

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

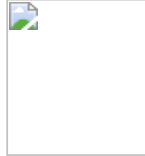
For the fiscal year ended October 31, 2004

OR

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

For the transition period from ___ to ___

Commission file number 0-15451



PHOTRONICS, INC.

(Exact name of registrant as specified in its charter)

Connecticut

(State or other jurisdiction
of incorporation or organization)

06-0854886

(IRS Employer
Identification Number)

15 Secor Road, Brookfield, Connecticut 06804

(Address of principal executive offices and zip code)

(203) 775-9000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.01 par value per share

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 30, 2004, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of the registrant common stock held by non-affiliates was approximately \$442,486,000 (based upon the closing price of \$14.89 per share as reported by the Nasdaq National Market on that date.)

As of December 31, 2004, 32,720,514 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2005
Annual Meeting of Shareholders
to be held on March 22, 2005

Incorporated into Part III
of this Form 10-K

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Forward Looking Information

Certain statements in this report are considered "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forward looking statements involve risks and uncertainties. In particular, any statement contained in this annual report on Form 10-K, 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, performances 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; the timing, impact and other uncertainties of future acquisitions; the seasonal and cyclical nature of the semiconductor industry; 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; and changes in technology. Any forward looking statements should be considered in light of these factors.

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ITEM 1. BUSINESS

General

Photronics, Inc. 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, and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits and a variety of flat panel displays and, to a lesser extent, other types of electrical and optical components. The Company operates principally from nine manufacturing facilities, three of which are located in the United States, three in Europe, and one each in Korea, Singapore and Taiwan.

Photronics, Inc. is a Connecticut corporation, organized in 1969. Its principal executive offices are located at 15 Secor Road, Brookfield, Connecticut 06804, telephone (203) 775-9000. Photronics, Inc. and its subsidiaries are collectively referred to herein as "Photronics" or the "Company." The Company's website is located at <http://www.photronics.com>. The Company makes available, free of charge through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed or furnished to the Securities and Exchange Commission. The information contained or incorporated in the Company's website is not part of these documents.

Manufacturing Technology

The Company manufactures photomasks, which are used as masters to transfer circuit patterns onto semiconductor wafers. The Company's photomasks are manufactured in accordance with circuit designs provided on a confidential basis by its customers. The typical manufacturing process for a photomask involves the receipt and conversion of circuit design data to manufacturing pattern data. A lithography system then exposes the circuit pattern onto the photomask blank. The exposed areas are dissolved and etched to produce that pattern on the photomask. The photomask is inspected for defects and conformity to the customer design data, any defects are repaired, any required pellicles (protective membranes) are applied and, after final inspection, the photomask is shipped to the customer.

The Company currently supports customers across the full spectrum of integrated circuit production and large area technologies by manufacturing photomasks using electron beam or optical-based technologies. Electron beam and laser-based systems are the predominant technologies used for photomask manufacturing. These technologies are capable of producing the finer line resolution, tighter overlay and larger die size for the larger and more complex circuits currently being designed. Electron beam and laser generated photomasks can be used with the most advanced processing techniques to produce the most advanced semiconductor devices intended for use in an array of products. These include devices used for microprocessors, memory, telecommunications and related applications. The Company currently owns a number of electron beam and laser-based systems. The production of photomasks by the optical method is less expensive and less precise. The optical method traditionally is used to manufacture less complex and lower priced photomasks.

The first several layers of photomasks are sometimes required to be delivered by the Company within 24 hours from the time it receives customers' design data. The ability to manufacture high quality photomasks within short time periods is dependent upon efficient manufacturing methods, high yield and high equipment reliability. The Company works to meet these requirements by making significant investments in manufacturing and data processing systems and statistical process control methods to optimize the manufacturing process and reduce cycle times.

Quality control is an integral part of the photomask manufacturing process. Photomasks are manufactured in temperature, humidity and particulate controlled clean rooms because of the high level of precision, quality and yields required. Each photomask is inspected several times during the manufacturing process to ensure compliance with customer specifications. The Company continues to make substantial investments in equipment to inspect and repair photomasks to ensure that customer specifications are met. After inspection and any necessary repair, the Company utilizes proprietary processes to clean the photomasks prior to shipment.

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The vast majority of photomasks produced for the semiconductor industry employ geometries of 130 nanometer or larger. At these geometries, 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. Semiconductor fabrication also occurs at and below the 90 nanometer range. The Company is currently capable of producing a broad range of photomasks at these smaller geometries. However, as is typical of industries in the midst of technological change, some of the Company's 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 many locations world-wide. The Company believes that these cases are few and are not material to its business.

Sales and Marketing

The market for photomasks primarily consists of domestic and foreign semiconductor manufacturers and designers, including a limited number of manufacturers who have the capability to manufacture photomasks. Generally, the Company and each of its customers engage in a qualification and correlation process before the Company becomes an approved supplier. Thereafter, the Company typically negotiates pricing parameters for a customer's orders based on the customer's specifications. Some prices may remain in effect for an extended period. In some instances, the Company enters into purchase arrangements, based on the understanding that, as long as the Company's performance is competitive, the Company will receive a specified percentage of that customer's photomask requirements.

The Company conducts its sales and marketing activities primarily through a staff of full-time sales personnel and customer service representatives who work closely with the Company's management and technical personnel. In addition to the sales personnel at the Company's manufacturing facilities, the Company has sales offices throughout the United States, Europe and Asia.

The Company supports international customers through both its domestic and foreign facilities. The Company considers its presence in international markets important to attracting new customers, providing global solutions to its existing customers, and serving customers that utilize manufacturing foundries outside of the United States, principally in Asia. For a statement of the amount of net sales, operating income or loss, and identifiable assets attributable to each of the Company's geographic areas of operations, see Note 15 to the consolidated financial statements.

Customers

The Company primarily sells its products to leading semiconductor manufacturers. The Company's largest customers during the fiscal year ended October 31, 2004 ("fiscal 2004"), included the following:

Atmel Corp.	On Semiconductor Corporation
Chartered Semiconductor Manufacturing, Ltd.	Philips Semiconductor Manuf., Inc.
Fairchild Semiconductor Intl. Inc.	Polarfab LLC
Freescale Semiconductor, Inc. (Motorola Inc.)	Samsung Electronics Co., Ltd.
Hynix Semiconductor	Silterra Malaysia Sdn Bhd.
Jazz Semiconductor, Inc.	Skyworks Solutions, Inc.
LG Philips LCD Co., Ltd.	ST Microelectronics, Inc.
Macronix International Co., Ltd.	Systems on Silicon Mfg. Co., Pte Ltd.
Maxim Integrated Products, Inc.	Texas Instruments Incorporated
National Semiconductor Corporation	United Microelectronics Corp.

During fiscal year 2004, the Company sold its products and services to approximately 600 customers. Samsung Electronics Co., Ltd. accounted for approximately 18%, 16% and 10% of the Company's net sales in fiscal 2004, 2003 and 2002, respectively. The Company's five largest customers, in the aggregate, accounted for approximately 40% in fiscal 2004 and 36% in each of fiscal 2003 and 2002, of net sales. A significant decrease in the amount of sales to any of these customers could have a material adverse effect on the financial performance and business prospects of the Company.

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Seasonality

The Company's quarterly revenues can be affected by the seasonal purchasing of its customers. The Company is typically impacted during its first quarter by the North American and European holiday periods as some customers reduce their effective workdays and orders during this period. Additionally, the Company can be impacted during its first or second quarter by the Asian New Year holiday period which also may reduce customer orders. For fiscal 2005, the Asian New Year holiday will be in the Company's second quarter. At times, the Company's first quarter revenues have been down sequentially by as much as 10%. During the past three years, the second quarter resulted in increased sequential revenues of 2% to 7%, partially as a result of all of the holiday periods occurring during the first quarter.

Research and Development

The Company conducts ongoing research and development activities in four of its advanced manufacturing locations covering all major regions represented by the Company's customer base, in order to maintain the Company's leadership in technology and manufacturing efficiency. Phase-shift and optical proximity correction photomasks use advanced materials, designs and lithography techniques for enhanced resolution of images on a semiconductor wafer. The Company also conducts research and development activities in modeling and simulation necessary for effective integration of the most advanced mask-based optical lithography solutions. Currently these activities are focused on 65 nanometer and 45 nanometer node lithography, but the Company believes these core competencies will continue to be a critical part of semiconductor manufacturing as optical lithography continues to scale device capabilities below 65 nanometer. The Company has incurred expenses of \$30.5 million, \$30.0 million and \$30.2 million for research and development in fiscal 2004, 2003 and 2002, respectively. The Company believes that it owns or controls valuable proprietary information necessary for its business as presently conducted. Recently, the Company has either applied for or been granted patents pertaining to its manufacturing processes. The Company believes that its intellectual property is and will continue to be important to the Company's technical leadership in the field of photomasks.

Patents

The Company owns or has rights to 22 patents in the United States. The general subject matter of these patents relates to the manufacture of photomasks themselves and the use of photomasks to manufacture other products. The expiration dates of these patents range from 2011 to 2022. While the Company believes that its intellectual property is and will continue to be important to the Company's technical leadership in the field of photomasks, the Company's operations are not dependent on any one individual patent. The Company protects its intellectual property rights regarding products and manufacturing processes through patents and trade secrets. The Company also relies on non-disclosure agreements with employees and vendors to protect its intellectual property and proprietary processes.

Materials, Supplies and Equipment

Raw materials used by the Company generally include high precision quartz plates (including large area plates), which are used as photomask blanks, primarily obtained from Japanese suppliers, among others; pellicles, which are protective transparent cellulose membranes; electronic grade chemicals, which are used in the manufacturing process; and compacts, which are durable plastic containers in which photomasks are shipped. These materials are generally sourced from several suppliers and the Company is not dependent on any one supplier for its raw materials. The Company believes that its utilization of a select group of strategic suppliers enables it to access the most advanced materials technologically available. On an ongoing basis, the Company continues to consider additional supplier sources.

The Company relies on a limited number of equipment suppliers to develop and supply the equipment used in the photomask manufacturing process. Although the Company has been able to obtain equipment on a timely basis, the inability to obtain equipment when required could adversely affect the Company's business and results of operations. The Company also relies on these and additional suppliers to develop future generations of manufacturing systems to support the Company's requirements.

Backlog

The first several levels of a set of photomasks for a circuit pattern at times are required to be shipped within 24 hours of receiving a customer's designs. Because of the short period between order and shipment dates (typically from one day

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to two weeks) for a significant amount of the Company's sales, the dollar amount of current backlog is not considered to be a reliable indication of future sales volume.

International Operations

International sales, which exclude export sales, were approximately 64%, 59% and 50% of the Company's sales in fiscal 2004, 2003 and 2002, respectively. The Company believes that maintaining significant international operations requires it to have, among other things, a local presence in the markets in which it operates. This requires a significant investment in financial, management, operational and other resources.

Operations outside the United States are subject to inherent risks, including fluctuations in exchange rates, political and economic conditions in various countries, unexpected changes in regulatory requirements, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, longer accounts receivable collection cycles and potentially adverse tax consequences. These factors may have a material adverse effect on the Company's ability to generate sales outside the United States and, consequently, on its business and results of operations.

Note 15 of the Notes to Consolidated Financial Statements reports net sales, operating income (loss) and total identifiable assets by geographic region.

Competition

The photomask industry is highly competitive and most of the Company's customers utilize more than one photomask supplier. The Company's ability to compete depends primarily upon the consistency of product quality and timeliness of delivery, as well as pricing, technical capability and service. The Company also believes that proximity to customers is an important factor in certain markets. Certain competitors have substantially greater financial, technical, sales, marketing and other resources than the Company. The Company believes that consistency of product quality, timeliness of delivery and price are the principal factors considered by customers in selecting their photomask suppliers. The Company's inability to meet these requirements could adversely affect its sales. The Company believes that it is able to compete effectively because of its dedication to customer service, its investment in state-of-the-art photomask equipment and facilities and its experienced technical employees.

