

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period endedFebruary 2, 1997....

OR

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

For the transition period from..... to

Commission file number...0-15451...

...PHOTRONICS, INC....

(Exact name of registrant as specified in its charter)

...Connecticut...

(State or other jurisdiction of
incorporation or organization)

...06-0854886...

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

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

(Address of principal executive offices)

..33477..

(Zip Code)

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

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ..X.. No

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

| Class | Outstanding at February 2, 1997 |
|-------------------------------|---------------------------------|
| Common Stock, \$.01 par value | 11,847,244 Shares |

PHOTRONICS, INC.
AND SUBSIDIARIES

INDEX

Page

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheet
at February 2, 1997 (unaudited) and
October 31, 1996

3-4

Condensed Consolidated Statement of
Earnings for the Three Months Ended
February 2, 1997 and January 31,
1996 (unaudited)

5

Condensed Consolidated Statement of
Cash Flows for the Three Months Ended
February 2, 1997 and January 31,
1996 (unaudited) 6

Notes to Condensed Consolidated
Financial Statements (unaudited) 7

Item 2. Management's Discussion and Analysis
of Results of Operations and
Financial Condition 8-10

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K 11

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet

(dollars in thousands)

ASSETS

| | February 2, 1997 ----- (Unaudited) | October 31, 1996 ----- |
|--|---|------------------------------|
| Current assets: | | |
| Cash, cash equivalents and short-term investments | \$ 12,940 | \$ 26,684 |
| Accounts receivable (less allowance for doubtful accounts of \$235 in 1997 and 1996) | 25,467 | 24,750 |
| Inventories | 9,102 | 7,992 |
| Other current assets | 6,771 | 6,154 |
| Total current assets | ----- 54,280 | ----- 65,580 |
| Property, plant and equipment (less accumulated depreciation of \$56,637 in 1997 and \$52,740 in 1996) | 135,243 | 123,666 |
| Intangible assets (less accumulated amortization of \$3,535 in 1997 and \$3,256 in 1996) | 9,026 | 9,305 |
| Investments and other assets | 10,526 | 13,352 |
| | ----- \$209,075 ===== | ----- \$211,903 ===== |

See accompanying notes to consolidated financial statements.

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

| | February 2, 1997 | October 31, 1996 |
|---|---------------------|---------------------|
| | ----- | ----- |
| | (Unaudited) | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 39 | \$ 38 |
| Accounts payable | 29,949 | 34,168 |
| Accrued salaries and wages | 4,169 | 5,561 |
| Other accrued liabilities | 3,629 | 4,200 |
| | ----- | ----- |
| Total current liabilities | 37,786 | 43,967 |
| Long-term debt | 2,005 | 1,987 |
| Deferred income taxes and other liabilities | 8,611 | 9,532 |
| | ----- | ----- |
| Total liabilities | 48,402 | 55,486 |
| | ----- | ----- |
| Commitments and contingencies | - | - |
| Shareholders' equity: | | |
| Preferred stock, \$0.01 par value, 2,000,000 shares authorized, none issued and outstanding | - | - |
| Common stock, \$0.01 par value, 20,000,000 shares authorized, 11,983,744 shares issued in 1997 and 11,973,290 shares in 1996 | 120 | 120 |
| Additional paid-in capital | 78,084 | 77,833 |
| Retained earnings | 79,298 | 73,973 |
| Unrealized gains on investments | 3,230 | 4,678 |
| Treasury stock, 136,500 shares at cost | (245) | (245) |
| Cumulative foreign currency translation adjustment | 186 | 58 |
| | ----- | ----- |
| Total shareholders' equity | 160,673 | 156,417 |
| | ----- | ----- |
| | \$209,075 | \$211,903 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Earnings

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

| | Three Months Ended | |
|---|---------------------|---------------------|
| | February 2, 1997 | January 31, 1996 |
| Net sales | \$40,029 | \$34,668 |
| Costs and expenses: | | |
| Cost of sales | 25,347 | 21,252 |
| Selling, general and administrative | 5,035 | 4,585 |
| Research and development | 2,302 | 1,825 |
| | ----- | ----- |
| Operating income | 7,345 | 7,006 |
| Interest and other income, net | 1,280 | 545 |
| | ----- | ----- |
| Income before income taxes | 8,625 | 7,551 |
| Provision for income taxes | 3,300 | 2,900 |
| | ----- | ----- |
| Net income | \$ 5,325 | \$ 4,651 |
| | ===== | ===== |
| Net income per common share | \$0.44 | \$0.39 |
| | ===== | ===== |
| Weighted average number of common shares outstanding | 12,227 | 12,058 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

