

PHOTRONICS INC
Form 10-Q
March 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 27, 2013

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
(IRS Employer Identification No.)

15 Secor Road, Brookfield, Connecticut
(Address of principal executive offices)

06804
(Zip Code)

Registrant's telephone number, including area code

(203) 775-9000

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting

Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

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 February 28, 2013
Common Stock, \$0.01 par value	60,777,405 Shares

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of Photronics, Inc. ("Photronics" or the "Company"). These statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. Forward-looking statements may be identified by words like "expect", "anticipate", "believe", "plan", "projects", and similar expressions, or the negative of such terms, or other comparable terminology. All forward-looking statements involve risks and uncertainties that are difficult to predict. In particular, any statement contained in this quarterly report on Form 10-Q, in press releases, written statements, or other documents filed with the Securities and Exchange Commission, or in the Company's communications and discussions with investors and analysts in the normal course of business through meetings, phone calls, or conference calls regarding the consummation and benefits of future acquisitions, expectations with respect to future sales, financial performance, operating efficiencies, or product expansion, are subject to known and unknown risks, uncertainties, and contingencies, many of which are beyond the control of the Company. These factors may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements expressed or implied by such forward-looking statements. Factors that might affect such forward-looking statements include, but are not limited to, overall economic and business conditions; economic and political conditions in international markets; the demand for the Company's products; competitive factors in the industries and geographic markets in which the Company competes; changes in federal, state and international tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including changes in the market price of the Company's common stock; foreign currency exchange rate fluctuations; changes in technology; the timing, impact, and other uncertainties of future acquisitions; the seasonal and cyclical nature of the semiconductor and flat panel display industries; management changes; damage or destruction to the Company's facilities, or the facilities of its customers or suppliers, by natural disasters, labor strikes, political unrest, or terrorist activity; the ability of the Company to (i) place new equipment in service on a timely basis; (ii) obtain additional financing; (iii) achieve anticipated synergies and other cost savings in connection with acquisitions and productivity programs; (iv) fully utilize its tools; (v) achieve desired yields, pricing, product mix, and market acceptance of its products and (vi) obtain necessary export licenses. Any forward-looking statements should be considered in light of these factors. Accordingly, there is no assurance that the Company's expectations will be realized. The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not assume an obligation to provide revisions to any forward-looking statements, except as otherwise required by securities and other applicable laws.

PHOTRONICS, INC.
AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

(unaudited)

	January 27, 2013	October 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$217,771	\$218,043
Accounts receivable, net of allowance of \$3,513 in 2013 and \$3,902 in 2012	74,291	75,685
Inventories	18,964	17,702
Other current assets	11,414	8,364
Total current assets	322,440	319,794
Property, plant and equipment, net	395,895	380,808
Investment in joint venture	93,086	93,252
Intangible assets, net	36,153	37,384
Deferred income taxes	11,628	11,395
Other assets	8,296	6,601
Total assets	\$867,498	\$849,234
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term borrowings	\$7,645	\$7,781
Accounts payable	65,568	53,031
Accrued liabilities	23,647	24,701
Total current liabilities	96,860	85,513
Long-term borrowings	167,265	168,956
Other liabilities	9,532	8,764
Total liabilities	273,657	263,233
Commitments and contingencies		
Equity:		
Preferred stock, \$0.01 par value, 2,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value, 150,000 shares authorized, 60,362 shares issued and outstanding at January 27, 2013 and 60,213 shares issued and outstanding at October 28, 2012	603	602
Additional paid-in capital	494,985	493,411

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Retained earnings	43,796	41,473
Accumulated other comprehensive income	23,812	15,900
Total Photronics, Inc. shareholders' equity	563,196	551,386
Noncontrolling interests	30,645	34,615
Total equity	593,841	586,001
Total liabilities and equity	\$ 867,498	\$ 849,234

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended	
	January 27, 2013	January 29, 2012
Net sales	\$99,839	\$112,154
Costs and expenses:		
Cost of sales	(78,741)	(86,696)
Selling, general and administrative	(11,067)	(11,325)
Research and development	(4,839)	(4,444)
Consolidation, restructuring and related charges	-	(1,118)
Operating income	5,192	8,571
Other income (expense):		
Interest expense	(1,887)	(1,781)
Interest and other income (expense), net	1,296	1,372
Income before income tax provision	4,601	8,162
Income tax provision	(1,742)	(3,321)
Net income	2,859	4,841
Net income attributable to noncontrolling interests	(536)	(573)
Net income attributable to Photronics, Inc. shareholders	\$2,323	\$4,268
Earnings per share:		
Basic	\$0.04	\$0.07
Diluted	\$0.04	\$0.07
Weighted-average number of common shares outstanding:		
Basic	60,277	59,817
Diluted	61,095	60,930

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended	
	January 27, 2013	January 29, 2012
Net income	\$2,859	\$4,841
Other comprehensive income, net of tax of \$0:		
Foreign currency translation adjustments	8,137	(1,150)
Amortization of cash flow hedge	32	32
Other comprehensive income (loss)	8,169	(1,118)
Comprehensive income	11,028	3,723
Less: comprehensive income attributable to noncontrolling interests	(765)	(848)
Comprehensive income attributable to Photronics, Inc. shareholders	\$10,263	\$2,875

