

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of 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. 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 and conference calls, regarding the consummation and benefits of future acquisitions, expectations with respect to future sales, financial performance, operating efficiencies and 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. Factors that might affect such forward-looking statements include, but are not limited to, overall economic and business conditions; the demand and receipt of orders for the Company's products; competitive factors in the industries and geographic markets in which the Company competes; changes in federal, state and foreign tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); the Company's ability to place new equipment in service on a timely basis; interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; economic and political conditions in international markets; the ability to obtain additional financings; the ability to achieve anticipated synergies and other cost savings in connection with acquisitions and productivity programs; uncertainties with respect to the integration and management of MP Mask Technology Center, LLC; delays in the construction and equipping of the planned nanofab fabrication facilities; the timing, impact and other uncertainties of future acquisitions; the seasonal and cyclical nature of the semiconductor and flat panel display industries; the availability of capital; management changes; damage or destruction to the Company's facilities by natural disasters, labor strikes, political unrest or terrorist activity; the ability to fully utilize its tools; the ability of the Company to receive desired yields, pricing, product mix, and market acceptance of its products; changes in technology; and the ability of the Company to 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.

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**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)

	July 30, 2006	October 30, 2005
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85,239	\$196,049
Short-term investments	78,594	90,600
Accounts receivable, net	80,265	70,006
Inventories	22,984	20,536
Other current assets	10,968	7,144
	<u> </u>	<u> </u>
Total current assets	278,050	384,335
Property, plant and equipment, net	452,211	412,429
Goodwill	133,813	136,334
Investment in joint venture	65,505	-
Other intangibles, net	77,134	699
Other assets	12,022	11,932
	<u> </u>	<u> </u>
	<u>\$1,018,735</u>	<u>\$945,729</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 86,521	\$ 4,813
Accounts payable	46,503	42,923
Other accrued liabilities	47,348	36,042
	<u> </u>	<u> </u>
Total current liabilities	180,372	83,778
Long-term debt	165,186	238,949
Deferred income taxes and other liabilities	25,844	15,310
Minority interest	44,782	45,817
Shareholders' 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, 41,421 shares issued and outstanding at July 30, 2006 and 41,304 shares issued and outstanding at October 30, 2005	414	413
Additional paid-in capital	376,725	374,326
Retained earnings	192,832	173,320
Accumulated other comprehensive income	32,609	13,850
Deferred compensation on restricted stock	(29)	(34)
	<u> </u>	<u> </u>

Total shareholders' equity	602,551	561,875
	<u>\$1,018,735</u>	<u>\$945,729</u>

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		Nine Months Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
Net sales	\$108,160	\$114,901	\$339,579	\$328,977
Costs and expenses:				
Cost of sales	75,256	75,350	228,685	218,990
Selling, general and administrative	15,524	13,762	46,438	40,001
Research and development	6,741	7,908	22,985	23,803
Consolidation, restructuring and related charges	1,790	-	13,216	-
Operating income	8,849	17,881	28,255	46,183
Other income (expense), net				
Interest expense	(2,989)	(2,820)	(9,002)	(8,307)
Investment and other income, net	1,715	4,773	13,294	5,179
Income before income taxes and minority interest	7,575	19,834	32,547	43,055
Income tax provision	1,692	3,596	9,324	8,048
Income before minority interest	5,883	16,238	23,223	35,007
Minority interest	(1,328)	(1,443)	(3,710)	(5,093)
Net income	<u>\$ 4,555</u>	<u>\$ 14,795</u>	<u>\$ 19,513</u>	<u>\$ 29,914</u>
Earnings per share:				
Basic	<u>\$0.11</u>	<u>\$0.42</u>	<u>\$0.47</u>	<u>\$0.89</u>
Diluted	<u>\$0.11</u>	<u>\$0.35</u>	<u>\$0.45</u>	<u>\$0.77</u>
Weighted average number of common shares outstanding:				
Basic	<u>41,383</u>	<u>35,295</u>	<u>41,344</u>	<u>33,605</u>
Diluted	<u>41,735</u>	<u>45,269</u>	<u>51,036</u>	<u>43,320</u>

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)

	Nine Months Ended	
	July 30, 2006	July 31, 2005
Cash flows from operating activities:		
Net income	\$19,513	\$29,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,594	64,406
Consolidation, restructuring and related charges	13,216	-
Changes in assets and liabilities:		
Accounts receivable	(5,078)	(389)
Inventories	(597)	(46)
Other current assets	(4,514)	(5,455)
Accounts payable and other	(10,236)	16,231
Net cash provided by operating activities	<u>79,898</u>	<u>104,661</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(83,441)	(89,122)
Acquisition of additional interest in PK Ltd.	(8,432)	(40,350)
Proceeds from the sale of short-term investments and other	78,697	54,846
Investment in joint venture, technology and supply agreements	(120,505)	-
Purchases of short-term investments	(64,983)	(51,951)
Net cash used in investing activities	<u>(198,664)</u>	<u>(126,577)</u>
Cash flows from financing activities:		
Proceeds from (repayments of) long-term debt, net	7,493	(56,200)
Proceeds from issuance of common stock	1,172	169,556
Net cash provided by financing activities	<u>8,665</u>	<u>113,356</u>
Effect of exchange rate changes on cash flows	<u>(709)</u>	<u>(349)</u>
Net increase (decrease) in cash and cash equivalents	(110,810)	91,091
Cash and cash equivalents at beginning of period	196,049	142,300
Cash and cash equivalents at end of period	<u>\$ 85,239</u>	<u>\$233,391</u>
Supplemental cash flow information:		
Change in accrual for purchases of property, plant and equipment	<u>\$ 12,585</u>	<u>\$(14,049)</u>

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three and Nine Months Ended July 30, 2006 and July 31, 2005
(unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION AND STOCK-BASED COMPENSATION

Photronics, Inc. and its subsidiaries (the "Company" or "Photronics") 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 (FPD), and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits (IC) and a variety of FPD and, to a lesser extent, other types of electrical and optical components. The Company currently operates principally from nine manufacturing facilities, two of which are located in the United States, three in Europe, two in Taiwan, and one each in Korea and Singapore. A tenth facility in China is expected to begin production in the first quarter of the Company's fiscal 2007 year.

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 (consisting of normal recurring accruals) 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 October 29, 2006. Certain amounts in the condensed consolidated financial statements for prior periods have been reclassified to conform to the current presentation. 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 30, 2005.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment." This pronouncement amends SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123," and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires that companies account for awards of equity instruments under the fair value method of accounting and recognize such amounts in their statements of operations. The Company adopted SFAS No. 123(R) on October 31, 2005, using the modified prospective method. Subsequently compensation expense is recognized in its consolidated statements of income, over the service period that the awards are expected to vest. The Company recognizes expense for all stock-based compensation with graded vesting granted on or after October 31, 2005 on a straight-line basis over the vesting period of the entire award. For awards with graded vesting granted prior to October 31, 2005, the Company continues to recognize compensation cost over the vesting period following accelerated recognition as if each underlying vesting date represented a separate award. Stock-based compensation expense includes the estimated effects of forfeitures, which will be adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures will be recognized in the period of change and will also impact the amount of expense to be recognized in future periods.

Prior to October 31, 2005, the Company recorded stock-based compensation in accordance with the provisions of APB Opinion 25. The Company estimated the fair value of stock option awards in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," and disclosed the resulting estimated effect on net income on a pro forma basis. Forfeitures of employee awards were provided in the pro forma effects as they occurred.

As a result of adopting SFAS 123(R) on October 31, 2005, the Company's income before income taxes and net income for the three and nine months ended July 30, 2006 is \$0.4 million and \$0.8 million, respectively, or \$0.02 per share less for the nine months ended July 30, 2006, than if it had continued to account for share based compensation under APB Opinion No. 25. There has not been any change in the statement of cash flows as a result of adoption of SFAS 123(R). As of July 30, 2006, the Company had 1,807,244 share options that were vested and currently exercisable, with a weighted-

average exercise price of \$19.63, aggregate intrinsic value of \$35.5 million and a weighted average remaining contractual term of 6.3 years. There were 2,606,032 options outstanding at July 30, 2006, with a weighted average exercise price of \$18.80 and a weighted average remaining life of 7.3 years. As of July 30, 2006, the Company had 291,000 restricted stock awards subject to restrictions not yet lapsed, with a weighted average remaining term of 3.5 years. On July 30, 2006 the total compensation cost related to non-vested awards not yet recognized is approximately \$9.1 million, with a weighted average expected amortization period of 5 years. No equity awards were settled in cash during the periods presented.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation for the three and nine months ended July 31, 2005 (in thousands):

	Period Ended July 31, 2005	
	Three Months	Nine Months
Net income	\$14,795	\$29,914
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	91	166
Less: Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects	(2,782)	(5,878)
Pro forma net income	<u>\$12,104</u>	<u>\$24,202</u>
Basic earnings per share:		
As reported	\$0.42	\$0.89
Pro forma	\$0.34	\$0.72
Diluted earnings per share:		
As reported	\$0.35	\$0.77
Pro forma	\$0.29	\$0.63

During the three and nine month periods ended July 30, 2006, the Company incurred approximately \$0.6 million and \$1.3 million, respectively, in expense for its stock-based compensation plans, substantially all of which is in selling, general and administrative expenses. Of these amounts, approximately \$0.4 million and \$0.8 million, respectively, is attributed to adopting SFAS No. 123(R), and approximately \$0.2 million and \$0.5 million, respectively, relates to restricted stock awards.

