PHOTRONICS INC
Form 10-K/A
August 14, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

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

For the fiscal year ended November 3, 2002

OR

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

For the transition period from ___ to ___

Commission file number 0-15451

PHOTRONICS, INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-0854886**
(State or other jurisdiction of incorporation of organization)	*(IRS Employer Identification Number)*

15 Secor Road, Brookfield, Connecticut 06804

(Address of principal executive offices and zip code)

(203) 775-9000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $0.01 par value per share**

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 the Form 10-K or any amendment to this Form 10-K. o

As of December 31, 2002, 32,040,020 shares of the registrant's Common Stock were outstanding. The aggregate market value of registrant's voting stock held by non-affiliates of the registrant as of December 31, 2002 was approximately $398,163,018.

Explanatory Note

Pursuant to this Form 10-K/A (Amendment No. 2), the Company amends the following items of its Annual Report for the year ended November 3, 2002 on Form 10-K, as previously amended by Form 10-K/A (Amendment No. 1).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Form 10-K has been amended to include additional disclosure on the purchase of a manufacturing facility and surrounding land from affiliated parties, under the heading "Certain Transactions."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The Form 10-K has been amended to include in Item 12 the required table with respect to equity compensation plan information. Additionally, the total number of shares to be issued upon exercise of outstanding options, warrants and rights for equity compensation plans approved by stockholders included in the "Equity Compensation Plan Information" previously disclosed by the Company in its Proxy Statement dated February 21, 2003 has been corrected.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Years Ended November 3, 2002, October 31, 2001 and 2000

Overview

In 2001, the Company completed the acquisition of a majority equity interest (approximately 51%) in PKL LTD. ("PKL"), a leading Korean photomask supplier, for $56 million. In April 2002, the Company acquired an additional 28% of PKL in exchange for 1,212,218 shares of Photronics common stock. The acquisition was accounted for as a purchase and accordingly goodwill in the aggregate of $69.4 million was recorded. The operating results of PKL have been included in the Company's consolidated statements of operations since August 27, 2001.

In June 2000, the Company completed its merger with Align-Rite International, Inc. ("Align-Rite"), an independent publicly traded manufacturer of photomasks in the United States and Europe. Under the terms of the Merger Agreement, each of the 4,731,232 shares of common stock of Align-Rite issued and outstanding as of June 7, 2000 was converted into 0.85 shares of common stock of Photronics. Cash was paid in lieu of the issuance of any fractional shares of Photronics that would otherwise have been issued. Any stock options to acquire Align-Rite common stock that had not been exercised as of June 7, 2000 became fully vested options to acquire Photronics common stock in accordance with the merger agreement. The Company recorded expenses of $5.5 million in fiscal 2000 relating to costs incurred in connection with this transaction. Such costs consisted primarily of fees for investment bankers, attorneys, accountants, financial printing and other related charges. The transaction was accounted for as a pooling-of-interests. Accordingly, the consolidated financial statements, the accompanying notes and this management's discussion and analysis have been restated to reflect the Company's financial position, results of operations and cash flows as if Align-Rite was a consolidated, wholly-owned subsidiary of the Company for all periods presented.

In June 2000, the Company acquired a majority share of Precision Semiconductor Mask Corporation ("PSMC"), a photomask manufacturer based in Taiwan, for approximately $63.4 million in cash. The acquisition was accounted for as a purchase. The operating results of PSMC have been included in the Company's consolidated statement of operations from June 20, 2000.

The Company's growth in recent years has also been affected by the rapid technological changes taking place in the semiconductor industry resulting in a greater mix of high-end photomask requirements for more complex integrated circuit designs. During the latter half of 2001 and continuing throughout 2002, the Company was impacted by the downturn in the semiconductor industry which resulted in decreased demand and increased competitive pricing pressures. The Company cannot predict the duration of such cyclical industry conditions or their impact on its future operating results.