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended	
	January 27, 2013	January 29, 2012
Cash flows from operating activities:		
Net income	\$2,859	\$4,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,157	22,667
Consolidation, restructuring and related charges	-	232
Changes in assets and liabilities:		
Accounts receivable	1,910	1,287
Inventories	(997)	383
Other current assets	(2,895)	(542)
Accounts payable, accrued liabilities, and other	(1,369)	5,167
Net cash provided by operating activities	18,665	34,035
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15,539)	(18,127)
Investment in joint venture	-	(400)
Other	(1,043)	(1,602)
Net cash used in investing activities	(16,582)	(20,129)
Cash flows from financing activities:		
Repurchase of common stock by subsidiary	(4,190)	(885)
Repayments of long-term borrowings	(1,655)	(999)
Proceeds from share-based arrangements	203	233
Net cash used in financing activities	(5,642)	(1,651)
Effect of exchange rate changes on cash	3,287	(383)
Net increase (decrease) in cash and cash equivalents	(272)	11,872
Cash and cash equivalents at beginning of period	218,043	189,928
Cash and cash equivalents at end of period	\$217,771	\$201,800
Supplemental disclosure of non-cash information:		
Accrual for property, plant and equipment purchased during the period	\$ 16,342	\$ 10,447

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three Months Ended January 27, 2013 and January 29, 2012
(unaudited)
(in thousands, except share amounts)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

Photronics, Inc. and its subsidiaries ("Photronics" or "the Company") is one of the world's leading manufacturers of photomasks, which are high precision photographic quartz plates containing microscopic images of electronic circuits. Photomasks are a key element in the manufacture of semiconductors and flat panel displays ("FPDs"), and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits ("ICs") and a variety of FPDs and, to a lesser extent, other types of electrical and optical components. The Company currently operates principally from eight manufacturing facilities, two of which are located in Europe, two in Taiwan, one in Korea, and three in the United States.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending November 3, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended October 28, 2012.

NOTE 2 - CHANGES IN EQUITY

The following tables set forth the Company's consolidated changes in equity for the three months ended January 27, 2013 and January 29, 2012:

	Three Months Ended January 27, 2013						
	Photronics, Inc. Shareholders						
	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- controlling Interests	Total Equity
Balance at October 28, 2012	60,213	\$ 602	\$ 493,411	\$ 41,473	\$ 15,900	\$ 34,615	\$ 586,001
Net income	-	-	-	2,323	-	536	2,859
Other comprehensive income	-	-	-	-	7,939	230	8,169
Sale of common stock through employee stock option and purchase plans	77	1	110	-	-	-	111

Restricted stock awards vesting and expense	72	-	269	-	-	-	269
Share-based compensation expense	-	-	616	-	-	-	616
Repurchase of common stock by subsidiary	-	-	579	-	(27)	(4,736)	(4,184)
Balance at January 27, 2013	60,362	\$ 603	\$ 494,985	\$ 43,796	\$ 23,812	\$ 30,645	\$ 593,841

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Three Months Ended January 29, 2012							
Photronics, Inc. Shareholders							
	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- controlling Interests	Total Equity
Balance at October 30, 2011	59,651	\$ 597	\$ 486,674	\$ 13,605	\$ 10,171	\$ 48,709	\$ 559,756
Net income	-	-	-	4,268	-	573	4,841
Other comprehensive income (loss)	-	-	-	-	(1,393)	275	(1,118)
Sale of common stock through employee stock option and purchase plans	122	1	143	-	-	-	144
Restricted stock awards vesting and expense	65	-	242	-	-	-	242
Share-based compensation expense	-	-	413	-	-	-	413
Common stock warrants exercised	177	2	1,051	-	-	-	1,053
Repurchase of common stock by subsidiary	-	-	151	-	(5)	(1,031)	(885)
Balance at January 29, 2012	60,015	\$ 600	\$ 488,674	\$ 17,873	\$ 8,773	\$ 48,526	\$ 564,446

NOTE 3 - JOINT VENTURE, TECHNOLOGY LICENSE AND OTHER AGREEMENTS WITH MICRON TECHNOLOGY, INC.

In May 2006, Photronics and Micron Technology, Inc. ("Micron") entered into the MP Mask joint venture ("MP Mask"), which develops and produces photomasks for leading-edge and advanced next generation semiconductors. As part of the formation of the joint venture, Micron contributed its existing photomask technology center located in Boise, Idaho, (headquarters of MP Mask) and Photronics invested \$135 million in exchange for a 49.99% interest in MP Mask (to which \$64.2 million of the original investment was allocated), a license for photomask technology of Micron, and certain supply agreements.

This joint venture is a variable interest entity ("VIE") (as that term is defined in the Accounting Standards Codification ("ASC")) because all costs of the joint venture are passed on to the Company and Micron through purchase agreements they have entered into with the joint venture, and it is dependent upon the Company and Micron for any additional cash requirements. On a quarterly basis the Company reassesses whether its interest in MP Mask gives it a controlling financial interest in this VIE. The purpose of this quarterly reassessment is to identify the primary beneficiary (which is defined in the ASC as the entity that consolidates a VIE) of the VIE. As a result of the reassessment in the current quarter, the Company determined that Micron is still the primary beneficiary of the VIE,

by virtue of its tie-breaking voting rights within MP Mask's Board of Managers, thereby giving it the power to direct the activities of MP Mask that most significantly impact its economic performance, including its decision making authority in the ordinary course of business and its purchasing the majority of products produced by the VIE.

The Company has utilized MP Mask for both high-end IC photomask production and research and development purposes. MP Mask charges its variable interest holders based on their actual usage of its facility. MP Mask separately charges for any research and development activities it engages in at the requests of its owners. The Company recorded cost of sales of \$1.9 million and \$2.0 million during the three month periods ended January 27, 2013 and January 29, 2012, respectively, and research and development expenses of \$0.2 million during each of the three month periods. As of January 27, 2013 and October 28, 2012, the Company owed MP Mask \$4.9 million and \$6.4 million, respectively, and had a receivable from Micron of \$5.2 million and \$9.0 million, respectively, both primarily related to the aforementioned supply agreements.