The Company estimates that for the types of photomasks it manufactures in North America, the size of the total market (captive and merchant) is approximately \$500 million and the rest of the world is estimated to be approximately \$2.0 billion. Competitors include Compugraphics, Inc., Dai Nippon Printing Co., Ltd., DuPont Photomasks, Inc. (DPMI), Hoya Corporation, Taiwan Mask Corporation, Toppan Printing Co., Ltd. (Toppan) and Toppan Chungwha Electronics. On October 5, 2004, Toppan and DPMI entered into a merger agreement whereby DPMI will become a wholly owned subsidiary of Toppan; the merger is expected to close in calendar 2005. The Company also competes with semiconductor manufacturers' captive photomask manufacturing operations. The Company expects to face continued competition from the consolidated entity and other suppliers in the future. In the past, competition led to pressure to reduce prices, which the Company believes contributed to the decrease in the number of independent manufacturers. This pressure to reduce prices may continue in the future. In addition, some of the Company's customers, such as Samsung

Electronics Co., Ltd., possess their own captive facilities for manufacturing photomasks. Also, certain semiconductor manufacturers market their photomask manufacturing services to outside customers as well as to their internal organizations.

Employees

As of November 30, 2004, the Company and its majority-owned subsidiaries employed approximately 1,420 persons on a full-time basis. The Company believes it offers competitive compensation and other benefits and that its employee relations are good. Except for employees in the United Kingdom, none of its employees are represented by a union.

Recent Developments

On November 10, 2004, the Company redeemed \$41.4 million of its 4.75% subordinated convertible notes. The Company incurred an early extinguishment charge of \$1.2 million on the redemption, which resulted in a total principal balance outstanding of its 4.75% subordinated convertible notes after the redemption of \$110.1 million.

In December 2004, the Company acquired an additional 5.5% interest in PK Ltd. (PKL) for approximately \$12.0 million. As a result of this transaction, the Company now owns approximately 80% of PKL.

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ITEM 2. DESCRIPTION OF PROPERTY

The following table presents certain information about the Company's photomask manufacturing facilities:

Location	Type of Interest
Allen, TX	Owned
Austin, TX	Owned
Brookfield, CT (Building #1)	Owned
Brookfield, CT (Building #2)	Owned
Bridgend, South Wales	Leased
Cheonan, Korea	Owned
Dresden, Germany	Leased
Hsinchu, Taiwan	Leased
Manchester, England	Owned
Singapore	Leased

The Company believes that its existing manufacturing facilities are adequate for further plant expansions at existing sites. The Company also leases administrative offices in Crolles, France and Athens, Greece. The Company's administrative headquarters are located in Brookfield, Connecticut in a building that it owns.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of fiscal 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDERS' MATTERS

The Common Stock of the Company is traded on the NASDAQ National Market (NASDAQ) under the symbol PLAB. The table below shows the range of high and low sale prices per share for each quarter for fiscal year 2004 and 2003, as reported on the NASDAQ.

	High	Low
Fiscal Year Ended October 31, 2004:		
Quarter Ended February 1, 2004	\$22.82	\$16.36
Quarter Ended May 2, 2004	21.09	14.83
Quarter Ended August 1, 2004	19.02	13.33
Quarter Ended October 31, 2004	19.31	12.60
Fiscal Year Ended November 2, 2003:		
Quarter Ended February 2, 2003	\$17.50	\$ 9.00
Quarter Ended May 4, 2003	13.53	10.00
Quarter Ended August 3, 2003	20.05	12.59
Quarter Ended November 2, 2003	26.00	16.10

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On December 31, 2004, the closing sale price for the Common Stock as reported by NASDAQ was \$16.50. Based on information available to the Company, the Company believes it has approximately 9,000 beneficial shareholders.

The Company has not paid any cash dividends to date and, for the foreseeable future, anticipates that earnings will continue to be retained for use in its business. The Company's revolving credit facility (see Note 7 to the consolidated financial statements) limits the amount of cash dividends it can pay to its shareholders.

The information regarding the Company's equity compensation required to be disclosed by Item 201(d) of Regulation S-K is incorporated by reference from the proxy into Item 12 of Part III of this report.

Purchasers of Equity Securities by the Issuer and Affiliated Purchasers

Total Number of Principal Amount	Maximum Number (or Approximate Dollar Value of Principal
-------------------------------------	--

	Total Principal Amount of Convertible Notes Purchased	Average Price Paid Per \$1,000 Principal Amount of Convertible Notes	of Convertible Notes Purchased as Part of Publicly Announced Plans or Programs	Amount of Convertible Notes) that May Yet to be Purchased under the Plans or Programs
November				
December				
January				
February				
March				
April				
May				
June	\$ 8,500,000.00	\$ 997.50	\$ -	\$ - (1)
July				
August				
September	10,000,000.00	1,004.40	-	- (1)
October	30,000,000.00	1,015.00	-	- (1)
	<u>\$48,500,000.00</u>	<u>\$1,009.75</u>	<u>\$ -</u>	<u>\$ -</u>

(1) The Company does not have a specific bond repurchase program established and all of the repurchases were made in open market transactions.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from the Company's consolidated financial statements. The consolidated financial statements for all periods presented gives retroactive effect to the 2000 merger of the Company and Align-Rite International, Inc. (Align-Rite), which was accounted for as a pooling of interests. The data should be read in conjunction with the consolidated financial statements and notes thereto and other financial information included elsewhere in this Form 10-K.

	Years Ended				
	October 31, 2004	November 2, 2003	November 3, 2002	October 31, 2001 (g)	October 31, 2000 (h)
OPERATING DATA:					
Net sales	\$395,539	\$348,884	\$386,871	\$377,969	\$331,212
Cost and Expenses:					
Cost of sales	260,232	250,687	276,451	254,272	220,650
Selling, general and administrative	53,487	56,154	57,973	53,758	46,059
Research and development	30,520	29,965	30,154	24,858	20,731
Consolidation, restructuring and related charges	-	42,000 (b)	14,500 (d)	38,100 (e)	23,000 (f)
Operating income (loss)	51,300	(29,922)	7,793	6,981	20,772
Other income (expense):					
Interest expense	(14,723)	(17,089)	(20,004)	(12,682)	(11,769)
Investment and other income, net	4,468 (a)	5,346 (c)	6,713	3,380	6,461
Income (loss) before income tax provision (benefit) and minority interest	41,045	(41,665)	(5,498)	(2,321)	15,464
Income tax provision (benefit)	5,761	924	(7,019)	(3,000)	4,700
Minority interest in income of consolidated subsidiaries	(10,818)	(5,573)	(6,378)	(4,705)	(588)
Net income (loss)	\$24,466 (a)	\$(48,162) (b) (c)	\$(4,857) (d)	\$(4,026) (e)	\$10,176 (f)
Earnings (loss) per share:					
Basic	\$0.75 (a)	\$(1.50) (b) (c)	\$(0.16) (d)	\$(0.13) (e)	\$0.35 (f)
Diluted	\$0.68 (a)	\$(1.50) (b) (c)	\$(0.16) (d)	\$(0.13) (e)	\$0.34 (f)
Weighted average number of common shares outstanding:					
Basic	32,564	32,144	31,278	29,919	28,761
Diluted	42,339	32,144	31,278	29,919	29,831

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BALANCE SHEET DATA:

	As of				
	October 31, 2004	November 2, 2003	November 3, 2002	October 31, 2001 (g)	October 31, 2000 (h)
Working capital	\$255,062	\$258,509	\$142,028	\$ 48,732	\$ 78,393
Property, plant and equipment, net	396,461	387,977	443,860	402,776	395,281
Total assets	872,871	865,540	832,442	660,698	604,976

Long-term debt	315,888	368,307	296,785	188,021	202,797
Shareholders' equity	349,473	308,329	339,115	287,161	293,980

- (a) Includes early extinguishment charge of \$1.2 million after tax or \$0.03 per diluted share in connection with the early redemption of \$48.5 million of the Company's 4.75% convertible notes.
- (b) Includes consolidation charge of \$42.0 million (\$39.9 million after tax or \$1.24 per diluted share) in connection with the closure of the Company's Phoenix, Arizona manufacturing facility and the consolidation of the Company's North American operating infrastructure.
- (c) Includes early extinguishment charge of \$0.9 million after tax or \$0.03 per diluted share in connection with the early redemption of \$62.1 million of the Company's 6% convertible notes.
- (d) Includes consolidation charge of \$14.5 million (\$10 million after tax or \$0.32 per diluted share) in connection with the closure of the Company's Milpitas, California manufacturing facility and workforce reduction.
- (e) Includes consolidation charges of \$38.1 million (\$26.1 million after tax, or \$0.87 per diluted share) in connection with the final phase of the Company's merger with Align-Rite and subsequent consolidation of facilities in California, Florida and Germany.
- (f) Includes restructuring and related charges incurred in connection with the closure of the Company's Sunnyvale, California and Neuchatel, Switzerland facilities and merger related expenses totaling \$14.8 million (after tax) or \$0.52 per diluted share.
- (g) Effective August 27, 2001, the Company acquired a majority of the total share capital of PKL, a photomask manufacturer based in Korea. The operating results of PKL have been included in the consolidated statement of operations since the effective date of the acquisition.
- (h) Effective June 20, 2000, the Company acquired a majority of the total share capital of Precision Semiconductor Mask Corporation (PSMC), a photomask manufacturer based in Taiwan. The operating results of PSMC have been included in the consolidated statement of operations since the effective date of the acquisition.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Years Ended October 31, 2004, November 2, 2003 and November 3, 2002

Overview

The Company sells substantially all of its photomasks to semiconductor designers and manufacturers. Further, photomask technology is also being applied to the fabrication of higher performance electronic products such as flat panel displays, photonics, micro-electronic mechanical systems and certain nanotechnology applications. Thus, the Company's selling cycle is tightly interwoven with the development and release of new semiconductor designs and flat panel applications, particularly as it relates to the semiconductor industry's migration to more advanced design methodologies and fabrication processes. The Company believes that the demand for photomasks primarily depends on design activity rather than sales volumes from products produced using photomask technologies. Consequently, an increase in semiconductor sales does not necessarily result in a corresponding increase in photomask sales. In addition, the reduced use of customized integrated circuits, 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 designs could reduce demand for photomasks even if demand for semiconductors increases. Further, 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 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.

At this time, state-of-the-art for semiconductor masks is considered to be 65 nanometer, while 90 nanometer is in the very early stages of being moved into volume production, and 130 and 180 nanometer constitute the majority of high performance designs being fabricated in volume today. The Company expects there to be a steady increase in 130 nanometer designs moving to wafer fabrication throughout fiscal 2005 and believes it is well positioned to service an

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increasing volume of this business through investments in manufacturing process and technology in the global regions where its customers are located.

In addition to the cyclical downturn previously mentioned, the global semiconductor industry also experienced tremendous difficulties in transitioning from the 180 nanometer process node to the 130 nanometer process node. The Company believes that these technological issues have been addressed, as seen by improving yields and utilization rates in the Company's mask fabrication facilities and its customers' wafer fabrication facilities. End markets leading the global semiconductor industry out of the downturn in 2004 have been closely tied to consumer driven applications for high performance semiconductor devices, including, but not limited to communications and mobile computing solutions. The Company cannot predict the timing of the industry's transition to volume production of next generation technology nodes or the timing of up and down cycles with precise accuracy, but believes that such transitions and cycles will continue into the future, beneficially and adversely affecting its business, financial condition and operating results in the near term. The Company's ability to remain successful in these environments is based upon achieving its goals of being a service and technology leader, an efficient solutions supplier, and a company able to continually reinvest in its global infrastructure.

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 fiscal 2004, the Company has 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 fiscal 2004, 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 capital expenditures for new facilities and equipment to support its customers' requirements for high technology products was an aggregate of approximately \$254.0 million for the three fiscal years ended October 31, 2004, resulting in significant increases in operating expenses. Based on the anticipated technological changes in the industry, the Company expects these trends to continue.

The manufacture of photomasks for use in fabricating integrated circuits 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 consists 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.

