

# PHOTRONICS INC

## FORM 10-K405/A

(Amended Annual Report (Regulation S-K, item 405))

Filed 12/20/1999 For Period Ending 11/2/1998

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Sector	Technology
Fiscal Year	10/31

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

## FORM 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended ...November 1, 1998...

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, Florida... ..33477..

(Address of principal executive offices) (Zip Code)

...(561) 745-1222...

(Registrant's telephone number, including area code)

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

Title of each class

Name of each exchange on which  
registered

\_\_\_\_\_None\_\_\_\_\_

\_\_\_\_\_

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

.....Common Stock, \$0.01 par value per share.....

(Title of Class)

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 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 this Form 10-K or any amendment to this Form 10-K. [X]

As of December 31, 1998, 23,944,075 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, 1998 was approximately \$497,417,000.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Proxy Statement for the 1999  
Annual Meeting of Shareholders  
to be held on March 23, 1999.

Incorporated into Part  
III of this Form 10-K.

Photronics, Inc. (the "Company") is filing this amendment to its Form 10-K filed for the fiscal year ended November 1, 1998 in order to revise Note 13 of the Notes to Consolidated Financial Statements that are part of the financial statements contained in Item 8. The revised Note 13 is set forth in Item 8 which is being filed in its entirety, along with a consent of Deloitte & Touche LLP, the Company's independent auditors.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENT**

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## **Independent Auditors' Report**

Board of Directors and Shareholders  
Photronics, Inc.  
Jupiter, Florida

We have audited the accompanying consolidated balance sheets of Photronics, Inc. and its subsidiaries as of November 1, 1998 and November 2, 1997, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended November 1, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Photronics, Inc. and its subsidiaries as of November 1, 1998 and November 2, 1997, and the results of their operations and their cash flows for each of the three years in the period ended November 1, 1998 in conformity with generally accepted accounting principles.

**DELOITTE & TOUCHE LLP**

Hartford, Connecticut  
December 9, 1998

## PHOTRONICS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheet

November 1, 1998 and November 2, 1997

(dollars in thousands)

Assets	1998	1997
-----	-----	-----
Current assets:		
Cash and cash equivalents	\$ 23,841	\$ 57,845
Short-term investments	7,532	28,189
Accounts receivable (less allowance for doubtful accounts of \$235 in 1998 and 1997)	31,515	34,563
Inventories	14,057	11,302
Deferred income taxes	5,923	4,764
Other current assets	4,507	2,274
	-----	-----
Total current assets	87,375	138,937
Property, plant and equipment	253,781	203,813
Intangible assets (less accumulated amortization of \$6,009 in 1998 and \$4,048 in 1997)	20,058	8,218
Investments	6,705	10,421
Other assets	3,630	3,823
	-----	-----
	\$371,549	\$365,212
	=====	=====

See accompanying notes to consolidated financial statements.

## PHOTRONICS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheet

November 1, 1998 and November 2, 1997

(dollars in thousands, except per share amounts)

Liabilities and Shareholders' Equity	1998	1997
Current liabilities:		
Current portion of long-term debt	\$ 2,076	\$ 272
Accounts payable	31,431	34,173
Accrued salaries and wages	4,170	7,423
Accrued interest payable	2,674	2,743
Other accrued liabilities	10,153	9,474
Income taxes payable	-	3,454
Total current liabilities	50,504	57,539
Long-term debt	104,261	106,194
Deferred income taxes	11,222	10,508
Other liabilities	5,132	4,996
Total liabilities	171,119	179,237
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$.01 par value, 75,000,000 shares authorized, 24,164,106 shares issued and outstanding in 1998; 24,300,970 shares issued and outstanding in 1997	242	243
Additional paid-in capital	82,377	85,129
Retained earnings	120,091	99,609
Unrealized gains on investments	1,167	3,251
Foreign currency translation adjustment	(3,308)	(2,008)
Deferred compensation on restricted stock	(139)	(249)
Total shareholders' equity	200,430	185,975
	\$371,549	\$365,212