MP Mask is governed by a Board of Managers, appointed by Micron and the Company. Since MP Mask's inception, Micron, as a result of its majority ownership, has held majority voting power on the Board of Managers. The voting power held by each party is subject to change as ownership interests change. Under the MP Mask joint venture operating agreement, the Company may be required to make additional capital contributions to MP Mask up to the maximum amount defined in the operating agreement. However, should the Board of Managers determine that further additional funding is required, MP Mask shall pursue its own financing. If MP Mask is unable to obtain its own financing, it may request additional capital contributions from the Company. Should the Company choose not to make a requested contribution to MP Mask, its ownership percentage may be reduced. The Company contributed capital of \$0.4 million to MP Mask during the three month period ended January 29, 2012, and made no capital contributions to the joint venture during the three month period ended January 27, 2013. The Company did not receive any distributions from MP Mask during the first quarter of fiscal 2013 or 2012.

The Company's investment in the VIE, which represents its maximum exposure to loss, was \$93.1 million at January 27, 2013 and \$93.3 million at October 28, 2012. These amounts are reported in the Company's condensed consolidated balance sheets as "Investment in joint venture". The Company recorded a loss from its investment in the VIE of \$0.2 million in the three month period ended January 27, 2013, and recorded no income from its investment in the three month period ended January 29, 2012. Income from the VIE is included in "Interest and other income (expense), net" in the condensed consolidated statements of income.

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In the second quarter of fiscal 2012 the Company paid \$35 million to Micron in connection with its purchase of the U.S. nanoFab facility, which it had been leasing from Micron under a lease which ran through December 31, 2014.

NOTE 4 - LONG-TERM BORROWINGS

Long-term borrowings consist of the following:

	January 27, 2013	October 28, 2012
3.25% convertible senior notes due on April 1, 2016	\$ 115,000	\$ 115,000
Variable rate term loan, maturing March 1, 2017	23,125	23,750
5.5% convertible senior notes due on October 1, 2014	22,054	22,054
3.09% capital lease obligation payable through March 2016	14,145	15,175
4.75% financing loan with customer	586	758
	174,910	176,737
Less current portion	7,645	7,781
	\$ 167,265	\$ 168,956

In March 2012 the Company, in connection with its purchase of the U.S. nanoFab facility (see Note 3 for further discussion), amended its credit facility ("the credit facility") to include the addition of a \$25 million variable rate (2.5% at January 27, 2013) term loan maturing in March 2017 with minimum quarterly principal payments of \$0.6 million (quarterly payments commenced in June 2012 and are based on a ten year repayment period). The amendment also included a twenty-five basis point reduction in the interest rate charged on any borrowings under the credit facility.

The credit facility bears interest (2.50% at January 27, 2013), based on the Company's total leverage ratio, at LIBOR plus a spread, as defined in the credit facility. The credit facility is secured by substantially all of the Company's assets located in the United States, as well as common stock the Company owns in certain of its foreign subsidiaries, and is subject to the following financial covenants: minimum fixed charge ratio, total leverage ratio and minimum unrestricted cash balance. As of January 27, 2013, the Company was in compliance with the covenants of its credit facility, had no outstanding borrowings under the credit facility and \$30 million was available for borrowing.

In March 2011 the Company issued through a private offering, pursuant to Rule 144A under the Securities Act of 1933, as amended, \$115 million aggregate principal amount of 3.25% convertible senior notes. The notes mature on April 1, 2016, and note holders may convert each \$1,000 principal amount of notes to 96.3879 shares of common stock (equivalent to an initial conversion price of \$10.37 per share of common stock) at any time prior to the close of business on the second scheduled trading day immediately preceding April 1, 2016. The conversion rate is subject to adjustment upon the occurrence of certain events, which are described in the indenture dated March 28, 2011. The Company is not required to redeem the notes prior to their maturity date. Interest on the notes accrues in arrears, and is paid semiannually through the notes' maturity date. Interest payments on the notes commenced on October 1, 2011. The net proceeds of the notes were approximately \$110.7 million, which were used, in part, to acquire \$35.4 million of the Company's 5.5% convertible senior notes which were to mature on October 1, 2014, and to repay, in full, its then outstanding obligations under capital leases of \$19.8 million.

In September 2009 the Company issued, through a public offering, \$57.5 million aggregate principal amount of 5.5% convertible senior notes, which were to mature on October 1, 2014. Under the terms of the offering, the note holders

could convert each \$1,000 principal amount of notes to 196.7052 shares of common stock (equivalent to an initial conversion price of \$5.08 per share of common stock) on, or before, September 30, 2014. The conversion rate is subject to adjustment upon the occurrence of certain events which are described in the indenture dated September 16, 2009. The Company is not required to redeem the notes prior to their maturity. The net proceeds of this offering were approximately \$54.9 million, which were used to reduce amounts outstanding under the Company's credit facility. A portion of the notes from this issuance having an aggregate principal amount of \$35.4 million were acquired by the Company during fiscal year 2011.

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In April 2011 the Company entered into a five year, \$21.2 million capital lease for manufacturing equipment. Payments under the lease, which bears interest at 3.09%, are \$0.4 million per month through March 2016. The lease agreement provides that the Company must maintain the equipment in good working order, and includes a cross default with cross acceleration provision related to certain non-financial covenants incorporated in the Company's credit facility agreement. As of January 27, 2013, the total amount payable through the end of the lease term was \$14.9 million, of which \$14.1 million represented principal and \$0.8 million represented interest. See Note 15.

In January 2010 the Company borrowed \$3.7 million from a customer to purchase manufacturing equipment. This loan bears interest at 4.75% and is primarily being repaid with product supplied to the customer. Product valued at \$0.2 million and \$0.3 million was shipped to the customer and applied against the loan during the first quarters of fiscal 2013 and fiscal 2012, respectively. The Company estimates that the loan will be fully repaid in fiscal 2013.