The fair value of option and ESPP grants are estimated using the Black Scholes option pricing model. The fair value and weighted average assumptions used for the nine months ended July 30, 2006 and July 31, 2005 are noted in the following table. 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 option life, which represents the period of time that the options granted are expected to remain outstanding. The risk-free rate of return for the estimated life of the option is based on the U.S. treasury yield curve in effect at the time of grant.

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	Stock Options		ESPP Rights	
	Nine Months Ended		Nine Months Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
Weighted average fair value	\$8.52	\$7.47	\$7.99	\$5.76
Volatility	55%	61%	61%	60%
Risk-free rate of return	4.78%	3.75%	3.38%	1.99%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Weighted average life	4.5 years	3.0 years	1.0 year	1.0 year

The Company has several stock-based compensation plans under which incentive and non-qualified stock options and restricted

shares may be granted from shares authorized but unissued, treasury shares or shares reacquired by the Company. The plans permit the grant of a maximum of 4.7 million share options and shares to employees and outside directors. Option awards generally vest in one to four years, and have a 10-year contractual term. The vesting period for restricted shares has ranged from less than one to eight years. All incentive and non-qualified stock option grants must have an exercise price equal to the market value of the underlying common stock on the date of grant. The Company also has an Employee Stock Purchase Plan (ESPP), which permits employees to purchase a maximum of 900,000 shares. The ESPP shares are granted at 85% of the lower of the fair market value at the commencement of the offering or the last day of the payroll payment period. The vesting period for the ESPP plan is approximately one year. Under the ESPP, 709,829 shares were issued as of July 30, 2006, and up to 51,082 shares are subject to outstanding subscriptions. The Company also grants restricted stock awards annually. The restrictions on these awards lapse over a service period ranging from less than one to four years. Restricted stock awards of 285,000 and 24,000 shares were awarded during the nine month periods ended July 30, 2006 and July 31, 2005, respectively, at a weighted average market price per share of \$16.59 and \$16.65, respectively. Compensation expense is recognized over the period of restrictions. A summary of option activity under the option plans, as of July 30, 2006, and changes during the nine months then ended follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Balance at October 31, 2005	2,142,670	\$19.46
Granted	10,750	15.11
Exercised	(28,191)	10.67
Cancelled	(73,977)	23.81
Balance at January 29, 2006	2,051,252	19.40
Granted	-	-
Exercised	(21,507)	13.69
Cancelled	(12,412)	22.12
Balance at April 30, 2006	2,017,333	19.45
Granted	671,950	16.99
Exercised	(31,271)	12.55
Cancelled	(51,980)	22.82
Balance at July 30, 2006	2,606,032	18.80

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	<u>Range of Exercise Prices</u>		
	<u>\$9.74 - \$12.99</u>	<u>\$13.00 - \$22.73</u>	<u>\$22.74 - \$32.47</u>
Outstanding:			
Number of options	151,584	1,827,429	627,019
Weighted average remaining years	4.9	7.8	6.5
Weighted average exercise prices	\$12.37	\$16.97	\$25.67
Exercisable:			
Number of options	139,771	1,040,454	627,019
Weighted average exercise prices	\$12.37	\$16.97	\$25.67

**NOTE 2 - JOINT VENTURE, TECHNOLOGY LICENSE
AND OTHER AGREEMENTS WITH MICRON TECHNOLOGY, INC.**

On May 5, 2006, Photronics and Micron Technology, Inc. ("Micron") entered into a joint venture known as MP Mask Technology Center, LLC ("MP Mask"). The joint venture will develop and produce 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 at its Boise headquarters to MP Mask and Photronics paid Micron \$120 million on the date of closing and will pay Micron an additional \$7.5 million on each of the first and second anniversaries of the closing date in exchange for a 49.99% interest in MP Mask and a license for photomask technology of Micron and certain supply agreements.

Photronics and Micron also intend to build an independent state-of-the-art nanofab facility (the "New NanoFab") in Boise, Idaho, for volume production of advanced technology photomasks. The New NanoFab will be constructed by Micron, equipped and operated by Photronics and subject to a lease purchase in favor of Photronics. Photronics' total investment in the purchase and equipping of the New NanoFab is expected to fall within a range of \$100 million to \$150 million and may include redeployment of some existing Photronics assets. This New NanoFab is expected to be completed and to begin qualification by the end of 2007 or the first quarter of 2008.

Photronics is currently in the process of estimating the fair values of its \$135 million investment in MP Mask and the related technology and supply agreements. Fair values are being determined based on independent appraisals and management estimates. During the three month period ended July 30, 2006, the Company initially allocated \$65 million to its investment in MP Mask and \$70 million to the related technology and supply agreements. The Company intends to finalize its estimates for the fair values of these assets during the three month period ending October 29, 2006. Accordingly, the Company accounts for its interest in the joint venture using the equity method of accounting. The Company's proportionate share of income or losses from its investment in the joint venture is recorded in other income and expense.

NOTE 3 - ACQUISITION OF ADDITIONAL SHARES OF PK LTD.

During the first quarter of fiscal 2006, Photronics invested \$8.4 million to purchase additional shares of PK Ltd. (PKL), its non-wholly owned subsidiary in Korea. This transaction increased the Company's ownership in PKL from 96.5% as of October 30, 2005 to 99.7% as of July 30, 2006. During 2005, the Company invested \$58.3 million to purchase additional shares of PKL which increased the Company's ownership in PKL from 75% at October 31, 2004 to 96.5% at October 30, 2005. The Company has completed its analysis of fair value attributes of the additional ownership through the use of independent appraisals and management estimates, and has reallocated values that were preliminarily allocated to goodwill to PKL's customer relationships and patents which are included in "Other Intangible Assets," net, for \$7.2 million and \$0.2 million, respectively, both of which are being amortized over 10 years.

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NOTE 4 - COMPREHENSIVE INCOME

The following table summarizes comprehensive income for the three and nine months ended July 30, 2006 and July 31, 2005 (in thousands):

	Three Months Ended		Nine Months Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
Net income	\$4,555	\$14,795	\$19,513	\$29,914
Other comprehensive income:				
Change in unrealized net gains on investments, net of tax	550	556	(678)	174
Foreign currency translation adjustments	(1,237)	(4,010)	19,437	6,522
	(687)	(3,454)	18,759	6,696
Total comprehensive income	\$3,868	\$11,341	\$38,272	\$36,610

NOTE 5 - EARNINGS PER SHARE

The calculation of basic earnings per common share and diluted earnings per common share is presented below (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005

Net income	\$4,555	\$14,795	\$19,513	\$29,914
Effect of dilutive securities:				
Interest expense on convertible notes, net of related tax effect	-	1,086	3,257	3,257
Earnings for diluted earnings per share	\$4,555	\$15,881	\$22,770	\$33,171
Weighted average common shares computations:				
Weighted average common shares used for basic earnings per share	41,383	35,295	41,344	33,605
Effect of dilutive securities:				
Convertible notes	-	9,441	9,441	9,441
Employee stock options	352	533	251	274
Dilutive potential common shares	352	9,974	9,692	9,715
Weighted average common shares used for diluted earnings per share	41,735	45,269	51,036	43,320
Basic earnings per share	\$0.11	\$0.42	\$0.47	\$0.89
Diluted earnings per share	\$0.11	\$0.35	\$0.45	\$0.77

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The effect of the potential conversion of some of the Company's convertible subordinated notes and the exercise of certain stock options was antidilutive. The following table shows the amount of incremental shares outstanding that would have been added if the assumed conversion of convertible subordinated notes and stock options had been dilutive.

	Three Months Ended		Nine Months Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
Convertible notes	11,795	2,705	2,354	2,904
Employee stock options	1,472	609	1,166	839
Total potentially dilutive shares excluded	13,267	3,314	3,520	3,743

NOTE 6 - INVESTMENTS

Short-term investments at July 30, 2006 and October 30, 2005 consist of available-for-sale fixed income and marketable equity securities. Long-term investments of \$1,238 at July 30, 2006 and \$1,537 at October 30, 2005 included in "Other Assets" primarily consist of available-for-sale equity securities, where fair values were determined based upon quoted market prices. For investments with no quoted market price, the estimated fair value is based upon the financial condition and the operating results and projections of the investee and is considered to approximate cost.

Available-for-sale investments at July 30, 2006 were as follows (in thousands):

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term debt investments:				
Auction rate securities	\$33,600	\$ -	\$ -	\$33,600
Foreign bond funds and other	45,118	143	(267)	44,994
Total short-term investments	78,718	143	(267)	78,594

Long-term equity investments	93	1,145	-	1,238
	<u>\$78,811</u>	<u>\$1,288</u>	<u>\$(267)</u>	<u>\$79,832</u>

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Available-for-sale investments at October 30, 2005 were as follows (in thousands):

	<u>Cost Basis</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Short-term debt investments:				
Corporate bonds	\$10,655	\$ 27	\$ (27)	\$10,655
U.S. government and agency securities	14,113	-	(127)	13,986
Auction rate securities	20,000	-	-	20,000
Foreign bond funds and other	39,442	350	(213)	39,579
	<u>84,210</u>	<u>377</u>	<u>(367)</u>	<u>84,220</u>
Short-term equity fund	5,000	1,380	-	6,380
Total short-term investments	<u>89,210</u>	<u>1,757</u>	<u>(367)</u>	<u>90,600</u>
Long-term equity investments	134	1,403	-	1,537
	<u>\$89,344</u>	<u>\$3,160</u>	<u>\$(367)</u>	<u>\$92,137</u>

In determining whether investment holdings are other than temporarily impaired, the Company considers the nature, cause, severity and duration of the impairment. The Company and its investment advisors used analyst reports, credit ratings or other items as part of its review. No investments were considered to be other than temporarily impaired as of July 30, 2006.