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

| | Three Months Ended | |
|--|---------------------|---------------------|
| | February 2, 1997 | January 31, 1996 |
| Cash flows from operating activities: | | |
| Net income | \$ 5,325 | \$ 4,651 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,490 | 2,835 |
| Gain on disposition of investments | (1,060) | - |
| Other | 212 | 133 |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (717) | 291 |
| Inventories | (1,110) | 34 |
| Other current assets | (617) | (318) |
| Accounts payable and other liabilities | (6,218) | (1,702) |
| Net cash provided by operating activities | 305 | 5,924 |
| Cash flows from investing activities: | | |
| Acquisition of photomask operations | - | (4,900) |
| Deposits on and purchases of property, plant and equipment | (15,730) | (9,629) |
| Net change in short-term investments | 2,814 | 11,026 |
| Proceeds from sale of investments | 1,369 | - |
| Other | 70 | 4 |
| Net cash used in investing activities | (11,477) | (3,499) |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | (9) | (9) |
| Proceeds from and tax effects of exercise of stock options | 251 | 786 |
| Net cash provided by financing activities | 242 | 777 |
| Net increase (decrease) in cash and cash equivalents | (10,930) | 3,202 |
| Cash and cash equivalents at beginning of period | 18,766 | 35,644 |
| Cash and cash equivalents at end of period | \$ 7,836 | \$38,846 |
| Cash paid during the period for: | | |
| Interest | \$ 7 | \$ 8 |
| Income taxes | \$155 | \$665 |

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Three Months Ended February 2, 1997
(Unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements of the Company included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three-month periods ended February 2, 1997 and January 31, 1996. Interim financial data presented herein are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, management believes that the disclosures are adequate to make the information presented not misleading. This report should be read in conjunction with the consolidated financial statements and footnotes as of October 31, 1996, which give a complete discussion of these matters.

The Company adopted a fifty-two (52) week fiscal year beginning in the first quarter of 1997.

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

Material Changes in Results of Operations

Three Months ended February 2, 1997 versus January 31, 1996

A significant portion of the changes in Photronics, Inc. ("Photronics") results of operations for the three months ended February 2, 1997, as compared to the same period during last fiscal year was attributable to expansion of international operations through the start-up of new facilities and acquisitions. Photronics' operations in Singapore, consisting of a recently constructed state-of-the-art manufacturing plant, commenced shipments in September 1996. In addition, Photronics acquired (i) the Litomask Division of Centre Suisse d'Electronique et de Microtechnique S.A. located in Neuchatel, Switzerland on April 1, 1996 and (ii) the photomask manufacturing operations and assets of Plessey Semiconductors Limited, located in Oldham, United Kingdom, on January 24, 1996.

Net sales for the three months ended February 2, 1997, increased 15.5% to \$40.0 million compared with \$34.7 million for the three months ended January 31, 1996. Sales from Photronics' new international manufacturing operations accounted for slightly more than one-half of this increase. The remaining portion of the growth resulted from increased shipments to customers from existing facilities due to the availability of greater manufacturing capability, reflecting the implementation of Photronics' capacity expansion program, as well as stronger overall demand.

Gross profit for the three months ended February 2, 1997, increased 9.4% to \$14.7 million compared with \$13.4 million for the same period in the prior fiscal year. Gross margin decreased to 36.7% for the three months ended February 2, 1997, as compared with 38.7% in the corresponding period last year. The increase in gross profit resulted principally from increases in sales volume, both from existing operations in the U.S. and from the new international operations. To allow for increased manufacturing capability, Photronics has continued to increase its staffing levels and added to its manufacturing systems, resulting in higher labor and equipment-related costs, including depreciation expense. The lower margins were due primarily to Photronics' newly expanded manufacturing base, which was not fully utilized, as well as the inclusion of international operations which generated margins below those generally experienced at Photronics' domestic operations. Partially offsetting these increased costs, are better margins resulting from a favorable product mix of complex photomasks during the current year period. Photronics anticipates that its fixed operating costs will increase in connection with its continuing capacity expansion which it expects to offset with increases in net sales.

Selling, general and administrative expenses increased 9.8% to \$5.0 million for the three months ended February 2, 1997, compared with \$4.6 million for the same period in the prior fiscal year. However, as a percentage of net sales, selling, general and administrative expenses decreased to 12.6% for the three months ended February 2, 1997, compared with 13.2% for the same period in the prior fiscal year. The increases in costs resulting from the addition of the international operations were offset by the absence of a proportionate increase in costs in the U.S. business which have not been significantly different than the prior year.

Research and development expenses for the three months ended February 2, 1997, increased 26.1% to \$2.3 million, compared with \$1.8 million for the same period in the prior fiscal year. This increase reflects expansion of Photronics' research and development organization and an increase in its development efforts which have focused on new high-end, more complex photomasks such as phase shift, optical proximity correction and deep ultra-violet technologies as well as large area photomasks. As a percentage of net sales, research and development expenses increased to 5.8% for the three months ended February 2, 1997, compared with 5.3% in the corresponding prior fiscal period.