Both revenues and costs have been affected by the increased demand for high-end technology photomasks that require more advanced manufacturing capabilities but generally command higher average selling prices. To meet the technological demands of its customers and position the Company for future growth, the Company continues to make substantial investments in high-end manufacturing capability both at existing and new facilities. The Company's capital expenditures for new facilities and equipment to support its customers' requirements for high technology products was approximately $219.0 million for the three fiscal years ended November 3, 2002, resulting in significant increases in operating expenses. Based on the anticipated technological changes in the industry, the Company expects these trends to continue.

The Company believes that changes in photomask demand reflect changes in semiconductor design activity and are only indirectly affected by changes in semiconductor sales volumes. In the past, increased design activity has been stimulated by both the rapid development of new generation semiconductor designs and the proliferation of application-specific integrated circuits. While design activity has continued, the Company was impacted by the reductions in design releases for production during the latter half of 2002 as a result of the depressed semiconductor industry.

Results of Operations

The following table represents selected operating information expressed as a percentage of net sales:

	Year Ended		
	November 3, 2002	**October 31, 2001**	**October 31, 2000**
Net sales	100.0%	100.0%	100.0%
Cost of sales	71.5	67.3	66.6
Gross Margin	28.5	32.7	33.4
Selling, general and administrative expenses	15.0	14.2	13.9
Research and development expenses	7.8	6.6	6.3
Consolidation, restructuring and related charges	3.7	10.1	6.9
Operating income	2.0%	1.8%	6.3%

Net Sales

Net sales for the fiscal year ended November 3, 2002 increased 2.4% to $386.9 million, compared to $378.0 million in 2001 primarily as a result of increased growth in Asia as a result of inclusion of our majority-held subsidiary in Korea for 2002. The increase, however, was partially mitigated by decreased sales in North America, as certain North American customers moved their semiconductor manufacturing to foundries located in Asia. By geographic area, net sales in Asia increased $58.1 million or 82%, while North America sales decreased $47.6 million or $19.7% and European sales decreased $1.6 million or 2.5%. Other factors contributing to the increased sales in 2002 include an improved sales mix of high-end technology products, which have design rules of 0.18 micron and below and increased unit volume associated with increased design releases. The increased design releases were primarily experienced during the first six months of the year. Sales decreased during the second half of 2002 due to a slow-down in new design releases for mature and high-end technology products, due in part, to the decreased end user demand, both consumer and corporate, for devices utilizing semiconductors and continued increased competitive pricing pressures for mature products. As a result of the continued downturn in the global semiconductor industry, the Company continues to see weaknesses in selling prices for mature technologies but has benefited from its investments in high-end manufacturing capability and increased global presence.

Net sales for the fiscal year ended October 31, 2001 increased 14.1% to $378.0 million, compared to $331.2 million in 2000, as a result of the Company's continued global expansion, and an improved sales mix of high-end technology products, which have higher average selling prices and increased unit volume associated with increased design releases. During the latter half of 2001 the Company began to experience a slow-down in new design releases due to competitive pricing pressures resulting from the global semiconductor industry downturn.

Gross Margin

Gross margin for the year ended November 3, 2002 decreased to 28.5% from 32.7% for the year ended October 31, 2001. The decrease was primarily associated with the decreased utilization of the Company's expanded fixed equipment cost base, primarily in North America, due in part, to decreased demand and competitive pricing pressures for mature product technologies. The decreased demand for all technologies was primarily experienced during the latter half of 2002 as fewer designs were released into production. Additionally, improved gross margins at the Company's subsidiary in Korea were offset by lower margins from the Company's other locations.

Gross margin for the year ended October 31, 2001 decreased to 32.7% from 33.4% for the year ended October 31, 2000. The decrease in 2001 was primarily attributable to the rapid downturn in the semiconductor industry which affected the Company during the last six months of 2001 during which the Company experienced decreased demand and reduced

utilization of the Company's fixed equipment base. The decreased demand was somewhat mitigated by efficiencies realized from the Company's 2001 consolidation plan.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended November 3, 2002 increased 7.8% to $58.0 million, or 15.0% of net sales, from $53.8 million, or 14.2% of net sales for the year ended October 31, 2001. The increase in 2002 was primarily attributable to the inclusion of the Company's Korean subsidiary for all of 2002 and increased information technology costs associated with the Company's global infrastructure. These increases were partially mitigated by reduced amortization costs of $1.1 million in 2002 as a result of the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" (see Note 5 to the consolidated financial statements).

