to the same period in the prior year was principally attributable to an improved gross margin on systems due to an improved product mix and to increased absorption of fixed expenses on higher production volume.

Research and development. Research and development expenses consist primarily of salaries, prototype material and other costs associated with our ongoing systems and process technology development, applications and field process support efforts. Research and development expenses were $2.5 million and $2.6 million for the three months ended June 30, 2000 and 1999, respectively, representing 32% and 40% of revenue, respectively.

Sales and marketing. Sales and marketing expenses consist primarily of salaries, commissions, trade show promotion and travel and living expenses associated with those functions. Sales and marketing expenses were $1.2 million for each of the three months ended June 30, 2000 and 1999, representing 16% and 18% of revenue, respectively.

General and administrative. General and administrative expenses consist primarily of compensation for general management, accounting and finance, human resources, information systems and investor relations functions and for legal, consulting and accounting fees of the Company. General and administrative

expenses were $1.9 million and $2.3 million for the three months ended June 30, 2000 and 1999, respectively, representing 25% and 35% of revenue, respectively. The decrease in general and administrative spending for the three month period ended June 30, 2000, compared to the same period in the prior year was primarily attributable to our incurring $0.3 million less in legal expenses in the recent quarter in connection with our patent litigation.

Other income, net. Other income, net consists primarily of interest income on outstanding cash balances and gains and losses on foreign exchange.

Income tax expense. We have not made a provision for federal or state income tax for the three months ended June 30, 2000 and 1999, respectively, as we have recorded a net loss before taxes in those periods. We did not recognize a benefit for this net loss before taxes in those periods because any benefit derived would require offsetting current losses against future profitability where such profitability's timing and magnitude is uncertain.

LIQUIDITY AND CAPITAL RESOURCES

For the three month period ended June 30, 2000, we financed our operations through the use of outstanding cash balances and borrowings against our promissory note borrowing facilities in Japan, and our domestic line of credit. For the three month period ended June 30, 1999, we financed our operations through the use of outstanding cash balances.

Net cash used in operations was $3.5 million during the three months ended June 30, 2000, due principally to a net loss of $1.9 million after adjusting for depreciation, an increase in inventory and prepaid expenses offset, in part, by a decrease in accounts receivable. Net cash used in operations was $7.3 million for the three months ended June 30, 1999, due principally to a net loss of $3.3 million after adjusting for depreciation, an increase in accounts receivable and inventory and a decline in accounts payable offset, in part, by an increase in accrued expenses.

Net capital expenditures totaled approximately $50,000 for each of the three months ended June 30, 2000 and 1999. Capital expenditures in both periods were incurred principally for leasehold improvements and to acquire design tools, analytical equipment and computers.

Net cash provided by financing activities totaled $3.6 million and $0.6 million for the three months ended June 30, 2000 and 1999, respectively. The increase for the three months ended June 30, 2000 was due principally to increased borrowing against our domestic line of credit. The increase for the three months ended June 30, 1999 was due principally to increased borrowings under the Company's two Japanese borrowing facilities offset, in part, by repayment of capital lease obligations.

As of June 30, 2000, we had approximately $12.7 million of cash and cash equivalents. In addition to cash and cash equivalents, our other principal sources of liquidity consisted of the unused portions of several bank borrowing facilities. At June 30, 2000, we had borrowed approximately $3.4 million under our domestic line of credit secured by substantially all of our assets which is further limited by the amount of accounts receivable and inventory on the balance sheet. Given our accounts receivable and inventory balances as of June 30, 2000, we fully utilized our available borrowings under that credit line as of that date. The facility has a maximum borrowing capacity of $10.0 million, is available until April 30, 2003 and bears interest at prime plus 1.5 percent or 11 percent as of June 30, 2000. In addition to the foregoing facility, as of June 30, 2000, our Japanese subsidiary had available a 385 million Yen (approximately $3.7 million at exchange rates prevailing on June 30, 2000) unused portion of two Japanese bank lines of credit totaling 450 million Yen (approximately $4.3 million at exchange rates prevailing on June 30, 2000) secured by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable. The two Japanese bank lines bear interest at Japanese prime (1.375 percent as of June 30, 2000) plus 0.25 percent and 0.375 percent, respectively.