Interest and other income, net, for the three months ended February 2, 1997, increased to \$1.3 million compared with \$0.5 million for the same period in the prior fiscal year due principally to a \$1.1 million gain from the sale of investment securities, offset in part by a decrease in interest income resulting from lower levels of funds available for investment.

Net income for the three months ended February 2, 1997, increased 14.5% to \$5.3 million, or \$0.44 per share, compared with \$4.7 million or \$0.39 per share, for the corresponding prior year period. Net income in the first quarter of 1997 included \$0.7 million, or \$0.05 per share, from the gain on the sale of investment securities. The weighted average number of common shares outstanding increased to 12.2 million for the three months ended February 2, 1997, from 12.1 million for the same period last year principally as a result of the issuance of shares in connection with employee stock option exercises since the first quarter of 1996.

Liquidity and Capital Resources

Photronics' cash and short-term investments decreased \$13.7 million during the three months ended February 2, 1997, largely as a result of funding \$15.7 million of capital expenditures for equipment and construction in progress in connection with Photronics' expansion of manufacturing capacity.

Accounts receivable increased only slightly from October 31, 1996. Inventory increased \$1.1 million or 14% as Photronics' equipment subsidiary, Beta Squared, purchased several machines for refurbishment and resale. Other current assets increased \$0.6 million primarily as a result of the timing of receipt of the proceeds from the sale of investment securities.

Property, plant and equipment increased to \$135.2 million at February 2, 1997, from \$123.7 million at October 31, 1996, as a result of the construction of the new Austin, Texas and Manchester, United Kingdom plants as well as continued expansion of Photronics' existing manufacturing capacity. These increases were offset by normal depreciation expense of \$4.2 million.

Investments and other assets decreased to \$10.5 million at February 2, 1997, from \$13.4 million at October 31, 1996, principally due to the sale of certain investment securities as well as the net decrease in the fair value of Photronics' available-for-sale investments during the period.

Accounts payable decreased \$4.2 million from October 31, 1996 to \$29.9 million at February 2, 1997, principally due to timing of payments of unusually high payables at October 31, 1996 which had resulted from the acceptance of significant equipment purchases at the end of the fiscal year. Accrued salaries and wages and other liabilities decreased \$2.0 million from October 31, 1996 largely as a result of payments of fiscal 1996 incentive compensation and timing of other expenses.

There was no significant change in long-term debt during the period. Deferred income taxes and other liabilities decreased to \$8.6 million at February 2, 1997, from \$9.5 million at October 31, 1996, principally due to the tax effect of the net decrease in fair value of investments.

Photronics' commitments represent investments in additional manufacturing capacity as well as advanced equipment for research and development of the next generation of high-end, more complex photomasks. At February 2, 1997, Photronics had commitments outstanding for capital expenditures of approximately \$62 million. Additional commitments for facilities under construction and other capital requirements are expected to be incurred in fiscal 1997. Subsequent to the end of the quarter, Photronics utilized its bank credit lines and at March 5, 1997, \$3.0 million was outstanding. Photronics will continue to use its working capital, bank lines of credit and leasing arrangements to finance its capital expenditures. Photronics believes that its currently available resources, together with its capacity for substantial growth and its access to other debt and equity financing sources, are sufficient to satisfy its currently planned capital expenditures, as well as its anticipated working capital requirements for the foreseeable future.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

Except for historical information, the matters discussed above may be considered forward-looking statements and may be subject to certain risks and uncertainties that could cause the actual results to differ materially from those projected, including uncertainties in the market, pricing competition, procurement and manufacturing efficiencies, and other risks.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports of Form 8-K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHOTRONICS, INC.
(Registrant)

By: _____ ROBERT J. BOLLO _____
Robert J. Bollo
Vice President/Finance
(Duly Authorized Officer and
Principal Financial Officer)

Date: March 6, 1997

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

1,000

| | | |
|---------|-------------|---------|
| 3-MOS | | |
| | OCT-31-1996 | |
| | FEB-2-1997 | |
| | | 7,836 |
| | | 5,104 |
| | | 25,702 |
| | | 235 |
| | | 9,102 |
| | 54,280 | |
| | | 191,916 |
| | | 56,673 |
| | | 209,075 |
| | 37,786 | |
| | | 2,005 |
| | 0 | |
| | | 0 |
| | | 120 |
| | | 160,553 |
| 209,075 | | |
| | | 40,029 |
| | 40,029 | |
| | | 25,347 |
| | | 25,347 |
| | | 0 |
| | | 0 |
| | | 36 |
| | | 8,625 |
| | | 3,300 |
| | 5,325 | |
| | | 0 |
| | | 0 |
| | | 0 |
| | | 5,325 |
| | | 0.44 |
| | | 0.00 |