NOTE 5 - COMMON STOCK WARRANTS

In September 2009 the Company entered into two warrant agreements with Intel Capital Corporation to purchase a total of 750,000 shares of the Company's common stock. Under one warrant agreement 500,000 shares of the Company's common stock can be purchased at an exercise price of \$4.15 per share and under the second warrant agreement 250,000 shares of the Company's common stock can be purchased at an exercise price of \$5.08 per share. The warrant agreements expire in September 2014. Also in September 2009, the Company and Intel Corporation entered into an agreement to share technical and operations information regarding the development of the Company's products, the capabilities of the Company's photomask manufacturing lines and the alignment of photomask toolsets. Intel Capital Corporation also invested in the Company's convertible debt offering of September 2009. The warrants were recorded at their fair value on their date of grant, which was determined using the Black-Scholes option pricing model. As of January 27, 2013, none of the warrants issued to Intel Capital Corporation had been exercised.

NOTE 6 - SHARE-BASED COMPENSATION

In March 2007 shareholders approved a new share-based compensation plan ("Plan"), under which options, restricted stock, restricted stock units, stock appreciation rights, performance stock, performance units, and other awards based on, or related to, shares of the Company's common stock may be granted from shares authorized but unissued or shares previously issued and reacquired by the Company. A maximum of six million shares of common stock may be issued under the Plan. Awards may be granted to officers, employees, directors, consultants, advisors, and independent contractors of the Company or its subsidiaries. In the event of a change in control (as defined in the Plan), the vesting of awards may be accelerated. The Plan, aspects of which are more fully described below, prohibits further awards from being issued under prior plans. The Company incurred total share-based compensation costs of \$0.9 million and \$0.7 million for the three month periods ended January 27, 2013 and January 29, 2012, respectively. No share-based compensation cost was capitalized as part of an asset and no related income tax benefits were recorded during the periods presented.

Stock Options

Option awards generally vest in one to four years, and have a ten-year contractual term. All incentive and non-qualified stock option grants have an exercise price no less than the market value of the underlying common stock on the date of grant. The grant date fair values of options are based on closing prices of the Company's common stock on the dates of grant using the Black-Scholes option pricing model. Expected volatility is based on the historical volatility of the Company's stock. The Company uses historical option exercise behavior and employee termination data to estimate expected term, which represents the period of time that the options granted are expected to remain outstanding. The risk-free rate of return for the estimated term of the option is based on the U.S. Treasury yield curve in effect at the date of grant. The weighted-average inputs and risk-free rate of return ranges used to calculate the grant

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date fair value of options issued during the three month periods ended January 27, 2013 and January 29, 2012, are presented in the following table.

	Three Months Ended	
	January 27, 2013	January 29, 2012
Volatility	100.1%	102.1%
Risk free rate of return	0.5% - 0.7%	0.7%
Dividend yield	0.0%	0.0%
Expected term	4.3 years	4.3 years

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Information on outstanding and exercisable option awards as of January 27, 2013, is presented below.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 27, 2013	4,419,989	\$ 8.06	6.3 years	\$ 5,159
Exercisable at January 27, 2013	2,843,728	\$ 9.28	5.0 years	\$ 4,544

There were 564,000 share options granted during the three month period ended January 27, 2013, with a weighted-average grant date fair value of \$3.99 per share, and there were 492,500 share options granted during the three month period ended January 29, 2012, with a weighted-average grant date fair value of \$4.46 per share. As of January 27, 2013, the total unrecognized compensation cost related to unvested option awards was approximately \$5.1 million. That cost is expected to be recognized over a weighted-average amortization period of 2.7 years.

Restricted Stock

The Company periodically grants restricted stock awards. The restrictions on these awards lapse over a service period that has ranged from less-than-one to eight years. There were 204,500 restricted stock awards issued during the three month period ended January 27, 2013, with a weighted-average grant date fair value of \$5.46 per share, and there were 168,750 restricted stock awards granted during the three month period ended January 29, 2012, with a weighted-average grant date fair value of \$6.28 per share. As of January 27, 2013, the total compensation cost not yet recognized related to unvested restricted stock awards was approximately \$1.8 million. That cost is expected to be recognized over a weighted-average amortization period of 2.2 years. As of January 27, 2013, there were 385,314 shares of restricted stock outstanding.

NOTE 7 - CONSOLIDATION, RESTRUCTURING AND RELATED CHARGES

In the first quarter of fiscal 2012 the Company ceased the manufacture of photomasks at its Singapore facility, and in connection therewith recorded a charge of \$1.1 million during the three month period ended January 29, 2012. This restructuring, which was comprised primarily of employee termination costs, was substantially completed in fiscal 2012 at a cost of \$1.4 million. The following table sets forth the Company's restructuring reserve, primarily related to its Singapore facility, as of January 27, 2013 and January 29, 2012, and reflects the activity affecting the reserve for the three month periods then ended.

	Three Months Ended January 27, 2013			Three Months Ended January 29, 2012				
	October 29, 2012	Charges	Utilized	January 27, 2013	October 31, 2011	Charges	Utilized	January 29, 2012
Employee terminations and other	\$295	\$-	\$(255)	\$ 40	\$-	\$886	\$(467)	\$ 419
Asset write-downs	-	-	-	-	-	232	(232)	-
	\$295	\$-	\$(255)	\$ 40	\$-	\$1,118	\$(699)	\$ 419

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NOTE 8 - INCOME TAXES

The effective income tax rates for the three month periods ended January 27, 2013 and January 29, 2012, differ from the rates computed by applying the U.S. statutory rate of 35% to income before income taxes for the periods primarily due to income tax benefits being substantially offset by changes in deferred tax asset valuation allowances in jurisdictions in which the Company incurred losses before income taxes, the effect of which was partially offset by higher levels of income before income taxes being taxed at lower statutory rates in non-U.S. jurisdictions.

