

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period endedJuly 31, 1996.....

OR

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

For the transition period from..... to

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

...PHOTRONICS, INC....

(Exact name of registrant as specified in its charter)

...Connecticut...

(State or other jurisdiction of
incorporation or organization)

...06-0854886...

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

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

(Address of principal executive offices)

..33477..

(Zip Code)

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

(Registrant's telephone number, including area code)

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

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

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

Class	Outstanding at July 31, 1996
Common Stock, \$.01 par value	11,810,777 Shares

PHOTRONICS, INC.
AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet
(dollars in thousands)

ASSETS

	July 31, 1996 ----- (Unaudited)	October 31, 1995 -----
Current assets:		
Cash, cash equivalents and short-term investments	\$ 26,967	\$ 51,865
Accounts receivable (less allowance for doubtful accounts of \$195 in 1996 and 1995)	25,246	17,857
Inventories	7,899	6,357
Other current assets	4,914 -----	3,380 -----
Total current assets	65,026	79,459
Property, plant and equipment (less accumulated depreciation of \$49,523 in 1996 and \$40,917 in 1995)	112,252	72,063
Intangible assets (less accumulated amortization of \$2,950 in 1996 and \$2,156 in 1995)	9,530	10,289
Investments and other assets	13,382 -----	12,407 -----
	\$200,190 =====	\$174,218 =====

See accompanying notes to condensed consolidated financial statements.

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

	July 31, 1996 ----- (Unaudited)	October 31, 1995 -----
Current liabilities:		
Current portion of long-term debt	\$ 38	\$ 36
Accounts payable	27,705	17,850
Accrued liabilities	11,556	11,920
	-----	-----
Total current liabilities	39,299	29,806
Long-term debt	1,781	1,809
Deferred income taxes and other liabilities	9,023	8,558
	-----	-----
Total liabilities	50,103	40,173
	-----	-----
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value, 20,000,000 shares authorized, 11,947,277 shares issued in 1996 and 11,758,292 shares issued in 1995	119	118
Additional paid-in capital	77,356	75,083
Retained earnings	68,401	52,970
Unrealized gains on investments, net of income taxes	4,662	6,471
Other	(451)	(597)
	-----	-----
Total shareholders' equity	150,087	134,045
	-----	-----
	\$200,190	\$174,218
	=====	=====

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Earnings

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1996	1995	1996	1995
Net sales	\$42,677	\$32,854	\$117,859	\$89,067
Costs and expenses:				
Cost of sales	26,249	20,015	72,312	54,854
Selling, general and administrative	5,587	4,489	15,619	12,136
Research and development	2,218	3,177	6,166	6,120
Operating income	8,623	5,173	23,762	15,957
Interest and other income, net	290	5,187	1,169	5,700
Income before income taxes	8,913	10,360	24,931	21,657
Provision for income taxes	3,400	3,900	9,500	8,110
Net income	\$ 5,513	\$ 6,460	\$ 15,431	\$13,547
Net income per common share	\$0.46	\$0.54	\$1.28	\$1.24
Weighted average number of common shares outstanding	12,111	11,945	12,072	10,905

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows

(in thousands)

(Unaudited)

Nine Months Ended
July 31,

	1996	1995
Cash flows from operating activities:		
Net income	\$15,431	\$13,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,400	7,270
Other	(1,142)	(3,347)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(7,389)	(7,863)
Inventories	(1,159)	(1,832)
Other current assets	(104)	739
Accounts payable and accrued liabilities	9,491	13,069
Net cash provided by operating activities	24,528	21,583
Cash flows from investing activities:		
Acquisitions of and investments in photomask operations	(12,396)	(10,468)
Deposits on and purchases of property, plant and equipment	(40,834)	(20,942)
Net change in short-term investments	13,961	(5,444)
Proceeds from sale of investments	-	5,750
Other	1,556	(14)
Net cash used in investing activities	(37,713)	(31,118)
Cash flows from financing activities:		
Repayment of long-term debt	(26)	(431)
Net proceeds from issuance of common stock	2,274	31,457
Net cash provided by financing activities	2,248	31,026
Net increase (decrease) in cash and cash equivalents	(10,937)	21,491
Cash and cash equivalents at beginning of period	35,644	25,092
Cash and cash equivalents at end of period	\$24,707	\$46,583
Cash paid during the period for:		
Interest	\$24	\$32
Income taxes	\$9,857	\$6,684