We believe that anticipated cash flow from operations, funds available under our lines of credit and existing cash and cash equivalent balances will be sufficient to meet our cash requirements for the next twelve months. Rapid revenue growth may require that we seek additional equity or debt capital to meet our working capital needs beyond the next twelve months. See Item 5 - Risk Factors -- our future capital needs may exceed our ability to raise capital.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our investment portfolio of securities are principally comprised of money market funds. These funds are subject to interest rate risk and may fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities having a maturity of three months or less.

We have foreign subsidiaries which operate and sell our products in various global markets. As a result, our cash flow and earnings are exposed to fluctuations in interest and foreign currency exchange rates. We attempt to limit these exposures through the use of various hedge instruments, primarily forward exchange contracts and currency option contracts (with maturities of less than three months) to manage its exposure associated with firm obligations and net asset and liability positions denominated in non-functional currencies. There have been no material changes regarding market risk since the disclosures made in the Company's Form 10-K/A for the year ended March 31, 2000.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 17, 1998, we filed a suit in the United States District Court in the Eastern District of Virginia against Tokyo Electron Limited and several of its U.S. subsidiaries (collectively, "TEL") alleging that TEL's 65DI and 85DI IEM etch equipment infringe certain of our patents. The suit was tried to the court in May 1999, and on August 31, 1999, the court found both patents-in-suit valid, and found that TEL had willfully infringed Tegal's '223 dual-frequency triode etcher patent. The court enjoined TEL from further sales or service of its IEM etchers. In addition, the court ordered TEL to pay attorney's fees and court costs to Tegal. TEL has filed an appeal of the court's ruling. A follow-on action against TEL concerning a later generation of IEM equipment is pending in the same court. Trial is scheduled for September 11, 2000 in the follow-on action. We can not assure you of the outcome of the appeal or the follow-on action or of the effect of any such outcome on our business.

On September 1, 1999, we filed a patent infringement action against Lam Research Corporation ("Lam"), asserting infringement of the '223 patent and a second, related patent. That suit was also filed in the Eastern District of Virginia, Richmond Division. We are seeking injunctive relief barring Lam from manufacturing, selling and supporting products that incorporate the Company's patented technology. We are further seeking enhanced damages for willful infringement of our patents. Lam filed a motion to dismiss that action for lack of jurisdiction, or in the alternative to transfer that action to the Northern District of California. On December 7, 1999, the motion to transfer was granted. The case has since been transferred to the Northern District of California. Discovery has begun in that action. We can not assure you of the outcome of that lawsuit or of the effect of any such outcome on our business.

As is typical in the semiconductor industry, we have received notices from time to time from third parties alleging infringement claims. In July 1991, we were advised by General Signal Corporation ("GSC") that we may need a license under certain U.S. patents owned by GSC relating to "cluster tool" equipment. Our 6500 series systems are generally configured with multiple process chambers and, therefore, may be deemed "cluster tool" equipment. A number of companies which were contacted by GSC with regard to licensing these patents formed an ad-hoc committee to investigate the validity of the GSC patents. As a result of such investigation, in November 1992 the committee members, including Tegal, jointly notified GSC that they believe the subject patents are invalid and that, accordingly, no license is necessary. In the fall of 1994, GSC filed suit against Applied Materials, a non-member of the ad-hoc investigative committee, alleging infringement of such patents. We believe that GSC's dispute with Applied Materials has subsequently been settled. To date, GSC has taken no action against us in connection with the licensing of these patents. We further

believe that GSC filed for bankruptcy protection and has since been dissolved. Nevertheless, we can not assure you that GSC or its successors will not take any such action in the future or, if any such action is taken, what the outcome of such action may be.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the three month period ended June 30, 2000.

ITEM 5. RISK FACTORS

The semiconductor industry is cyclical and may experience periodic downturns which may negatively affect customer demand for our products and result in losses such as those we recently experienced.