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Consolidated Statement of Earnings  
Years Ended

	November 1, 1998	November 2, 1997	October 31, 1996
	-----		
	(in thousands, except per share amounts)		
Net sales	\$222,572	\$197,451	\$160,071
Costs and expenses:			
Cost of sales	141,628	121,502	98,267
Selling, general and administrative	28,793	24,940	21,079
Research and development	12,893	10,605	8,460
Non-recurring restructuring charge	3,800	-	-
	-----	-----	-----
Operating income	35,458	40,404	32,265
Other income and expense:			
Interest income	2,721	2,424	1,601
Interest expense	(6,143)	(2,466)	(160)
Other income, net	1,046	1,074	197
	-----	-----	-----
Income before income taxes	33,082	41,436	33,903
Provision for income taxes	12,600	15,800	12,900
	-----	-----	-----
Net income	\$ 20,482	\$ 25,636	\$ 21,003
	=====	=====	=====
Earnings per share:			
Basic	\$0.84	\$1.07	\$0.89
	=====	=====	=====
Diluted	\$0.84	\$1.03	\$0.87
	=====	=====	=====
Weighted average number of common shares outstanding:			
Basic	24,350	23,910	23,496
	=====	=====	=====
Diluted	28,958	26,628	24,202
	=====	=====	=====

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity  
Years Ended November 1, 1998, November 2, 1997 and October 31, 1996  
(in thousands)

	Common Stock		Addi- tional	Retained	Unreal- ized Gains on	Treasury	Foreign Currency Trans- lation	Deferred Compensa- tion on	Total
	Shares	Amount	Paid-In Capital	Earnings	Invest- ments	Stock	Adjust- ment	Restricted Stock	Shareholders' Equity
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance at November 1, 1995	11,758	\$118	\$75,083	\$52,970	\$6,471	\$ (245)	\$ -	\$ (352)	\$ 134,045
Net income	-	-	-	21,003	-	-	-	-	21,003
Sale of common stock through employee stock option and purchase plans	215	2	2,750	-	-	-	-	-	2,752
Foreign currency translation adjustment	-	-	-	-	-	-	58	-	58
Amortization of restricted stock to compensation expense	-	-	-	-	-	-	-	352	352
Change in unrealized gains on investments	-	-	-	-	(1,793)	-	-	-	(1,793)
Balance at October 31, 1996	11,973	120	77,833	73,973	4,678	(245)	58	-	156,417
Net income	-	-	-	25,636	-	-	-	-	25,636
Issuance of common stock related to acquisition	50	-	1,337	-	-	-	-	-	1,337
Sale of common stock through employee stock option and purchase plans	258	3	6,060	-	-	-	-	-	6,063
Foreign currency translation adjustment	-	-	-	-	-	-	(2,066)	-	(2,066)
Restricted stock awards, net	6	-	264	-	-	-	-	(249)	15
Retirement of treasury stock	(136)	(1)	(244)	-	-	245	-	-	-
Change in unrealized gains on investments	-	-	-	-	(1,427)	-	-	-	(1,427)
Two-for-one stock split	12,150	121	(121)	-	-	-	-	-	-
Balance at November 2, 1997	24,301	243	85,129	99,609	3,251	-	(2,008)	(249)	185,975
Net income	-	-	-	20,482	-	-	-	-	20,482
Sale of common stock through warrants and employee stock option and purchase plans	363	4	3,993	-	-	-	-	-	3,997
Foreign currency translation adjustment	-	-	-	-	-	-	(1,300)	-	(1,300)
Amortization of restricted stock to compensation expense	-	-	-	-	-	-	-	110	110
Change in unrealized gains on investments	-	-	-	-	(2,084)	-	-	-	(2,084)
Common stock repurchases	(500)	(5)	(6,745)	-	-	-	-	-	(6,750)
Balance at November 1, 1998	24,164	\$242	\$82,377	\$120,091	\$1,167	\$ -	\$(3,308)	\$(139)	\$200,430
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES  
Consolidated Statement of Cash Flows