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended July 31, 1996
(Unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements of the Company included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three and nine-month periods ended July 31, 1996 and 1995. Interim financial data presented herein are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, management believes that the disclosures are adequate to make the information presented not misleading. This report should be read in conjunction with the consolidated financial statements and footnotes as of October 31, 1995, which give a complete discussion of these matters.

NOTE 2 - ACQUISITION OF PHOTOMASK OPERATIONS

On January 24, 1996, the Company acquired the photomask manufacturing operations and assets of Plessey Semiconductors Limited ("Plessey"), located in Oldham, United Kingdom, for \$4.9 million in cash. In connection with the transaction, the Company leased the facilities from Plessey previously utilized by them for the manufacture of photomasks. It is the Company's intention to relocate the operation to an independent facility in the Manchester, United Kingdom, area in approximately one year. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property and equipment based on relative fair value. The results of the acquired operations are not material to the Company for the periods presented.

On April 1, 1996, the Company, through its majority-owned subsidiary, acquired the photomask manufacturing operations and assets of the Litomask Division ("Litomask") of Centre Suisse d'Electronique et de Microtechnique S.A. ("CSEM") located in Neuchatel, Switzerland for \$3.4 million in cash. CSEM holds the remaining interest in this subsidiary and the Company has an option to acquire CSEM's interest within a two-year period. In connection with the transaction, the Company leased the facilities and retained certain services from CSEM previously utilized by Litomask. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property and equipment based on relative fair value. The results of the acquired operations are not material to the Company for the periods presented.

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

Material Changes in Results of Operations

Three and Nine Months Ended July 31, 1996 versus July 31, 1995

A portion of the changes in each category of the Company's results of operations for the three and nine months ended July 31, 1996, as compared to the same periods in the prior fiscal year are attributable to recent acquisitions, including acquisition of the photomask manufacturing operations and assets of Plessey Semiconductors Limited ("Plessey") located in Oldham, United Kingdom, on January 24, 1996, and the Litomask Division of Centre Suisse d'Electronique et de Microtechnique S.A. ("Litomask") located in Neuchatel, Switzerland, on April 1, 1996. Individually, neither of these acquisitions had a material effect on the results of operations for the periods presented. In the prior fiscal year, the Company acquired the photomask manufacturing operations and assets of Hoya Micro Mask, Inc. in Sunnyvale, California, and Microphase Laboratories, Inc. ("Microphase") in Colorado Springs, Colorado, on December 1, 1994 and on June 20, 1995, respectively.

Net sales for the three and nine months ended July 31, 1996, increased 29.9% to \$42.7 million and 32.3% to \$117.9 million, respectively, compared to \$32.9 million and \$89.1 million for the same periods in the prior fiscal year. The majority of the growth was from increased shipments to customers from existing facilities due to greater manufacturing capacity as the Company executed its capacity expansion program, and from increased average selling prices due to the larger proportion of higher technology photomask shipments in fiscal 1996. A portion of these increases is also attributable to the European acquisitions, the inclusion of a full three and nine months of sales for the Company's Colorado facility and, for the nine-month period, the inclusion of a full nine months of sales for the Sunnyvale facility. In addition, the increase in each period included sales increases from the Company's wholly-owned subsidiary, Beta Squared, Inc. ("Beta Squared").