Selling, general and administrative expenses for the year ended November 3, 2001 increased 16.7% to $53.8 million, or 14.2% of net sales, from $46.1 million, or 13.9% of net sales for the year ended October 31, 2000. The increase in 2001 was primarily attributable to the Company's continued global expansion, both domestically and internationally, including additional costs associated with the Company's Asian investments, and increased technology costs associated with expanding the Company's global network.

Research and Development

Research and development expenses for the year ended November 3, 2002, increased 21.3% to $30.2 million, or 7.8% of net sales, from $24.9 million, or 6.6% of net sales in 2001. The increase in fiscal year 2002 is attributable to the continuing global development efforts of high-end process technologies for advanced, sub wavelength reticle solutions in Next Generation Lithography ("NGL") applications, which include the Company's five installed nano-technology line tool sets.

Research and development expenses for the year ended October 31, 2001, increased 19.9% to $24.9 million, or 6.6% of net sales, from $20.7 million, or 6.3% of net sales in 2000. This increase is attributable to the continued development efforts of high-end process technologies, primarily in the United States and Taiwan, and in NGL applications.

Consolidation, Restructuring and Related Charges

In August 2002, the Company implemented a plan to reduce its operating cost structure by reducing its work force in the United States by approximately 135 employees and by ceasing the manufacture of photomasks at its Milpitas, California facility. Total consolidation and related charges of $14.5 million were recorded in the fourth quarter of 2002. Of the total charge, $10.5 million was non-cash for the impairment in carrying value of fixed assets, $2.5 million of cash charges for severance and benefits for terminated employees that will be paid during their entitlement periods and $1.5 million of cash charges for facilities closing costs as well as lease termination costs. Through November 3, 2002, cash charges of approximately $1.5 million had been expended.

In April 2001, the Company initiated a plan to consolidate its global photomask manufacturing network in order to increase capacity utilization and manufacturing efficiencies, as well as accelerate the expansion of its world-class technology development. Total associated consolidation and related charges associated with this plan of $38.1 million were recorded in the second quarter of 2001. Of the total charge, $30.6 million related to this plan and $7.5 million related to the impairment of intangible assets that no longer had any future economic benefit to the Company. A significant component of this associated plan included the closing of the former Align-Rite manufacturing facilities in Burbank, California, Palm Bay, Florida and Heilbronn, Germany which resulted in a reduction in work force of approximately 120 employees. The consolidation charge of $30.6 million includes: $4.0 million of cash charges for severance benefits for terminated employees paid during their entitlement periods; $4.5 million for facilities closings and lease termination costs expended over the projected lease terms; and non-cash charges of $22.1 million that approximate the carrying value of fixed assets that are primarily associated with this plan based upon their expected disposition. Through November 3, 2002 cash charges of approximately $6.1 million had been expended.

During March 2000, the Company implemented a plan to restructure its mature products group in order to increase capacity utilization, manufacturing efficiencies and customer service activities worldwide. Total charges associated with

this restructuring plan of $17.5 million were recorded in the second quarter of 2000. Of the total charge, $9.1 million related to restructuring and $8.4 million related to the impairment of associated intangible assets because such assets no longer had future economic benefit to the Company. The significant components of the restructuring plan included the closing of the Company's Sunnyvale, California and Neuchatel, Switzerland manufacturing facilities and the consolidation and regionalization of sales and customer service functions. As part of the plan, the Company reduced its work force by approximately 125 employees. The restructuring charge of $9.1 million includes $1.5 million of cash charges for severance benefits paid to terminated employees which was disbursed over their entitlement periods and $2.3 million for facilities closings and lease termination costs expended through the first quarter of 2001. Additionally, non-cash charges of $5.3 million approximated the carrying value primarily of fixed assets associated with the manufacturing restructuring based upon their expected disposition.