	Years Ended		
	November 1, 1998	November 2, 1997	October 31, 1996
		(in thousands)	
Cash flows from operating activities:			
Net income	\$20,482	\$25,636	\$21,003
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	31,461	19,817	12,120
Amortization of intangible assets	2,529	1,322	1,100
Gain on sale of investments	(838)	(1,562)	-
Deferred income taxes	264	989	1,000
Non-recurring restructuring charges	3,800	-	-
Other	224	98	626
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	2,954	(9,405)	(6,893)
Inventories	(2,374)	(3,157)	(1,228)
Other current assets	(3,318)	(870)	(3,260)
Accounts payable and accrued liabilities	(10,115)	13,677	14,159
Net cash provided by operating activities	45,069	46,545	38,627
Cash flows from investing activities:			
Acquisitions of and investments in photomask operations	(32,455)	(1,065)	(12,397)
Deposits on and purchases of property, plant and equipment	(66,448)	(96,319)	(55,762)
Net change in short-term investments	20,657	(20,271)	8,303
Proceeds from sale of investments	932	1,939	-
Other	2,218	2,151	1,635
Net cash used in investing activities	(75,096)	(113,565)	(58,221)
Cash flows from financing activities:			
Issuance of subordinated convertible notes, net of deferred issuance costs	-	99,697	-
Repayment of long-term debt	(266)	(151)	(36)
Proceeds from issuance of common stock	3,997	6,063	2,752
Purchase and retirement of common stock	(6,750)	-	-
Net cash provided (used) by financing activities	(3,019)	105,609	2,716
Effect of exchange rate changes on cash	(958)	490	-
Net increase (decrease) in cash and cash equivalents	(34,004)	39,079	(16,878)
Cash and cash equivalents at beginning of year	57,845	18,766	35,644
Cash and cash equivalents at end of year	\$23,841	\$57,845	\$18,766

See accompanying notes to consolidated financial statements.

# PHOTRONICS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Years ended November 1, 1998, November 2, 1997 and October 31, 1996

(dollars in thousands, except per share amounts)

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Consolidation

The accompanying consolidated financial statements include the accounts of Photronics, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company adopted a 52 week fiscal year beginning in the first quarter of fiscal 1997.

#### Foreign Currency Translation

The Company's subsidiaries in Europe and Singapore 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 in a separate component of shareholders' equity. The effects of changes in exchange rates on foreign currency transactions are included in income.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less. The carrying values approximate fair value based on the short maturity of the instruments.

#### Investments

The Company's debt and equity investments available for sale are carried at fair value. Short-term investments include a diversified portfolio of high quality marketable securities which will be liquidated as needed to meet the Company's current cash requirements. All other investments are classified as non-current assets. Unrealized gains and losses, net of tax, are reported as a separate component of shareholders' equity. Gains and losses are included in income when realized, determined based on the disposition of specifically identified investments.

#### Inventories

Inventories, principally raw materials, are stated at the lower of cost, determined under the first-in, first-out (FIFO) method, or market.

## **Long-Lived Assets**

Property, plant and equipment are recorded at cost less accumulated depreciation. 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. For income tax purposes, depreciation is computed using various accelerated methods and, in some cases, different useful lives than those used for financial reporting.

Goodwill and other intangibles are amortized on a straight-line basis over periods estimated to be benefited, generally 5 to 20 years. The future economic benefit of the carrying value of intangible assets is reviewed periodically and any diminution in useful life or impairment in value based on future anticipated cash flows would be recorded in the period so determined.

## **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.

## **Net Income Per Common Share**

The Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS 128") "Earnings Per Share", in the first quarter of 1998. Earnings per share amounts have been restated for all periods presented to conform to the presentation requirements of SFAS 128.