Cost of sales for the three and nine months ended July 31, 1996, increased 31.1% to \$26.2 million and 31.8% to \$72.3 million, respectively, compared to \$20.0 million and \$54.9 million for the same periods in the prior fiscal year. These increases resulted principally from increases in sales volume, including those resulting from the Company's recent acquisitions. To meet increased customer demands, the Company has increased its staffing levels and manufacturing capacity, resulting in, among other things, increased labor and benefits costs and depreciation expense. As a percentage of net sales, cost of sales increased slightly to 61.5% for the three months ended July 31, 1996, but decreased slightly to 61.4% for the nine-month period, as compared with 60.9% and 61.6% in the corresponding periods last year. Improvements from higher capacity utilization of the Company's installed equipment base and a more favorable mix of complex photomasks were offset by increased costs resulting from manufacturing capacity expansion, and lower margins generally at recently acquired operations and at Beta Squared. The Company anticipates that its fixed operating costs will increase in connection with its continuing capacity expansion, including the commencement of operations at its Allen, Texas, and Singapore facilities during the last quarter of fiscal 1996. The Company expects to match these higher costs with continued increases in revenues.

Selling, general and administrative expenses increased 24.5% to \$5.6 million and 28.7% to \$15.6 million for the three and nine months ended July 31, 1996, compared to \$4.5 million and \$12.1 million for the same periods in the prior fiscal year. These increases were primarily due to the addition of the Company's foreign operations and its Colorado facility and, for the nine-month period, the inclusion of a full nine months of expenses for the Company's Sunnyvale facility. In addition, to accommodate the Company's significant global expansion, the Company increased its staffing levels and experienced increases in other related costs. As a percentage of net sales, selling, general and administrative expenses decreased to 13.1% and 13.3% for the three and nine months ended July 31, 1996, compared with 13.7% and 13.6% for the same periods last year.

Research and development expenses decreased 30.2% to \$2.2 million for the three months ended July 31, 1996, but increased 0.8% to \$6.2 million for the nine-month period, compared to \$3.2 million and \$6.1 million for the same periods in the prior fiscal year. During the prior year period, the Company recorded a one-time charge of \$1.5 million in connection with the Microphase acquisition, representing amounts assigned to certain Microphase research and development projects, principally for the manufacture of large area masks, which were expensed upon acquisition. Excluding this non-recurring charge, research and development expenses for the three and nine month periods ended July 31, 1996, increased 31.0% and 33.0%, respectively, compared to the same periods last year. These increases reflect the expansion of the Company's research and development organization and the resultant increase in its development efforts that have focused on new high-end, more complex photomasks utilizing phase shift, optical proximity correction and deep ultra-violet technologies. As a percentage of net sales, excluding the Microphase charge, research and development expenses remained fairly constant at 5.2% for all periods presented.

Interest and other income, net, for the three and nine months ended July 31, 1996, decreased to \$290,000 and \$1.2 million, respectively, compared to \$5.2 million and \$5.7 million for the same periods in the prior fiscal year principally due to a net gain of \$4.7 million from the sale of an equity investment during the prior year period. The Company had additional net gains on the disposition of investments in the first quarter of fiscal 1995. Interest income for the three months ended July 31, 1996, decreased to \$309,000 compared with \$519,000 for the prior year period as investable funds are utilized to expand manufacturing capacity. Due to higher levels of funds available for investment during the nine months ended July 31, 1996, interest income increased to \$1.3 million compared with \$1.0 million in the prior year's corresponding period.

For the three and nine months ended July 31, 1996, the Company provided Federal and state income taxes at an estimated combined effective annual tax rate of 38.1%, as compared with 37.6% and 37.4% in the same periods for the prior fiscal year. The increase in the Company's estimated tax rate primarily is the result of a larger portion of income being subject to the 35% incremental Federal income tax rate and a decrease in estimated tax-exempt investment income for the current fiscal year.

Excluding the non-recurring research and development charge and net gains from the sale of equity investments in the third quarter of fiscal 1995 which increased prior year net income by approximately \$2 million, or \$0.16 per share, net income for the three and nine months ended July 31, 1996, increased 23.0% to \$5.5 million, or \$0.46 per share, and 33.4% to \$15.4 million, or \$1.28 per share, compared with \$4.5 million, or \$0.38 per share, and \$11.6 million, or \$1.08 per share, for the corresponding prior year periods. The weighted average number of common shares outstanding increased to 12.1 million for the three and nine months ended July 31, 1996, from 11.9 million and 10.9 million for the same periods last year principally as a result of the public offering of 1.5 million shares in April and May 1995, and the issuance of approximately 100,000 shares in connection with the Microphase acquisition in June 1995.