Our business depends upon the capital expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits and systems utilizing integrated circuits. The semiconductor industry is highly cyclical and historically has experienced periodic downturns, which often have had a material adverse effect on the semiconductor industry's demand for semiconductor capital equipment, including etch systems manufactured by us. The semiconductor industry experienced such a slowdown from 1996 through mid 1999. Prior semiconductor industry downturns have adversely affected our revenue, gross margins and results of operations. The most recent downturn resulted in our reporting losses for each of the past three fiscal years. In addition, the need for continued investment in research and development, substantial capital equipment requirements, and extensive ongoing customer service and support requirements worldwide will continue to limit our ability to reduce expenses in response to any such downturn or slowdown in the future. Our revenue, gross margin and results of operations may be materially adversely affected by future downturns or slowdowns in the rate of capital investment in the semiconductor industry. Moreover, although the semiconductor industry may experience growth that causes significant growth in the semiconductor capital equipment industry, there can be no assurance that such growth can be sustained or that we will be positioned to benefit from such growth.

Our competitors have greater financial resources and greater name recognition than we do and therefore may compete more successfully in the critical etch industry than we can.

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

We depend on sales of our 6500 series systems in critical etch markets that may not fully adopt our product for production use.

We have designed our 6500 series systems, our generation of critical etch systems, for sub-0.35 micron critical etch applications in emerging films, polysilicon and metal which we believe to be the leading edge of critical etch applications. Revenues from the sale of 6500 series systems has accounted for 22% and 19% of total revenues in fiscal 1999 and 2000, respectively. Our 6500 series systems which have been installed are currently being used primarily for research and development activities or low volume production. For the 6500 series systems to achieve full market adoption, our customers must utilize these systems for volume production.

Because we must make new product development commitments well in advance of sales, new product decisions must anticipate both the future requirements for etch processes needed by semiconductor manufacturers and the equipment required to address such applications. There can be no assurance that the market for critical etch emerging film, polysilicon or metal etch systems will develop as quickly or to the degree we expect. Our 6500 series systems may not achieve full market adoption. In addition, the selling cycles of these new systems are typically lengthy.

In connection with the development and production of the 6500 series, we have increased our operating expenses and are likely to invest in increased inventory levels in the future. The failure to achieve market acceptance of this generation of systems in a timely manner could result in, among other things, an increase in operating expenses and inventory obsolescence without corresponding sales, any of which could have a material adverse effect on our business, financial condition and results of operations.

If the 6500 series does not achieve significant sales or volume production due to a lack of full customer adoption, inability to correct technical, manufacturing or other difficulties which may develop with this series, or for any other reason, our business, financial condition and results of operations would be materially adversely affected.

Our potential customers may not adopt our products because a substantial investment is required to install and use our products.

A substantial investment is required to install and integrate capital equipment into a semiconductor production line. We believe that once a device manufacturer has selected a particular vendor's capital equipment, that manufacturer generally relies upon that vendor's equipment for that specific production line application and, to the extent possible, subsequent generations of that vendor's systems. Accordingly, it may be extremely difficult to achieve significant sales to a particular customer once another vendor's capital equipment has been selected by that customer unless there are compelling reasons to do so, such as significant performance or cost advantages. In addition, certain of our competitors may seek to sell, as an attractively priced package, etch equipment together with other process equipment, such as deposition equipment. Furthermore, some semiconductor manufacturers have already made initial buying decisions for the next generation of sub-0.35 micron etch requirements. Any failure to gain access and achieve sales to new customers will adversely affect the successful commercial adoption of our 6500 series systems and could have a material adverse effect on us.

Our quarterly operating results may continue to fluctuate.

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

Our 900 series etch systems typically sell for prices ranging between $250,000 and $600,000, while prices of our 6500 series critical etch systems typically range between $1.8 million and $3.0 million. To the extent we are successful in selling our 6500 series

systems, the sale of a small number of these systems will probably account for a substantial portion of revenue in future quarters, and a transaction for a single system could have a substantial impact on revenue and gross margin for a given quarter.