## **Stock Based Compensation**

The Company records stock option awards in accordance with the provisions of Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees". The Company estimates the fair value of stock option awards in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," and discloses the resulting estimated compensation effect on net income on a pro forma basis.

## **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

## NOTE 2 - INVESTMENTS

Short-term investments consist of:

	November 1, 1998	November 2, 1997
Government agency securities	\$ 2,268	\$ 4,205
Corporate bonds	3,010	18,178
Certificates of deposit	2,254	5,806
	-----	-----
	\$ 7,532	\$28,189
	=====	=====

The estimated fair value of short-term investments, based upon current yields of like securities, approximates cost, resulting in no significant unrealized gains or losses. Short-term investments at November 1, 1998, mature by their terms, as follows:

Due within one year	\$ 4,878
Due after one year, but within three years	1,654
Due after three years	1,000
	-----
	\$ 7,532
	=====

Other investments consist of available-for-sale equity securities of publicly traded technology companies and a minority interest in a photomask manufacturer in Korea. The fair values of available-for-sale investments are based upon quoted market prices. In the absence of quoted market prices, the estimated fair value is based upon the financial condition and the operating results and projections of the investee and is considered to approximate cost. Unrealized gains on investments were determined as follows:

	November 1, 1998	November 2, 1997
Fair value	\$ 6,705	\$10,421
Cost	4,700	4,767
	-----	-----
Less deferred income taxes	2,005	5,654
	838	2,403
	-----	-----
Net unrealized gains	\$ 1,167	\$ 3,251
	=====	=====

### NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	November 1, 1998	November 2, 1997
Land	\$ 3,772	\$ 2,735
Buildings and improvements	45,120	39,115
Machinery and equipment	294,826	220,199
Leasehold improvements	7,378	9,910
Furniture, fixtures and office equipment	6,642	3,754
	-----	-----
	357,738	275,713
Less accumulated depreciation and amortization	103,957	71,900
	-----	-----
Property, plant and equipment	\$253,781	\$203,813
	=====	=====

### NOTE 4 - LONG-TERM DEBT

Long-term debt consists of the following:

	November 1, 1998	November 2, 1997
6% Convertible Subordinated Notes due June 1, 2004	\$103,500	\$103,500
Acquisition indebtedness payable December 1, 1998, net of interest of \$9 in 1998 and \$122 in 1997, imputed at 7.45%	1,791	1,678
Installment note payable by foreign subsidiary with interest at 4.75% through June, 2001	665	867
Industrial development mortgage note, secured by building, with interest at 6.58%, payable through November 2005	381	421
	-----	-----
	106,337	106,466
Less current portion	2,076	272
	-----	-----
Long-term debt	\$104,261	\$106,194
	=====	=====

Long-term debt matures as follows: 2000 - \$288; 2001 - \$231; 2002 - \$53; 2003 - \$57; years after 2003 - \$103,632. The fair value of long-term debt not yet substantively extinguished is estimated based on the current rates offered to the Company and is not significantly different from carrying value, except that the fair value of the convertible subordinated notes, based upon the most recently reported trade as of November 1, 1998, amounted to \$116.0 million.

On May 29, 1997, the Company sold \$103.5 million of convertible subordinated notes, due in 2004, in a public offering. The notes bear

interest at 6% per annum and are convertible at any time by the holders into 3.7 million shares of the Company's common stock, at a conversion price of \$27.97 per share. The notes are redeemable at the Company's option, in whole or in part, at any time after June 1, 2000 at certain premiums decreasing through the maturity date. Interest is payable semi-annually.

In November, 1998, the Company replaced its prior credit commitments with an unsecured revolving credit facility to provide for borrowings of up to \$125 million at any time through November, 2003. The Company is charged a commitment fee on the average unused amount of the available credit and is subject to compliance with and maintenance of certain financial covenants and ratios. The Company did not have outstanding borrowings under any of its credit facilities during 1998.

Cash paid for interest amounted to \$6,311, \$164 and \$48 in 1998, 1997 and 1996 respectively.

