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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 SEPTEMBER 30, 1997

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)

<TABLE>

<S>	<C>
DELAWARE	68-0370244
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

2201 SOUTH MCDOWELL BLVD. P.O. BOX 6020
PETALUMA, CALIFORNIA 94955-6020
(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 September 30, 1997, there were 10,342,962 shares of the registrant's Common Stock outstanding.

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TEGAL CORPORATION AND SUBSIDIARIES

INDEX

<TABLE>
<CAPTION>

</TABLE>

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 SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Revenue...	$11,726	$12,757	$20,812	$31,008
Cost of sales....................................	6,827	6,508	11,889	16,408
Gross profit................................	4,899	6,249	8,923	14,600
Operating expenses:				
Research and development........................	2,994	2,597	5,793	5,226
Sales and marketing............................	1,834	1,739	3,257	3,505
General and administrative......................	1,410	1,587	2,824	3,427
Total operating expenses................	6,238	5,923	11,874	12,158
Operating income (loss).....................	(1,339)	326	(2,951)	2,442
Other income (expense), net.......................	243	228	637	438
Income (loss) before income taxes.................	(1,096)	554	(2,314)	2,880
Provision for income taxes........................	0	139	0	720
Net income (loss)................................	$(1,096)	$ 415	$(2,314)	$ 2,160
Net income (loss) per common share................	$ (0.11)	$ 0.04	$ (0.22)	$ 0.20
Shares used in per share computation..............	10,331	10,647	10,306	10,662

</TABLE>

See accompanying notes.

TEGAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(IN THOUSANDS)

<TABLE>
<CAPTION>
SEPTEMBER 30, MARCH 31,

	1997	1997
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$28,240	$30,323
Receivables, net	10,239	12,322
Inventories	13,928	13,154
Prepaid expenses and other current assets	2,269	2,274
Total current assets	54,676	58,073
Property and equipment, net	5,721	5,298
Other assets, net	330	153
	$60,727	$63,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 2,779	$ 252
Accounts payable	2,475	3,442
Accrued expenses and other current liabilities	6,723	8,987
Total current liabilities	11,977	12,681
Long-term portion of capital lease obligation	310	301
Total liabilities	12,287	12,982
Stockholders' equity:		
Common stock	103	103
Additional paid-in capital	54,949	54,821
Cumulative translation adjustment	107	23
Accumulated deficit	(6,719)	(4,405)
Total stockholders' equity	48,440	50,542
	$60,727	$63,524

</TABLE>

See accompanying notes

TEGAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

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	SIX MONTHS ENDED SEPTEMBER 30,	
	1997	1996
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$(2,314)	$ 2,160
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	1,264	1,210
Purchase credit redemptions	--	(974)
Changes in operating assets and liabilities	(1,742)	1,991
Net cash provided by (used in) operating activities	(2,792)	4,387
Cash flows used in investing activities -- purchases of property and equipment	(1,687)	(1,220)

Cash flows from financing activities:		
Proceeds from issuance of common stock................................	128	21
Borrowings under lines of credit......................................	2,339	2,604
Repayment of capital lease financing..................................	(155)	(153)
Net cash provided by financing activities......................	2,312	2,472
Effect of exchange rates on cash and cash equivalents...................	84	(30)
Net increase (decrease) in cash and cash equivalents....................	(2,083)	5,609
Cash and cash equivalents at beginning of period........................	30,323	23,283
Cash and cash equivalents at end of period..............................	$28,240	$28,892

</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, 1997 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, 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 thereto included in the annual report on Form 10-K of Tegal Corporation ("the Company") for the year ended March 31, 1997. The results of operations for the three and six months ended September 30, 1997 are not necessarily indicative of results to be expected for the entire year.

2. INVENTORIES:

Inventories consisted of (in thousands):

<TABLE>
<CAPTION>

<S>	SEPT. 30, 1997 <C>	MARCH 31, 1997 <C>
Raw Materials..	$ 3,188	$ 3,988
Work in Progress.......................................	2,047	2,126
Finished Goods and Spares..............................	8,693	7,040
	$ 13,928	$13,154

</TABLE>

3. NET INCOME (LOSS) PER COMMON SHARE:

Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the period using the treasury stock method. Net income per share includes common equivalent shares from options and warrants outstanding using the treasury stock method except if their effect is anti-dilutive.