Currently, the vast majority of photomasks produced for the semiconductor industry employ geometries of 130 nanometers or larger. At these geometries, 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 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. However, as is typical of industries in the midst of technological change, some of the Company's competitors may be able to achieve higher

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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 four advanced technology locations world-wide. The Company believes that these cases are not material to its business.

Results of Operations

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

	Year Ended		
	October 31, 2004	November 2, 2003	November 3, 2002
Net sales	100%	100%	100%
Cost of sales	65.8	71.9	71.5
Gross margin	34.2	28.1	28.5
Selling, general and administrative expenses	13.5	16.1	15.0
Research and development expenses	7.7	8.6	7.8
Consolidation, restructuring and related charges	-	12.0	3.7
Operating income (loss)	13.0	(8.6)	2.0
Interest expense	(3.7)	(4.9)	(5.1)
Investment and other income, net	1.1	1.6	1.7
Income (loss) before income tax provision (benefit) and minority interest	10.4	(11.9)	(1.4)
Income tax provision (benefit)	1.5	0.3	(1.8)
Minority interest	(2.7)	(1.6)	(1.7)
Net income (loss)	6.2%	(13.8%)	(1.3%)

Note: All the following tabular comparisons, unless otherwise indicated, are for the fiscal years ended October 31, 2004 (2004), November 2, 2003 (2003) and November 3, 2002 (2002), in millions of dollars.

Net Sales

	2004	2003	2002	Percent Change	
				2004 to 2003	2003 to 2002
Total net sales	\$395.5	\$348.9	\$386.9	13.4%	(9.8%)

Net sales for the fiscal year ended October 31, 2004 increased 13.4% to \$395.5 million as compared to \$348.9 million for the fiscal year ended November 2, 2003. The increase is primarily related to increased design releases in 2004 as a result of improved end user demand, consumer and corporate, for devices utilizing semiconductor applications. As a result, the Company experienced increased unit demand across all technology nodes during 2004. To a lesser extent, the Company's overall average selling prices (ASP's) improved in 2004. The increased ASP's primarily relate to an improved high-end mix, which is defined as revenue at 180 nanometer and below design rules, and increased sales of large area masks which typically have higher ASP's. By geographic area, sales increased by \$37.7 million in Asia and \$10.4 million in Europe, while sales in North America decreased by \$1.4 million.

Net sales for the fiscal year ended November 2, 2003, decreased 9.8% as compared to \$386.9 million for the fiscal year ended November 3, 2002. The decrease was attributable to a slow-down in new design releases, due in part, to decreased end user demand, both consumer and corporate, for devices utilizing semiconductors and continued increased competitive pricing pressures for mature technology products. During 2003, the Company experienced an overall decline in average

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selling prices and unit volumes as a result of the competitive pricing pressures for mature technology products and a decrease in new design releases. Additionally, in 2003, the Company continued to experience a reduction in sales in North America, due in part to the continued migration of semiconductor manufacturing to Asian foundries by certain North American customers. By geographic area, net sales in Asia increased \$18.4 million or 14.2%, while North America sales decreased \$52.3 million or 26.9% and European sales decreased \$4.1 million or 6.5%.

Gross Margin

	2004	2003	2002	Percent Change	
				2004 to 2003	2003 to 2002
Gross margin	\$135.3	\$98.2	\$110.4	37.8%	(11.1%)
Gross margin %	34.2%	28.1%	28.5%	-	-

During 2003 and 2002 the Company was impacted by a severe and prolonged downturn in the semiconductor industry, which resulted in decreased demand, excess capacity and increased competitive pricing pressures. The Company also began to experience increased growth in Asia during this time, while North America sales began to decline. To mitigate the decline in its business, which has impacted its gross margins, in August 2002 the Company reduced its operating cost structure by closing its Milpitas, California facility. In March 2003, the Company began to further restructure its operations in North America by closing its Phoenix, Arizona facility and reducing its global work force.

The Company's gross margin, which is net sales less cost of goods sold, improved to 34.2% in 2004 as compared to 28.1% in fiscal 2003. This improvement was a result of improved utilization of the Company's manufacturing network and improved high-end product mix as well as stabilization of pricing for mature products. 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 in 2005 could be negatively impacted by increased depreciation expense associated with the Company's 2005 and 2004 capital expenditures for additional tool sets and corresponding infrastructure for advanced technologies.

Gross margin for the fiscal year ended November 2, 2003 decreased to 28.1% as compared to 28.5% for the fiscal year ended November 3, 2002. The decrease was primarily associated with decreased sales volume, which decreased the utilization of the Company's fixed equipment cost base, due in part to lower than anticipated demand for high-end technology products which have design rules of 0.18 micron and below, and competitive pricing pressures for mature product technologies resulting in lower ASP's.

Selling, General and Administrative Expenses

	Percent Change				
	2004	2003	2002	2004 to 2003	2003 to 2002
S, G&A expense	\$53.5	\$56.2	\$58.0	(4.7%)	(3.1%)
% to net sales	13.5%	16.1%	15.0%	-	-

Selling, general and administrative expenses decreased for the fiscal year ended October 31, 2004 as compared to November 2, 2003 by \$2.7 million. This decrease is primarily attributable to the full year impact of reduced salaries and wages and selling expenses in North America associated with the Company's 2003 North American consolidation initiatives coupled with ongoing cost reduction activities.

Selling, general and administrative expenses for the fiscal year ended November 2, 2003 decreased 3.1% to \$56.2 million as compared to November 3, 2002. This decrease was primarily attributable to reduced salary and wages and facility costs in North America as a result of the Company's March 2003 North American consolidation initiatives.

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Research and Development

	Percent Change				
	2004	2003	2002	2004 to 2003	2003 to 2002
R&D expense	\$30.5	\$30.0	\$30.2	1.9%	(0.6%)
% to net sales	7.7%	8.6%	7.8%	-	-

Research and development expenditures consist primarily of global development efforts of high-end process technologies for advanced sub wavelength reticle solutions at and below 65 nanometers. Research and development expenses increased 1.9% to \$30.5 million for the fiscal year ended October 31, 2004 as compared to the fiscal year ended November 2, 2003. In fiscal 2003, research and development expenditures were \$30.0 million as compared to \$30.2 million in 2002.

Consolidation, Restructuring and Related Charges

Since 2001, the Company closed four manufacturing facilities in North America and one in Europe due in part to the migration of semiconductor manufacturing to Asia and excess capacity associated with decreased demand. The decision to close facilities in North America corresponded to the decreased North American sales volume. The Company's North American net sales declined from \$241.9 million in fiscal 2001 to \$194.3 million in fiscal 2002, and to \$142.0 million in fiscal 2003. The decline in sales in North America from 2001 to 2003 resulted in increased North America operating losses during 2002 and 2003. The decline in sales volume and operating profits in North America was attributable to the Company's customers migrating their business to lower cost foundries, primarily located in Asia. This created excess capacity in the United States. Competitive pricing pressures and weakened demand further eroded the Company's North American operating results.

In March of 2003, the Company initiated a plan to close its Phoenix, Arizona manufacturing facility and further consolidate its North American manufacturing network in order to increase capacity utilization and manufacturing efficiencies. Total consolidation and related charges of \$42.0 million were recorded during the second quarter of fiscal 2003. Components of the charge include \$3.4 million for workforce reduction of approximately 170 employees in the United States, \$4.4 million for facility lease payments, and \$34.2 million of non-cash charges for the impairment in carrying value of fixed assets. The majority of the photomasks produced at the Company's Phoenix, Arizona facility were cross-qualified with other United States manufacturing sites. Consequently, the decision to close the Phoenix, Arizona facility had minimal impact on United States production or customer service.

In August 2002, the Company implemented a plan to reduce its operating cost structure by reducing its work force in the United States by approximately 135 employees and by ceasing the manufacture of photomasks at its Milpitas, California facility. Total consolidation and related charges of \$14.5 million were recorded in the fourth quarter of fiscal 2002. Of the total charge, \$10.5 million was non-cash for the impairment in carrying value of fixed assets, \$2.5 million of cash charges for severance and benefits for terminated employees that were paid during their entitlement periods and \$1.5 million of cash charges for facilities closing costs as well as lease termination costs.

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The following tables (in millions) set forth the Company's restructuring reserves as of October 31, 2004, November 2, 2003 and November 3, 2002 and reflects the activities affecting the reserves for years then ended:

	Year Ended October 31, 2004			
	November 2, 2003 Balance	Charges	Credits	October 31, 2004 Balance
Manufacturing capacity reduction and other	\$5.9	\$ -	\$(1.2)	\$4.7
Workforce reductions	1.5	-	(1.5)	-

Total	\$7.4	\$ -	\$(2.7)	\$4.7
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**Year Ended
November 2, 2003**

	November 3, 2002 Balance	Charges	Credits	November 2, 2003 Balance
Manufacturing capacity reduction and other	\$4.3	\$38.6	\$(37.0)	\$5.9
Workforce reductions	1.7	3.4	(3.6)	1.5
Total	\$6.0	\$42.0	\$(40.6)	\$7.4

**Year Ended
November 3, 2002**

	October 31, 2001 Balance	Charges	Credits	November 3, 2002 Balance
Manufacturing capacity reduction and other	\$5.0	\$12.0	\$(12.7)	\$4.3
Workforce reductions	2.6	2.5	(3.4)	1.7
Total	\$7.6	\$14.5	\$(16.1)	\$6.0

As of October 31, 2004, "manufacturing capacity reduction and other" of \$4.7 million primarily represents non-cancelable lease obligations that will be paid over the respective lease terms through 2009.

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Other Income (Expense)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest expense	\$(14.7)	\$(17.1)	\$(20.0)
Investment and other income, net	4.5	5.3	6.7
Total other income (expense)	\$(10.2)	\$(11.8)	\$(13.3)

Interest expense decreased \$2.4 million to \$14.7 million for the fiscal year ended October 31, 2004 as compared to the fiscal year ended November 2, 2003. The decrease in interest expense is a result of reduced debt associated with the Company's redemption of \$62.1 million of the Company's outstanding 6% convertible subordinated notes in June 2003 and the aggregate redemption of \$48.5 million during 2004 of the 4.75% convertible subordinated notes. Investment and other income, net, decreased by \$0.8 million in 2004 primarily due to reduced investment gains.

Interest expense for the fiscal year ended November 2, 2003 decreased by \$2.9 million to \$17.1 million as compared to fiscal 2002. The decrease was primarily the result of reduced overall effective borrowing rates, partially offset by increased borrowings. Investment and other income, net, during fiscal 2003 decreased to \$5.3 million as compared to \$6.7 million in fiscal 2002 primarily due to a \$2.6 million gain on the repurchase of \$41.2 million of the Company's 6% convertible subordinated notes in 2002.

Income Taxes

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 treatments. The Company has been granted tax holidays in Taiwan and Singapore, which expire in 2006 and 2005, respectively. In Korea, various investment tax credits have been utilized to reduce the Company's effective income tax rate.

The provision for income taxes for the fiscal year ended October 31, 2004 was \$5.8 million or 14% of pretax income, which differs from the federal statutory rate of 35% as a result of tax holidays in Taiwan and Singapore, available tax credits in Korea and valuation reserves on losses generated in the United States.

The provision for income taxes for the fiscal year ended November 2, 2003 was \$0.9 million on a pre-tax loss of \$41.7 million. The provision differs from the federal statutory rate of a 35% benefit as a result of the Company's inability to record additional deferred tax benefits for net operating losses in the United States. Other factors contributing to the effective tax rate in 2003 include income from geographic regions for which the Company has tax holidays and available tax credits, including Taiwan and Korea.

The availability of tax holidays in some Asian jurisdictions did not have a significant impact in the Company's decision to close some of its North American facilities nor in the Company's increased Asian presence which is in response to fundamental changes taking place in the semiconductor industry that the Company serves. As semiconductor fabrication has migrated to Asia, in large part from the United States, the Company has followed, in order to avoid a severe loss of business.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. The Company may elect to apply this provision to qualifying earnings repatriations in fiscal 2005. The Company has started an evaluation of the effects of the repatriation provision; however, the Company does not expect to be able to complete this evaluation until after Congress or the Treasury Department provides additional clarifying language on key elements of the provision. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional clarifying language. The range of possible amounts that the Company is considering for repatriation under this provision is between zero and \$103.1 million. The related potential range of income tax effects is estimated to be between zero and \$14.0 million taking into account the Company's tax attributes.