The maturities of available-for-sale short-term debt investments as of July 30, 2006 were as follows (in thousands):

	<u>Cost Basis</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$27,318	\$27,214
Due after one year through five years	17,800	17,780
Due after five years through nine years	-	-
Due after ten years	33,600	33,600
	<u>\$78,718</u>	<u>\$78,594</u>

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In March of 2006, the Company implemented a restructuring program to streamline its operating infrastructure in North America. The actions include the closing of its Austin, Texas manufacturing facility and ceasing its Austin, Texas research and development activities. The Company recorded total restructuring charges of \$13.2 million or \$0.26 per diluted share during the nine month period ended July 30, 2006, primarily comprised of facility and equipment impairment at the Austin facility.

The restructure charges for the nine months ended July 30, 2006 included the following:

	<u>Cash</u>	<u>Non Cash</u>	<u>Total</u>
Asset impairments	\$ 767	\$ 9,914	\$10,681
Termination benefits	1,080	-	1,080
Lease and other	1,154	301	1,455
	<u>\$3,001</u>	<u>\$10,215</u>	<u>\$13,216</u>

The asset impairments relate primarily to the write-down of the building and related improvements to the Austin, Texas facility and certain machinery and equipment. The termination benefits are comprised of severance-related payments for employees terminated in connection with this restructuring program. Lease and other restructuring costs are primarily related to the planned settlement of existing lease obligations.

As of July 30, 2006, the Company expects to incur additional restructuring costs in the three month period ending October 29, 2006 of approximately \$2 to \$4 million for equipment redeployment and other related costs.

The following tables set forth the Company's restructuring reserve as of July 30, 2006 and reflects the activity affecting the reserve for the three and nine months then ended (in thousands):

	Three Months Ended July 30, 2006			
	<u>April 30, 2006</u>	<u>Charges</u>	<u>Credits</u>	<u>July 30, 2006</u>
Manufacturing capacity reduction and other	\$ 302	\$1,966	\$(1,967)	\$ 301
Workforce reductions	1,080	(176)	(604)	300
Leases and other	2,631	-	(246)	2,385
Total	<u>\$4,013</u>	<u>\$1,790</u>	<u>\$(2,817)</u>	<u>\$2,986</u>

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	Nine Months Ended July 30, 2006			
	<u>October 30, 2005</u>	<u>Charges</u>	<u>Credits</u>	<u>July 30, 2006</u>
Manufacturing capacity reduction and other	\$ -	\$10,681	\$(10,681)	\$ -
Workforce reductions	-	1,080	(780)	300
Leases and other	2,245	1,455	(1,014)	2,686
Total	<u>\$2,245</u>	<u>\$13,216</u>	<u>\$ 12,475</u>	<u>\$2,986</u>

The following tables set forth the Company's restructuring reserve as of July 31, 2005 and reflects the activity affecting the reserves for the three and nine months then ended (in thousands):

	Three Months Ended July 31, 2005			July 31, 2005
	May 1, 2005	Charges	Credits	
Leases and other	\$3,482	\$ -	\$(518)	\$2,964

	Nine Months Ended July 31, 2005			July 31, 2005
	October 31, 2004	Charges	Credits	
Leases and other	\$4,717	\$ -	\$(1,753)	\$2,964

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NOTE 8 - GEOGRAPHIC INFORMATION

The Company operates in a single industry segment as a manufacturer of photomasks, which are high precision quartz plates containing microscopic images of electronic circuits for use in the fabrication of semiconductors and FPDs. The Company's net sales, operating income (loss) and identifiable assets by geographic area as of and for the three and nine months ended July 30, 2006 and July 31, 2005 were as follows (in thousands):

	Three Months		Nine Months		As of July 30, 2006
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)	Total Assets
July 30, 2006:					
North America	\$ 28,956	\$(3,729)	\$ 94,002	\$(21,286)	\$ 449,910
Europe	20,017	3,781	59,829	12,897	112,400
Asia	59,187	8,797	185,748	36,644	456,425
	<u>\$108,160</u>	<u>\$ 8,849</u>	<u>\$339,579</u>	<u>\$ 28,255</u>	<u>\$1,018,735</u>

	Three Months		Nine Months		As of July 31, 2005
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)	Total Assets
July 31, 2005:					
North America	\$ 36,155	\$ 1,498	\$103,518	\$ (447)	\$ 542,121
Europe	18,584	2,335	56,445	7,231	109,256

Asia	60,162	14,048	169,014	39,399	353,153
	<u>\$114,901</u>	<u>\$17,881</u>	<u>\$328,977</u>	<u>\$46,183</u>	<u>\$1,004,530</u>

NOTE 9 - INCOME TAXES

The income tax provision differs from the amount computed by applying the United States statutory rate of 35 percent to income before income taxes due to the Company's reduced tax rates in certain Asian jurisdictions and valuation allowances placed on certain deferred tax assets generated by net operating loss carry forwards.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA creates a temporary incentive for United States multinationals to repatriate accumulated income earned outside of the United States at an effective rate of 5.25%. The Company has evaluated the effects of the repatriation provision and has elected not to avail itself of the AJCA's repatriation incentives.

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NOTE 10 - OTHER RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, FASB issued FASB Interpretation Number 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." The interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The provisions are effective as of the beginning of the Company's 2008 fiscal year. The Company is evaluating the impact, if any, that this statement will have on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 permits fair value re-measurement for any hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. As of July 30, 2006, the Company did not have any hybrid financial instruments subject to the fair value election under SFAS No. 155. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 2006.

In November 2005, the FASB issued SFAS 115-1 and SFAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP provides guidance on determining if an investment is considered to be impaired, if the impairment is other-than-temporary, and the measurement of impairment losses. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The Company adopted this FSP early and it had no impact on its financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 clarifies that a conditional asset retirement obligation, as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 did not have a significant effect on the Company's consolidated financial statements.

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

Overview

Management's discussion and analysis of the Company's financial condition, business results and outlook should be read in conjunction with its condensed consolidated financial statements and related notes. Various segments of this MD&A do 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 the Company's Annual Report on Form 10-K for the fiscal 2005 year, leading actual results to materially differ from these expectations.

The Company sells substantially all of its photomasks to semiconductor designers and manufacturers, and manufacturers of Flat Panel Displays (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. 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. In addition, the reduced use of customized integrated circuits (ICs), a reduction in design complexity or other changes in the technology or methods of manufacturing 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 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 semiconductor industry had been in a downturn from

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2001 until the end of 2003, which had a significant impact on the net sales and operating results of a majority of those companies in the industry.

As of July 2006, state-of-the-art for semiconductor masks is considered to be 65 nanometer and Generation 6 - Generation 7 process technology, while 90 nanometer is being moved into volume production. 130 and 180 nanometer and Generation 3 through Generation 5 process technology for FPDs constitute the majority of high performance designs being fabricated in volume today. The Company expects there to be an increase in 90 nanometer designs moving to wafer fabrication throughout fiscal 2006 and believes it is well positioned to service an increasing volume of this business through investments in manufacturing process and technology in the global regions where its customers are located. The Company currently produces FPD photomasks at its existing facility in Korea and its recently constructed new facility in Taichung, Taiwan. The Company is in the advanced stages of construction of a new photomask facility in Shanghai, China, with production expected to begin in the first quarter of the Company's fiscal 2007.

The photomask industry has been, and is expected to continue to be, characterized by technological change and evolving industry standards. In order to remain competitive, the Company will be required to continually anticipate, respond to and utilize changing technologies. In particular, the Company believes that as semiconductor geometries continue to become smaller it will be required to manufacture complex optically enhanced reticles, including optical proximity correction and phase-shift photomasks. Additionally, demand for photomasks has been, and could in the future be adversely affected by changes in methods of semiconductor manufacturing (which could affect the type or quantity of photomasks utilized), such as changes in semiconductor demand that favor field programmable gate arrays and other semiconductor designs that replace application-specific integrated circuits. Through the third quarter of fiscal 2006, the Company had not experienced a significant loss of revenue as a result of alternative semiconductor design methodologies. Additionally, increased market acceptance of alternative methods of transferring circuit designs onto semiconductor wafers, such as direct-write lithography, could reduce or eliminate the need for photomasks. Through the third quarter of fiscal 2006, direct-write lithography has not been proven to be a commercially viable alternative to photomasks, as it is considered too slow for high volume semiconductor wafer production. However, should direct-write or any other alternative methods of transferring integrated circuit designs to semiconductor wafers be done without the use of photomasks, the Company's business and results of operations would be materially adversely affected. If the Company is unable to anticipate, respond to, or utilize these or other changing technologies, due to resource, technological or other constraints, its business and results of operations could be materially adversely affected.

Both revenues and costs have been affected by the increased demand for high-end technology photomasks that require more advanced manufacturing capabilities but generally command higher average selling prices. To meet the technological demands of its customers and position the Company for future growth, the Company continues to make substantial investments in high-end manufacturing capability both at existing and new facilities. The Company's cash payments for capital expenditures for new facilities and equipment to support its customers' requirements for high technology products were an aggregate of approximately \$246 million for the three fiscal years ended October 30, 2005, plus \$83.4 million during the first nine months of fiscal 2006, resulting in significant increases in operating expenses. Based on the anticipated technological changes in the industry, the Company expects these trends to continue. The Company anticipates capital expenditures to be approximately \$120 million for the fiscal year ending October 29, 2006.