Unrecognized tax benefits were \$3.9 million at January 27, 2013 and October 28, 2012, of which \$1.9 million would favorably impact the Company's effective tax rate if recognized. Accrued interest and penalties related to unrecognized tax benefits were \$0.1 million at January 27, 2013 and October 28, 2012. As of January 27, 2013, the Company believes it is not reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease in the next twelve months.

PKLT, the Company's FPD manufacturing facility in Taiwan, is accorded a tax holiday which commenced in 2012 and expires in 2017. The tax holiday had no dollar or per share effect in the three months ended January 27, 2013 and January 29, 2012.

NOTE 9 - EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is presented below.

	Three Months Ended	
	January 27, 2013	January 29, 2012
Net income attributable to Photronics, Inc. shareholders	\$2,323	\$4,268
Effect of dilutive securities:		
Gains related to common stock warrants fair value adjustment	-	(94)
Earnings for diluted earnings per share	\$2,323	\$4,174
Weighted-average common shares computations:		
Weighted-average common shares used for basic earnings per share	60,277	59,817
Effect of dilutive securities:		
Share-based payment awards	685	831
Common stock warrants	133	282
Potentially dilutive common shares	818	1,113
Weighted-average common shares used for diluted earnings per share	61,095	60,930
Basic earnings per share	\$0.04	\$0.07
Diluted earnings per share	\$0.04	\$0.07

The table below shows the outstanding weighted-average share-based payment awards and common stock warrants that were excluded from the calculation of diluted earnings per share because their exercise price exceeded the average market value of the common shares for the period or, under application of the treasury stock method, they were otherwise determined to be anti-dilutive. The table also shows convertible notes that, if converted, would have been anti-dilutive.

Three Months Ended
January 27, January 29,

	2013	2012
Convertible notes	15,423	15,423
Share-based payment awards	2,943	2,550
Total potentially dilutive shares excluded	18,366	17,973

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NOTE 10 – GEOGRAPHIC INFORMATION

The Company operates as a single operating segment as a manufacturer of photomasks, which are high precision quartz plates containing microscopic images of electronic circuits for use in the fabrication of ICs and FPDs. Geographic net sales are based primarily on where the Company's manufacturing facility is located. The Company's net sales by geographic area and for ICs and FPDs for the three month periods ended January 27, 2013 and January 29, 2012, and its property, plant and equipment by geographic area as of January 27, 2013 and October 28, 2012, are presented below.

	Three Months Ended	
	January 27, 2013	January 29, 2012
Net sales		
Korea	\$ 33,971	\$ 41,912
Taiwan	28,394	26,479
United States	28,220	31,570
Europe	8,600	10,348
All other	654	1,845
	\$ 99,839	\$ 112,154
IC	\$ 74,425	\$ 86,807
FPD	25,414	25,347
	\$ 99,839	\$ 112,154
	As of	
	January 27, 2013	October 28, 2012
Property, plant and equipment		
United States	\$ 174,594	\$ 177,614
Korea	138,579	120,628
Taiwan	72,098	72,185
Europe	10,581	10,262
All other	43	119
	\$ 395,895	\$ 380,808

The Company is typically impacted during its first fiscal quarter by the North American and European holiday periods, as some customers reduce their effective workdays and orders during these periods. Additionally, the Company can be impacted during its first or second quarter by the Asian New Year holiday period, which may also reduce customer orders.

NOTE 11 - FAIR VALUE MEASUREMENTS

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers as follows: Level 1, defined as quoted market prices in active markets for identical securities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly; and Level 3, defined as unobservable inputs that are not corroborated by market data.

The Company did not have any assets or liabilities measured at fair value, on a recurring or a nonrecurring basis, at January 27, 2013 or October 28, 2012.

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Fair Value of Other Financial Instruments

The fair values of the Company's cash and cash equivalents (Level 1 measurements), accounts receivable, accounts payable, and certain other current assets and current liabilities (Level 2 measurements) approximate their carrying value due to their short-term maturities. The fair value of the Company's financing loan with a customer is a Level 2 measurement that approximates its carrying value due to its short-term maturity. The fair value of the Company's variable rate term loan is a Level 2 measurement and approximates its carrying value due to the variable nature of the underlying interest rates. The fair value of the Company's convertible senior notes is a Level 2 measurement that is determined using recent bid prices. The table below presents the fair and carrying values of the Company's convertible senior notes at January 27, 2013 and October 28, 2012.

	January 27, 2013		October 28, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
3.25% convertible senior notes	\$117,544	\$115,000	\$110,239	\$115,000
5.5% convertible senior notes	\$31,195	\$22,054	\$27,755	\$22,054

NOTE 12 - SUBSIDIARY SHARE REPURCHASE

Since the second quarter of fiscal 2011, the board of directors of PSMC, a subsidiary of the Company based in Taiwan, has authorized several share repurchase programs for PSMC to purchase for retirement shares of its outstanding common stock. During the first fiscal quarters of 2013 and 2012 PSMC purchased 9.2 million and 2.3 million shares, respectively, at a cost of \$4.2 million and \$0.9 million, respectively. These repurchase programs increased the Company's ownership in PSMC from 72.09% at October 28, 2012, to 75.11% at January 27, 2013, and from 62.25% at October 30, 2011, to 62.80% at January 29, 2012. See Note 15.

The table below presents the effect of the change in the Company's ownership interest in PSMC on the Company's equity for the first fiscal quarters of 2013 (9.2 million shares of common stock of PSMC repurchased) and 2012 (2.3 million shares of PSMC common stock repurchased).

	Three Months Ended	
	January 27, 2013	January 29, 2012
Net income attributable to Photronics, Inc. shareholders	\$2,323	\$4,268
Increase in Photronics, Inc.'s additional paid-in capital	579	151
Decrease in Photronics, Inc. shareholders' accumulated other comprehensive income	(27)	-
Change from net income attributable to Photronics, Inc. shareholders and transfer from noncontrolling interest	\$2,875	\$4,419

NOTE 13 - COMMITMENTS AND CONTINGENCIES

As of January 27, 2013, the Company had commitments outstanding for capital expenditures of approximately \$100 million. See Note 15.