Minority Interest in Consolidated Subsidiaries

Minority interest charges were \$10.8 million for the fiscal year ended October 31, 2004 and \$5.6 million for the fiscal year ended November 2, 2003, and reflect the minority interest in earnings of the Company's non-wholly owned subsidiaries located in Taiwan and Korea. The Company's ownership as of October 31, 2004 in each subsidiary was 75% for Korea and 58% for Taiwan. The \$5.2 million increase for 2004 over 2003 is a result of increased earnings of both locations in 2004. In December 2004, the Company increased its ownership to approximately 80% of PKL with the acquisition of additional shares of PKL for cash of approximately \$12.0 million.

Minority interest charges were \$5.6 million for the fiscal year ended November 2, 2003 and \$6.4 million for the fiscal year ended November 3, 2002, and reflected the minority interest in earnings of the Company's non-wholly owned subsidiaries located in Taiwan and Korea. The decrease in minority interest charge compared to the prior year was due to the Company's ownership interest in PKL increasing by 28% in April 2002.

Liquidity and Capital Resources

On April 15, 2003, the Company sold \$150.0 million of its 2.25% convertible subordinated notes due 2008 in a private offering pursuant to Rule 144A under the Securities Act of 1933. These notes are convertible into the Company's common stock at a conversion price of \$15.89 per share. Net proceeds from the issuance amounted to approximately \$145.2 million. On June 2, 2003, a portion of the net proceeds was used to redeem all \$62.1 million of the Company's outstanding 6% convertible subordinated notes. Pursuant to the terms of the related indenture, the 6% convertible subordinated notes were redeemed at 100.8571% of the principal amount plus accrued interest of \$1.9 million for an aggregate redemption price of \$64.5 million, including a premium of \$0.5 million. An early extinguishment charge of \$0.9 million was incurred on the redemption of the 6% convertible subordinated notes. This charge included the aforementioned \$0.5 million premium and \$0.4 million of unamortized deferred financing costs which were expensed at the time of redemption.

The Company has a credit agreement that expires in July 2005, with a group of financial institutions that provides for a revolving credit facility with an aggregate commitment of \$100 million. The credit facility allows for borrowings in various currencies with an interest rate that is based on the terms of the agreement and will vary based on currencies borrowed and market conditions. During most of 2003, the Company had borrowed \$10.9 million in Korean won denominated borrowings under the facility, which had an effective interest rate of approximately 7%. The Company repaid all of its outstanding borrowings (\$10.9 million in Korean won) under the \$100 million credit facility in October 2003 and has no outstanding borrowings as of October 31, 2004. The facility fee is 0.4% of the total aggregate commitment. The credit facility agreement contains various financial and other covenants, including, but not limited to: Defined maximum ratio of senior funded debt to EBITDA (most restrictive covenant), Minimum EBITDA to interest expense, Minimum consolidated net worth and cash balances, Limitation on cash dividends available for payment to shareholders and Annual Capital Expenditures. As of October 31, 2004, \$100 million was available under the facility. On September 1, 2004, the credit facility was amended to increase the limit on the Company's 2004 Annual Capital Expenditures, and to allow for the Company's 2004 redemption of a portion of its outstanding 4.75% convertible notes.

The Company's working capital decreased 1.3% to \$255.1 million at October 31, 2004 as compared to \$258.5 million at November 2, 2003. Cash, cash equivalents and short-term investments were \$226.9 million at October 31, 2004 as compared to \$231.8 million at November 2, 2003. During 2004, the Company financed the \$55.3 million reduction of its outstanding debt through its operating income and cash balances. Cash provided by operating activities for the fiscal year ended October 31, 2004 increased to \$126.2 million from \$83.2 million for the fiscal year ended November 2, 2003. The increase relates to the net income generated in 2004 as compared to a net loss in 2003 and increased accruals at October 31, 2004 relating to the timing on certain payments for capital equipment. For the fiscal year ended November 2, 2003, cash from operating activities decreased to \$83.2 million from \$136.4 million for the fiscal year ended November 3, 2002, due in part to the increased net loss in fiscal 2003 and payments for certain capital equipment which was accrued for at November 3, 2002. Cash used in investing activities for the fiscal year ended October 31, 2004 was \$147.6 million, which consisted principally of capital equipment purchases of \$80.1 million and a net decrease in short-term investments of \$67.4 million. Cash used in investing activities of \$48.0 million in fiscal 2003 consisted primarily of capital equipment purchases. Capital expenditures for the fiscal years ended 2004, 2003, and 2002 were \$80.1 million, \$47.0 million and \$126.5 million, respectively. The Company expects capital expenditures for fiscal 2005 to be approximately \$105 million to \$125 million. Capital expenditures for fiscal 2005 will be used primarily to continue to expand the Company's high-end technical capability.

Cash used in financing activities for the fiscal year ended October 31, 2004 of \$53.3 million consisted principally of the convertible subordinated notes redemptions. During the fiscal year ended October 31, 2004, the Company redeemed \$48.5 million of its 4.75% convertible notes for \$49.0 million and paid down \$5.3 million of other debt. Cash provided by financing activities of \$64.1 million in fiscal 2003 consisted principally of the proceeds from the issuance of the Company's 2.25% convertible subordinated notes of \$145.2 million offset by the redemption of the Company's 6% convertible subordinated notes and other net debt repayments of \$23.9 million. The Company believes that its currently available resources, together with its capacity for growth and its accessibility to debt and equity financing sources, are sufficient to satisfy its cash requirements for the foreseeable future.

On November 10, 2004, the Company redeemed an additional \$41.4 million of its 4.75% subordinated convertible notes resulting in an outstanding principal balance of \$110.1 million at that date. As part of the early extinguishment, the Company incurred a charge of \$1.2 million for the premium on the notes and the write-off of deferred financing fees.

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 October 31, 2004, the Company had commitments outstanding for capital expenditures of approximately \$43.8 million. Additional commitments for capital requirements are expected to be incurred during fiscal 2005.

Cash Requirements

The Company's cash requirements over the next 12 months will be primarily to fund operations, including spending on research and development, capital expenditures and debt service, as well as any cash acquisitions that it may undertake. The Company expects that cash, cash equivalents and short-term investments and cash generated from operations will be sufficient to meet its cash requirements for the next 12 months. However, the Company cannot assure that additional sources of financing would be available to the Company on commercially favorable terms should the Company's capital requirements exceed cash available from operations and existing cash and short-term investments.

The Company regularly reviews the availability and terms on which it might issue additional equity or debt securities in the public or private markets.

Contractual Cash Obligations

The following table quantifies the Company's future contractual obligations as of October 31, 2004 (in millions):

	Payments Due				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Long-term debt	\$318.9	\$ 3.0	\$164.4	\$151.5	\$ -
Operating leases	4.3	2.0	2.0	0.3	-
Unconditional purchase obligations	52.3	49.9	2.4	-	-

Certain Transactions

The Chairman of the Board of the Company is also the Chairman of the Board and majority shareholder of a company who is a supplier of secure managed information technology services. Another director of the Company is also an employee, shareholder and director of this company. In 2002, the Company entered into a fifty-two month service contract with this company to provide services to all of the Company's worldwide facilities at a cost of approximately \$3.2 million per year. In 2004 and 2003, the Company has entered into additional contracts with this company ranging from 12 months to 52 months to provide additional services for approximately \$0.7 million per year. The Company incurred expenses of \$3.4 million in 2004, \$3.9 million in 2003 and \$2.4 million in 2002 related to services provided by the company, for which the amount owed to this company was \$0.3 million at October 31, 2004 and \$0.5 million at November 2, 2003.

An officer of the Company is also the CEO, president and director of one of the Company's majority held subsidiaries from which the Company purchases photomask blanks from a company of which he is a significant shareholder. The Company purchased \$8.3 million and \$2.2 million of photomask blanks from this company in 2004 and 2003, respectively, for which the amount owed to this company was \$0.7 million at October 31, 2004 and \$0.4 million at November 2, 2003, respectively.

The Company believes that the terms of the transactions described above with affiliated persons were negotiated at arm's-length and were no less favorable to the Company than the Company could have obtained from non-affiliated parties.

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 operations 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 such areas as projected interest rates and changes in the Company's stock price during the contract term.

Property, Plant and Equipment

Property, plant and equipment is 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, prior to November 1, 2001, 3 to 15 years for goodwill and acquisition-related assets. As a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, goodwill is no longer amortized, but the future economic benefit of the carrying value of all 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 (benefit) 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 operations 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.

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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.

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 December 2003, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, which supersedes SAB No. 101, *Revenue Recognition in Financial Statements*. SAB No. 104 clarifies existing guidance regarding revenue contracts that contain multiple deliverables to make it consistent with Emerging Issues Task Force (EITF) No. 00-21. The adoption of SAB No. 104 did not have a material impact on the Company's 2004 results of operations or financial position.

In December 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. (FIN) 46R, a revision to FIN 46, *Consolidation of Variable Interest Entities*. FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R is effective at the end of the first interim period ending after March 15, 2004. The adoption of FIN 46R did not have a material impact on the Company's results of operations or financial position.

In March 2004, the FASB issued EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 includes new guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued FASB Staff Position EITF 03-1-1, which delays the effective date until additional guidance is issued for the application of the recognition and measurement provisions of EITF 03-1 to investments in securities that are impaired; however, the disclosure requirements are effective for annual periods ending after June 15, 2004. Although the Company will continue to evaluate the application of EITF 03-1, management does not currently believe adoption will have a material impact on its results of operations or financial position.

In November of 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of Accounting Research Board (ARB) No. 43, Chapter 4*. The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated as current period costs regardless if they meet the criteria of "so abnormal." In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The

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provision of SFAS No. 151 shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The early adoption of SFAS 151 did not have a material impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123, *Share-Based Payments (revised 2004)*, (SFAS No. 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* to stock compensation awards issued to employees. Rather the Statement requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). SFAS No. 123R will also require companies to measure the cost of employee services received in exchange for Employee Stock Purchase Plan (ESPP) awards and we will be required to expense the grant date fair value of the Company's ESPP awards. SFAS No. 123R will be effective for the Company's fiscal quarter beginning August 1, 2005. Based on the number of stock options outstanding as of October 31, 2004, the effect of the adoption of SFAS No. 123R would be to increase compensation expense by approximately \$0.2 million in the Company's fiscal quarter beginning August 1, 2005.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier application permitted. The Company is evaluating SFAS No. 153, and does not believe it will have a material impact on its 2005 consolidated financial statements.

ITEM 7A. 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 operations 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 (3.48% at October 31, 2004) 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 consolidated statements of operations. 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.

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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 October 31, 2004 included the Korean won, Singapore dollar and the British pound. As of October 31, 2004, 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 \$5.3 million. The Company's exposure to other foreign currency risks include the Japanese yen, New Taiwan dollar and the euro, 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.