#### NOTE 5 - EARNINGS PER SHARE

In the first quarter of fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share", which establishes new standards for the computation and disclosure of earnings per share ("EPS"). The new statement requires dual presentation of "basic" EPS and "diluted" EPS. Basic EPS is based on the weighted average number of common shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted.

A reconciliation of basic and diluted EPS follows (in thousands, except per share amounts):

	Net Income	Average Shares Outstanding	Earnings Per Share
	-----	-----	-----
1998:			
Basic	\$ 20,482	24,350	\$ 0.84
Effect of potential dilution from exercise of stock options and conversion of notes	3,809	4,608	=====
Diluted	\$ 24,291	28,958	\$ 0.84
	=====	=====	=====
1997:			
Basic	\$ 25,636	23,910	\$ 1.07
Effect of potential dilution from exercise of stock options and conversion of notes	1,841	2,718	=====
Diluted	27,477	26,628	\$ 1.03
	=====	=====	=====
1996:			
Basic	\$ 21,003	23,496	\$ 0.89
Effect of potential dilution from exercise of stock options	-	706	=====
Diluted	\$ 21,003	24,202	\$ 0.87
	=====	=====	=====

In September, 1997, the Company's Board of Directors authorized a two-for-one stock split effected in the form of a stock dividend, which was paid to shareholders of record on November 17, 1997. The stock split resulted in the issuance of 12.2 million additional shares of common stock. All applicable share and per share amounts reflect the stock split.

## **NOTE 6 - ACQUISITIONS**

On December 31, 1997, the Company acquired the internal photomask manufacturing operations of Motorola, Inc. ("Motorola") in Mesa, Arizona for \$29 million in cash. The assets acquired include modern manufacturing systems, capable of supporting a wide range of photomask technologies. Additionally, the Company entered into a multi-year supply agreement whereby it will supply the photomask requirements previously provided by Motorola's internal operations. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property, plant and equipment as well as certain intangible assets based on relative fair value. The excess of purchase price over the fair value of assets acquired is being amortized over fifteen (15) years. The Consolidated Statement of Earnings includes the results of the former Motorola photomask operations from December 31, 1997, the effective date of the acquisition.

On June 26, 1997, the Company acquired all of the outstanding shares of MZD Maskenzentrum fur Mikrostrukturierung Dresden GmbH (MZD), an independent photomask manufacturer located in Dresden, Germany, for \$3.1 million in cash and common shares of the Company. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to assets and liabilities based on relative fair value.

In January, 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. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property and equipment based on relative fair value.

In April, 1996, the Company, through a majority-owned subsidiary, acquired the photomask manufacturing operations and assets of the Litomask Division ("Litomask") of Centre Suisse d'Electronique et de Microtechnique S.A. ("CSEM") located in Neuchatel, Switzerland for \$3.4 million in cash. CSEM initially retained the remaining interest in this subsidiary, and in 1998 the Company acquired such interest for additional consideration of \$3.3 million. In connection with the transaction, the Company leased the facilities and retained certain services from CSEM previously utilized by Litomask. 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 excess of purchase price over the fair value of assets acquired is being amortized over 15 years.

The results of the acquisitions were not material to the Company for the periods presented.

## NOTE 7 - INCOME TAXES

The provision for income taxes consists of the following:

	1998	1997	1996
Current:			
Federal	\$10,417	\$11,993	\$ 9,905
State	1,610	2,617	1,908
Foreign	309	201	87
	-----	-----	-----
	12,336	14,811	11,900
	-----	-----	-----
Deferred:			
Federal	417	995	918
State	(192)	(6)	82
Foreign	39	-	-
	-----	-----	-----
	264	989	1,000
	-----	-----	-----
	\$12,600	\$15,800	\$12,900
	=====	=====	=====

The provision for income taxes differs from the amount computed by applying the statutory U.S. Federal income tax rate to income before taxes as a result of the following:

	1998	1997	1996
U.S. Federal income tax at statutory rate	\$11,579	\$14,503	\$11,866
State income taxes, net of Federal benefit	921	1,697	1,294
Tax benefits of tax exempt income	(42)	(35)	(302)
Foreign tax rate differential	(853)	(681)	(291)
Other, net	995	316	333
	-----	-----	-----
	\$12,600	\$15,800	\$12,900
	=====	=====	=====

The Company's net deferred tax liability consists of the following:

	November 1, 1998	November 2, 1997
Deferred income tax liabilities:		
Property, plant and equipment	\$8,840	\$7,915
Investments	838	2,403
Other	1,544	190
	-----	-----
Total deferred tax liability	11,222	10,508
	-----	-----
Deferred income tax assets:		
Reserves not currently deductible	3,712	2,667
Other	2,211	2,097
	-----	-----
Total deferred tax asset	5,923	4,764
	-----	-----
Net deferred tax liability	\$5,299	\$5,744
	=====	=====

Cash paid for income taxes amounted to \$15.0 million, \$7.2 million and \$13.0 million in 1998, 1997 and 1996 respectively.

**NOTE 8 - EMPLOYEE STOCK PURCHASE AND OPTION PLANS**

In March 1998, the shareholders approved the adoption of the 1998 Stock Option Plan which includes provisions allowing for the award of qualified and non-qualified stock options and the granting of restricted stock awards. A total of 1.0 million shares of common stock may be issued pursuant to options or restricted stock awards granted under the Plan. Restricted stock awards do not require the payment of any cash consideration by the recipient, but shares subject to an award may be forfeited unless conditions specified in the grant are satisfied.

The Company has adopted a series of other stock option plans under which incentive and non-qualified stock options and restricted stock awards may be granted. All plans provide that the exercise price may not be less than the fair market value of the common stock at the date the options are granted and limit the maximum term of options granted to a maximum of ten years.

The following table summarizes stock option activity under the plans:

	Stock Options	Exercise Prices
	-----	-----
Balance at November 1, 1995	1,959,880	\$ 0.92-13.69
Granted	964,100	10.75-12.50
Exercised	(368,862)	0.92-13.69
Cancelled	(171,592)	3.09-13.69
	-----	
Balance at October 31, 1996	2,383,526	1.59-13.69
Granted	275,300	14.88-21.97
Exercised	(454,042)	1.59-13.69
Cancelled	(65,006)	3.75-16.38
	-----	
Balance at November 2, 1997	2,139,778	1.75-21.97
Granted	826,100	11.00-31.44
Exercised	(295,710)	1.75-16.38
Cancelled	(94,877)	6.71-31.44
	-----	
Balance at November 1, 1998	2,575,291	\$ 1.75-31.44
	=====	

The following table summarizes information concerning currently outstanding and exercisable options:

	Range of Exercise Prices		
	\$1.75-\$10.00	\$10.00-\$20.00	\$20.00-\$31.44
Outstanding:			
Number of options	593,987	1,566,554	414,750
Weighted average remaining years	4.6	8.3	9.1
Weighted average exercise price	\$5.08	\$12.47	\$23.14
Exercisable:			
Number of options	565,532	506,289	52,875
Weighted average exercise price	\$4.87	\$12.80	\$21.61

At November 1, 1998, 586,700 shares were available for grant and 1,124,696 shares were exercisable at a weighted average exercise price of \$9.23.

The Company has not recognized compensation expense in connection with stock option grants under the plans. However, had compensation expense been determined based on the fair value of the options on the grant dates, the Company's pro forma net income and earnings per share for 1998 would have been reduced by approximately \$1.9 million, or \$0.07 per diluted share, for 1997 would have been reduced by approximately \$1.5 million, or \$0.06 per diluted share, and for 1996 would have been reduced by approximately \$0.3 million, or \$0.01 per diluted share. The weighted average fair value of options granted was \$6.55 per share in 1998, \$7.39 per share in 1997 and \$5.05 per share in 1996. Fair value is estimated based on the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0%; expected volatility of 54.4% in 1998, 51.6% in 1997 and 50.8% in 1996; and risk-free interest rates of 4.4% in 1998 and 6.4% in 1997 and 1996.