The Company is subject to various claims that arise in the ordinary course of business. The Company believes such claims, individually or in the aggregate, will not have a material effect on its condensed consolidated financial statements.

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NOTE 14 - RECENT ACCOUNTING PRONOUNCEMENTS

There have been no recent accounting pronouncements whose adoption would affect the Company's financial statements or related disclosures.

NOTE 15 – SUBSEQUENT EVENTS

In February 2013 the Company entered into a five year capital lease to fund the purchase of a high-end lithography tool. The principal amount of the lease, which is estimated to be approximately \$30 million, will be determined by the Japanese yen exchange rate to the U.S. dollar as progress payments are made. The interest rate will be fixed, based on the five year interest swap rate plus a spread, upon acceptance of the tool which is expected to be in the second half of fiscal year 2013.

In February 2013 the board of directors of PSMC, a majority-owned subsidiary of Photronics, approved the filing for the voluntary delisting of its stock from Taiwan's GreTai Securities Market ("GTSM"). After approval from GTSM, Photronics intends to launch a tender offer to acquire the remaining outstanding shares of PSMC. The delisting and tender offer for the shares are subject to various regulatory approvals, and are estimated to cost approximately \$25 million to \$30 million. Photronics currently owns 75.11% of the outstanding shares of PSMC.

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

Overview

Management's discussion and analysis ("MD&A") of the Company's financial condition, results of operations and outlook should be read in conjunction with its condensed consolidated financial statements and related notes. Various segments of this MD&A contain forward-looking statements, all of which are presented based on current expectations and may be adversely affected by uncertainties and risk factors (presented throughout this filing and in the Company's Annual Report on Form 10-K for the fiscal 2012 year), that may cause actual results to materially differ from these expectations.

The Company sells substantially all of its photomasks to semiconductor designers and manufacturers, and manufacturers of FPDs. Photomask technology is also being applied to the fabrication of other higher performance electronic products such as photonics, micro-electronic mechanical systems and certain nanotechnology applications. Thus, the Company's selling cycle is tightly interwoven with the development and release of new semiconductor designs and flat panel applications, particularly as it relates to the semiconductor industry's migration to more advanced design methodologies and fabrication processes. The Company believes that the demand for photomasks primarily depends on design activity rather than sales volumes from products produced using photomask technologies. Consequently, an increase in semiconductor or FPD sales does not necessarily result in a corresponding increase in photomask sales. However, the reduced use of customized ICs, reductions in design complexity, other changes in the technology or methods of manufacturing or designing semiconductors, or a slowdown in the introduction of new semiconductor or FPD designs could reduce demand for photomasks even if demand for semiconductors and FPDs increases. Advances in semiconductor, FPD and photomask design and semiconductor production methods could reduce the demand for photomasks. Historically, the semiconductor industry has been volatile, with sharp periodic downturns and slowdowns. These downturns have been characterized by, among other things, diminished product demand, excess production capacity and accelerated erosion of selling prices.

The global semiconductor industry, including mobile displays, is driven by end markets which have been closely tied to consumer driven applications of high performance semiconductor devices including, but not limited to, mobile

communications and computing solutions. The Company is typically required to fulfill its customer orders within a short period of time, sometimes within 24 hours. This results in the Company having a minimal level of backlog orders, typically one to two weeks for IC photomasks and two to three weeks for FPD photomasks. The Company cannot predict the timing of the industry's transition to volume production of next generation technology nodes or the timing of up and down cycles with precise accuracy, but believes that such transitions and cycles will continue into the future, beneficially and adversely affecting its business, financial condition and operating results in the near term. The Company believes its ability to remain successful in these environments is dependent upon achieving its goals of being a service and technology leader and efficient solutions supplier, which it believes should enable it to continually reinvest in its global infrastructure.

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Material Changes in Results of Operations

Three Months ended January 27, 2013 and January 29, 2012

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

	Three Months Ended	
	January 27, 2013	January 29, 2012
Net sales	100.0 %	100.0 %
Cost of sales	(78.9)	(77.3)
Gross margin	21.1	22.7
Selling, general and administrative expenses	(11.1)	(10.1)
Research and development expenses	(4.8)	(4.0)
Consolidation, restructuring and related charges	-	(1.0)
Operating income	5.2	7.6
Other income (expense), net	(0.6)	(0.3)
Net income before income tax provision	4.6	7.3
Income tax provision	(1.7)	(3.0)
Net income	2.9	4.3
Net income attributable to noncontrolling interests	(0.6)	(0.5)
Net income attributable to Photronics, Inc. shareholders	2.3 %	3.8 %

Note: All of the following tabular comparisons, unless otherwise indicated, are for the three months ended January 27, 2013 (Q1-13) and January 29, 2012 (Q1-12) in millions of dollars.

Net Sales

	Three Months Ended		Percent Change
	Q1-13	Q1-12	
IC	\$ 74.4	\$ 86.8	(14.3)%
FPD	25.4	25.4	-
Total net sales	\$ 99.8	\$ 112.2	(11.0)%

Net sales for Q1-13 decreased 11% to \$99.8 million as compared to \$112.2 million for Q1-12. The decrease was primarily the result of decreased demand for IC products, principally leading edge, as a result of general softness within the semiconductor industry. FPD revenues were \$25.4 million in Q1-13 and Q1-12, which included an increase in high-end revenues that was offset by a decrease in revenues for mature products. High-end photomask applications, which typically have higher ASPs, include mask sets for 45 nanometer and below for IC products, and G8 and above and active matrix organic light-emitting diode (AMOLED) display screen technologies for FPD products. By geographic area, net sales in Q1-13 as compared to Q1-12, decreased by \$7.9 million or 18.9 % in Korea, decreased by \$3.4 million or 10.6% in the United States, increased by \$1.9 million or 7.2% in Taiwan, decreased by \$1.7 million or 16.9% in Europe and decreased by \$1.2 million for other international locations.