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 4.80% and 5.91%. 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 October 31, 2004, the Company had approximately \$116 million 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders Photronics, Inc. Brookfield, Connecticut

We have audited the accompanying consolidated balance sheets of Photronics, Inc. and subsidiaries as of October 31, 2004 and November 2, 2003 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three fiscal years ended October 31, 2004, November 2, 2003 and November 3, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Photronics, Inc. and subsidiaries as of October 31, 2004 and November 2, 2003, and the results of their operations and their cash flows for each of the three fiscal years ended October 31, 2004, November 2, 2003 and November 3, 2002 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
January 11, 2005

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PHOTRONICS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands, except per share amounts)

	October 31, 2004	November 2, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$142,300	\$214,777
Short-term investments	84,628	17,036
Accounts receivable, net	68,737	59,579
Inventories	16,066	14,329
Deferred income taxes	27,540	27,469
Other current assets	6,455	6,692
	<hr/>	<hr/>
Total current assets	345,726	339,882
Property, plant and equipment, net	396,461	387,977
Goodwill	115,906	115,906
Other assets	14,778	21,775
	<hr/>	<hr/>
	\$872,871	\$865,540
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and notes payable	\$ 3,018	\$ 5,505
Accounts payable	57,746	43,997
Accrued liabilities	29,900	31,871
	<hr/>	<hr/>
Total current liabilities	90,664	81,373
Long-term debt	315,888	368,307
Deferred income taxes	43,886	42,435
Other liabilities	8,236	12,288
	<hr/>	<hr/>
Total liabilities	458,674	504,403
Minority interest	64,724	52,808
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, 32,690 shares issued and outstanding at October 31, 2004 and 32,487 shares issued and outstanding at November 2, 2003	327	325
Additional paid-in capital	202,313	199,535
Retained earnings	134,667	110,201
Accumulated other comprehensive income (loss)	12,166	(1,732)
	<hr/>	<hr/>
Total shareholders' equity	349,473	308,329
	<hr/>	<hr/>
	\$872,871	\$865,540
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(in thousands, except per share amounts)

	Years Ended		
	October 31, 2004	November 2, 2003	November 3, 2002
Net sales	\$395,539	\$348,884	\$386,871
Cost and expenses:			
Cost of sales	260,232	250,687	276,451
Selling, general and administrative	53,487	56,154	57,973
Research and development	30,520	29,965	30,154
Consolidation, restructuring and related charges	-	42,000	14,500
	<hr/>	<hr/>	<hr/>
Operating income (loss)	51,300	(29,922)	7,793
Other income (expense):			
Interest expense	(14,723)	(17,089)	(20,004)
Investment and other income, net	4,468	5,346	6,713

Income (loss) before income tax provision (benefit) and minority interest	41,045	(41,665)	(5,498)
Income tax provision (benefit)	5,761	924	(7,019)
Income (loss) before minority interest	35,284	(42,589)	1,521
Minority interest in income of consolidated subsidiaries	(10,818)	(5,573)	(6,378)
Net income (loss)	\$ 24,466	\$ (48,162)	\$ (4,857)
Income (loss) per share:			
Basic	\$0.75	\$(1.50)	\$(0.16)
Diluted	\$0.68	\$(1.50)	\$(0.16)
Weighted average number of common shares outstanding:			
Basic	32,564	32,144	31,278
Diluted	42,339	32,144	31,278

See accompanying notes to consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity Years Ended October 31, 2004, November 2, 2003 and November 3, 2002 (in thousands)

	<u>Common Stock</u>		<u>Add'l Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>			<u>Deferred Compensation on Restricted Stock</u>	<u>Total Share- holders' Equity</u>	
	<u>Shares</u>	<u>Amount</u>			<u>Unrealized Investment Gains</u>	<u>Cash Flow Hedges</u>	<u>Foreign Currency Translation</u>			<u>Total</u>
Balance at October 31, 2001	30,276	\$303	\$146,378	\$163,220	\$2,982	\$(431)	\$(25,291)	\$(22,740)	-	\$287,161
Comprehensive income:										
Net loss	-	-	-	(4,857)	-	-	-	-	-	(4,857)
Change in unrealized gains on investments	-	-	-	-	(2,082)	-	-	(2,082)	-	(2,082)
Change in fair value of cash flow hedges	-	-	-	-	-	(691)	-	(691)	-	(691)
Foreign currency translation adjustment	-	-	-	-	-	-	10,514	10,514	-	10,514
Total comprehensive income (loss)	-	-	-	(4,857)	(2,082)	(691)	10,514	7,741	-	2,884
Sale of common stock through employee stock option and purchase plans	527	5	8,464	-	-	-	-	-	-	8,469
Issuance of common stock in connection with acquisition of additional shares of PKL	1,212	12	40,173	-	-	-	-	-	-	40,185
Restricted stock awards, net of amortization to compensation expense	18	-	573	-	-	-	-	-	(157)	416
Balance at November 3, 2002	32,033	320	195,588	158,363	900	(1,122)	(14,777)	(14,999)	(157)	339,115
Comprehensive income:										
Net loss	-	-	-	(48,162)	-	-	-	-	-	(48,162)
Change in unrealized gains on investments	-	-	-	-	2,165	-	-	2,165	-	2,165
Change in fair value of cash flow hedges	-	-	-	-	-	112	-	112	-	112
Foreign currency translation adjustment	-	-	-	-	-	-	10,990	10,990	-	10,990
Total comprehensive income (loss)	-	-	-	(48,162)	2,165	112	10,990	13,267	-	(34,895)
Sale of common stock through employee stock option and purchase plans	442	5	3,753	-	-	-	-	-	-	3,758
Restricted stock awards, net of amortization to compensation expense	12	-	194	-	-	-	-	-	157	351
Balance at November 2, 2003	32,487	325	199,535	110,201	3,065	(1,010)	(3,787)	(1,732)	-	308,329
Comprehensive income:										
Net income	-	-	-	24,466	-	-	-	-	-	24,466
Change in unrealized gains on investments	-	-	-	-	(1,265)	-	-	(1,265)	-	(1,265)
Change in fair value of cash flow hedges	-	-	-	-	-	112	-	112	-	112
Foreign currency translation adjustment	-	-	-	-	-	-	15,051	15,051	-	15,051
Total comprehensive income (loss)	-	-	-	24,466	(1,265)	112	15,051	13,898	-	38,364

Sale of common stock through employee stock option and purchase plans	183	2	2,429	-	-	-	-	-	2,431	
Restricted stock awards, net of amortization to compensation expense	20	-	349	-	-	-	-	-	349	
Balance at October 31, 2004	32,690	\$327	\$202,313	\$134,667	\$1,800	\$(898)	\$11,264	\$12,166	\$ -	\$349,473

See accompanying notes to consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (in thousands)

	Years Ended		
	October 31, 2004	November 2, 2003	November 3, 2002
Cash flows from operating activities:			
Net income (loss)	\$ 24,466	\$ (48,162)	\$ (4,857)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	83,154	82,640	80,402
Amortization of intangible assets	2,501	2,457	2,785
Loss (gain) on repurchase of notes	1,248	-	(2,648)
Deferred income taxes	845	(2,661)	(938)
Restructuring and related charges	-	42,000	14,500
Amortization of deferred financing fees	2,475	2,262	1,479
Changes in assets and liabilities:			
Accounts receivable	(7,295)	4,716	9,996
Inventories	(1,248)	6,196	2,194
Other current assets	410	9,819	(11,562)
Accounts payable, accrued liabilities and other	19,660	(16,035)	45,051
Net cash provided by operating activities	126,216	83,232	136,402
Cash flows from investing activities:			
Deposits on and purchase of property, plant and equipment	(80,136)	(47,022)	(126,462)
Purchase of short-term investments	(92,424)	-	(15,000)
Proceeds from sales of investments and other	24,932	(930)	732
Net cash used in investing activities	(147,628)	(47,952)	(140,730)
Cash flows from financing activities:			
Repayment of long-term debt	(55,332)	(86,535)	(115,174)
Proceeds from issuance of common stock and other	2,000	5,501	4,590
Proceeds from issuance of convertible debt, net	-	145,170	193,237
Net cash provided by (used in) financing activities	(53,332)	64,136	82,653
Effect of exchange rate changes on cash	2,267	1,417	935
Net increase (decrease) in cash and cash equivalents	(72,477)	100,833	79,260
Cash and cash equivalents at beginning of year	214,777	113,944	34,684
Cash and cash equivalents at end of year	\$142,300	\$214,777	\$113,944

See accompanying notes to consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements Years Ended October 31, 2004, November 2, 2003 and November 3, 2002 (in thousands, except share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

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

Consolidation

The accompanying consolidated financial statements include the accounts of Photronics and its majority-owned subsidiaries, in which the Company exercises control. All significant intercompany balances and transactions have been eliminated in consolidation.

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. Actual results may differ from such estimates.

Derivative Instruments and Hedging Activities

The Company records derivatives in the consolidated balance sheets 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 operations or as accumulated other comprehensive income (loss), 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 such areas as projected interest rates and changes in the Company's stock price during the contract term.

Fiscal Year

The Company's fiscal year ends on the Sunday closest to October 31. Fiscal years 2004 and 2003 include fifty-two weeks, and fiscal year 2002 includes fifty-three weeks.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less. The carrying values approximate fair values based on the short maturity of these instruments.

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Investments

The Company's investments, comprised of marketable equity securities and fixed income bonds are classified as available-for-sale, and are carried at fair value. Investments available for current operations are classified in the consolidated balance sheets as current assets; investments held for long-term purposes are classified as non-current assets. Unrealized gains and losses, net of tax, are reported as other comprehensive income (loss) as a separate component of shareholders' equity. Gains and losses are included in income when realized, determined based on the disposition of specifically identified investments.

Investments identified by the Company as having potential impairment are subject to further analysis to determine if the impairment is other than temporary. Other than temporary declines in market value from original costs are charged to Investment and Other Income, net, in the period in which the loss occurs. In determining whether an other than temporary decline in the market value has occurred, the Company considers the duration that, and extent to which, market value is below original cost.

Inventories

Inventories, principally raw materials, are stated at the lower of cost, determined under the first-in, first-out (FIFO) method, or market.

Property, Plant and Equipment

Property, plant and equipment is 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 eliminated 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. The Company periodically reviews property, plant, and equipment for any potential impairment in carrying values. Judgment and assumptions are used in establishing estimated useful lives and depreciation periods.

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, prior to November 1, 2001, 3 to 15 years for goodwill and acquisition-related assets (see Note 5). As a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, goodwill is no longer amortized, but the future economic benefit of the carrying value of certain intangible assets (see Note 5) 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 discounted 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.

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Income Taxes

The income tax provision (benefit) 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 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 a valuation allowance for deferred income tax assets is required.

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 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 tax rate during the first, second and third quarters. Additionally, the Company evaluates the recoverability of deferred 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 operations is impacted by changes in the valuation allowance. Significant management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets.

Earnings Per Share

Basic earnings per share (EPS) is based on the weighted average number of common shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if certain securities or other contracts to issue common stock were exercised or converted.

Stock-Based Compensation

The Company records stock option awards in accordance with the provisions of Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*. The Company estimates the fair value of stock option awards in accordance with 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 discloses the resulting estimated compensation effect on net income (loss) on a pro forma basis.

The Company has several stock option plans under which incentive and non-qualified stock options are granted. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income (loss), as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income (loss) and earnings (loss) 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:

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	Year Ended		
	October 31, 2004	November 2, 2003	November 3, 2002
Net income (loss)	\$24,466	\$(48,162)	\$(4,857)
Deduct: Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects	(1,215)	(4,392)	(4,072)
Pro forma net income (loss)	\$23,251	\$(52,554)	\$(8,929)
Basic earnings (loss) per share:			
As reported	\$0.75	\$(1.50)	\$(0.16)
Pro forma	0.71	(1.63)	(0.29)
Diluted earnings (loss) per share:			
As reported	\$0.68	\$(1.50)	\$(0.16)
Pro forma	0.65	(1.63)	(0.29)

The fair value of options granted is estimated based on the Black Scholes option-pricing model. The fair value and weighted average assumptions for each of the fiscal years ended October 31, 2004, November 2, 2003 and November 3, 2002 are as follows:

	Year Ended		
	October 31, 2004	November 2, 2003	November 3, 2002
Weighted average fair value of options granted	\$17.85	\$12.72	\$11.46
Volatility	60.0%	65.0%	70.9%
Risk-free rate of return	3.4%	3.1%	3.0%
Dividend yield	0.0%	0.0%	0.0%
Expected average life after vest date	2 years	2 years	1 year

In December 2004, the FASB issued SFAS No. 123, *Share-Based Payments (revised 2004)*, (SFAS No. 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of APB Board Opinion No. 25, *Accounting for Stock Issued to Employees*, to stock compensation awards issued to employees. Rather the Statement requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). SFAS No. 123R will also require companies to measure the cost of employee services received in exchange for Employee Stock Purchase Plan (ESPP) awards and we will be required to expense the grant date fair value of the Company's ESPP awards. SFAS No. 123R will be effective for the Company's fiscal quarter beginning August 1, 2005. Based on the number of stock options outstanding as of October 31, 2004, the effect of the adoption of SFAS No. 123R would be to increase compensation expense by approximately \$0.2 million in the Company's fiscal quarter beginning August 1, 2005.