Our backlog at the beginning of each quarter does not normally include all systems sales needed to achieve planned revenue for the quarter. Consequently, we depend on obtaining orders for shipment within a particular quarter to achieve our revenue objectives for that period. Because we build a portion (typically 25-35 percent) of our systems according to forecast, the absence of significant backlog for an extended period of time could hinder our ability to plan expense, production and inventory levels, which could materially adversely affect our operating results. Furthermore, a substantial portion of our net revenue has historically been realized near the end of the quarter. Accordingly,

the failure to receive anticipated orders or delays in shipments near the end of a quarter, due, for example, to unanticipated customer delays, cancellations or manufacturing difficulties, may cause quarterly net revenue to fall significantly short of our objectives, which could materially adversely affect our operating results.

The timing of new systems and technology announcements and releases by us and others may also contribute to fluctuations in quarterly operating results, including cases in which new systems or technology offerings cause customers to defer ordering systems from our existing product lines. Our revenue and operating results may also fluctuate due to the timing and mix of systems sold, the volume of service provided and spare parts delivered in a particular quarter and changes in pricing by us, our competitors or suppliers. The impact of these and other factors on our revenue and operating results in any future periods is, and will continue to be, difficult for us to forecast.

The need for continued investment in research and development, for capital equipment requirements and for extensive ongoing customer service and support capability worldwide result in significant fixed costs which will be difficult to reduce in the event that we do not meet our sales objectives. Our expense levels are based, in part, on expectations of future revenue. If revenue in a particular quarter does not meet expectations, fixed operating expenses will adversely affect results of operations. A variety of factors influence the level of revenue in a particular quarter. Those factors include the timing and mix of systems sales, the introduction or announcement of new systems by us or our competitors, management decisions to commence or discontinue product lines, our ability to design, introduce and manufacture new systems on a timely basis, the timing of research and development expenditures and expenses attendant to the further development of marketing, process support and service capabilities, specific economic conditions in the semiconductor industry or major global semiconductor markets, general economic conditions and exchange rate fluctuations. The impact of these and other factors on our revenue and operating results in any future periods are, and will continue to be, difficult for us to forecast.

Because technology changes rapidly, we may not be able to introduce our products in a timely enough fashion.

The semiconductor manufacturing industry is subject to rapid technological change and new system introductions and enhancements. We believe that our future success depends on our ability to continue to enhance our existing systems and their process capabilities, and to develop and manufacture in a timely manner new systems with improved process capabilities. The industry also is subject to fundamental changes in equipment requirements, such as the prior shift from six inch wafer equipment to eight inch wafer equipment and the shift from eight inch wafer equipment to twelve inch wafer equipment which is just now beginning.

We must manage system transitions successfully, as introductions of new systems could adversely affect sales of existing systems, including our 6500 series. There can be no assurance that we will be successful in the introduction and volume manufacture of new systems or that we will be able to develop and introduce, in a timely manner, new systems or enhancements to our existing systems and processes which satisfy customer needs or achieve market adoption. Our failure to accomplish any of the above would adversely affect our business, financial condition and results of operations. In addition, we may incur substantial unanticipated costs to ensure product functionality and reliability early in our products' life cycles. If new products have quality or reliability problems, we could experience reduced orders, delays in collecting accounts receivable, higher manufacturing costs, and additional service and warranty expenses, any of which could have a material adverse effect on our business, financial condition and operating results.

Our sales cycles are lengthy, exposing us to the risks of inventory obsolescence and fluctuations in operating results.

Sales of our systems depend, in significant part, upon the decision of a prospective customer to add new manufacturing capacity or to expand existing manufacturing capacity, both of which typically involve a significant capital commitment. We often experience delays in finalizing system sales following initial system qualification while the customer evaluates and receives approvals for the purchase of our systems and completes a new or expanded facility. Due to these and other factors, our systems typically have a lengthy sales cycle (often 12 to 18 months in the case of critical etch systems) during which we may expend

substantial funds and

management effort. Lengthy sales cycles subject us to a number of significant risks, including inventory obsolescence and fluctuations in operating results over which we have little or no control.