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Gross Margin

	Three Months Ended				
	Q1-13		Q1-12		Percent Change
Gross margin	\$	21.1	\$	25.5	(17.1)%
Percentage of net sales		21.1%		22.7%	

Gross margin percentage decreased to 21.1% in Q1-13 as compared to 22.7% in Q1-12. This decrease was primarily due to a decrease in sales in Q1-13 as compared to Q1-12. The Company operates in a high fixed cost environment and, to the extent that the Company's revenues and utilization increase or decrease, gross margin will generally be positively or negatively impacted.

Selling, General and Administrative Expenses

	Three Months Ended				
	Q1-13		Q1-12		Percent Change
S,G&A expenses	\$	11.1	\$	11.3	(2.3)%
Percentage of net sales		11.1%		10.1%	

Selling, general and administrative expenses did not change significantly, decreasing \$0.2 million to \$11.1 million in Q1-13 as compared to \$11.3 million in Q1-12.

Research and Development

	Three Months Ended				
	Q1-13		Q1-12		Percent Change
R&D expenses	\$	4.8	\$	4.4	8.9%
Percentage of net sales		4.8%		4.0%	

Research and development expenses consist primarily of global development efforts related to high-end process technologies for advanced sub-wavelength reticle solutions for IC technologies. Research and development expenses increased \$0.4 million in Q1-13 as compared to Q1-12 primarily due to increased activities at advanced nanometer technology nodes for IC photomasks.

Consolidation, Restructuring and Related Charges

	Three Months Ended	
	Q1-13	Q1-12
Employee terminations and other	\$ -	\$ 886
Asset write-downs	-	232
	\$ -	\$ 1,118

Total consolidation, restructuring and related charges

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In the first quarter of fiscal 2012, the Company ceased the manufacture of photomasks at its Singapore facility, and in connection therewith recorded a charge of \$1.1 million during the three month period ended January 29, 2012. This restructuring, which was comprised primarily of employee termination costs, was substantially completed in fiscal 2012 at a cost of \$1.4 million.

Other Income (Expense), net

	Three Months Ended	
	Q1-13	Q1-12
Interest expense	\$ (1.9)	\$ (1.8)
Interest and other income (expense), net	1.3	1.4
Other income (expense), net	\$ (0.6)	\$ (0.4)

Interest expense increased slightly in Q1-13 as compared to Q1-12, primarily as a result of the term loan entered into in the second quarter of fiscal 2012. Interest and other income (expense), net decreased in Q1-13 as compared to Q1-12 primarily as a result of less favorable foreign currency transaction results.

Provision for Income Taxes

	Three Months Ended	
	Q1-13	Q1-12
Income tax provision	\$ 1.7	\$ 3.3
Effective income tax rate	37.9 %	40.7 %

The effective income tax rate in Q1-13 decreased from Q1-12 primarily because the Company generated less income before income taxes in jurisdictions in which income tax provisions were recorded. The income tax provisions were not significantly reduced by income tax benefits recorded in jurisdictions in which the Company incurred losses before income taxes as the income tax benefits were offset by increases in valuation allowances.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests decreased \$0.1 million to \$0.5 million in Q1-13 as compared to \$0.6 million in Q1-12, primarily as a result of share repurchase programs at PSMC, the Company's non-wholly owned subsidiary in Taiwan. As a result of these programs, the Company's ownership percentage in PSMC increased by 3.02% to 75.11%, and 0.55% to 62.80% during Q1-13 and Q1-12, respectively. The Company's ownership percentage in its subsidiary in Korea was 99.7% in Q1-13 and Q1-12.

Liquidity and Capital Resources

The Company's working capital was \$225.6 million at January 27, 2013, and \$234.3 million at October 28, 2012. The decrease in working capital was primarily related to an increase in accounts payable for the purchase of capital equipment. Cash and cash equivalents were approximately \$218 million at January 27, 2013 and October 28, 2012. Net cash provided by operating activities was \$18.7 million for the three months ended January 27, 2013, as compared to \$34.0 million for the three month period ended January 29, 2012, the decrease primarily due to a decrease in accounts payable not related to capital expenditures and reduced non-cash expenses. Net cash used in investing activities for the three months ended January 27, 2013, was \$16.6 million, which was comprised primarily of

capital expenditure payments. Net cash used in financing activities of \$5.6 million for the three months ended January 27, 2013, was primarily comprised of payments to repurchase the common stock of a subsidiary and repayments of long-term borrowings. The Company may use its cash available on hand for operations, capital expenditures, debt repayments, strategic opportunities, stock repurchases or other corporate uses, any of which may be material.

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The credit facility bears interest (2.50% at January 27, 2013), based on the Company's total leverage ratio, at LIBOR plus a spread, as defined in the credit facility. The credit facility is secured by substantially all of the Company's assets located in the United States, as well as common stock the Company owns in certain of its foreign subsidiaries, and is subject to the following financial covenants: minimum fixed charge ratio, total leverage ratio and minimum unrestricted cash balance. As of January 27, 2013, the Company was in compliance with the covenants of its credit facility, had no outstanding borrowings under the credit facility and \$30 million was available for borrowing.

In February 2013 the Company entered into a five-year capital lease, which is estimated to be approximately \$30 million principal amount. See Note 15 to the condensed consolidated financial statements for further discussion.

In 2012 and 2011 the board of directors of PSMC authorized PSMC to repurchase shares of its outstanding common stock for retirement. These repurchase programs resulted in 9.2 million shares being repurchased for \$4.2 million in the first quarter of fiscal year 2013 and 2.3 million shares being purchased for \$0.9 million in the first quarter of fiscal year 2012. In February 2013 the Company announced its intention to acquire the remaining outstanding shares of PSMC, which is estimated to cost \$25 million to \$30 million. See Note 15 to the condensed consolidated financial statements for further discussion.