4. INCOME TAX EXPENSE:

Income taxes as a percentage of income before income taxes was 25% for the three and six month periods ended September 30, 1996. The effective tax rate for the periods ended September 30, 1996, was substantially below the federal statutory rate due to utilization of tax loss carryforwards and reductions in the valuation allowance. No provision for federal or state income tax has been recorded for the three and six month periods ended September 30, 1997, as the Company has recorded a net loss before taxes. The Company did not recognize a benefit for this net loss before taxes in the three and six month periods ended September 30, 1997, because any benefit derived would require offsetting current losses against future profitability where such profitability's timing and magnitude is uncertain.

5. RECENT ACCOUNTING PRONOUNCEMENTS:

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings per Share." This statement is effective for the Company's fiscal year ending March 31, 1998. The Statement redefines earnings per share under generally accepted accounting principles. Under the new standard, primary earnings per share is replaced by basic earnings per share and fully diluted earnings per share is replaced by diluted earnings per share. If the Company had adopted this Statement earnings per share would have been:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,	
	1997	1996
<S>	<C>	<C>
Basic earnings per share....................................	$(0.11)	$0.04
Diluted earnings per share..................................	--	$0.04

</TABLE>

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

Information contained 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 the Company's products, the Company's 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, current soft demand for semiconductor manufacturing equipment, particularly for equipment procured for capacity additions such as the Company's non-critical etch systems, the cyclicality of the semiconductor industry, dependence on recently introduced systems for the critical etch markets, 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 the Company's SEC reports. For further information, refer to the business description and additional risk factors sections included in the Company's Form 10-K for the year ended March 31, 1997, as filed with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

Tegal Corporation 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 and small flat panel displays.

The following table sets forth certain financial items as a percentage of revenue for the three and six month periods ended September 30, 1997 and 1996:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of sales	58.2	51.0	57.1	52.9
Gross profit	41.8	49.0	42.9	47.1
Operating expenses:				
Research and development	25.6	20.4	27.9	16.9
Sales and marketing	15.6	13.6	15.6	11.3
General and administrative	12.0	12.4	13.6	11.0
Total operating expenses	53.2	46.4	57.1	39.2
Operating income	(11.4)	2.6	(14.2)	7.9
Other income (expense), net	2.1	1.7	3.1	1.4
Income before income taxes	(9.3)	4.3	(11.1)	9.3
Provision for income taxes	0.0	1.0	0.0	2.3
Net income (loss)	(9.3)%	3.3%	(11.1)%	7.0%

</TABLE>

Revenue. Revenue for the three and six months ended September 30, 1997 was $11.7 and $20.8 million respectively, down 8.1% and 32.8% over the comparable periods in 1996. The decrease of $1.0 million for the three month period ended September 30, 1997 was due to reduced unit sales of the Company's non-critical etch systems (sales of which are principally driven by customer decisions to expand production capacity) offset, in part, by an increase in revenue from sales of the Company's critical etch systems and increased spare parts and service sales. The decrease in revenue for the six months ended September 30, 1997 was due

principally to decreased unit sales of both non-critical and critical etch systems over the comparable period in the prior year.

Revenue from spare parts and service sales as a percentage of total revenue was approximately 41.3% and 30.3% for the three months and 45.5% and 31.2% for the six months ended September 30, 1997 and 1996 respectively.

International sales as a percentage of the Company's revenue was approximately 76.5% and 56.2% for the three months and 68.7% and 70.6% for the six months ended September 30, 1997 and 1996, respectively. The Company believes that international sales will continue to represent a significant portion of its revenue.

Gross profit. Gross profit as a percentage of revenue (gross margin) was 41.8% and 49.0% for the three months and 42.9% and 47.1% for the six months ended September 30, 1997 and 1996, respectively. The decline in gross margin for the three and six months ended September 30, 1997, was principally attributable to declines in the percentage of total revenue derived from the Company's non-critical etch systems that typically experience higher gross margins than the Company's critical etch systems gross margins and to lower margins in the service business due to recent investments in supporting the Company's key 6500 series customer sites.

