

# **PHOTRONICS, INC.**

## **AUDIT COMMITTEE CHARTER**

### **PURPOSE**

The primary purpose of the Audit Committee (the "Committee") is to assist the Board of Directors (the "Board") of Photronics, Inc. (the "Corporation") in fulfilling its responsibility to oversee, (i) the Corporation's financial reporting process, systems of internal accounting and financial controls, and the integrity of its financial statements, (ii) the Corporation's independent auditors' qualifications and independence and the audit and non-audit services provided to the Corporation, (iii) the performance of the Corporation's independent auditors and its internal audit function, and (iv) the compliance programs established by management and the Board.

### **MEMBERSHIP**

The Committee shall be comprised of not less than three members of the Board, and the Committee's composition will meet the requirements of the applicable NASDAQ rules and Section 301 of the Sarbanes-Oxley Act of 2002 (the "S-O Act") and the Securities and Exchange Commission (the "SEC") rules promulgated thereunder.

- Each member of the Committee will meet the independence criteria set forth in applicable NASDAQ and SEC rules and the Corporation's Corporate Governance Guidelines.
- No member of the Committee will be an affiliated person with the Corporation or any subsidiary thereof within the meaning of Section 301 of the S-O Act and the SEC rules promulgated thereunder.
- Each member of the Committee will be financially literate at the time of his or her appointment to the Committee.
- At least one member of the Committee will have accounting or related financial management expertise within the meaning of the new standards.
- No member of the Committee will, other than in his or her capacity as a member of the Board, the Committee or another committee, receive, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation, which shall include for this purpose compensation paid to a service provider with whom the member is associated.
- The chair of the Committee shall be appointed by the Board.

### **FUNCTIONS**

The Committee's job is one of oversight and it recognizes that the Corporation's management is responsible for preparing the Corporation's financial statements and that the independent auditors are responsible for auditing those financial statements to confirm that they are prepared in accordance with generally accepted accounting principles ("GAAP"). Additionally, the Committee recognizes that financial management, including the internal audit staff, as well as the independent auditors, have more

time, knowledge and more detailed information on the Corporation than do Committee members; consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Corporation's financial statements or any professional certification as to the independent auditors' work. Therefore, the Committee shall be entitled to rely to the fullest extent permitted by law, on the accuracy of the financial and other information provided to the Committee.

The following functions shall be the common recurring activities of the Committee in carrying out its oversight function. These functions are set forth as a guide with the understanding that the Committee may diverge from this guide as appropriate, given the circumstances.

#### Independent Auditors and Audit Process

- The Committee shall have the sole authority for the appointment, compensation and retention of the independent auditor, and the independent auditor shall report directly to the Committee.
- In this connection, the Committee shall consider such matters as the experience, qualifications and performance of the senior members of the independent auditor team and the quality control procedures of the auditor.
- The Committee shall review and approve the independent auditors' compensation and the proposed terms of their engagement, and consider their audit plan and procedures and review any problems arising from the annual audit examination.
- The Committee shall pre-approve all audit and non-audit services provided to the Corporation by the independent auditor. The Committee shall prohibit the independent auditor from performing the following non-audit services, in compliance with applicable Public Company Accounting Oversight Board (the "Accounting Board") regulations:
  - bookkeeping or other services related to the accounting records or financial statements of the audit client;
  - financial information systems design and implementation;
  - appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
  - actuarial services;
  - internal audit outsourcing services;
  - management functions or human resources;
  - broker or dealer, investment advisor, or investment banking services;
  - legal services and expert services unrelated to the audit; or
  - any other service that the Accounting Board determines, by regulation, is impermissible.
- The Committee shall:
  - Request from the independent auditors annually a formal written statement delineating all relationships between the auditor and the Corporation consistent with Independence Board

### Standard Number 1;

- Discuss with the independent auditors any such disclosed relationships and their impact on the independent auditors' independence; and
- Pre-approve the Corporation's hiring of employees of the independent auditor who were engaged on the Corporation's account. No such employee shall be hired as chief executive officer, chief financial officer, chief accounting officer, controller, or for any equivalent position, during the one year period prior to the commencement of the audit by that independent auditor.
- Obtain and review, at least annually, a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and, in order to assess the auditor's independence, all relationships between the independent auditor and the Corporation.

