

PHOTRONICS INC

FORM 10-Q (Quarterly Report)

Filed 3/13/1996 For Period Ending 1/31/1996

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Industry	Semiconductors
Sector	Technology
Fiscal Year	10/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period endedJanuary 31, 1996....

OR

**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...

(State or other jurisdiction of
incorporation or organization)

...06-0854886...

(I.R.S. Employer
Identification No.)

.....1061 East Indiantown Road, Jupiter, FL..... ..33477..

(Address of principal executive offices) (Zip Code)

...(407) 747-4163...

(Registrant's telephone number, including area code)

.....

(Former name, former address and former fiscal year,
if changed since last report)

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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ..X.. No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Outstanding at January 31, 1996 Common Stock, \$.01 par value 11,631,604 Shares

AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet
(dollars in thousands)

ASSETS

	January 31, 1996 ----- (Unaudited)	October 31, 1995 -----
Current assets:		
Cash, cash equivalents and short-term investments	\$ 44,041	\$ 51,865
Accounts receivable (less allowance for doubtful accounts of \$195 in 1996 and 1995)	17,566	17,857
Inventories	6,446	6,357
Other current assets	3,704	3,380
Total current assets	71,757	79,459
Property, plant and equipment (less accumulated depreciation of \$43,524 in 1996 and \$40,917 in 1995)	83,797	72,063
Intangible assets (less accumulated amortization of \$2,422 in 1996 and \$2,156 in 1995)	10,023	10,289
Investments and other assets	13,863	12,407
	\$179,440 =====	\$174,218 =====

See accompanying notes to consolidated financial statements.

Condensed Consolidated Balance Sheet
(dollars in thousands, except per share amounts)
LIABILITIES AND SHAREHOLDERS' EQUITY

	January 31, 1996 ----- (Unaudited)	October 31, 1995 -----
Current liabilities:		
Current portion of long-term debt	\$ 36	\$ 36
Accounts payable	18,732	17,850
Accrued salaries and wages	3,667	5,810
Other accrued liabilities	4,391	6,110
Income taxes payable	1,278	-
	-----	-----
Total current liabilities	28,104	29,806
Long-term debt	1,800	1,809
Deferred income taxes and other liabilities	9,198	8,558
	-----	-----
Total liabilities	39,102	40,173
	-----	-----
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value, 20,000,000 shares authorized, 11,768,104 shares issued in 1996 and 11,758,292 shares in 1995	118	118
Additional paid-in capital	75,869	75,083
Retained earnings	57,621	52,970
Unrealized gains on investments	7,239	6,471
Treasury stock, 136,500 shares at cost	(245)	(245)
Deferred compensation on restricted stock	(264)	(352)
	-----	-----
Total shareholders' equity	140,338	134,045
	-----	-----
	\$179,440	\$174,218
	=====	=====

See accompanying notes to consolidated financial statements.

Condensed Consolidated Statement of Earnings

(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended January 31,	
	1996	1995
Net sales	\$34,668	\$26,176
Costs and expenses:		
Cost of sales	21,252	16,417
Selling, general and administrative	4,585	3,543
Research and development	1,825	1,348
Operating income	7,006	4,868
Interest and other income, net	545	334
Income before income taxes	7,551	5,202
Provision for income taxes	2,900	1,935
Net income	\$ 4,651	\$ 3,267
Net income per common share	\$0.39	\$0.32
Weighted average number of common shares outstanding	12,058	10,256

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows
(in thousands)
(Unaudited)

	Three Months Ended January 31,	
	----- 1996 -----	----- 1995 -----
Cash flows from operating activities:		
Net income	\$ 4,651	\$ 3,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,835	2,303
Other	133	(184)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	291	(5,071)
Inventories	34	(156)
Other current assets	(318)	(141)
Accounts payable and accrued liabilities	(2,980)	1,882
Income taxes payable	1,278	1,371
Net cash provided by operating activities	----- 5,924 -----	----- 3,271 -----
Cash flows from investing activities:		
Acquisition of assets of photomask operations	(4,900)	(7,400)
Deposits on and purchases of property, plant and equipment	(9,629)	(1,964)
Net change in short-term investments	11,026	(1,713)
Proceeds from sale of investments	-	410
Other	4	(7)
Net cash used in investing activities	----- (3,499) -----	----- (10,674) -----
Cash flows from financing activities:		
Repayment of long-term debt	(9)	(442)
Proceeds from and tax effects of exercise of stock options	786	114
Net cash provided by (used in) financing activities	----- 777 -----	----- (328) -----
Net decrease in cash and cash equivalents	3,202	(7,731)
Cash and cash equivalents at beginning of period	35,644	25,092
Cash and cash equivalents at end of period	----- \$38,846 =====	----- \$17,361 =====
Cash paid during the period for:		
Interest	\$ 8	\$ 13
Income taxes	\$665	\$567

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Three Months Ended January 31, 1996

(Unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements of the Company included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three-month periods ended January 31, 1996 and 1995. Interim financial data presented herein are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, management believes that the disclosures are adequate to make the information presented not misleading. This report should be read in conjunction with the consolidated financial statements and footnotes as of October 31, 1995, which give a complete discussion of these matters.