Liquidity and Capital Resources

The Company's cash, cash equivalents and short-term investments decreased \$24.9 million during the nine months ended July 31, 1996, largely as a result of funding \$40.8 million of capital expenditures for building construction and equipment in connection with the Company's expansion of manufacturing capacity and \$12.5 million for the acquisitions of the photomask manufacturing operations of Plessey and Litomask, and the investment in PK Limited, a photomask manufacturer in Korea. Offsetting these decreases were cash provided by operating activities totaling \$24.5 million, \$2.3 million from sales of stock under employee stock option and purchase plans and \$1.3 million of financial assistance to be utilized for the Company's new Manchester, United Kingdom, operation.

Accounts receivable increased to \$25.2 million at July 31, 1996, from \$17.9 million at October 31, 1995, primarily as a result of higher sales levels, including sales by the new European operations. Inventories increased to \$7.9 million at July 31, 1996, from \$6.4 million at October 31, 1995, primarily due to general increases to accommodate the escalating sales volume and the addition of the European facilities. Other current assets increased to \$4.9 million at July 31, 1996, from \$3.4 million at October 31, 1995, primarily due to an increase in prepaid income taxes and other expenses.

Property, plant and equipment increased to \$112.3 million at July 31, 1996, from \$72.1 million at October 31, 1995. Deposits on and purchases of equipment and construction in progress on the new Allen, Texas, and Singapore plants totaled \$40.8 million and fixed assets totaling \$8.1 million were acquired in connection with the Plessey and Litomask acquisitions. These increases were offset by depreciation expense totaling \$8.6 million. Intangible assets decreased to \$9.5 million at July 31, 1996, from \$10.3 million at October 31, 1995, due to amortization expense.

Investments and other assets increased to \$13.4 million at July 31, 1996, from \$12.4 million at October 31, 1995, due to the Company's investment in PK Limited, offset by a decrease in the fair values of the Company's available-for-sale investments during the period.

Accounts payable increased to \$27.7 million at July 31, 1996, from \$17.9 million at October 31, 1995, primarily due to increased payables related to recent major equipment purchases, the addition of the European operations and a higher level of raw materials purchases due to growing production needs. Accrued liabilities decreased to \$11.6 million at July 31, 1996, from \$11.9 million at October 31, 1995. This decrease is largely attributable to payments of prior year incentive compensation accruals, employee withholding taxes from stock option exercises as of October 31, 1995 and a lower sales and use tax liability because of timing differences in settlement of the scheduled payments, offset by provisions for current year incentive compensation.

There was no significant change in long-term debt balances during the period. Deferred income taxes and other liabilities increased to \$9.0 million at July 31, 1996, from \$8.6 million at October 31, 1995, principally due to financial assistance received in connection with the Company's new Manchester, United Kingdom, operations and minority interest associated with the Company's Swiss subsidiary, offset by a reduction in deferred income taxes on unrealized gains on investments.

The Company's commitments represent on-going investments in additional manufacturing capacity as well as advanced equipment for research and development of the next generation of higher technology, more complex photomasks. At July 31, 1996, the Company had commitments outstanding for capital expenditures of approximately \$51 million, including commitments for new facilities in Manchester, Singapore and Texas. Additional commitments are expected to be incurred during the current fiscal year.

The Company will use its working capital, bank credit lines and leasing arrangements to finance its capital expenditures. The Company believes that its currently available resources, together with its capacity for substantial growth and its accessibility to other debt and equity financing sources, are sufficient to satisfy its cash requirements for the foreseeable future.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports of Form 8-K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

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

SIGNATURES

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

PHOTRONICS, INC.
(Registrant)

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

Date: September 13, 1996

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

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9-MOS		
	OCT-31-1996	
	JUL-31-1996	
		24,707
		2,260
		25,441
		195
		7,899
	4,914	
		161,303
	49,051	
	200,190	
39,302		
		1,781
119		
		0
		0
		149,968
200,190		
		117,859
	117,859	
		72,312
		72,312
		0
		0
	36	
	24,931	
		9,500
15,431		
		0
		0
		0
		15,431
		1.28
		0