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Foreign Currency Translation

The Company's foreign subsidiaries maintain their accounts in their respective local currencies. Assets and liabilities of such subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expenses are translated at average rates of exchange prevailing during the year. Foreign currency translation adjustments are accumulated and reported as other comprehensive income (loss) as a separate component of shareholders' equity. The effects of changes in exchange rates on foreign currency transactions are included in operations.

Minority Interest

Minority interest represents the minority shareholders' proportionate share in the equity of the Company's two majority owned subsidiaries, PK Ltd. (Korea) and Photonics Semiconductor Mask Corporation (Taiwan) of which minority shareholders owned approximately 25% and 42%, respectively, as of October 31, 2004. In December 2004, the Company increased its ownership to approximately 80% of PKL with the acquisition of additional shares of PKL for cash of approximately \$12.0 million.

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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NOTE 2 - BUSINESS COMBINATIONS

Acquisition of PK Ltd.

In April of 2002, the Company increased its majority share ownership in PK Ltd. (PKL) by acquiring an additional 28% of PKL in exchange for 1,212,218 shares of Photonics common stock at a fair value of \$33.15 per share. As of October 31, 2004 the Company owned approximately 75% of PKL. In December 2004, the Company increased its ownership to approximately 80% of PKL with the acquisition of additional shares of PKL for cash of approximately \$12.0 million.

If the initial majority acquisition of PKL and the additional acquisition of approximately 28% of PKL had occurred as of the beginning of the fiscal year ended November 3, 2002, unaudited consolidated pro forma information for the fiscal year ended November 3, 2002 is as follows: net sales - \$386,871, net loss - \$(3,927) and diluted loss per share - \$(0.13). In management's opinion, these unaudited consolidated pro forma amounts for fiscal 2002 are not necessarily indicative of what the actual combined results of operations might have been had the acquisitions of PKL stock occurred at the beginning of fiscal 2002. For the fiscal years ended October 31, 2004 and November 2, 2003, the information is the same as reported in the consolidated statement of operations.

NOTE 3 - INVESTMENTS

Short-term investments at October 31, 2004 and November 2, 2003 consist of available-for-sale fixed income and marketable equity securities. Long-term investments of \$2,910 at October 31, 2004 and \$3,719 at November 2, 2003 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. Unrealized gains on investments were determined as follows:

	October 31, 2004	November 2, 2003
Fair value		
Short-term debt investments	\$78,764	\$10,972
Equity securities	8,774	9,783
Total fair value	87,538	20,755
Cost		
Short-term debt investments	78,966	10,873
Equity securities	5,667	5,667
Total cost	84,633	16,540
Unrealized gain (loss)		
Short-term debt investments	(202)	99
Equity securities	3,107	4,116
Total unrealized gain, net	2,905	4,215
Less deferred income tax	1,105	1,150
Net unrealized gains	\$ 1,800	\$ 3,065

In the fiscal year ended October 31, 2004, the Company sold \$24.3 million of short-term debt investments.

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NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	October 31, 2004	November 2, 2003
Land	\$ 9,156	\$ 8,803
Buildings and improvements	63,110	51,113
Machinery and equipment	829,291	754,974
Leasehold improvements	16,548	17,402
Furniture, fixtures and office equipment	23,261	23,482

	941,366	855,774
Less accumulated depreciation and amortization	544,905	467,797
	<u>\$396,461</u>	<u>\$387,977</u>

NOTE 5 - INTANGIBLE ASSETS

Effective November 1, 2001, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This standard changed the accounting for goodwill and intangible assets with an indefinite life whereby such assets are no longer amortized; however, the standard does require evaluation for impairment and a corresponding writedown, if appropriate. SFAS No. 142 requires an initial evaluation of goodwill and impairment upon adoption and annual evaluations thereafter. The initial evaluation was performed as of November 1, 2001 and subsequent evaluations performed at the end of the second quarter of each of fiscal 2002, 2003 and 2004 resulted no impairment in the value of the Company's goodwill.

Goodwill at October 31, 2004 and November 2, 2003 amounted to approximately \$115.9 million. Other intangible assets, included in "Other Assets" in the consolidated balance sheets, which continue to be amortized, consist of software development costs. The balance of other intangible assets consists of a gross carrying amount of \$14.0 million at October 31, 2004 and \$13.1 million at November 2, 2003, less accumulated amortization of \$12.5 million at October 31, 2004 and \$10.2 million at November 2, 2003.

Amortization expense of other intangible assets was approximately \$2.5 million for the fiscal years ended October 31, 2004 and November 2, 2003. Estimated annual amortization expense of other intangible assets is expected to be \$0.6 million in 2005, \$0.6 million in 2006, \$0.3 million in 2007, and \$0.1 million in 2008.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	October 31, 2004	November 2, 2003
Salaries, wages and related benefits	\$ 7,752	\$ 7,472
Restructuring	4,717	7,354
Income taxes	9,158	5,097
Interest	1,630	2,759
Property taxes	2,776	2,751
Other	3,867	6,438
	<u>\$29,900</u>	<u>\$31,871</u>

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NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

	October 31, 2004	November 2, 2003
4.75% convertible subordinated notes due December 15, 2006 including fair value adjustment of \$1,482 in 2004 and \$2,232 in 2003	\$152,982	\$202,232
2.25% convertible subordinated notes due April 15, 2008	150,000	150,000
Debt of non-wholly owned subsidiaries:		
Unsecured notes payable	11,668	11,229
Secured notes payable	4,186	10,219
Other	70	132
	<u>318,906</u>	<u>373,812</u>
Less current portion	3,018	5,505
Long-term debt	<u>\$315,888</u>	<u>\$368,307</u>

Long-term debt matures as follows: 2005 - \$3,018; 2006 - \$12,906; 2007 - \$151,500 and 2008 - \$151,482. The fair value of long-term debt is estimated based on the current rates offered to the Company and is not significantly different from the carrying value, other than the fair value of its 4.75% and the 2.25% convertible subordinated notes. Based upon quoted market prices the fair values of the 4.75% and 2.25% convertible subordinated notes were approximately \$153,300 and \$197,100, respectively, at October 31, 2004; and \$200,000 and \$233,000, respectively, at November 2, 2003.

In fiscal 2004, the Company redeemed \$48.5 million of its 4.75% convertible subordinated notes resulting in an early extinguishment charge of \$1.2 million. On November 10, 2004, the Company redeemed \$41.4 million of its 4.75% subordinated convertible notes. The Company incurred early extinguishment charges of \$1.2 million on the redemption, included in Investment and Other Income, Net, in the consolidated statements of operations, which resulted in a total principal balance outstanding of its 4.75% subordinated convertible notes after the redemption of \$110.1 million.

On April 15, 2003, the Company sold \$150.0 million, 2.25% convertible subordinated notes due 2008 in a private offering pursuant to SEC Rule 144A. These notes are convertible into the Company's common stock at a conversion price of \$15.89 per share. Net proceeds from the issuance amounted to approximately \$145.2 million. On June 2, 2003, a portion of the net proceeds was used to redeem \$62.1 million of the Company's outstanding 6% convertible subordinated notes due 2004. Pursuant to the terms of the related indenture, the 6% convertible subordinated notes were redeemed at 100.8571% of the principal amount plus accrued interest of \$1.9 million for an aggregate redemption price of \$64.5 million, including a premium of \$0.5 million. An early extinguishment charge of \$0.9 million included in Investment and Other Income, Net, in the consolidated statements of operations, was incurred on the redemption of the 6% convertible subordinated notes.

On December 12, 2001 the Company sold \$200.0 million of 4.75% convertible subordinated notes due 2006 in a private offering pursuant to SEC Rule 144A. These notes are convertible into the Company's common stock at a conversion price of \$37.00 per share. Net proceeds from the issuance amounted to approximately \$193.2

million. Concurrent with the issuance of these notes, on December 12, 2001 the Company repaid all the outstanding borrowings under its former revolving credit agreement which amounted to \$57.7 million and terminated the former revolving credit agreement.

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The \$100 million notional amount of the 4.75% convertible notes which have been effectively converted to a variable rate under an interest rate swap contract is stated at an amount equal to the sum of its principal amount plus \$1.5 million at October 31, 2004, representing the change in the fair value of the debt obligation attributable to the interest rate risk being hedged. This fair value adjustment has been calculated using a discounted cash flow methodology (see Note 14).

The Company has a credit agreement, that expires in July 2005, with a group of financial institutions that provides for a revolving credit facility with an aggregate commitment of \$100 million. The credit facility allows for borrowings in various currencies with an interest rate that is based on the terms of the agreement and will vary based on currencies borrowed and market conditions. The facility fee is 0.4% of total aggregate debt to EBITDA (most restrictive covenant), Minimum EBITDA to interest expense, Minimum consolidated net worth and cash balances, Limitation on cash dividends available for payment to shareholders and Annual Capital Expenditures. As of October 31, 2004, \$100 million was available under the facility. On September 1, 2004, the credit facility was further amended to increase the limit on the Company's 2004 Annual Capital Expenditures, and to allow for the Company's 2004 redemption of a portion of its outstanding 4.75% convertible notes.

In the fourth quarter of fiscal 2002, the Company repurchased \$41.2 million of its 6% convertible notes for a total consideration of \$38.2 million. The Company recorded a gain on the repurchase of these notes of \$2.6 million, net of the write-off of deferred financing fees associated with the portion of the 6% convertible notes that were repurchased.

The unsecured and secured notes payable are obligations of non-wholly owned subsidiaries and are not guaranteed by the Company. Unsecured notes payable consist primarily of working capital loans and capital expenditure financing with interest rates ranging from approximately 4.80% to 5.91% at October 31, 2004. Secured notes payable consist primarily of collateralized equipment loans with interest rates ranging from approximately 1.7% to 6.0% and are due in monthly installments through May 2006.

Interest payments were \$12.8 million, \$16.3 million and \$15.7 million in fiscal 2004, 2003 and 2002, respectively.