The manufacture of photomasks for use in fabricating ICs and other related products built using comparable photomask-based process technologies has been, and continues to be, capital intensive, based upon the need to maintain a technology-based infrastructure. The Company's integrated global manufacturing network and employees, which consist of nine sites, represent a significant portion of its fixed operating cost base. Should sales volumes decrease based upon the flow of design releases from the Company's customers, the Company may have excess and underutilized production capacity that could significantly impact operating margins.

As of July 2006, the vast majority of photomasks produced for the semiconductor industry employ geometries of 130 nanometers or larger. In the FPD market, a majority of photomasks produced are to support Generation 3 to Generation 5 processes. At these technologies, the Company can produce full lines of photomasks and there is no significant technology employed by the Company's competitors that is not available to the Company. Recently, a limited amount of semiconductor fabrication has begun utilizing 90 nanometer and Generation 6 (G6) and Generation 7 (G7) processes. The Company is currently capable of producing a broad range of photomasks at still smaller geometries, and has begun accelerating its efforts to support the development and production of photomasks for both the 65 nanometer and 45 nanometer technology nodes in semiconductors and Generation 8 in FPD. The Company's yields on FPD photomasks

compare favorably with its competitors, however, as is typical of industries in the midst of technological change, some of the Company's IC photomask competitors may be able to achieve higher manufacturing yields than the Company when producing these smaller geometry photomasks, in part because these competitors may have completed more cycles of learning than the Company in this area and in part because of the Company's need to replicate production of these complex photomasks at its three advanced technology locations worldwide.

On May 5, 2006, Photronics and Micron Technology, Inc. ("Micron") entered into a joint venture known as MP Mask Technology Center, LLC ("MP Mask"). The joint venture 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 at its Boise headquarters to MP Mask and Photronics paid Micron \$120 million on the date of closing and will pay Micron an additional \$7.5 million on each of the first and second anniversaries of the closing date in exchange for a 49.99% interest in MP Mask and a license for photomask technology of Micron and certain supply agreements.

Photronics and Micron also intend to build an independent state-of-the-art nanofab facility (the "New NanoFab") in Boise, Idaho, for volume production of advanced technology photomasks. The New NanoFab will be constructed by Micron, equipped and operated by Photronics and subject to a lease purchase in favor of Photronics. Photronics' total investment in the purchase and equipping of the New NanoFab is expected to fall within a range of \$100 million to \$150 million and may include redeployment of some existing Photronics assets. This New NanoFab is expected to be completed and to begin qualification by the end of calendar 2007 or first quarter 2008.

In March of 2006, the Company committed to and began implementing a restructuring program to streamline its operating infrastructure in North America. The actions include the announced closing of the Austin, Texas manufacturing and R&D center and the relocation of the development and manufacturing work to other facilities within the global network. The Company recorded total restructuring charges of \$13.2 million or \$0.26 per diluted share in the nine months ended July 30, 2006. The Company anticipates that it will incur additional related restructuring charges, in the range of \$2 to \$4 million, during the three month period ended October 29, 2006.

**Material Changes in Results of Operations
Three and Nine Months ended July 30, 2006 versus July 31, 2005**

Note: All of the following tabular comparisons, unless otherwise indicated, are for the quarters ended July 30, 2006 (Q3 2006) and July 31, 2005 (Q3 2005) and for the nine months ended July 30, 2006 (YTD 2006) and July 31, 2005 (YTD 2005) in thousands:

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

	Three Months Ended		Nine Months Ended	
	Q3 2006	Q3 2005	YTD 2006	YTD 2005
Net sales	100%	100%	100%	100%
Cost of sales	69.6	65.6	67.3	66.6
Gross margin	30.4	34.4	32.7	33.4
Selling, general and administrative expenses	14.4	12.0	13.7	12.2
Research and development expenses	6.2	6.9	6.8	7.2
Consolidation, restructuring and related charges	1.6	-	3.9	-
Operating income	8.2	15.5	8.3	14.0
Other income (expense), net	(1.2)	1.7	1.3	(1.0)
Income before income taxes and minority interest	7.0	17.2	9.6	13.0

Income tax provision	1.6	3.1	2.7	2.4
Minority interest	(1.2)	(1.2)	(1.1)	(1.5)
Net income	4.2%	12.9%	5.8%	9.1%

Net Sales

	Three Months Ended			Nine Months Ended		
	Q3 2006	Q3 2005	Percent Change	YTD 2006	YTD 2005	Percent Change
IC sales	\$ 87.2	\$ 94.2	(7.5)%	\$264.6	\$275.8	(4.1)%
FPD sales	21.0	20.7	1.7	75.0	53.2	41.2
Total net sales	\$108.2	\$114.9	(5.9)%	\$339.6	\$329.0	3.2 %

Net sales for Q3 2006 decreased (5.9%) to \$108.2 million as compared to Q3 2005 as a result of reduced units and lower average selling prices (ASPs) for mainstream IC and FPD photomasks. Net sales of FPD photomasks were essentially flat during Q3 2006 as compared to Q3 2005, however, FPD sales of mainstream photomasks were also impacted by reduced ASPs and volumes. YTD 2006 net sales increased 3.2% to \$339.6 million as compared to YTD 2005, primarily related to improved demand for high-end technology applications, which typically have higher average selling prices, for both IC and FPD photomasks. High-end photomask applications include mask sets for semiconductor designs at and below 130nm for ICs, and for FPD products using G6 and above technologies. By geographic area, for Q3 2006 as compared to Q3 2005, net sales in Asia decreased \$(1.0) million or (1.6%), North American sales decreased \$(7.2) million or (19.9%), and

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European sales increased \$1.4 million or 7.7%. By geographic area, for YTD 2006 compared to YTD 2005, net sales in Asia increased \$16.7 million or 9.9%, North American sales decreased \$(9.5) million or (9.2%), and European sales increased \$3.4 million or 6.0%.

Gross Margin

	Three Months Ended			Nine Months Ended		
	Q3 2006	Q3 2005	Percent Change	YTD 2006	YTD 2005	Percent Change
Gross margin	\$32.9	\$39.6	(16.8)%	\$110.9	\$110.0	0.8%
Percentage to sales	30.4%	34.4%		32.7%	33.4%	

Gross margin decreased to 30.4% of net sales for Q3 2006 as compared to 34.4% in Q3 2005 due to lower net sales and reduced utilization of the Company's expanded equipment base, including the Company's FPD manufacturing site in Taichung, Taiwan. The gross margin for YTD 2006 decreased to 32.7%, compared to 33.4% for YTD 2005 as a result of its expanded manufacturing capability in 2006. 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. The gross margin percentage throughout the remainder of fiscal 2006 could be negatively impacted by increased depreciation expense associated with the Company's capital expenditures as the Company increases its fixed cost manufacturing base, principally in Asia.

Selling, General and Administrative Expenses

	Three Months Ended			Nine Months Ended		
	Q3	Q3	Percent	YTD	YTD	Percent

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>
Selling, general and administrative expenses	\$15.5	\$13.8	12.8%	\$46.4	\$40.0	16.1%
Percentage to sales	14.4%	12.0%		13.7%	12.2%	

Selling, general and administrative expenses increased \$1.7 million and \$6.4 million for Q3 2006 and YTD 2006 as compared to the same prior year periods. The increases are primarily related to the Company's Asia expansion, which included start-up costs for the Company's Taiwan and China facilities, and to a lesser extent SFAS 123® expenses.

Research and Development

	<u>Three Months Ended</u>			<u>Nine Months Ended</u>		
	<u>Q3 2006</u>	<u>Q3 2005</u>	<u>Percent Change</u>	<u>YTD 2006</u>	<u>YTD 2005</u>	<u>Percent Change</u>
Research and development	\$6.7	\$7.9	(14.8)%	\$23.0	\$23.8	(3.4)%
Percentage to sales	6.2%	6.9%		6.8%	7.2%	

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Research and development expenditures for Q3 2006 and YTD 2006 decreased as compared to prior same year periods as a result of the Company closing its technology operations in Austin Texas, which were in part offset by the initial amortization of the Micron Technology Agreement. Research and development expenditures consist primarily of global development efforts relating to high-end process technologies for advanced sub wavelength reticle solutions at and below 65 nanometers and next generation FPD technologies.

Restructuring

	<u>Three Months Ended</u>			<u>Nine Months Ended</u>		
	<u>Q3 2006</u>	<u>Q3 2005</u>	<u>Percent Change</u>	<u>YTD 2006</u>	<u>YTD 2005</u>	<u>Percent Change</u>
Restructuring	\$1.8	\$ -	N/A	\$13.2	\$ -	N/A

In the second quarter of 2006, the Company implemented a plan to streamline its operating infrastructure in North America by ceasing the manufacture and research and development of photomasks at its Austin, Texas facility. The Company recorded a total restructuring charge of \$13.2 million for YTD 2006, primarily comprised of a \$10.7 million write-down of facilities and equipment. The Company expects relating restructuring charges to be in the range of \$2 to \$4 million during the three month period ending October 29, 2006.