The Company maintains an Employee Stock Purchase Plan ("Purchase Plan"), under which 600,000 shares of common stock are reserved for issuance. The Purchase Plan enables eligible employees to subscribe, through payroll deductions, to purchase shares of the Company's common stock at a purchase price equal to 85% of the lower of the fair market value on the commencement date of the offering and the last day of the payroll payment period. At November 1, 1998, 315,376 shares had been issued and 51,019 shares were subject to outstanding subscriptions under the Purchase Plan.

#### **NOTE 9 - EMPLOYEE BENEFIT PLANS**

The Company maintains a 401(k) Savings and Profit-Sharing Plan (the "Plan") which covers all domestic employees who have completed six months of service and are eighteen years of age or older. Under the terms of the Plan, an employee may contribute up to 15% of their compensation which will be matched by the Company at 50% of the employee's contributions which are not in excess of 4% of the employee's compensation. Employee and employer contributions vest fully upon contribution. Employer contributions amounted to \$0.3 million in 1998

and \$0.5 million in both 1997 and 1996.

The Company maintains a cafeteria plan to provide eligible domestic employees with the option to receive non-taxable medical, dental, disability and life insurance benefits. The cafeteria plan is offered to all active full-time domestic employees and their qualifying dependents. The Company's contribution amounted to \$3.3 million in 1998, \$3.0 million in 1997 and \$1.8 million in 1996.

The Company's foreign subsidiaries maintain benefit plans for their employees which vary by country. The obligations and cost of these plans are not significant to the Company.

#### **NOTE 10 - LEASES**

The Company leases various real estate and equipment under non-cancelable operating leases. Rental expense under such leases amounted to \$4.4 million in 1998, \$4.5 million in 1997 and \$5.6 million in 1996. Included in such amounts were \$0.1 million in each year to affiliated entities, which are owned, in part, by a significant shareholder of the Company.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year amounted to \$5.4 million at November 1, 1998, as follows:

1999.....	\$2,934	2002.....	\$202
2000.....	1,543	2003.....	72
2001.....	485	Thereafter.....	144

Included in such future lease payments are amounts to affiliated entities of \$0.1 million in each year from 1999 to 2003, and \$0.1 million thereafter.

#### **NOTE 11 - COMMITMENTS AND CONTINGENCIES**

The Company and a significant shareholder have jointly guaranteed a loan totaling approximately \$0.5 million as of November 1, 1998, on certain real estate which is being leased by the Company. The Company is subject to certain financial covenants in connection with the guarantee.

As of November 1, 1998, the Company had capital expenditure purchase commitments outstanding of approximately \$42 million.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions, including collectability of accounts receivable, and depreciable lives and recoverability of property, plant, equipment and intangible assets. Actual results may differ from such estimates.

Financial instruments that potentially subject the Company to credit risk consist principally of trade receivables and temporary cash investments. The Company sells its products primarily to manufacturers in the semiconductor and computer industries in North America, Europe and Asia. The Company believes that the concentration of credit risk in its trade receivables is substantially mitigated by the Company's ongoing

credit evaluation process and relatively short collection terms. The Company does not generally require collateral from customers. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Historically, the Company has not incurred any significant credit related losses.