At January 27, 2013, the Company had capital commitments outstanding of approximately \$100 million. The Company believes that its currently available resources, together with its capacity for growth, and its access to equity and other financing sources, will be sufficient to satisfy its currently planned capital expenditures, as well as its anticipated working capital 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, existing cash, and cash available under its credit facility.

The Company's liquidity is highly dependent on its sales volume, cash conversion cycle, and the timing of its capital expenditures (which can vary significantly from period to period), as it operates in a high fixed cost environment. Depending on conditions in the semiconductor and FPD markets, the Company's cash flows from operations and current holdings of cash may not be adequate to meet its current and long-term needs for capital expenditures, operations and debt repayments. Historically, in certain years, the Company has used external financing to fund these needs. Due to conditions in the credit markets, some financing instruments used by the Company in the past may not be currently available to it. The Company continues to evaluate further cost reduction initiatives. However, the Company cannot assure that additional sources of financing would be available to it on commercially favorable terms, should its cash requirements exceed cash available from operations, existing cash, and cash available under its credit facility.

Off-Balance Sheet Arrangements

Under the MP Mask joint venture operating agreement, in order to maintain its 49.99% ownership interest, the Company may be required to make additional capital contributions to the joint venture up to the maximum amount specified in the operating agreement. Cumulatively through January 27, 2013, the Company has contributed \$32.5 million to the joint venture, and has received distributions from the joint venture totaling \$10.0 million.

The Company leases certain office facilities and equipment under operating leases that may require it to pay taxes, insurance and maintenance expenses related to the properties. Certain of these leases contain renewal or purchase options exercisable at the end of the lease terms.

Business Outlook

A majority of the Company's revenue growth is expected to continue to come from the Asian region, as customers increase their use of manufacturing foundries located outside of North America and Europe. Additional revenue growth is also anticipated in North America, as the Company expects to continue to benefit from advanced technology it may utilize under its technology license with Micron. The Company's Korean and Taiwanese operations are non-wholly owned subsidiaries and, therefore, a portion of earnings generated at each of these locations is allocated to noncontrolling interests.

The Company continues to assess its global manufacturing strategy and monitor its market capitalization, sales volume and related cash flows from operations. This ongoing assessment could result in future facility closures, asset redeployments, additional impairments of intangible or long-lived assets, workforce reductions, or the addition of increased manufacturing facilities, all of which would be based on market conditions and customer requirements.

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Effect of Recent Accounting Pronouncements

There have been no recent accounting pronouncements whose adoption would affect the Company's financial statements or related disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company records derivatives on the condensed consolidated balance sheets as assets or liabilities, measured at fair value. The Company does not engage in derivative instruments for speculative purposes. Gains or losses resulting from changes in the values of those derivatives are reported in earnings, or as accumulated other comprehensive income or loss, a separate component of equity, depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, among other criteria, the derivative must be a hedge of an interest rate, price, foreign currency exchange rate, or credit risk, that is expected to be highly effective at the inception of the hedge, be highly effective in achieving offsetting changes in the fair value or cash flows of the hedged item during the term of the hedge, and formally documented at the inception of the hedge. The types of risks that the Company has historically hedged are those related to the variability of future cash flows caused by movements in foreign currency exchange and interest rates. The Company documents its risk management strategy and hedge effectiveness at the inception of, and during, the term of each hedge.

Foreign Currency Exchange Rate Risk

The Company conducts business in several major international currencies through its worldwide operations and its financial performance may be affected by fluctuations in the exchange rates of these currencies. Changes in exchange rates can positively or negatively affect the Company's sales, operating margins, assets, liabilities, and equity. The functional currencies of the Company's Asian subsidiaries are the Korean won, the New Taiwan dollar, and the Singapore dollar. The functional currencies of the Company's European subsidiaries are the British pound and the euro.

The Company attempts to minimize its risk of foreign currency transaction losses by producing its products in the same country in which the products are sold (thereby generating revenues and incurring expenses in the same currency), and by managing its working capital. In some instances, the Company may sell or purchase products in a currency other than the functional currency of the country where it was produced. There can be no assurance that this approach will continue to be successful, especially in the event of a significant adverse movement in the value of any foreign currencies against the U.S. dollar.

The Company's primary net foreign currency exposures as of January 27, 2013, included the Korean won, the Japanese yen, the New Taiwan dollar, the Singapore dollar, the British pound, and the euro. As of January 27, 2013, a 10% adverse movement in the value of these currencies against the U.S. dollar would have resulted in a net unrealized pre-tax loss of \$1.8 million. The Company does not believe that a 10% change in the exchange rates of other non-U.S. dollar currencies would have a material effect on its consolidated financial position, results of operations, or cash flows.

Interest Rate Risk

At January 27, 2013, the Company had \$23.1 million in variable rate borrowings. A 10% change in interest rates would not have had a material effect on the Company's consolidated financial position, results of operations, or cash flows in the three month period ended January 27, 2013.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has established and currently maintains disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), designed to ensure that information required to be disclosed in its reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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The Company's management, under the supervision and with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's first quarter of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

There have been no material changes to risks relating to the Company's business as disclosed in Part 1, Item 1A of the Company's Form 10-K for the year ended October 28, 2012.

Item 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description
<u>10.28</u>	Master Lease Agreement dated as of April 13, 2011, by and between TD Equipment Finance, Inc. and Photronics, Inc.
<u>31.1</u>	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u>	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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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: /s/ SEAN T. SMITH
Sean T. Smith
Senior Vice President
Chief Financial Officer
(Duly Authorized Officer
and
Principal Financial Officer)

Date: March 5, 2013

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