### Financial Statements and Related Disclosures

- The Committee shall review with management and the independent auditors the audited financial statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") disclosures to be included in the Corporation's Annual Report on Form 10K (or the Annual Report to Shareholders if distributed prior to the filing of Form 10-K) and review and consider with the independent auditors the matters required to be discussed by Statement of Auditing Standards ("SAS") No.61. The Committee shall determine whether to recommend inclusion of these financial statements in these reports.
- The Committee shall review with management and the independent auditors the Corporation's interim financial results and MD&A disclosures to be included in the Corporation's quarterly reports on Form 10-Q to be filed with the SEC and the matters required to be discussed by SAS No.61, prior to the Corporation's filing of the Form 10-Q.
- The Committee shall review with the independent auditors the Corporation's proxy statement used in connection with the Corporation's annual meeting of stockholders.
- The Committee shall review with management the types of information to be disclosed and the presentations to be made in earnings press releases and earnings guidance provided to research analysts and rating agencies.
- The Committee shall require the independent auditors to report timely to the Committee all critical accounting policies and practices to be used by the Corporation, alternative treatments that have been discussed with management and the ramifications of the use of such alternatives, and the treatment preferred by the independent auditors.
- The Committee shall require the independent auditors to report timely to the Committee material written communications made to management, such as any management letter or schedule of unadjusted differences.
- The Committee shall review major changes and other major questions of choice respecting the application of appropriate accounting principles, and the existence and substance of any material

accruals, reserves and estimates in the preparation of the Corporation's financial statements. The Committee shall discuss with the independent auditors, and confirm that the Corporation's financial statements reflect, all material correcting adjustments identified by them in accordance with GAAP and SEC rules and regulations.

- The Committee shall review material pending legal proceedings involving the Corporation and consider other contingent liabilities, as well as other risks and exposures, that may have a material impact on the financial statements.
- The Committee shall review with management and the independent auditors the financial statement effects of pending regulatory and accounting initiatives.
- The Committee shall review off-balance sheet structures on the Corporation's financial statements.
- The Committee shall review and oversee the resolution of any significant potential disputes or disagreements between management and the Corporation's independent auditor that arose in connection with the preparation of the Corporation's financial statements or financial reporting generally.
- The Committee shall prepare an Audit Committee Report for inclusion in the Corporation's annual meeting of stockholders proxy statement as required by SEC regulations.
- The Committee shall set hiring policies for employees or former employees of the Corporation's independent auditors.

#### CEO/CFO Certifications; Internal Controls and Complaints

- The Committee shall review with the Corporation's chief executive officer and chief financial officer the contents of the personal certifications required to be made by them pursuant to Sections 302 and 906 of the S-O Act.
- The Committee shall consider the quality and adequacy of the Corporation's internal controls and will review with management and the independent auditors their assessments of the adequacy of internal controls, and the resolution of identified material weaknesses and reportable conditions in internal controls, including the prevention or detection of management override or compromise of the internal control system.
- The Committee shall review the adequacy of the staffing and budget of the Corporation's internal audit staff.
- The Committee shall review the Corporation's policies and procedures regarding compliance with applicable laws and regulations and the Corporation's Code of Conduct, which shall include a Code of Ethics for Financial Executives that complies with the standards contained in NASDAQ rules and applicable SEC regulations adopted pursuant to the S-O Act.
- The Committee shall review and approve all related party transactions and any modifications thereto and consult with management, legal counsel, internal audit staff and the independent auditors to ensure that such transactions are effected and disclosed in conformity with applicable legal requirements and the Corporation's Code of Conduct.

- The Committee shall inquire into evidence of illegal conduct or material non-compliance with Corporation policies.
- The Committee shall establish procedures for, (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters or suspected violations of the Corporation's Code of Business Conduct and Ethics or other policies and procedures of the Corporation and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters or suspected violations of the Corporation's Code of Business Conduct and Ethics or other policies and procedures of the Corporation.

## **PROCEDURES**

- In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Corporation and authority to retain outside counsel, auditors or other experts for this purpose.
- The Committee shall have the authority to retain, establish the compensation for and terminate outside counsel and other experts and advisors, including public accountants, as it determines appropriate to assist in the full performance of its functions.
- The Corporation shall provide funding, as requested by the Committee, for compensation of outside counsel, auditors and other experts, and for administrative support, to assist the Committee in performing its duties.
- The Committee shall meet as often as deemed necessary or appropriate in its judgment, generally at least four times each year, either in person or by phone. The Committee shall meet with the independent auditors at least quarterly.
- The Committee shall review with management, for a general understanding, management's risk assessment and risk management guidelines.
- The Committee shall meet on occasion with the internal auditors and the independent auditors outside the presence of senior management.
- The Committee shall review with the independent auditors any problems or difficulties the auditors may have encountered and any management letter provided by the auditors and management's response to that letter.
- The Committee shall undertake an annual performance evaluation of the Committee.
- The Committee shall review the adequacy of this Charter on an annual basis and recommend changes to the Board for approval.