## NOTE 12 - SEGMENT INFORMATION

The Company operates in a single industry segment as a manufacturer of photomasks, which are high precision quartz plates containing microscopic images of electronic circuits for use in the fabrication of semiconductors. In addition to its manufacturing facilities in the United States, the Company has operations in the United Kingdom, Switzerland, Germany and Singapore. The Company's 1998, 1997 and 1996 net sales, operating profit and identifiable assets by geographic area were as follows:

	Net Sales	Operating Income (Loss)	Identifiable Assets
	-----	-----	-----
1998:			
United States	\$185,772	\$32,443	\$285,115
Europe	20,008	(416)	51,326
Asia	16,792	3,431	35,108
	-----	-----	-----
	\$222,572	\$35,458	\$371,549
	=====	=====	=====
1997:			
United States	\$174,043	\$37,989	\$288,970
Europe	12,938	180	46,586
Asia	10,470	2,235	29,656
	-----	-----	-----
	\$197,451	\$40,404	\$365,212
	=====	=====	=====
1996:			
United States	\$153,227	\$32,660	\$181,255
Europe and Asia	6,844	(395)	30,648
	-----	-----	-----
	\$160,071	\$32,265	\$211,903
	=====	=====	=====

Approximately 4% of net domestic sales in 1998 were for delivery outside of the United States (7% in 1997 and 14% in 1996).

The Company's largest single customer represented approximately 16% of total net sales in 1998, 23% in 1997 and 26% in 1996.

## NOTE 13 - NON-RECURRING RESTRUCTURING CHARGE

In March, 1998, the Company initiated a plan to optimize its North American manufacturing network. It re-organized its two California operations, dedicating its Milpitas facility to the production of high- end technology photomasks and its Sunnyvale facility to the production of mature technology photomasks, and consolidated its Colorado Springs, Colorado photomask manufacturing operations into other North American manufacturing facilities. The Company determined that its Large Area Mask (LAM) Division, which is also located in Colorado Springs, does not

represent a long-term strategic fit with its core photomask business, and accordingly, intends to sell the LAM Division. The Company recorded a \$3.8 million charge in the second quarter of 1998 for the restructuring, including \$3.3 million of non-cash charges to reduce the carrying value of LAM Division property, plant and equipment to its net realizable value based upon the estimated proceeds from the sale of the LAM Division business taken as a whole. Such assets, consisting principally of specialized manufacturing tools and equipment, had a carrying value of \$3.6 million (prior to the write-down), remain in use and continue to be depreciated pending the disposition of the LAM division.

**NOTE 14 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The following table sets forth certain unaudited quarterly financial data:

	First -----	Second -----	Third -----	Fourth -----	Year -----
1998:					
Net sales	\$50,932	\$61,307	\$57,681	\$52,652	\$222,572
Gross profit	19,666	23,747	21,092	16,439	80,944
Net income	6,280	5,309	5,844	3,049	20,482
Earnings per share:					
Basic	\$ 0.26	\$ 0.22	\$ 0.24	\$ 0.13	\$ 0.84
Diluted	\$ 0.25	\$ 0.22	\$ 0.24	\$ 0.13	\$ 0.84
1997:					
Net sales	\$40,029	\$49,034	\$53,081	\$55,307	\$197,451
Gross profit	14,682	18,751	20,661	21,855	75,949
Net income	\$ 5,325	\$ 6,184	\$ 6,839	\$ 7,288	\$ 25,636
Earnings per share:					
Basic	\$ 0.22	\$ 0.26	\$ 0.29	\$ 0.30	\$ 1.07
Diluted	\$ 0.22	\$ 0.25	\$ 0.27	\$ 0.29	\$ 1.03

**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      JEFFREY P. MOONAN  
-----  
Jeffrey P. Moonan  
Executive Vice President

December 20, 1999  
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## Table of Exhibits

23 Consent of Deloitte & Touche LLP is filed herewith.

**EXHIBIT 23**

**INDEPENDENT AUDITORS' CONSENT**

We consent to the incorporation by reference in Registration Statements Nos. 333-02245, 333-50809, 33-17530, 33-28118, 33-47446 and 33-78102 of Photronics, Inc. on Form S-8 of our report dated December 9, 1998 appearing in this Annual Report on Form 10-K/A (Amendment No. 1) of Photronics, Inc. for the year ended November 1, 1998.

**DELOITTE & TOUCHE LLP**

Hartford, Connecticut

December 13, 1999

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**End of Filing**

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