Other Income and Expense

Interest expense for the year ended November 3, 2002 increased by $5.8 million to $17.8 million as compared to $12.0 million for 2001. The increase is primarily the result of the $200 million, 4.75% convertible debt offering completed December of 2001 and borrowings associated with the Company's acquisition of PKL. Investment and other income, net, during 2002 increased by $1.8 million to $4.5 million as compared to $2.7 million in 2001 primarily due to a $2.6 million gain on the repurchase of $41.2 million of the Company's 6% convertible notes.

Interest expense for the year ended October 31, 2001 increased by $0.9 million to $12.0 million as compared to $11.1 million for 2000, primarily the result of additional borrowings associated with the Company's investments in Asia. Investment and other income, net, during 2001 decreased by $3.1 million to $2.7 million as compared to $5.8 million in 2000 primarily because there were no investment sales in 2001.

Income Taxes

For the year ended November 3, 2002 the Company recorded a tax benefit of $7.0 million or 59.1% of the pretax loss. The Company's effective tax rate, or benefit of 59.1%, was higher than the U.S. statutory rate as a result of a significant shift in pretax income during 2002 to tax jurisdictions where the Company has tax holidays.

For the year ended October 31, 2001 the Company recorded a tax benefit of $3.0 million or 42.7% of the pretax loss. The loss was a result of the Company's consolidation plan charge, which primarily impacted U.S. tax rates. The 2000 effective tax rate of 31.6% was lower than in 2001 primarily due to income in countries with government granted tax exemptions and higher tax credits.

Minority Interest in Consolidated Subsidiaries

The minority interest charge of $6.4 million in fiscal 2002, $4.7 million in fiscal 2001, and $0.6 million in fiscal 2000, reflects the portion of income attributable to the minority shareholders of the Company's non-wholly owned subsidiaries.

Net Income (Loss) and Earnings (Loss) Per Share

For the year ended November 3, 2002 the Company incurred a net loss of $4.9 million or ($0.16) per diluted share compared to a net loss of $4.0 million or $(0.13) per diluted share in fiscal 2001. Net income, excluding the effects of consolidation, restructuring and related charges for 2002 and 2001, decreased to $5.1 million or $0.16 per diluted share in fiscal 2002 compared to $22.1 million or $0.74 per diluted share in fiscal 2001.

For the year ended October 31, 2001 the Company incurred a net loss of $4.0 million or ($0.13) per diluted share compared to net income of $10.2 million or $0.34 per diluted share in fiscal 2000. Net income, excluding the effects of consolidation, restructuring and related charges for 2001 and 2000, decreased to $22.1 million or $0.74 per diluted share in fiscal 2001 compared to $25.0 million or $0.86 per diluted share in fiscal 2000.

Liquidity and Capital Resources

On December 12, 2001, the Company sold $200 million of 4.75% Convertible Subordinated Notes due 2006 ("Notes") in a private offering pursuant to SEC Rule 144A. The Notes are convertible into the Company's common stock at a conversion price of $37.00 per share. Total net proceeds from the issuance amounted to approximately $193.2 million. Concurrent with the issuance of Notes, on December 12, 2001 the Company repaid all of its outstanding borrowings under the previous revolving credit agreement which amounted to $57.7 million and terminated the agreement.

In July 2002, the Company entered into a credit agreement with a group of financial institutions that provides for a three-year, revolving credit facility with an aggregate commitment of $100 million. The credit facility allows for borrowings in various currencies and includes a provision which allows for an increase in aggregate commitments up to $125.0 million upon the conversion of at least 50% of the Company's $103 million, 6% convertible subordinated notes due June 1, 2004. The interest rate is based on the terms of the agreement and will vary based on currencies borrowed and market conditions. The effective interest rate for fiscal 2002 was approximately 7%. Currently the facility fee is 0.4% of total aggregate commitments. As of November 3, 2002, $89.4 million was available under the facility. The Company is subject to compliance with and maintenance of certain financial and other covenants, and matters set forth in the agreement, including a limitation on cash dividends available for payment to shareholders. The credit facility is secured by a pledge of the Company's stock in certain of its subsidiaries.