Research and development. Research and development expenses consist primarily of salaries, prototype material and other costs associated with the Company's ongoing systems and process technology development, applications and field process support efforts. Research and development expenses were $3.0 million and $2.6 million for the three months ended and $5.8 and $5.2 million for the six months ended September 30, 1997 and 1996, respectively, representing 25.6%, 20.4%, 27.9% and 16.9% of revenue, respectively. The increases in research and development spending in absolute dollars in the periods ended September 30, 1997, compared to the comparable periods in the prior year were attributable to increased spending on process engineering salaries and material in support of the Company's key 6500 series customer sites.

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 $1.8 million and $1.7 million for the three months and $3.3 million and $3.5 million for the six months ended September 30, 1997 and 1996, respectively, representing 15.6%, 13.6%, 15.6% and 11.3% of revenue respectively. The increase in sales and marketing expense for the three months ended September 30, 1997 compared to the comparable period in the prior year was due to increased spending on trade shows and advertising. The decrease in sales and marketing expenses in absolute dollars for the six months ended September 30, 1997 over the comparable period in the prior year was due principally to reduced sales commissions on a lower revenue base.

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 $1.4 million and $1.6 million for the three months ended and $2.8 and $3.4 million for the six months ended September 30, 1997 and 1996, representing 12.0%, 12.4%, 13.6% and 11.0% of revenue, respectively. Included in general and administrative expenses for the six month period ended September 30, 1996, was an approximately $0.3 million non-recurring expense associated with completing an upgrade to the Company's business system begun in late fiscal 1996.

Other income (expenses), net. Other income (expenses), net primarily consists of interest income on the unused proceeds of the Company's initial public offering ("IPO") completed in October 1995 and interest expense on bank borrowings.

Income tax expense. Income taxes as a percentage of income before income taxes was 25% for the three and six month periods ended September 30, 1996. The effective tax rate for the periods ended September 30, 1996, was substantially below the federal statutory rate due to utilization of tax loss carryforwards and reductions in the valuation allowance. No provision for federal or state income tax has been recorded for the three and six month periods ended September 30, 1997, as the Company has recorded a net loss before taxes. The Company did not recognize a benefit for this net loss before taxes in the three and six month periods

ended September 30, 1997, 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 six month periods ended September 30, 1997 and 1996, the Company financed its operations through cash generated from operations, use of net proceeds from the IPO and bank borrowings.

Net cash used in operations was $2.9 million during the six months ended September 30, 1997, due principally to a net loss of $1.0 million after adjusting for depreciation, a decline in accrued expenses and accounts payable and an increase in inventories offset, in part, by a decline in accounts receivable. Net cash provided by operations was $4.2 million during the six months ended September, 1996, due principally to net income in the period, non cash depreciation expenses, a decrease in accounts receivable and an increase in other accrued liabilities, offset, in part, by a decrease in accounts payable.

Net capital expenditures totaled $1.7 million and $1.2 million in the six months ended September 30, 1997 and 1996, respectively. Capital expenditures in both periods were incurred principally for demonstration equipment, leasehold improvements and to acquire design tools, analytical equipment and computers.

Net cash provided by financing activities totaled $2.5 million and $2.6 million in the six months ended September 30, 1997 and 1996, respectively. In both periods, the increase was due principally to increased borrowings under the Company's two Japanese promissory note borrowing facilities to discount customer promissory notes provided to the Company in advance of payment on accounts receivable balances in Japan.