NOTE 2 - ACQUISITION OF PHOTOMASK OPERATIONS OF PLESSEY SEMICONDUCTOR LIMITED

On January 24, 1996, the Company acquired the photomask manufacturing operations and assets of Plessey Semiconductors Limited ("Plessey"), located in Oldham, United Kingdom, for \$4.9 million in cash. In connection with the transaction, the Company leased the facilities from Plessey previously utilized by them for the manufacture of photomasks. It is the Company's intention to relocate the operation to an independent facility in the Manchester, UK, area in approximately one year. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property and equipment based on relative fair value. The results of the Plessey operations are not material to the Company.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Material Changes in Results of Operations Three Months ended January 31, 1996 versus January 31, 1995

A significant portion of the material changes in the Company's results of operations for the three months ended January 31, 1996, as compared to the same period last year is attributable to its recent acquisitions. The Company acquired the photomask manufacturing operations and assets of Hoya Micro Mask, Inc. in Sunnyvale, California, and Microphase Laboratories, Inc. ("Microphase") in Colorado Springs, Colorado, on December 1, 1994 and on June 20, 1995, respectively. Further, on January 24, 1996, the Company acquired the photomask manufacturing operations and assets of Plessey Semiconductors Limited ("Plessey") located in Oldham, United Kingdom. The financial results of the new United Kingdom facility did not have a material effect on the Company's first quarter results of operations or financial position.

Net sales for the three months ended January 31, 1996, increased 32.4% to \$34.7 million compared with \$26.2 million in the same period in the prior fiscal year. A portion of this increase is attributable to the inclusion of a full quarter's sales by the Company's new Sunnyvale and Colorado facilities. However, the majority of the growth resulted from increased shipments to customers from existing facilities due to greater manufacturing capacity, resulting from the implementation of the Company's capacity expansion program, as well as stronger demand generally.

Cost of sales for the three months ended January 31, 1996, increased 29.5% to \$21.3 million compared with \$16.4 million for the same period in the prior fiscal year. This increase resulted principally from increases in sales volume, including those resulting from the Company's recent acquisitions. To meet the increased production demands, the Company has increased its staffing levels and manufacturing capacity, resulting in increased labor and benefits costs and equipment-related costs, including depreciation and rental expense. These increases were offset slightly by a decrease in employee incentive compensation expense. As a percentage of net sales, cost of sales decreased to 61.3% for the three months ended January 31, 1996, as compared with 62.7% in the corresponding period last year. The improvement primarily was due to the higher capacity utilization and greater operating efficiencies afforded by sales volume increases. Demand for more complex photomasks continues to increase, resulting in a more favorable product mix during the current period. The Company anticipates that its fixed operating costs will increase in connection with its continuing capacity expansion. However, the Company expects to match these higher costs with continued increases in revenues.

Selling, general and administrative expenses increased 29.4% to \$4.6 million for the three months ended January 31, 1996, compared with \$3.5 million for the same period in the prior fiscal year. The increase was due largely to the inclusion of a full quarter of expenses for the Company's recently acquired Sunnyvale and Colorado operations and existing facility expansions. In addition, staffing levels were increased to accommodate the Company's business expansion, resulting in increased wages and associated benefits costs. These increases were partially offset by a decrease in employee incentive compensation expense. As a percentage of net sales, selling, general and administrative expenses decreased to 13.2% for the three months ended January 31, 1996, compared with 13.5% for the same period last year.

Research and development expenses for the three months ended January 31, 1996, increased 35.4% to \$1.8 million compared with \$1.3 million for the same period in the prior fiscal year. This increase reflects the expansion of the Company's research and development organization and an increase in its development efforts that have focused on new high-end, more complex photomasks such as phase shift, optical proximity correction and deep ultra-violet technologies. As a percentage of net sales, research and development expenses increased slightly to 5.3% for the three months ended January 31, 1996, compared with 5.1% in the corresponding prior fiscal year period.

Interest and other income, net, for the three months ended January 31, 1996, increased to \$545,000 compared with \$334,000 for the same period in the prior fiscal year principally due to increases in interest income resulting from higher levels of funds available for investment. There was a net decrease in other income of \$112,000 compared with the same period in the prior year primarily due to net gains on the disposition of investments during the three months ended January 31, 1995.

For the three months ended January 31, 1996, the Company provided Federal and state income taxes at an estimated combined effective annual tax rate of 38.4% as compared with 37.2% in the same period for the prior fiscal year. The increase in the Company's estimated tax rate primarily is the result of a larger portion of income being subject to the 35% incremental Federal income tax rate and a decrease in estimated tax-exempt investment income for the current fiscal year.