The Company's working capital at November 3, 2002 was $142.0 million compared with $48.7 million at October 31, 2001. The increase in working capital is primarily associated with the net proceeds of the Company's $200.0 million of convertible debt issued in December of 2001. Cash, cash equivalents and short-term investments at November 3, 2002 were $129.1 million compared to $34.7 million at October 31, 2001. Cash provided by operating activities for the year ended November 3, 2002 increased to $136.4 million from $113.6 million for the year ended October 31, 2001, due in part, to increased accounts payable and accrued liabilities of $35.3 million and increased depreciation and amortization of $10.2 million.

Cash used by investing activities of $140.7 million consisted principally of capital equipment purchases of $126.5 million and increased investments of $15.0 million. The Company expects capital expenditures for 2003 to be approximately $60.0 million. Capital expenditures for 2003 will be used primarily to continue to expand the Company's high-end technical capability.

Cash provided by financing activities of $82.7 million consisted principally of proceeds from the issuance of convertible debt of $193.2 million offset by the repayment of the Company's previous line of credit agreement of $57.7 million and other net debt repayments of $57.5 million. In the fourth quarter of fiscal 2002, the Company repurchased $41.2 million of its 6% convertible notes for total consideration of $38.2 million, resulting in a net gain of $2.6 million. The Company believes that its currently available resources, together with its capacity for growth and its accessibility to debt and equity financing sources, are sufficient to satisfy its cash requirements for the foreseeable future.

The Company's commitments represent investments in additional manufacturing capacity as well as advanced equipment for the production of high-end, more complex photomasks. At November 3, 2002, the Company had commitments outstanding for capital expenditures of approximately $30.0 million. Additional commitments for capital requirements are expected to be incurred during fiscal 2003.

Cash Requirements

The Company's cash requirements over the next twelve months are primarily to fund operations, including spending on research and development, capital expenditures, debt service and acquisitions. The Company expects that cash on hand and cash generated from operations will be sufficient to meet cash requirements for the next twelve months. However, the Company cannot assure that additional sources of financing would be available to the Company on commercially favorable terms should the Company's capital requirements exceed cash available from operations.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

The following tables quantify our future contractual obligations and commercial commitments as of November 3, 2002 (in millions):

Contractual Obligations

	Payments Due in Fiscal				
	Total	**2003**	**2004 & 2005**	**2006 & 2007**	**Thereafter**
Long-term debt	$307.4	$10.6	$93.9	$202.9	$ -
Operating leases	9.0	2.5	3.6	2.0	0.9
Unconditional purchase obligations	44.6	35.1	7.6	1.9	-
Total	$361.0	$48.2	$105.1	$206.8	$0.9

Other Commercial Commitments

	Amounts Expiring in Fiscal				
	Total	**2003**	**2004 & 2005**	**2006 & 2007**	**Thereafter**
Standby letters of credit	$5.8	$5.8	-	-	-
Total	$5.8	$5.8	-	-	-

Certain Transactions

In June 2002, the Company purchased land from an entity controlled by the Chairman of the Board of the Company for approximately $530 thousand. The Company also purchased in June 2002 its Brookfield, Connecticut manufacturing facility (the "purchased manufacturing facility") and the surrounding 1.9 acres of land from an entity controlled by the Chairman's two sons, one of whom is a Board member, for approximately $2.2 million. The land purchased from the entity controlled by the Chairman is approximately 10 acres and is directly adjacent to the purchased manufacturing facility. The purchase price for both transactions was equal to the appraised value as established by independent appraisals obtained by the Company.

Previously, in August 2001, the Company announced plans to expand its Brookfield, Connecticut facility. As disclosed at that time, the Company intended to absorb into its Brookfield facility, the business from two recently closed sites in Palm Bay, Florida and Burbank, California. The planned expansion, however, was deferred until 2002 as a result of the downturn in the semiconductor industry and the Company's inability to obtain various local zoning approvals.

During 2002, the Company began to address the various zoning issues, some of which were not related to the proposed expansion. The Company determined that owning the purchased manufacturing facility and the surrounding land would enhance its ability to obtain zoning approval should the Company move forward on the expansion plan and, for that reason, completed the purchases.