NOTE 8 - EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per common share and diluted earnings (loss) per common share is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Earnings computation for basic and diluted earnings per share:			
Earnings for basic earnings per share - net income (loss)	\$24,466	\$(48,162)	\$(4,857)
Effect of dilutive securities:			
Interest expense on convertible notes, net of related tax effect	4,343	-	-
Earnings for diluted earnings per share	<u>\$28,809</u>	<u>\$(48,162)</u>	<u>\$(4,857)</u>
Weighted average common shares computations:			
Weighted average common shares used for basic earnings per share	32,564	32,144	31,278
Effect of dilutive securities:			
Convertible notes	9,441	-	-
Employee stock options	334	-	-
Dilutive potential common shares	<u>9,775</u>	<u>-</u>	<u>-</u>
Weighted average common shares used for diluted earnings per share	<u>42,339</u>	<u>32,144</u>	<u>31,278</u>
Basic earnings (loss) per share	\$0.75	\$(1.50)	\$(0.16)
Diluted earnings (loss) per share	\$0.68	\$(1.50)	\$(0.16)

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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 has been 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.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Convertible notes	5,255	11,931	8,274
Employee stock options	926	1,787	575
Total potentially dilutive shares excluded	<u>6,181</u>	<u>13,718</u>	<u>8,849</u>

NOTE 9 - INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	<u>Year Ended</u>		
	<u>October 31, 2004</u>	<u>November 2, 2003</u>	<u>November 3, 2002</u>
Current:			
Federal	\$ -	\$ 16	\$(7,870)
State	-	79	67
Foreign	4,848	3,490	1,722

Deferred:	4,848	3,585	(6,081)
Federal	-	(1,775)	(2,886)
State	-	(827)	52
Foreign	913	(59)	1,896
	<u>913</u>	<u>(2,661)</u>	<u>(938)</u>
Total	<u>\$5,761</u>	<u>\$ 924</u>	<u>\$(7,019)</u>

The provision (benefit) for income taxes differs from the amount computed by applying the statutory U.S Federal income tax rate to the income (loss) before taxes as a result of the following:

	Year Ended		
	October 31, 2004	November 2, 2003	November 3, 2002
U.S. Federal income tax at statutory rate	\$14,366	\$(14,583)	\$(1,924)
State income taxes, net of federal benefit	(275)	(1,416)	(2,159)
Change in valuation allowance	2,545	18,767	2,189
Foreign tax rate differential	(10,540)	(3,693)	(4,097)
Other, net	(335)	1,849	(1,028)
	<u>\$ 5,761</u>	<u>\$ 924</u>	<u>\$(7,019)</u>

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The net deferred income tax liability consists of the following:

	October 31, 2004	November 2, 2003
Deferred income tax assets:		
Reserves not currently deductible	\$ 6,716	\$24,232
Intangibles amortization	737	1,307
Net operating losses	33,433	24,956
Alternative minimum tax credits	2,926	2,926
Tax credit carryforwards	4,247	3,838
Intercompany transactions	959	1,909
Non qualified stock options	192	247
Other	582	1,863
	<u>49,792</u>	<u>61,278</u>
Valuation allowance	(27,483)	(23,217)
	<u>22,309</u>	<u>38,061</u>
Deferred income tax liabilities:		
Property, plant and equipment	33,864	48,597
Investments	2,242	2,289
Research and development costs	76	367
Other	2,473	1,774
	<u>38,655</u>	<u>53,027</u>
Net deferred tax liability	<u>\$16,346</u>	<u>\$14,966</u>

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 tax holidays in Taiwan and Singapore, which expire in 2006 and 2005, respectively. In Korea, various investment tax credits have been utilized to reduce the Company's effective income tax rate.

Income tax payments were \$3.6 million, \$1.6 million and \$0.8 million in fiscal 2004, 2003 and 2002, respectively. Cash received for refunds of income taxes paid in prior years amounted to \$0.9 million, \$9.2 million and \$13.5 million in fiscal 2004, 2003 and 2002, respectively.

As of October 31, 2004, the Company had a federal net operating loss carryforward of \$80.0 million which if not utilized will expire as follows: \$5.0 million in 2020, \$14.8 million in 2022, \$36.2 million in 2023 and \$24.0 million in 2024. The Company established a valuation allowance for a portion of its deferred tax assets because it is more likely than not that a portion of its net operating loss carryforwards may expire prior to utilization; such valuation allowance increased by \$4.3 million, \$20.7 million and \$2.2 million in fiscal 2004, 2003 and 2002, respectively.

As of October 31, 2004, the Company had \$2.9 million of alternative minimum tax credit carryforwards that are available to offset future federal taxes payable. The Company also has \$4.2 million in general business and state credit carryforwards which are available until 2019.

As of October 31, 2004, the undistributed earnings of foreign subsidiaries included in consolidated retained earnings amounted to \$103.1 million. Such amounts are considered to be reinvested indefinitely or will be distributed from income in such a way that would not incur a significant tax consequence and, therefore, no provision

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. The Company may elect to apply this provision to qualifying earnings repatriations in fiscal 2005. The Company has started an evaluation of the effects of the repatriation provision; however, the Company does not expect to be able to complete this evaluation until after Congress or the Treasury Department provides additional clarifying language on key elements of the provision. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional clarifying language. The range of possible amounts that the Company is considering for repatriation under this provision is between zero and \$103.1 million. The related potential range of income tax effects is estimated to be between zero and \$14.0 million taking into account the Company's tax attributes.

Deferred income tax benefits from the exercise of non-qualified stock options increased additional paid-in capital by \$0.2 million in each of fiscal 2004 and 2003.

NOTE 10 - EMPLOYEE STOCK PURCHASE AND OPTION PLANS

The Company has adopted several stock option plans under which incentive and non-qualified stock options and restricted stock awards may be granted. All plans provide that the exercise price may not be less than the fair market value of the common stock at the date the options are granted and limit the term of options granted to a maximum of ten years.

The following table summarizes stock option activity for each of the three fiscal years ended October 31, 2004, November 2, 2003 and November 3, 2002 under the plans:

	Stock Options	Weighted Average Exercise Price Per Share
Balance at October 31, 2001	2,587,237	\$17.05
Granted	791,723	24.16
Exercised	(485,705)	9.90
Cancelled	(204,520)	22.73
Balance at November 3, 2002	2,688,735	20.14
Granted	462,839	12.72
Exercised	(391,966)	11.82
Cancelled	(457,523)	21.77
Balance at November 2, 2003	2,302,085	19.77
Granted	115,000	14.39
Exercised	(133,668)	11.79
Cancelled	(314,807)	21.23
Balance at October 31, 2004	1,968,610	\$19.68

The following table summarizes information relating to outstanding and exercisable options as of October 31, 2004:

	Range of Exercise Prices		
	\$0.94 - \$12.99	\$13.00 - \$22.73	\$22.74 - \$32.47
Outstanding:			
Number of options	479,568	938,198	550,844
Weighted average remaining years	5.7	5.3	6.4
Weighted average exercise price	\$11.74	\$19.35	\$27.14
Exercisable:			
Number of options	333,078	736,822	342,286
Weighted average exercise price	\$12.06	\$20.08	\$27.10

The Company grants restricted stock awards annually. The restrictions on these awards lapse quarterly over a one-year service period. Restricted stock awards of 18,000, 15,000 and 18,000 shares were awarded in fiscal years 2004, 2003 and 2002 respectively, at market prices per share of \$16.78, \$12.93 and \$31.84 respectively. Compensation expense is recognized over the period of the restrictions.

At October 31, 2004, 1,660,263 shares were available for grant and 1,412,186 shares were exercisable at a weighted average exercise price of \$19.89.

The Company maintains an Employee Stock Purchase Plan (Purchase Plan), under which 900,000 shares of common stock were reserved for issuance. The Purchase Plan enables eligible employees to subscribe, through payroll deductions, to purchase shares of the Company's common stock at a purchase price equal to 85% of the lower of the fair market value on the commencement date of the offering and the last day of the payroll payment period. At October 31, 2004, 609,733 shares had been issued and up to 58,719 shares are subject to outstanding subscriptions under the Purchase Plan.

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) Savings and Profit-Sharing Plan (the Plan) which covers all domestic employees who have completed six months of service and are eighteen years of age or older. Under the terms of the Plan, employees may contribute up to 25% of their compensation, subject to certain maximum amounts, which will be matched by the Company at 50% of the employee's contributions, which are not in excess of 4% of the employee's compensation. Employee and employer contributions vest fully upon contribution. Employer contributions amounted to \$0.5 million in 2004, \$0.6 million in fiscal 2003 and \$0.7 million in fiscal 2002.

The Company maintains a cafeteria plan to provide eligible domestic employees with the option to receive non-taxable medical, dental, disability and life insurance benefits. The cafeteria plan is offered to all active full-time domestic employees and their qualifying dependents. The Company's contributions amounted to \$4.6 million in fiscal 2004, \$4.1 million in fiscal 2003 and \$5.5 million in fiscal 2002.

The Company's foreign subsidiaries maintain benefit plans for their employees, which vary by country. The obligations and cost of these plans are not significant to the Company's consolidated financial statements.

NOTE 12 - LEASES

The Company leases various real estate and equipment under non-cancelable operating leases. Rental expense under such leases amounted to \$2.5 million in fiscal 2004, \$2.2 million in fiscal 2003 and \$2.6 million in fiscal 2002.

Future minimum lease payments (excluding costs associated with facilities closed under restructuring plans) under non-cancelable operating leases with initial or remaining terms in excess of one year at October 31, 2004 follow:

2005	\$2,033
2006	1,224
2007	758
2008	151
2009	121
Thereafter	11
	\$4,298

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NOTE 13 - COMMITMENTS AND CONTINGENCIES

At October 31, 2004 the Company had capital expenditure purchase commitments outstanding of approximately \$43.8 million.

Financial instruments that potentially subject the Company to credit risk consist principally of trade accounts receivable and temporary cash investments. The Company sells its products primarily to manufacturers in the semiconductor and computer industries in North America, Europe and Asia. The Company believes that the concentration of credit risk in its trade receivables is substantially mitigated by the Company's ongoing credit evaluation process and relatively short collection terms. The Company does not generally require collateral from customers. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Historically, the Company has not incurred significant credit-related losses.

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. Other than the fair values of the Company's convertible subordinated notes disclosed in Note 7, the carrying values of the Company's other financial instruments approximate fair value.

NOTE 14 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On October 22, 2002, the Company entered into an interest rate swap contract, which effectively converted \$100 million of its 4.75% fixed rate convertible notes to a variable rate. Under the contract, payments are made on a LIBOR based variable rate (3.48% at October 31, 2004).

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 obligations. Accordingly, the interest rate swap contract is stated at fair value in the Company's consolidated balance sheet and the related portion of fixed rate debt being hedged is stated at an amount equal to the sum of its principal amount 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 interest rate swap 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 consolidated statement of operations. The net effect of this interest rate swap contract on the Company's statement of operations is that the interest expense portion of fixed rate debt being hedged is generally recorded based on variable rates.

The interest rate swap contract was recorded as an asset of \$0.7 million and \$1.6 million, at October 31, 2004 and November 2, 2003, respectively, in the Company's consolidated balance sheet. The fair value adjustment for the related portion of fixed rate debt being hedged increased the \$100 million carrying amount of such debt by approximately \$1.5 million (See Note 7). These fair values have been calculated using a discounted cash flow methodology. The net gain or loss on the ineffective portion of the interest rate swap contract was not material to the Company's consolidated statement of operations.

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NOTE 15 - SEGMENT 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. In addition to its manufacturing facilities in the United States, the Company currently has operations in the United Kingdom, Germany, Switzerland, Singapore, Taiwan, and Korea. The Company's 2004, 2003 and 2002 net sales, operating income (loss) and identifiable assets by geographic area were as follows:

	Net Sales	Operating Income (Loss)	Total Identifiable Assets
2004:			
North America	\$140,635	\$ (2,901)	\$459,790
Europe	69,458	6,205	118,211
Asia	185,446	47,996	294,960
	\$395,539	\$51,300	\$872,871
2003:			
North America	\$142,022	\$(60,033)	\$504,782
Europe	59,085	2,056	107,477
Asia	147,777	28,055	253,281

	\$348,884	\$(29,922)	\$865,540
2002:			
North America	\$194,279	\$(27,807)	\$460,099
Europe	63,192	11,936	120,509
Asia	129,400	23,664	251,834
	<u>\$386,871</u>	<u>\$ 7,793</u>	<u>\$832,442</u>

Approximately 3%, 2% and 4% of net domestic sales in fiscal 2004, 2003 and 2002, respectively, were for delivery outside of the United States.

Samsung Electronics Co., Ltd. accounted for 18%, 16% and 10% of the Company's net sales in fiscal 2004, 2003 and 2002, respectively.