As of September 30, 1997, the Company had approximately $28.2 million of cash and cash equivalents. In addition to cash and cash equivalents, the Company's other principal sources of liquidity consisted of unused portions of several bank borrowing facilities. At September 30, 1997, the Company had an aggregate borrowing capacity of $20.0 million available under a domestic line of credit secured by substantially all of the Company's assets. The facility is available until August 15, 1998. In addition to the foregoing facility, as of September 30, 1997, the Company's Japanese subsidiary had available a 288 million Yen (approximately $2.4 million at exchange rates prevailing on September 30, 1997) unused portion of two Japanese bank lines of credit totaling 600 million Yen (approximately $5.0 million at exchange rates prevailing on September 30, 1997) secured by Japanese customer promissory notes held by such subsidiary in advance of payment on customers' accounts receivable.

The Company believes that anticipated cash flow from operations, funds available under its lines of credit and existing cash and cash equivalent balances will be sufficient to meet the Company's cash requirements for at least the next twelve months.

PART II -- OTHER INFORMATION

ITEM 4. LEGAL PROCEEDINGS

There are no material legal proceedings pending against the Company. However, on June 10, 1996, Lucent Technologies Inc., filed a claim with the United States District Court for the Northern District of California alleging patent infringement by Austria Mikro Systeme International AG and AMS Austria Mikro Systeme International, Inc. ("AMS") for the sale of integrated circuits manufactured with the Company's dry plasma etch systems. On March 7, 1995, the Company executed an indemnification agreement with AMS, covering certain uses of select equipment sold to AMS. Lucent and AMS have settled the claim and AMS is now seeking indemnification from the Company through an arbitration proceeding. The Company believes that the claim made by AMS is without merit and that the ultimate outcome of any defense of any required indemnification obligation to AMS is unlikely to have a material adverse effect on the Company's results of operations or financial condition. No assurance can be given, however, as to the outcome of such legal proceedings or as to the effect of any such outcome on the Company's results of operations or financial condition.

ITEM 5. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Stockholders' Meeting held on September 23, 1997, the following individuals were re-elected to the Board of Directors:

<TABLE>
<CAPTION>

<S>	VOTES FOR <C>	VOTES WITHHELD <C>
Robert V. Hery....................................	7,027,442	27,621
Fred Nazem..	7,028,903	26,160
Jeffrey M. Krauss.................................	7,028,335	26,728
Thomas R. Mika....................................	7,028,965	26,098
Edward A. Dohring.................................	7,024,735	30,328

</TABLE>

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

<TABLE>
<S> <C> <C>

(a) Exhibits
- Exhibit 11 -- Computation of Net Income (Loss) Per Share
- Exhibit 27 -- Financial Data Schedule

(b) Reports on Form 8-K
- There were no reports on Form 8-K filed for the period which this Form 10-Q covers.

</TABLE>

SIGNATURES

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

Dated: October 28, 1997

TEGAL CORPORATION
(Registrant)

/s/ DAVID CURTIS

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

TEGAL CORPORATION AND SUBSIDIARIES

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NAME	DESCRIPTION	PAGE
<S>	<C>	<C>
Exhibit 11	Computation of Net Income (Loss) Per Share	12
Exhibit 27	Financial Data Schedule	13

</TABLE>

EXHIBIT 11

TEGAL CORPORATION AND SUBSIDIARIES

STATEMENT REGARDING COMPUTATION
OF NET INCOME (LOSS) PER SHARE

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
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	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Net Income (loss).................................	$(1,096)	$ 415	$(2,314)	$ 2,160
Weighted average shares outstanding during the period...	10,331	10,104	10,306	10,087
Common stock equivalents..........................	--	543	--	582
Shares used in per share computation..............	10,331	10,647	10,306	10,669
Net income (loss) per share.............	$ (0.11)	$ 0.04	$ (0.22)	$ 0.20

</TABLE>

EXHIBIT 11

TEGAL CORPORATION AND SUBSIDIARIES

STATEMENT REGARDING COMPUTATION OF NET INCOME (LOSS) PER SHARE

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
Net Income (loss)	$(1,096)	$ 415	$(2,314)	$ 2,160
Weighted average shares outstanding during the period	10,331	10,104	10,306	10,087
Common stock equivalents	--	543	--	582
Shares used in per share computation	10,331	10,647	10,306	10,669
Net income (loss) per share	$ (0.11)	$ 0.04	$ (0.22)	$ 0.20

<TABLE> <S> <C>

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