The Company leased the purchased manufacturing facility from the entity controlled by the Chairman's two sons prior to its purchase by the Company. The rent paid to this entity for the fiscal year ended November 3, 2002 was approximately $45 thousand.

The Chairman of the Board of the Company is also the Chairman of the Board and majority shareholder of a company who is a supplier of secure managed information technology services. Another director of the Company is also an employee and a director of this company. In 2002 the Company entered into a fifty-two month service contract with this company to provide services to all of the Company's worldwide facilities at a cost of approximately $3.2 million per year. In 2002 the Company incurred expenses of $2.4 million related to services provided by this company of which $302 thousand was owed to this company at November 3, 2002.

The Company believes that the terms of the transactions described above with affiliated persons were negotiated at arm's-length and were no less favorable to the Company than the Company could have obtained from non-affiliated parties.

Application of Critical Accounting Procedures

The Company's consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. The Company believes that the following are some of the more critical judgment areas in the application of our accounting policies that affect our financial condition and results of operations.

Consolidation

The accompanying consolidated financial statements include the accounts of Photronics, Inc. and its majority-owned subsidiaries ("Photronics" or the "Company"), in which the Company exercises control. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in them. Actual results may differ from such estimates.

Derivative Investments and Hedging Activities

The Company records derivatives on the consolidated balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives are reported in the consolidated statement of operations or as accumulated other comprehensive income (loss), a separate component of shareholders' equity, depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and amortization. Repairs and maintenance as well as renewals and replacements of a routine nature are charged to operations as incurred, while those which improve or extend the lives of existing assets are capitalized. Upon sale or other disposition, the cost of the asset and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is reflected in income.

For financial reporting purposes, depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 15 to 40 years, machinery and equipment over 3 to 10 years and furniture, fixtures and office equipment over 3 to 5 years. Leasehold improvements are amortized over the life of the lease or the estimated useful life of the improvement, whichever is less.

Income Taxes

The provision for income taxes is computed on the basis of consolidated financial statement income. Deferred income taxes reflect the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes.

Foreign Currency Translation

The Company's foreign subsidiaries maintain their accounts in their respective local currencies. Assets and liabilities of such subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expenses are translated at average rates of exchange prevailing during the year. Foreign currency translation adjustments are accumulated and reported as other comprehensive income (loss) as a separate component of shareholders' equity. The effects of changes in exchange rates on foreign currency transactions are included in income.

Revenue Recognition

The Company recognizes revenue upon shipment of goods to customers.

Effect of New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 supersedes previous guidance for financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes previous guidance for financial accounting and reporting for the impairment or disposal of long-lived assets.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123." SFAS No. 148 requires quarterly disclosure of pro forma stock compensation information.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies and expands existing disclosure requirements for guarantees, including loan guarantees.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51." FIN No. 46 clarifies rules for consolidation of special purpose entities.

SFAS No.'s 143, 144, 146 and 148 and FIN No's. 45 and 46 become effective for the Company's financial statements for fiscal year 2003. The Company does not expect the adoption of these statements to have a material impact on its consolidated financial position, consolidated results of operations or consolidated cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company records derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives are reported in the statement of operations or as accumulated other comprehensive income (loss), a separate component of shareholders' equity, depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge. In general, the types of risks hedged are those relating to the variability of future cash flows caused by movements in foreign currency exchange rates. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge.

In the fourth quarter of fiscal year 2002, the Company entered into an interest rate swap contract (the "Contract"), which effectively converted $100 million of its 4.75% fixed rate convertible notes to a variable rate. Contract payments are made on a LIBOR based variable rate (2.98% at November 3, 2002) and are received at the 4.75% fixed rate.

The Contract is used to adjust the proportion of total debt that is subject to fixed interest rates. This contract is considered to be a hedge against changes in the fair value of the Company's fixed rate debt obligation. Accordingly, the Contract has been reflected at fair value in the Company's consolidated balance sheet and the related portion of fixed rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligation attributable to the interest rate risk being hedged. In addition, changes during any accounting period in the fair value of the Contract, as well as offsetting changes in the adjusted carrying value of the related portion of fixed rate debt being hedged, are recognized as adjustments to interest expense in the Company's consolidated statement of operations. The net effect of this accounting on the Company's operations results is that the interest expense portion of fixed rate debt being hedged is generally recorded based on variable rates.