Other Income (Expense), Net

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		
	<u>Q3 2006</u>	<u>Q3 2005</u>	<u>YTD 2006</u>	<u>YTD 2005</u>	
Interest expense		\$(3.0)	\$(2.8)	\$(9.0)	\$(8.3)
Investment and other income, net		1.7	4.8	13.3	5.2
Other income (expense), net		\$(1.3)	\$ 2.0	\$ 4.3	\$(3.1)

Interest expense increased for the three and nine months ended July 30, 2006 as compared to the same prior year periods due to increases in interest rates as the Company's interest rate swap contract effectively converted \$100 million of its 4.75% fixed rate convertible subordinated notes to a variable rate. Investment and other income, net, for Q3 2006 decreased compared to Q3 2005 due to reduced foreign exchange gains and the impact in Q3 2005 of a favorable settlement of an existing grant obligation. For YTD 2006, the increase in investment and other net income, net, compared to the same prior year period, is due to foreign currency transaction gains, gains on the sale of certain investments, and increased investment income. Further, investment and other income, net, for YTD 2005 includes early extinguishment charges of \$0.2 million and \$1.2 million, respectively, relating to the redemption of the Company's 4.75% convertible subordinated notes.

Provision for Income Taxes

	Three Months Ended		Nine Months Ended	
	Q3 2006	Q3 2005	YTD 2006	YTD 2005
Income tax provision	\$1.7	\$3.6	\$9.3	\$8.0
Effective income tax rate	22.3%	18.1%	28.6%	18.7%

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The provision for income taxes for Q3 2006 was \$1.7 million compared to \$3.6 million for Q3 2005. For YTD 2006 the provision for incomes taxes was \$9.3 million compared to a provision of \$8.0 million for YTD 2005. The effective rate for YTD 2006 increased to 28.6% as compared to 18.7% for the comparable 2005 period, primarily as a result of consolidation, restructuring and related charges incurred in the nine months ended July 30, 2006 for which the Company was unable to record a related tax benefit due to net operating loss carryforwards in the U.S. The effective tax rate is impacted by the Company's inability to record tax benefits on net operating losses generated in the U.S. and tax holidays and credits in certain foreign locations. The Company's operations have followed the recent migration of semiconductor industry fabrication to Asia, where the Company operates in countries where it is accorded favorable tax jurisdictions. The Company is accorded a tax holiday in Taiwan, which will expire in 2006. In Korea, various investment tax credits have been utilized to reduce the Company's effective income tax rate.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA creates a temporary incentive for United States multinationals to repatriate accumulated income earned outside of the United States at an effective rate of 5.25%. The Company has evaluated the effects of the repatriation provision and has elected not to avail itself of the AJCA's repatriation incentives.

Minority Interest in Consolidated Subsidiaries

Minority interest expense was \$1.3 million and \$3.7 million for Q3 2006 and YTD 2006. The expense reflects the minority interest in earnings of the Company's non-wholly owned subsidiaries in Taiwan and Korea. The Company's ownership in its subsidiary in Taiwan was approximately 58% at July 30, 2006 and October 30, 2005. During the first quarter of 2006, the Company increased its ownership in its subsidiary in Korea from 96.5% at October 30, 2005 to 99.7%, for an investment of \$8.4 million. The decreased minority interest expense for the three and nine months ended July 30, 2006 as compared to the same prior year periods was due to the Company's increased ownership of its subsidiary in Korea.

Liquidity and Capital Resources

The Company's working capital decreased \$202.9 million to \$97.7 million at July 30, 2006, as compared to \$300.6 million at October 30, 2005 as a result of the investment in MP Mask Technology Center (MP Mask) and related technology license and supply agreements with Micron Technology, Inc. (Micron), and the classification of \$86.6 million of the Company's 4.75% convertible subordinated notes due in December of 2006 to current liabilities from long-term debt. Cash, cash equivalents and short-term investments at July 30, 2006 were \$163.8 million compared to \$286.6 million at October 30, 2005. The decrease in cash, cash equivalents and short-term investments during the nine months ended July 30, 2006 was primarily due to the \$120.0 million payment for the investment in MP Mask and related technology license and supply agreements with Micron, \$83.4 million cash payments for capital expenditures which exceeded \$79.9 million net cash provided by operating activities by \$3.5 million. In addition, the Company invested an additional \$8.4 million in PK Ltd. in Q1 of 2006.

Cash provided by operating activities was \$79.9 million for the nine months ended July 30, 2006, as compared to \$104.7 million for the same period last year. This decrease was primarily due to higher accounts receivable balances resulting from increased revenues, increased FPD inventories in Taiwan and Korea, and higher net income in 2005. Cash used in investing activities for the nine months ended July 30, 2006 was \$198.7 million, which is comprised of \$120 million for the initial payment to Micron for the formation of the MP Mask joint venture, capital expenditures of \$83.4 million, and \$8.4 million additional investment in PKL, offset by net proceeds from sales of short-term investments of \$13.7 million. Cash provided by financing activities was \$8.7 million. In the nine months ended July 31, 2005, cash provided by financing activities was \$113.4 million which was primarily

comprised of proceeds from the issuance of common stock of \$169.6 million offset by the redemption of \$51.4 million of the Company's 4.75% convertible subordinated notes.

The Company's commitments represent investments in additional manufacturing capacity as well as advanced equipment for the production of high-end, more complex photomasks. At July 30, 2006, Photronics had commitments outstanding for capital expenditures of approximately \$18 million. Additional commitments for capital expenditures are expected to be incurred during the remainder of fiscal 2006. The Company expects capital expenditures for fiscal 2006 to be approximately \$120 million.

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On May 5, 2006, the Company entered into various agreements with Micron Technologies, Inc., including agreements relating to the formation of a joint venture with Micron Technologies, Inc. to form the MP Mask Technology Center and a technology license agreement. In connection with these agreements, the Company invested \$135 million, \$120 million of which was paid in May 2006, and the remaining \$15 million will be paid in 2007 and 2008. In addition, Photronics intends to invest in the construction of a nanofab facility in Boise, Idaho for approximately \$100 - \$150 million, some of the cost of which may be from the redeployment of equipment currently owned by Photronics.

In January of 2006, the Company announced its plans to build a NanoFab photomask fabrication facility in Korea to support the development and volume production of advanced photomask technologies. If the Company proceeds with the construction of the NanoFab facility in Korea over the next several years, it expects the investment to range between \$100 to \$150 million, which includes the redeployment of certain manufacturing systems and process technologies.

The Company will continue to use its working capital to finance its capital expenditures. Photronics believes that its currently available resources, together with its capacity for 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. The Company cannot provide assurance that it will be able to obtain the additional capital required in connection with its operations on reasonable terms, if at all, or that any such expenditures will not have a material adverse effect on its business and results of operations.

In April of 2006, the Company's Korean subsidiary entered into a foreign currency rate swap contract. Under the terms of the contract, the Company has effectively converted a \$50 million interest bearing intercompany loan denominated in U.S. dollars to Korean won. The contract terminates in December 2006. The Company has elected not to designate the foreign currency rate swap contract as a hedge.

Stock-Based Compensation

On October 31, 2005, the Company adopted SFAS No. 123(R) using the modified prospective transition method. The Company now recognizes compensation expense in its consolidated statements of operations over the service period that the awards are expected to vest. During the nine month period ended July 30, 2006, the Company incurred approximately \$1.3 million in expense for its stock-based compensation plans, substantially all of which is recorded in selling, general and administrative expenses. Of this amount, approximately \$0.8 million is attributed to adopting SFAS No. 123(R), and approximately \$0.5 million relates to restricted stock awards. As of July 30, 2006, approximately \$9.1 million in stock-based compensation expense is attributable to non vested awards. This expense will be amortized over the remaining weighted average vesting period of 5 years.

Business Outlook

A majority of the Company's revenue growth has come from, and 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 from North America and Europe as a result of utilizing technology licensed under the Company's technology license with Micron. The Company's Korean and Taiwanese operations are non-wholly owned subsidiaries; therefore a portion of earnings generated at each location is allocated to the minority shareholders.

The Company continues to assess its global manufacturing strategy as its sales volume continues to grow in Asia. In addition to the restructuring plan implemented in the second quarter of 2006 relating to closing the Austin facility, this ongoing assessment could result in the future, in facilities closures, asset redeployment, workforce reductions, and the addition of increased manufacturing facilities, all of which would be based on market conditions and customer requirements.

The Company's future results of operations and the other forward-looking statements contained in this filing involve a number of risks and uncertainties. Various factors that have been discussed and a number of other factors could cause actual results to differ materially from the Company's expectations.

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Application of Critical Accounting Procedures

The Company's consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. The Company believes that the following are some of the more critical judgment areas in the application of the Company's accounting policies that affect its financial condition and results of operations.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in them. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The Company's estimates are based on the facts and circumstances available at the time; different reasonable estimates could have been used in the current period, and changes in the accounting estimates used are likely to occur from period to period, which may have a material impact on the presentation of the Company's financial condition and results of operations. Actual results reported by the Company may differ from such estimates. The Company reviews these estimates periodically and reflects the effect of revisions in the period that they are determined.

Derivative Instruments and Hedging Activities

The Company records derivatives in the consolidated balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives are reported in the consolidated statements of income or as accumulated other comprehensive income (loss), a separate component of shareholders' equity, depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge. The Company uses judgment in assessing the fair value of derivatives and related financial instruments, including assumptions utilized in derivative fair value models in areas such as projected interest rates and changes in the Company's stock price during the contract term.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Repairs and maintenance, as well as renewals and replacements of a routine nature are charged to operations as incurred, while those which improve or extend the lives of existing assets are capitalized. Upon sale or other disposition, the cost of the asset and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operations.

Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 15 to 40 years, machinery and equipment over 3 to 10 years and furniture, fixtures and office equipment over 3 to 5 years. Leasehold improvements are amortized over the life of the lease or the estimated useful life of the improvement, whichever is less. Judgment and assumptions are used in establishing estimated useful lives and depreciation periods. The Company also uses judgment and assumptions as it periodically reviews property, plant and equipment for any potential impairment in carrying values whenever events such as a significant industry downturn, plant closures, technological obsolescence or other changes in circumstances indicate that their carrying amount may not be recoverable. Actual fair values may differ from estimated fair values.

Intangible Assets

Intangible assets consist primarily of goodwill and other acquisition-related intangibles, and software development costs. These assets are stated at fair value as of the date acquired less accumulated amortization. Amortization is calculated on a straight-line basis over an estimated useful life of 5 years for software development costs and 3 to 15 years for acquisition-related assets. The future economic benefit of the carrying value of intangible assets is reviewed annually and the Company uses judgment whenever events or changes in circumstances indicate the carrying value of an intangible asset may not be recoverable based on discounted cash flows or market factors and an impairment loss would be recorded in the period so determined.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on the Company's judgment and estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Income Taxes

The income tax provision is computed on the basis of consolidated financial statement income or loss before income taxes. Deferred income taxes reflect the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In the event the Company determines that future taxable income is not expected to be sufficient, the Company uses judgment and assumptions to determine if valuation allowances for deferred income tax assets are required by considering future market growth, forecasted operations, future taxable income, and the mix of earnings in the tax jurisdictions in which it operates in order to determine the need for a valuation allowance.

The Company considers income taxes in each of the tax jurisdictions in which it operates in order to determine its effective income tax rate. Current income tax exposure is identified along with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. The actual annual amount of taxable income in each tax jurisdiction may differ from the estimates used to compute the effective income tax rate during the first, second and third quarters. Additionally, the Company evaluates the recoverability of deferred income tax assets from future taxable income and establishes valuation allowances if recovery is deemed not likely. Accordingly, the income tax provision in the consolidated statements of income is impacted by changes in the valuation allowance. Significant management estimates and judgment are required in determining any valuation allowance recorded against net deferred tax assets.

Revenue Recognition

The Company recognizes revenue when both title and risk of loss transfer to the customer. The Company makes estimates and assumptions and uses judgment relating to discounts and estimates for product return and warranties which are accrued and recognized at the time of sale.

Discounts - Sales discounts are negotiated with customers prior to billing and at the time of billing, sales invoices are prepared net of negotiated sales discounts.

Product Returns - Customer returns have historically been insignificant. However, the Company does record a liability for the insignificant amount of estimated sales returns based upon historical experience.

Warranties and Other Post Shipment Obligations - For a 30-day period, the Company warrants that items sold will conform to customer specification. However, the Company's liability is limited to repair or replacement of the photomasks at its sole option. The Company inspects photomasks for conformity to customer specifications prior to shipment. Accordingly, customer returns of items under warranty have historically been insignificant. However, the Company records a liability for the insignificant amount of estimated warranty returns based on historical experience. The Company's specific return policies include accepting returns for products with defects or products that have not been produced to precise customer specifications. At the time of shipment, a liability is established for these items.

Customer Acceptance - Customer acceptance occurs concurrently with the transfer of title and risk of loss based upon the applicable shipping and delivery terms.

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Allowance for Doubtful Accounts - The Company is required to use considerable judgment in estimating the collectibility of its accounts receivable. This estimate is based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, significant one-time events, and historical experience.

Effect of New Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation Number 48 (FIN 48), "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109." The interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The provisions are effective as of the beginning of the Company's 2008 fiscal year. The Company is evaluating the impact, if any, this statement will have on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No 155 permits fair value re-measurement for any hybrid financial instruments that contains an embedded derivative that otherwise would require bifurcation. As of July 30, 2006, the Company did not have any hybrid financial instruments subject to the fair value election under SFAS No 155. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 2006.

In November 2005, the FASB issued SFAS No. 115-1 and SFAS No. 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP provides guidance on determining if an investment is considered to be impaired, if the impairment is other-than-temporary, and the measurement of impairment losses. It also includes accounting

considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The Company's early adoption of this FSP had no impact on its financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 clarifies that a conditional asset retirement obligation, as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 did not have a significant effect on the Company's consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company records derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives are reported in the statement of income or as accumulated other comprehensive income (loss), a separate component of shareholders' equity, depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge. In general, the types of risks hedged are those relating to the variability of future cash flows caused by movements in foreign currency exchange rates. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge.

In the fourth quarter of fiscal year 2002, the Company entered into an interest rate swap contract, which effectively converted \$100 million of its 4.75% fixed rate convertible subordinated notes to a variable rate. Contract payments are made on a LIBOR based variable rate (6.81% at July 30, 2006) and are received at the 4.75% fixed rate.

The interest rate swap contract is used to adjust the proportion of total debt that is subject to fixed interest rates. This contract is considered to be a hedge against interest rate risk of the Company's fixed rate debt obligation. Accordingly, the contract has been reflected at fair value in the Company's consolidated balance sheets and the related portion of fixed rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligation attributable to the interest rate risk being hedged. In addition, changes during any accounting period in the fair value of the contract, as well as offsetting changes in the adjusted carrying value of the related portion of fixed rate debt being hedged, are recognized as adjustments to interest expense in the Company's

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consolidated statements of income. The net effect of this accounting on the Company's operations results, is that the interest expense portion of fixed rate debt being hedged is generally recorded based on variable rates. At this time, the Company does not have plans to enter into additional interest rate swap contracts, however, at a future point the Company may decide to do so.

Foreign Currency Exchange Rate Risk

The Company conducts business in several major international currencies through its worldwide operations and is subject to changes in foreign exchange rates of such currencies. Changes in exchange rates can positively or negatively affect the Company's sales, operating margins and retained earnings. The functional currencies of the Company's Asian subsidiaries are the Korean won, New Taiwan dollar and Singapore dollar. The functional currencies of the Company's European subsidiaries are the British pound and euro.

The Company attempts to minimize its risk to foreign currency transaction losses by producing its products in the same country in which the products are sold and thereby generating revenues and incurring expenses in the same currency and by managing its working capital. In some instances, the Company may sell products in a currency other than the functional currency of the country where it was produced. To date, the Company has not experienced a significant foreign exchange loss on these sales. However, there can be no assurance that this approach will be successful, especially in the event of a significant adverse movement in the value of any foreign currencies against the United States dollar. The Company does not engage in purchasing forward exchange contracts for speculative purposes.

The Company's primary net foreign currency exposures as of July 30, 2006 included the Korean won, Singapore dollar, New Taiwan dollar, euro and the British pound. As of July 30, 2006, a 10% adverse movement in the value of these currencies against the United States dollar would have resulted in a net unrealized pre-tax loss of \$5.4 million. The Company's exposure to other foreign currency risks as of July 30, 2006, include the Japanese yen against the Korean won, for which the Company does not believe that a 10% change in the exchange rates of these currencies would have a material effect on its consolidated financial position, results of operations or cash flows.

In April of 2006, the Company's Korean subsidiary entered into a foreign currency rate swap contract. Under the terms of the contract, the Company has effectively converted a \$50 million interest bearing intercompany loan denominated in U.S. dollars to Korean won. The contract terminates in December 2006. The Company has elected not to designate the foreign currency rate swap contract as a hedge.

Interest Rate Risk

The majority of the Company's borrowings are in the form of its convertible subordinated notes, which bear interest at rates of 2.25% and 4.75% and certain foreign secured and unsecured notes payable which bear interest at rates between 5.85% and 6.12%. In addition, the interest rate swap contract discussed above subjects the Company to market risk as interest rates fluctuate and impacts the interest payments due on the \$100 million notional amount of the contract. At July 30, 2006, the Company had approximately \$33 million, net, in variable rate financial instruments which were sensitive to interest rate risk. A 10% change in interest rates would not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Act of 1934) as of July 30, 2006, the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of July 30, 2006, the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

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Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's third quarter of fiscal 2006 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. RISKS RELATING TO THE COMPANY'S BUSINESS

Other than the following, there have been no other material changes to risks relating to the Company's business as disclosed in Part I, Item 1A of the Company's Form 10-K for the year ended October 30, 2005.

The Company's agreements with Micron Technology, Inc. have several risks.

On May 5, 2006, Photronics and Micron Technology, Inc. ("Micron") entered into a joint venture known as MP Mask Technology Center, LLC ("MP Mask"). The joint venture will develop and produce 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 at its Boise headquarters to MP Mask and Photronics paid Micron \$120 million on the date of closing and will pay Micron an additional \$7.5 million on each of the first and second anniversaries of the closing date in exchange for a 49.99% interest in MP Mask and a license for photomask technology of Micron and certain supply agreements.

Photronics and Micron also intend to build an independent state-of-the-art nanofab facility (the "New NanoFab") in Boise, Idaho, for volume production of advanced technology photomasks. The New NanoFab will be constructed by Micron, equipped and operated by Photronics and subject to a lease purchase in favor of Photronics. Photronics' total investment in the purchase and equipping of the New NanoFab is expected to fall within a range of \$100 million to \$150 million and will include redeployment of some existing Photronics assets. This New NanoFab is expected to be completed and to begin qualification by the end of 2007 or the first quarter of 2008.

Failure by Photronics or Micron to comply or execute under any of these agreements could result in a significant disruption to the Company's business and technology activities, and could adversely affect the Company's operations and cash flows.

Item 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description
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10.23	Executive Employment Agreement between the Company and Soo Hong Jeong dated August 24, 2001, as amended March 18, 2004, November 28, 2005 and June 9, 2006.
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- 31.1 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.
- 31.2 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.
- 32.1 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.
- 32.2 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.