Net income for the three months ended January 31, 1996, increased 42.4% to \$4.7 million, or \$0.39 per share, compared with \$3.3 million, or \$0.32 per share, for the corresponding prior year period. The weighted average number of common shares outstanding increased to 12.1 million for the three months ended January 31, 1996, from 10.3 million for the same period last year principally as a result of the public offering of 1.5 million shares in April and May 1995 and the issuance of approximately 100,000 shares in connection with the Microphase acquisition in June 1995. All share and earnings per share amounts have been adjusted for a three-for-two stock split effected in March 1995.

Liquidity and Capital Resources

The Company's cash, cash equivalents and short-term investments decreased \$7.8 million during the three months ended January 31, 1996, largely as a result of funding \$9.6 million of capital expenditures for equipment and construction in progress in connection with the Company's expansion of manufacturing capacity and \$4.9 million for the acquisition of the photomask manufacturing operations and assets of Plessey. Offsetting these decreases were cash provided by operating activities totaling \$5.9 million, and sales of stock under employee stock option plans provided additional cash of \$786,000.

Accounts receivable and inventory balances at January 31, 1996, did not significantly change, fluctuating less than 2% from October 31, 1995. Other current assets increased to \$3.7 million at January 31, 1996, from \$3.4 million at October 31, 1995, primarily due to annual insurance and other prepayments made during the three months ended January 31, 1996.

Property, plant and equipment increased to \$83.8 million at January 31, 1996, from \$72.1 million at October 31, 1995, as a result of deposits on and purchases of equipment and construction in progress on the new Allen, Texas, and Singapore plants totaling \$9.6 million, together with \$4.7 million of fixed assets acquired in connection with the Plessey acquisition. These increases were offset by normal depreciation expense totaling \$2.6 million. Intangible assets decreased to \$10.0 million at January 31, 1996, from \$10.3 million at October 31, 1995, due to normal amortization expense.

Investments and other assets increased to \$13.9 million at January 31, 1996, from \$12.4 million at October 31, 1995, principally due to additional unrealized gains recorded as a result of the net increase in the fair values of the Company's investments during the period.

Accounts payable increased to \$18.7 million at January 31, 1996, from \$17.9 million at October 31, 1995, principally due to increased payables related to recent major equipment purchases. Accrued salaries and wages decreased to \$3.7 million at January 31, 1996, from \$5.8 million at October 31, 1995, largely as a result of payments of fiscal 1995 incentive compensation during the current period. Other accrued liabilities decreased to \$4.4 million at January 31, 1996, from \$6.1 million at October 31, 1995. This decrease was primarily due to the payment, in fiscal 1996, of certain fiscal 1995 annual expenses and a lower sales and use tax liability, resulting from timing differences in settlement of the scheduled quarterly payments.

There was no significant change in long-term debt balances during the period. Deferred income taxes increased to \$8.9 million at January 31, 1996, from \$8.3 million at October 31, 1995, principally due to amounts provided on unrealized gains on investments.

The Company's commitments represent investments in additional manufacturing capacity as well as advanced equipment for research and development of the next generation of high-end, more complex photomasks. At January 31, 1996, the Company had commitments outstanding for capital expenditures of approximately \$61.5 million. Included in such commitments were \$4.5 million related to the construction in progress of the Company's new facility in Allen, Texas, and \$8.5 million for equipment and clean room construction at the Company's new Singapore operations. Additional commitments for these new facilities and other operating locations are expected to be incurred in fiscal 1996.

The Company will use its working capital, bank credit lines and leasing arrangements to finance its capital expenditures. The Company believes that its currently available resources, together with its capacity for substantial growth and its accessibility to other debt and equity financing sources, are sufficient to satisfy its cash requirements for the foreseeable future.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports of Form 8-K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

During the quarter for which this report is filed, no reports on Form 8-K were filed by the Company.

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.

PHOTRONICS, INC.

(Registrant)

By: **ROBERT J. BOLLO**

Robert J. Bollo

Vice President/Finance

(Duly Authorized Officer and
Principal Financial Officer)

Date: March 12, 1996

FORMS\10Q196/p

ARTICLE 5

This schedule contains summary financial information extracted from the Consolidated Statement of Earnings and the Consolidated Balance Sheet and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	OCT 31 1996
PERIOD START	NOV 01 1995
PERIOD END	JAN 31 1996
CASH	38,846
SECURITIES	5,195
RECEIVABLES	17,721
ALLOWANCES	155
INVENTORY	6,446
CURRENT ASSETS	71,757
PP&E	127,321
DEPRECIATION	43,524
TOTAL ASSETS	179,440
CURRENT LIABILITIES	28,104
BONDS	1,800
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	118
OTHER SE	140,220
TOTAL LIABILITY AND EQUITY	179,440
SALES	34,668
TOTAL REVENUES	34,668
CGS	21,252
TOTAL COSTS	21,252
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	36
INCOME PRETAX	7,551
INCOME TAX	2,900
INCOME CONTINUING	4,651
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4,651
EPS PRIMARY	0.39
EPS DILUTED	0

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