Foreign Currency Exchange Rate Risk

The Company conducts business in several major international currencies through its worldwide operations and is subject to changes in foreign exchange rates of such currencies. Changes in exchange rates can positively or negatively affect the Company's sales, gross margins and retained earnings. The Company attempts to minimize currency exposure risk by producing its products in the same country or region in which the products are sold and thereby generating revenues and incurring expenses in the same currency and by managing its working capital; there can be no assurance that this approach will be successful, especially in the event of a significant and sudden decline in the value of any of the international currencies of the Company's worldwide operations. The Company does not engage in purchasing forward exchange contracts for speculative purposes. The Company does not believe that a 10% change in exchange rates would have a material effect on its consolidated financial position, results of operations or cash flows.

Interest Rate Risk

The majority of the Company's borrowings are in the form of its convertible subordinated notes, which bear interest rates ranging from 4.75% to 6.0% and certain foreign secured and unsecured notes payable which bear interest between approximately 2.5% and 6.7%. In addition, the interest rate swap contract discussed above subjects the Company to market risk as interest rates fluctuate and impact the interest payments due on the $100 million notional amount of the contract. The Company does not expect changes in interest rates to have a material effect on income or cash flows in 2003 although there can be no assurances that interest rates will not change significantly. The Company does not believe that a 10% change in interest rates would have a material effect on its consolidated financial position, results of operations or cash flows.

-11-

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by Item 403 of Regulation S-K is set forth in the Definitive Proxy Statement under the caption "OWNERSHIP OF COMMON STOCK BY DIRECTORS, NOMINEES, OFFICERS AND CERTAIN BENEFICIAL OWNERS" and is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth information about shares of Photronics Common Stock that may be issued under the Company's equity compensation plans including compensation plans that were approved by the Company's stockholders as well as compensation plans that were not approved by the Company's stockholders. Information in the table is as of November 3, 2002.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	2,688,735	$20.14	1,869,912 (1)
Equity compensation plans not approved by stockholders	-	-	-
Total	2,688,735	$20.14	1,869,912

(1) Represents 1,475,564 shares of Photronics Common Stock issuable pursuant to options authorized for future issuance under the Company's various stock option plans and 394,348 shares available under the Company's employee stock purchase plan.

-12-

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.

PHOTRONICS, INC.
(Registrant)

By	/s/ DANIEL DEL ROSARIO Daniel Del Rosario Chief Executive Officer Director	August 13, 2003
By	/s/ SEAN T. SMITH Sean T. Smith Vice President Chief Financial Officer	August 13, 2003

-13-

EXHBITS INDEX

Exhibit Number	Description
3.1	Certificate of Incorporation. (1)
3.2	Amendment to Certificate of Incorporation, dated March 16, 1990. (2)
3.3	Amendment to Certificate of Incorporation, dated March 16, 1995. (6)
3.4	Amendment to Certificate of Incorporation, dated November 13, 1997. (9)
3.5	Amendment to Certificate of Incorporation, dated April 15, 2002. (14)
3.6	By-Laws, as amended. (1)
4.1	Form of Stock Certificate. (1)
4.2	Form of Indenture between the Company and The Bank of Nova Scotia Trust Company of New York, as Trustee, relating to the 4.75% Convertible Subordinated Notes due December 15, 2006. (12)
4.3	Registration Rights Agreement, dated December 12, 2001 between the Company, Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner and Smith. (12)
4.4	Form of Indenture between The Chase Manhattan Bank, as Trustee, and the Company relating to the 6% Convertible Subordinated Notes due June 1, 2004. (8)

4.5 Registration Rights Agreement dated April 4, 2002 between the Company and Photo (L) Limited, Mask (L) Limited, Lakeway (L) Limited, and March (L) Limited. (11)

10.1 Credit Agreement dated as of July 12, 2002 among Photronics, Inc., JP Morgan Chase Bank, HSBC Bank USA, The Bank of New York, Fleet National Bank and Citizens Bank of Massachusetts. (13)