We may not be able to protect our intellectual property or obtain licenses for third parties' intellectual property and therefore we may be exposed to liability for infringement or the risk that our operations may be adversely affected.

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

Although there are currently no pending claims or lawsuits by or against us regarding possible infringement claims, other than those matters disclosed under Part II, Item 1 -- Legal Proceedings, infringement claims by other third parties, or claims for indemnification resulting from infringement claims, may be asserted in the future and such assertions, if proven to be true, may materially adversely affect us. In the future, additional litigation may be necessary to enforce patents issued or exclusively licensed to us, to protect trade secrets or know-how exclusively licensed to or owned by us or to defend us against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of others. Existing litigation and any future litigation could result in substantial cost and diversion of effort by us, which by itself could have a material adverse effect on our financial condition and operating results. Further, adverse determinations in such litigation could result in our loss of proprietary rights, subject us to significant liabilities to third parties, require us to seek licenses from third parties or prevent us from manufacturing or selling our systems, any of which could have a material adverse effect on us. In addition, licenses under third parties' intellectual property rights may not be available on reasonable terms, if at all. See Part II, Item 1 -- Legal Proceedings.

Our future capital needs may exceed our ability to raise capital.

The development, manufacture and marketing of etch systems are highly capital intensive. In order to be competitive, we must continue to make significant expenditures for, among other things, capital equipment and the manufacture of evaluation and demonstration unit inventory for our 6500 series etch systems. We believe that our existing cash balances, anticipated cash flow from operations and funds available under our existing lines of credit will satisfy our financing requirements for the next twelve months. Rapid revenue growth may require that we seek additional capital to meet our working capital needs beyond the next 12 months. Likewise, a sharp decline in future orders and revenues might have a similar effect should we be unable to reduce our expenses to the degree necessary to avoid incurring losses. To the extent that such financial resources are insufficient to fund our activities, additional funds will be required. There can be no assurance that additional financing will be available on reasonable terms or at all. To the extent that additional capital is raised through the sale of additional equity or convertible debt securities, the issuance of such securities could result in additional dilution to our stockholders.

Our customers are concentrated and therefore the loss of a significant customer may harm our business.

Tegal's top five customers accounted for 53.1%, 66.4% and 61.2% of our systems revenues in fiscal 2000, 1999 and 1998, respectively. Three customers accounted for more than 10% of net systems sales in fiscal 2000. Although the composition of the group comprising our largest customers may vary from year to

year, the loss of a significant customer or any reduction in orders by any significant customer, including reductions due to market, economic or competitive conditions in the semiconductor manufacturing industry, may have a material adverse effect on our business, financial condition and results of operations. Our ability to increase our sales in the future will depend, in part, upon our ability to obtain orders from new customers as well as the financial condition and success of our existing customers and the general economy, which is largely beyond our ability to control.

We are exposed to additional risks associated with international sales and operations.

International sales accounted for 59%, 72% and 61% of total revenue for fiscal 2000, 1999 and 1998, respectively. International sales are subject to certain risks, including the imposition of government controls, fluctuations in the U.S. dollar (which could increase the sales price in local currencies of the Company's systems in foreign markets), changes in export license and other regulatory requirements, tariffs and other market barriers, political and economic instability, potential hostilities, restrictions on the export or import of technology, difficulties in accounts receivable collection, difficulties in managing distributors or representatives, difficulties

in staffing and managing international operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a material adverse effect on us.

Sales of our systems in certain countries are billed in local currency, and we have two lines of credit denominated in Japanese Yen. We generally attempt to offset a portion of our U.S. dollar denominated balance sheet exposures subject to foreign exchange rate remeasurement each period held by our foreign subsidiaries whose books are denominated in currencies other than U.S. dollars by purchasing currency options and forward currency contracts for future delivery. There can be no assurance that our future results of operations will not be adversely affected by foreign currency fluctuations. In addition, the laws of certain countries in which our products are sold may not provide our products and intellectual property rights with the same degree of protection as the laws of the United States.

Our stockholder rights plan may deter takeover attempts.