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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: September 7, 2006

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EXHIBIT 10.23

Executive Employment Agreement between the Company and Soo Hong Jeong dated August 24, 2001, as amended March 18, 2004, November 28, 2005 and June 9, 2006.

This Agreement is entered into as of the 24th day of August, 2001, by and between PHOTRONICS, INC., a corporation organized and existing under the laws of the state of Connecticut, having a place of business at 15 Secor Road, P.O. Box 5226, Brookfield, CT 06804 (the "Company") and Mr. SOO HONG JEONG, an individual resident of the Republic of Korea ("Korea") with resident registration no. 550718-1031233, currently domiciled at Kyunggi-do, Sungnam-si, Bundang-gu, Gumi-dong, Samik Park Villa, Suite 202 ("Jeong").

WHEREAS, the Company currently owns approximately 51% of the outstanding common shares of PKL, a corporation organized and existing under the laws of Korea ("PKL"):

WHEREAS, Jeong has assisted the Company in relation to the Company's efforts to acquire the share ownership of PKL as set forth above;

WHEREAS, the Company will cause PKL to continue to employ Jeong in his present capacity as President and Chief Executive Officer (CEO) of PKL and on the same terms as his existing agreement with PKL attached hereto as Exhibit A, except as set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Services. In consideration of Jeong's assistance for the Company in relation to the Company's and/or Affiliates of the Company (as defined below) in collectively acquiring over fifty percent (50%) of the issued and outstanding share ownership of PKL and in recognition of Jeong's contribution for the past and future growth of PKL, and subject to Article 8 hereunder, the Company will cause PKL to continue to employ Jeong as President and CEO of PKL for a period of five (5) years commencing on the date hereof (the "Employment Period"). Provided, that following the fourth (4th) year of the Employment Period, the parties may mutually agree to extend Jeong's employment with the Company for an additional two (2) year period or more, upon terms and conditions to be mutually agreed upon by the parties.

For purposes of this Agreement, the term "Affiliate" shall have the same meaning hereunder as the term is defined by the United States Securities and Exchange Commission.

2. Annual Salary. During the Employment Period, Jeong shall be paid a gross base salary equal to his per annum salary at the commencement of the Employment Period. For clarification, the above base salary does not include any other cash or non-cash benefits that Jeong may obtain from PKL in relation to his services for PKL (see article 4 below).

3. The Shares. In consideration of Jeong's assistance for the Company and/or Affiliates as set forth in Article 1 above and his past and future contributions to the growth of PKL, Jeong shall receive from the Company (i) one hundred thousand (100,000) shares of the common stock of PKL, or the equivalent value in Photronics, Inc. common shares (the "Shares") and (ii) cash in Korean Won in the amount equivalent to the total price of fifty thousand (50,000) shares of the common stock of PKL. For purposes of this Section 3, the share value for calculating the value of PKL common stock or the equivalent value of Photronics, Inc. common shares, as the case may be, shall be the closing market price of such shares as of the effective date of this Agreement in their respective markets and time zones. For avoidance of doubt, the Shares shall not include any shares of PKL currently owned by Jeong. The delivery of, and the transfer of the title to, the Shares to Jeong shall be completed as soon as practicable (but not later than fifteen (15) days) from the date hereof. Provided that in carrying out the transfer of Shares under Article 3 hereof, the Company will fully cooperate with Jeong in reducing Jeong's tax liability under Korean law including, but not limited to, adjusting the time and method of transfer of the Shares. Provided further, that the Company shall not be obligated to cooperate in any transfer method that may cause any adverse financial consequences to the Company.

Provided, however, that Jeong shall not:

(a) During the term of the Employment Period and for two (2) years thereafter, create any lien, mortgage, security interest, pledge encumbrance, preemptive right, charge in the nature of a lien or security interest, or option or other contract to give any of the foregoing on, over or affecting all or any of the Shares;

(b) During the term of the Employment period and for two (2) years thereafter, assign, convey, sell, transfer or otherwise dispose of all or any or the Shares of any legal or beneficial interest therein, or agree, whether conditionally or otherwise, to do any of the foregoing, without first notifying the Company in writing of his intent to sell, transfer or otherwise dispose of all or any of his Shares and offering the Company the opportunity on not less than (10) business days notice to purchase the same on the same terms and conditions as a bona fide third party;

(c) Offer to sell any of the Shares to any third party during the first (1st) year of the Employment Period; and

(d) Offer to sell more than ten-percent (10%) of the Shares in any other year of the Employment Period. Provided, that Jeong may sell the Shares above each yearly restriction by accumulating those Shares that were not sold in a prior year.

4. Other Benefits. In addition to his annual salary and the Shares, Jeong shall continue to receive other benefits as President and CEO from PKL as described in his existing employment agreement, including, but not limited to, an annual education allowance for the education of his children at the commencement of the Employment Period.

5. Non-Competition and Other Matters.

a) Jeong agrees that during the period of his employment with the Company and for a period of two (2) years thereafter, ("Restrictive Period"), he shall not, without the prior written consent of the Company, directly as principal, partner, director, officer, stockholder, consultant, agent or otherwise, or through any corporation, partnership, or other entity engage or participate in, or assist in any manner or in any capacity, or have any interest in, or otherwise be related with, any person, firm, corporation, association, or other entity located in the Pacific Rim engaged in any business competing with the business of the Company or any subsidiary of the Company or PKL as such business exists as of the date of termination of Jeong's employment. For purposes of this Article 5, the term "Pacific Rim" shall be understood to include S. Korea, China, Taiwan, Australia and New Zealand.

b) During the Restrictive Period, Jeong also agrees that he will not directly, or indirectly, hire any employees or otherwise solicit the employment of any persons that were employed by PKL at the commencement of that date, and

c) During the term of the Employment Period and thereafter, Jeong shall maintain in confidence and not use or disclose any proprietary or confidential information of PKL including, but not limited to financial information, marketing and sales information, customer lists, technical and engineering information, and business strategies.

6. Confidentiality. Jeong agrees that he will not at any time disclose to any third party the existence of this Agreement or the terms contained herein, without the express written consent of the Company.

7. Independent Contractor. Jeong represents to the Company that the services he will be providing to PKL in accordance with the provisions of this Agreement do not conflict with any existing contracts or obligations that he may have with any third party and he shall always perform his services in accordance with the applicable laws.

8. Termination. This Agreement may be terminated by the Company upon reasonable advanced notice to Jeong and the Company may procure termination of Jeong's services as President and CEO of PKL, in the event that any of the following substantially interferes with PKL's business or Jeong's ability to perform as President and CEO:

(i) Jeong's physical disability or mental incapacity;

(ii) Jeong's criminal activity;

(iii) Jeong's reckless breach of his fiduciary duty to the Company.

9. Consequences of Termination.

(a) In the event that Jeong is terminated by the Company without cause prior to the expiry of the Employment Period, the Company shall cause PKL to compensate Jeong for the remaining terms of the Employment Period pro rata based on his then-present salary. Provided, however, that such pro rata compensation shall in no event be less than the equivalent of Jeong's one (1) year salary;

(b) In the event Jeong is terminated by the Company for reasons other than causes set forth in Article 8 hereof, he shall immediately be relieved of the duties and obligations under Article 3(d) and Article 5 hereof.

10. Governing Law. This Agreement and all disputes arising out of or in connection with this Agreement shall be governed by, interpreted under, and construed and enforceable in accordance with the laws of the Republic of Korea.

11. Entire Agreement. This Agreement constitutes the entire understanding and agreement between the Company and Jeong with respect matters herein described and supersedes any and all prior or contemporaneous representations, communications, understandings and agreements, whether written or oral, between the Company and Jeong with respect to the subject matter hereof. This Agreement may not be modified without the consent in writing by both parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PHOTRONICS, INC.

By: /s/Constantine Macricostas
Name: Constantine Macricostas
Title: Chairman

/s/ SH Jeong
SH Jeong

CONFIDENTIAL

March 18, 2004

Soo Hoo Jeong
#202 Sam-Ik Park Villa
248 Gumi-Dong
Bundang, Seongnam, Kyeonggi
Korea 463-802

Re: Your Presidency of Photronics, Inc. Asian Operations

Dear S. H.:

This will confirm our recent discussions and the proposal of Photronics, Inc. for you to assume the responsibilities and position as President of Photronics, Inc. Asian Operations, reporting to the Chief Executive Officer of Photronics, Inc.

Currently, you are receiving the following compensation for your position as Chairman, President and Chief Executive Officer of PK Limited:

1. Annual Salary: USD \$212,000 (at current exchange rate).
2. Contribution to retirement fund: USD \$70,642 per year.
3. Tuition reimbursement: USD \$44,620 per year.
4. Statutory annual two-month bonus.
5. Car and driver.
6. Access to two country clubs in Korea through PK Limited company membership paid by PK Limited.