10.2 Master Service Agreement dated January 11, 2002 between the Company and RagingWire Telecommunications, Inc. (15)

10.3 Real Estate Agreement dated June 19, 2002 between Constantine Macricostas and the Company. (15)

10.4 Real Estate Agreement dated June 26, 2002 between George Macricostas and Stephen Macricostas and the Company. (15)

10.5 The Company's 1992 Employee Stock Purchase Plan. (3)

10.6 The Company's 1994 Employee Stock Option Plan. (4) +

10.7 The Company's 1996 Stock Option Plan. (7) +

10.8 The Company's 1998 Stock Option Plan. (10) +

10.9 The Company's 2000 Stock Option Plan filed as Appendix A to the Company's Notice of Annual Meeting and Proxy Statement dated April 4, 2000 is incorporated herein by reference. +

10.10 Form of Agreement regarding Life Insurance between the Company and Mr. Macricostas. (5) +

10.11 The Company's 2000 Stock Plan, as amended (14). +

10.12 Consulting Agreement between the Company and Michael J. Yomazzo, dated October 10, 1997. (9)+

10.13 Consulting Agreement between the Company and Constantine S. Macricostas, dated October 10, 1997. (9) +

-14-

10.14 Pull/Call Option Agreement dated August 21, 2001, by and among Photronics, Inc., Photo (L) Limited, Mask (L) Limited, Lakeway (L) Limited, The HSBC Private Equity Fund 2 Limited, The HSBC Private Equity Fund, L.P., Taiwan Mask Corp. and Blue Water Ventures International Ltd. filed as Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2001 is incorporated herein by reference.

21 List of Subsidiaries. (15)

23.1 Consent of Deloitte & Touche LLP. (15)

23.2 Consent of Deloitte & Touche LLP. (16)

23.3 Consent of Deloitte & Touche LLP.*

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

99.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (15)

99.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (15)

99.3 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (16)

99.4 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (16)

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* Filed herewith.

\+ Represents a management contract or compensatory plan or arrangement.

(1) Filed as an exhibit to the Company's Registration Statement on Form S-1, File Number 33-11694, which was declared effective by the Commission on March 10, 1987, and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Registration Statement on Form S-2, File Number 33-34772 which was declared effective by the Commission on June 22, 1990, and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Registration Statement on Form S-8, File Number 33-47446, which was filed on April 24, 1992, and incorporated herein by reference.

(4) Filed as an exhibit to the Company's Registration Statement on Form S-8, File Number 33-78102, which was filed on April 22, 1994, and incorporated herein by reference.

(5) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 1995, and incorporated herein by reference.

(6) Filed as an exhibit to the Company's Current Report on Form 8-K, dated March 24, 1995, and incorporated herein by reference.

(7) Filed as an exhibit to the Company's Registration Statement on Form S-8, File Number 333-02245, which was filed on April 4, 1996, and incorporated herein by reference.

(8) Filed as an exhibit to the Company's Registration Statement on Form S-8, File Number 333-26009, which was declared effective by the Commission on May 22, 1997, and incorporated herein by reference.

(9) Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 2, 1997, and incorporated herein by reference.

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(10) Filed as an exhibit to the Company's Registration Statement on Form S-8, File Number 333-50809, which was filed on April 23, 1998, and incorporated herein by reference.

(11) Filed as an exhibit to the Company's Registration Statement on Form S-3, File Number 333-88122 which was filed on May 13, 2002, and incorporated herein by reference.

(12) Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2001, and incorporated herein by reference.

(13) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2002, and incorporated herein by reference.

(14) Filed as an exhibit to the Company's Registration Statement on Form S-8, File Number 333-86846, which was filed on April 24, 2002, and incorporated herein by reference.

(15) Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2002, filed by the Company on January 30, 2003, and incorporated herein by reference.

(16) Filed as an exhibit to the Company's Annual Report on Form 10-K/A (Amendment No. 1), filed by the Company on June 26, 2003, and incorporated herein by reference.

COPIES OF EXHIBITS WILL BE PROVIDED TO SHAREHOLDERS UPON REQUEST.