Under the terms of our stockholder rights plan, our Board of Directors is authorized to issue preferred stock without further stockholder approval or to exercise the anti-takeover provisions of our stockholder rights plan in the event of an unsolicited attempt to assume control over the Company. Should our Board of Directors exercise such rights, such action could have the effect of delaying, deferring or preventing a change in control of Tegal.

Our stock price is volatile and could result in a material decline in the value of your investment in Tegal.

We believe that factors such as announcements of developments related to our business, fluctuations in our operating results, sales of our common stock into the market place, failure to meet or changes in analysts' expectations, general conditions in the semiconductor industry or the worldwide economy, announcements of technological innovations or new products or enhancements by us or our competitors, developments in patents or other intellectual property rights, developments in our relationships with our customers and suppliers, natural disasters and outbreaks of hostilities could cause the price of our common stock to fluctuate substantially. In addition, in recent years the stock market in general, and the market for shares of small capitalization stocks in particular, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. Furthermore, the Securities and Exchange Commission is currently directing that semiconductor capital equipment companies revise their revenue recognition practices to record revenue upon customer acceptance rather than upon shipment or delivery of systems, as is the current prevailing practice. As currently intended, this application of Staff Accounting Bulletin (SAB) 101 will go into effect no later than the fourth fiscal quarter after a company's year end which occurs after December 15, 1999. As a result, SAB 101 will apply to our fourth quarter ending March 31, 2001. In

this case, our reported revenue and earnings for the quarter ending March 31, 2001 may be less than the revenues and earnings which we would otherwise report due to timing differences between system shipment and customer acceptance. There can be no assurance that the market price of our common stock will not experience significant fluctuations in the future, including fluctuations that are unrelated to our performance.

Domestic and international economic conditions may expose our business to the risk of limited demand for our products.

Our business is subject to general economic conditions, both in the United States and abroad. A significant decline in economic conditions in any significant geographic area could have a material adverse effect on us. For example, in the last two years an economic crisis in Asia has led to weak demand for our products in certain Asian economies -- notably South Korea. Such economic events may continue to adversely affect our results of operations, and additional economic events of a similar nature could, in the future, affect demand for our products, which could have a material adverse effect on our business, financial condition and operating results.

Potential disruption of our supply of materials required to build our systems could have a negative effect on our operations and damage our customer relationships.

Material delays have not been significant in recent years. Nevertheless, we procure certain components and sub-assemblies included in our systems from a limited group of suppliers, and occasionally from a single source supplier. In particular, we depend on MECS Corporation, a robotic equipment supplier, as the sole source for the robotic arm used in all of our 6500 series systems. We currently have no existing supply contract with MECS Corporation, and we currently purchase all robotic assemblies from MECS Corporation on a purchase order basis. Disruption or termination of certain of these sources, including our robotic sub-assembly source, could have an adverse effect on our operations. While we believe that alternative sources could be obtained and qualified to supply these components or sub-assemblies, a prolonged inability to obtain such components or sub-assemblies, receipt of defective

components or sub-assemblies, as well as difficulties or delays in shifting to alternative sources, could have a material adverse effect on our operating results and could damage our relationships with our customers.

Any failure by us to comply with environmental regulations imposed on us could subject us to future liabilities.

We are subject to a variety of governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process. We believe that we are currently in compliance in all material respects with these regulations and that we have obtained all necessary environmental permits generally relating to the discharge of hazardous wastes to conduct our business. Nevertheless, our failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, alteration of our manufacturing processes, or cessation of our operations. These environmental regulations could require us to acquire expensive remediation equipment or to incur other expenses to comply with environmental regulations. Any failure by us to control the use, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are referenced or included in this report:

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Exhibit Description
- ------- -----------
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27.1 Financial Data Schedule
</TABLE>

(b) Reports on Form 8-K

None.

SIGNATURES

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

TEGAL CORPORATION
(Registrant)

/s/ DAVID CURTIS

David Curtis
Chief Financial Officer, Treasurer and
Secretary (Principal Financial Officer)

Dated: July 28, 2000

EXHIBIT INDEX

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Exhibit No.	Description
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27	Financial Data Schedule

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<ARTICLE> 5

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