As we discussed, we propose the following subject to your acceptance of this letter:

1. Photronics, Inc. will, as part of your new compensation package, increase your salary to \$250,000 per year. There will be a proportionate increase in the contribution to your retirement fund.
2. In addition, Section Three of your current agreement with Photronics, Inc. dated August 24, 2001, (the "Agreement") provides a grant to you of 96,000 shares of stock in Photronics, Inc., which you have accepted. The conditions of that grant, as provided in the Agreement, are that you cannot sell more than 10% of the shares in any year of your Employment Period, as defined in the Agreement, but may accumulate shares that were not sold in a prior year. You've currently accumulated the right to sell 20,000 shares under the agreement. As we discussed, Photronics will release an additional 36,000 shares from the restrictions of the agreement immediately, subject of course to SEC reporting rules and Photronics, Inc. blackout periods. Photronics will accelerate the release of additional shares during the Employment Period under the Agreement, as follows:
 - A. If the price of the shares of Photronics stock, as traded on the NASDAQ, reaches \$25.00 for at least 10 days within any 30 day period, then Photronics will release an additional 20,000 shares from the restrictions under the Agreement.
 - B. If the price of the shares of Photronics stock, as traded on the NASDAQ, reaches \$30.00 for at least 10 days within any 30 day period, then we will release an additional 20,000 shares under the Agreement.
 - C. If neither A nor B above occurs within one (1) year from the date of this letter, Photronics shall release an additional 20,000 shares from the restrictions under the Agreement on that first anniversary. If neither A nor B occurs between the first anniversary and the second anniversary of this letter, Photronics shall release an additional 20,000 shares from the restrictions under the Agreement on the second anniversary.

Otherwise, the terms and conditions of the Agreement will prevail.

3. You will also be eligible for a bonus of up to \$100,000 at the end of the current Photronics, Inc. fiscal year, subject to our establishment of mutually acceptable business objectives for you, and your achievement of those objectives or a pro-rata portion thereof.
4. In addition, we will give you 15,000 options to purchase Photronics stock, the grant date to be as of the date you accept this letter. The options will vest over a four year period.
5. For your additional responsibilities, you will also be paid an additional \$60,000 per year in the U.S. We will discuss with you the process for payment of this compensation to you. During the next six months the Compensation Committee of the Board of Directors of Photronics, Inc. will retain a consulting firm to evaluate the compensation of the senior executives at Photronics, Inc., including your compensation. At that time the Compensation Committee will review your agreement in light of the advice received from the firm. At some point in the future, Photronics, Inc. may adopt, for senior executives, minimum ownership requirements for stock in Photronics, Inc.

6. Your title will be President of Photonics Asia Operations, which now includes Singapore, Taiwan, China, Japan and of course Korea, as well as your current title with PKL.

7. The terms of this offer shall be governed by the laws of the State of Connecticut, U.S.A., without regard for conflicts of law rules.

We look forward to your acceptance of our offer of this additional compensation. Please indicate your acceptance by signing the enclosed copy of this letter and returning it to the undersigned.

If you have any questions, please feel free to contact me.

Sincerely,

/s/ Constantine S. Macricostas

Constantine S. Macricostas
Chairman and Chief Executive Officer

Agreed: /s/ Soo Hoo Jeong
Soo Hoo Jeong

Date: March 19, 2004

CONFIDENTIAL

November 28, 2005

Soo Hong Jeong
202 Sam-Ik Park Villa
248 Gumi-Dong
Bundang, Seongnam, Kyeonggi
Korea 463-802

RE: Amendment of Your Compensation Package

Dear S.H.:

This will confirm our recent discussions and our amendment of your compensation for your position as President of Photonics, Inc. Asia Operations, reporting to the Chief Executive Officer of Photonics, Inc.

Currently, you are receiving the following compensation for your position as President of Photonics, Inc. Asia Operations:

1. Annual Salary: USD \$298,000 (at current exchange rate).
2. Compensation related to additional U.S. responsibilities: USD \$60,000 per year.
3. Contribution to Korean retirement fund: USD \$97,000 per year.
4. Tuition reimbursement: USD \$44,620 per year.
5. Annual Bonus opportunity: up to \$100,000.
6. Statutory annual two month bonus in Korea.
7. Car and driver.
8. Access to two country clubs in Korea through PK Limited company membership paid by PK Limited.

As we discussed, we agree to the following:

1. This will confirm your salary of USD \$298,000 per year (Annual Salary). There is a proportionate increase in the annual contribution to your Korean retirement fund.
2. You now will be eligible for a bonus of up to an amount equal to your Annual Salary, to be determined at the end of the each Photonics fiscal year, subject to your achievement of established business objectives or a pro-rata portion thereof. This amount shall include any statutory bonus payable to you in Korea at PK Limited.
3. You will also continue to be paid an additional \$60,000 per year in the U.S. for your U.S. related responsibilities, as part of your Annual Salary.

To summarize your Photronics, Inc. stock and option grants to date, you have received 150,000 options to purchase shares of Photronics, Inc. You have also received, pursuant to your agreement with Photronics, Inc. dated August 24, 2001, 96,000 shares of restricted stock. All shares of restricted stock have been released from their restrictions pursuant to the agreement between you and Photronics, Inc. dated March 18, 2004. A summary of your Photronics, Inc. options and restricted stock grants will be sent under separate cover.

As always, the terms of this amendment shall be governed by the laws of the State of Connecticut, U.S.A., without regard for conflict of law rules. This letter shall amend your agreements with Photronics, Inc. dated August 24, 2001 and March 18, 2004, and shall be effective only for the duration of Photronics 2006 Fiscal Year (which begins on October 31, 2005 and will end on October 29, 2006). Except as amended in this or prior agreements, such prior agreements shall remain unchanged.

We look forward to your confirmation of this amendment to your compensation. Please indicate your acceptance by signing the enclosed copy of this letter and returning it to the undersigned.

If you have any question, please feel free to contact me.

Sincerely,
Photronics, Inc.

By: /s/ Michael J. Luttati
Michael J. Luttati
Chief Executive Officer

Agreed:
/s/ Soo Hong Jeong
Soo Hong Jeong

Date: January 10, 2006

CONFIDENTIAL

June 9, 2006

Soo Hoo Jeong
#202 Sam-Ik Park Villa
248 Gumi-Dong
Bundang, Seongnam, Kyeonggi
Korea 463-802

Re: Amendment to Your Compensation Package

Dear S. H.:

This will confirm our recent discussions and our amendment of your compensation for your position as President of Photronics, Inc. Asia Operations, reporting to the Chief Executive Officer of Photronics, Inc.

Until your most recent salary increase effective as of the May 2006 PKL payroll, you were receiving the following compensation for your position as President of Photronics, Inc. Asia Operations:

1. Annual Salary: USD \$298,000 (at current exchange rate).
2. Compensation related to additional US responsibilities: USD \$60,000 per year.
3. Contribution to Korean retirement fund: USD \$97,000 per year.
4. Tuition reimbursement: USD \$44,620 per year.
5. You are eligible for a bonus of up to an amount equal to your Annual Salary, to be determined at the end of each Photronics fiscal year, subject to your achievement of established business objectives or a pro-rata portion thereof. This amount shall include any statutory bonus payable to you in Korea at PK Limited.
6. Statutory annual two-month bonus in Korea.
7. Car and driver.
8. Access to two country clubs in Korea through PK Limited company membership paid by PK Limited.

As we discussed, we agree to the following changes to the above:

1. This will confirm the increase in your annual salary to USD \$321,840 per year (Annual Salary) effective as of the May 2006 PKL payroll. There is a proportionate increase in the annual contribution to your Korean retirement fund.
2. Your compensation in the U.S. for your U.S. related responsibilities shall be increased to \$64,800 per year as part of your Annual Salary, effective as of April 29, 2006.

To summarize your Photronics, Inc. stock and options grants to date, you have received 150,000 options to purchase shares of Photronics, Inc. You have also received, pursuant to your agreement with Photronics, Inc. dated August 24, 2001, 96,000 shares of restricted stock. All shares of restricted stock have been released from their restrictions pursuant to the agreement between you and Photronics, Inc. dated March 18, 2004.

You have recently been sent under separate cover, an option grant agreement for 90,000 options to purchase shares of Photronics, Inc. dated June 2, 2006 at a \$17.02 grant price, with vesting 25% each year over four years, and a restricted stock award agreement for 30,000 shares of Photronics, Inc., vesting 12.5% each year over eight years. A summary of your Photronics, Inc. options and restricted stock is enclosed.

As always, the terms of this amendment shall be governed by the laws of the State of Connecticut, USA, without regard for conflict of law rules. This letter shall amend your agreements with Photronics, Inc. dated August 24, 2001, March 18, 2004 and November 28, 2005, and shall be effective only for the duration of Photronics 2006 Fiscal Year (which began on October 31, 2005 and will end on October 29, 2006). Except as amended in this or prior agreements, such prior agreements shall remain unchanged.

We look forward to your confirmation of this amendment to your compensation. Please indicate your acceptance by signing the enclosed copy of this letter and returning it to the undersigned.

If you have any questions, please feel free to contact me.

Sincerely,
Photronics, Inc.

By: /s/ Michael J. Luttati
Michael J. Luttati
Chief Executive Officer

Agreed:

By: /s/ Soo Hoo Jeong
Soo Hoo Jeong

Date: June 17, 2006

EXHIBIT 31.1

I, Michael J. Luttati, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Photronics, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

EXHIBIT 31.2

I, Sean T. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Photronics, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 7, 2006

/s/ SEAN T. SMITH

Sean T. Smith

EXHIBIT 32.1

Section 1350 Certification of the Chief Executive Officer

I, Michael J. Luttati, Chief Executive Officer of Photonics, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarter ended July 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL J. LUTTATI

Michael J. Luttati
Chief Executive Officer
September 7, 2006

EXHIBIT 32.2

Section 1350 Certification of the Chief Financial Officer

I, Sean T. Smith, Chief Financial Officer of Photonics, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarter ended July 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SEAN T. SMITH

Sean T. Smith
Chief Financial Officer
September 7, 2006