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NOTE 16 - COMPREHENSIVE INCOME (LOSS)

The Company's comprehensive income (loss) as reported in the consolidated statements of shareholders' equity, consists of net earnings (losses) and all changes in equity during a period except those resulting from investments by owners and distributions to owners, which are presented pre-tax. The Company does not provide for U.S. income taxes on foreign currency translation adjustments. Accumulated other comprehensive income (loss) consists of unrealized gains and losses on certain investments in equity securities and foreign currency translation adjustments. The related tax effects allocated to each component of other comprehensive income (loss) were as follows for the three fiscal years ended October 31, 2004, November 2, 2003 and November 3, 2002:

	<u>Pre-Tax Amount</u>	<u>Tax (Expense) or Benefit</u>	<u>Net-of-Tax Amount</u>
2004:			
Foreign currency translation adjustment	\$15,051	\$ -	\$15,051
Gain on change in fair value of cash flow hedge	112	-	112
Unrealized holding losses arising during the period	(1,311)	46	(1,265)
	<u>\$13,852</u>	<u>\$ 46</u>	<u>\$13,898</u>
Other comprehensive income			
2003:			
Foreign currency translation adjustment	\$10,990	\$ -	\$10,990
Gain on change in fair value of cash flow hedge	112	-	112
Unrealized holding gains arising during the period	2,608	(443)	2,165
	<u>\$13,710</u>	<u>\$ (443)</u>	<u>\$13,267</u>
Other comprehensive income (loss)			
2002:			
Foreign currency translation adjustment	\$10,514	\$ -	\$10,514
Loss on change in fair value of cash flow hedge	(691)	-	(691)
Unrealized holding losses arising during the period	(3,200)	1,118	(2,082)
	<u>\$ 6,623</u>	<u>\$1,118</u>	<u>\$ 7,741</u>
Other comprehensive income			

NOTE 17 - CONSOLIDATION, RESTRUCTURING AND RELATED CHARGES

Since 2001, the Company has closed four manufacturing facilities in North America and one in Europe due in part to the migration of semiconductor manufacturing to Asia, excess capacity, competitive pricing pressures and weakened demand. Decisions regarding which facilities to close were based on sales volume projections, customer base and production qualifications.

In March 2003, the Company implemented a plan to close its Phoenix, Arizona manufacturing facility and further consolidate its North American manufacturing network in order to increase capacity utilization and manufacturing efficiencies. Total consolidation and related charges of \$42.0 million were recorded during the second quarter of fiscal 2003. Components of the charge include \$3.4 million for workforce reductions of approximately 170 employees in the United States, \$4.4 million for facility lease payments, and \$34.2 million of non-cash charges for the impairment of the carrying value of fixed assets.

In August 2002, the Company implemented a consolidation plan that included the ceasing of photomask manufacturing at its Milpitas, California site and a reduction of its workforce of approximately 135 employees in the United States. The total charge associated with this plan was \$14.5 million, which included \$2.5 million for workforce reduction, \$1.5 million for facility lease payments, and \$10.5 million of non-cash charges for the impairment of the carrying value of fixed assets.

For these previously announced actions, the Company's restructuring expenditures were \$2.6 million, \$40.6 million and \$16.1 million for the fiscal years ended October 31, 2004, November 2, 2003 and November 3, 2002, respectively. These charges relate to the impairment in carrying value of fixed assets, severance and benefits for terminated employees,

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and non-cancelable facility lease payments. From April 2001 through October 31, 2004, the Company had expended, including non-cash charges, \$89.8 million.

The following tables set forth the Company's restructuring reserves as of October 31, 2004, November 2, 2003 and November 3, 2002 and reflect the activities affecting the reserves for years then ended:

Year Ended October 31, 2004			
November 2, 2003 Balance	Charges	Credits	October 31, 2004 Balance

Manufacturing capacity reduction and other	\$5,855	\$ -	\$(1,138)	\$4,717
Workforce reductions	1,499	-	(1,499)	-
Total	\$7,354	\$ -	\$(2,637)	\$4,717

**Year Ended
November 2, 2003**

	November 3, 2002 Balance	Charges	Credits	November 2, 2003 Balance
Manufacturing capacity reduction and other	\$4,268	\$38,575	\$(36,988)	\$5,855
Workforce reductions	1,691	3,425	(3,617)	1,499
Total	\$5,959	\$42,000	\$(40,605)	\$7,354

**Year Ended
November 3, 2002**

	October 31, 2001 Balance	Charges	Credits	November 3, 2002 Balance
Manufacturing capacity reduction and other	\$4,990	\$12,025	\$(12,747)	\$4,268
Workforce reductions	2,567	2,475	(3,351)	1,691
Total	\$7,557	\$14,500	\$(16,098)	\$5,959

As of October 31, 2004, "manufacturing capacity reduction and other" of \$4.7 million primarily represents non-cancelable lease obligations that will be paid over the respective lease terms through 2009.

Effective November 4, 2002, the Company adopted SFAS Nos. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* and 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The March 2003 restructuring was accounted for in accordance with SFAS Nos. 144 and 146.

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NOTE 18 - RELATED PARTY TRANSACTIONS

The Chairman of the Board of the Company is also the Chairman of the Board and majority shareholder of a company who is a supplier of secure managed information technology services. Another director of the Company is also an employee, shareholder and director of this company. In 2002, the Company entered into a fifty-two month service contract with this company to provide services to all of the Company's worldwide facilities at a cost of approximately \$3.2 million per year. In 2004 and 2003, the Company has entered into additional contracts with this company ranging from 12 months to 52 months to provide additional services for approximately \$0.7 million per year. The Company incurred expenses of \$3.4 million in 2004, \$3.9 million in 2003 and \$2.4 million in 2002 related to services provided by this company, for which the amount owed to this company was \$0.3 million at October 31, 2004 and \$0.5 million at November 2, 2003.

An officer of the Company is also the CEO, president and director of one of the Company's majority held subsidiaries from which the Company purchases photomask blanks from a company of which he is a significant shareholder. The Company purchased \$8.3 million and \$2.2 million of photomask blanks from this company in 2004 and 2003, respectively, for which the amount owed to this company was \$0.7 million at October 31, 2004 and \$0.4 million at November 2, 2003.

The Company believes that the terms of the transactions described above with affiliated companies and persons were negotiated at arm's-length and were no less favorable to the Company than the Company could have obtained from non-affiliated parties.

NOTE 19 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth certain unaudited quarterly financial data:

	First	Second	Third	Fourth	Year
Fiscal 2004:			(a)	(a)	(a)
Net sales	\$90,489	\$97,167	\$103,728	\$104,155	\$395,539
Gross margin	28,638	33,034	37,243	36,392	135,307
Net income	2,142	5,985	8,440	7,899	24,466
Earnings per share:					
Basic	\$0.07	\$0.18	\$0.26	\$0.24	\$0.75
Diluted	0.07	0.17	0.23	0.21	0.68
Fiscal 2003:		(b)	(c)		(b) (c)
Net sales	\$81,393	\$ 85,548	\$90,454	\$91,489	\$348,884

Gross margin	17,635	22,740	28,424	29,398	98,197
Net income (loss)	(8,487)	(44,070)	1,272	3,123	(48,162)

Earnings (loss) per share:

Basic	\$(0.26)	\$(1.37)	\$0.04	\$0.10	\$(1.50)
Diluted	(0.26)	(1.37)	0.04	0.10	(1.50)

- (a) Includes after tax early extinguishment charges incurred of \$0.1 million in the third quarter of 2004 and \$1.1 million in the fourth quarter of 2004, totaling \$1.2 million or \$0.03 per diluted share in connection with the redemption of \$48.5 million of the Company's 4.75% convertible notes.
- (b) Includes consolidation charge of \$42.0 million (\$39.9 million after tax or \$1.24 per diluted share), incurred in the second quarter of fiscal 2003, in connection with ceasing the manufacture of photomasks at the Phoenix, Arizona facility and the consolidation of the Company's North American operating infrastructure.
- (c) Includes early extinguishment charge of \$0.9 million after tax (or \$0.03 per diluted share) incurred in the third quarter of fiscal 2003, in connection with the early redemption of the Company's 6% \$62.1 million convertible notes due June 2004.

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NOTE 20 - OTHER RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, which supersedes SAB No. 101, *Revenue Recognition in Financial Statements*. SAB No. 104 clarifies existing guidance regarding revenue contracts that contain multiple deliverables to make it consistent with Emerging Issues Task Force (EITF) No. 00-21. The adoption of SAB No. 104 did not have a material impact on the Company's 2004 results of operations or financial position.

In December 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. FIN 46R, a revision to FIN 46, *Consolidation of Variable Interest Entities*. FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R is effective at the end of the first interim period ending after March 15, 2004. The adoption of FIN 46R did not have a material impact on the Company's results of operations or financial position.

In March 2004, the FASB issued EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 includes new guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued FASB Staff Position EITF 03-1-1, which delays the effective date until additional guidance is issued for the application of the recognition and measurement provisions of EITF 03-1 to investments in securities that are impaired; however, the disclosure requirements are effective for annual periods ending after June 15, 2004. Although the Company will continue to evaluate the application of EITF 03-1, management does not currently believe adoption will have a material impact on its results of operations or financial position.

In November of 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated, as current period costs regardless if they meet the criteria of "so abnormal." In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provision of this Statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The early adoption of SFAS 151 did not have a material impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier application permitted. The Company is evaluating SFAS No. 153, and does not believe it will have a material impact on its 2005 consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's chief executive officer and chief financial officer have concluded that, as of the end of the fiscal year 2004, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Securities Exchange Act of 1934, as amended.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information as to Directors required by Item 401, 405 and 406 of Regulation S-K is set forth in the Company's 2005 definitive proxy statement which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K under the caption "PROPOSAL 1 - ELECTION OF DIRECTORS" and in paragraph three under the caption "MEETINGS AND COMMITTEES OF THE BOARD" and is incorporated in this report by reference. The information as to Executive Officers is included in the Company's 2005 definitive proxy statement under the caption "EXECUTIVE OFFICERS" and is incorporated in this report by reference.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer or controller. A copy of the code of ethics may be obtained, free of charge, by writing to the General Counsel of Photronics, Inc., at 15 Secor Road, Brookfield, Connecticut 06804.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is set forth in the Company's 2005 definitive proxy statement under the captions "EXECUTIVE COMPENSATION," "STOCK OPTIONS," "CERTAIN AGREEMENTS," and "DIRECTORS' COMPENSATION" and is incorporated in this report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by Items 403 and 201(d) of Regulation S-K is set forth in the Company's 2005 definitive proxy statement under the captions "Ownership of Common Stock by Directors, Nominees, Officers and Certain Beneficial Owners" and "Equity Compensation Plan Information," respectively and is incorporated in this report by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 404 of Regulation S-K is set forth in the Company's 2005 definitive proxy statement under the caption "CERTAIN TRANSACTIONS" and is incorporated in this report by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) The following documents are filed as part of this report:

1) Financial Statements

Report of Registered Independent Public Accounting Firm

Consolidated Balance Sheets at October 31, 2004 and November 2, 2003

Consolidated Statements of Operations for the years ended October 31, 2004, November 2, 2003 and November 3, 2002

Consolidated Statements of Shareholders' Equity for the years ended October 31, 2004, November 2, 2003 and November 3, 2002

Consolidated Statements of Cash Flows for the years ended October 31, 2004, November 2, 2003 and November 3, 2002

Notes to Consolidated Financial Statements

2) Schedule II, Valuation Account - Valuation and Qualifying Accounts for the fiscal years ended October 31, 2004, November 2, 2003 and November 3, 2002

Report of Independent Registered Public Accounting Firm on Supplemental Schedule

	Schedule II Valuation and Qualifying Accounts (in thousands)			Balance at End of Year
	Balance at Beginning of Year	Charge to Costs and Expenses	Deductions	
Allowance for Doubtful Accounts				
Year ended October 31, 2004	\$ 2,828	\$ 1,530	\$(1,112) (a)	\$ 3,246
Year ended November 2, 2003	1,840	2,201	(1,213) (a)	2,828
Year ended November 3, 2002	1,000	1,399	(559) (a)	1,840
Deferred Income Tax Valuation Allowance				
Year ended October 31, 2004	\$23,217	\$ 4,266	\$ -	\$27,483
Year ended November 2, 2003	2,510	20,707	-	23,217
Year ended November 3, 2002	293	2,217	-	2,510

(a) Uncollectible accounts written off

3) Exhibits - See the Exhibit Index on pages 54 - 56 of this Annual Report on Form 10-K for exhibits filed with this Annual Report on Form 10-K and for exhibits incorporated by reference. The following exhibits listed on the Exhibit Index are filed with this Annual Report on Form 10-K.

<u>Exhibit Number</u>	<u>Description</u>
10.4	Third Amendment Agreement dated as of September 1, 2004 among the Company, the Borrowing Subsidiaries Party hereto, the Guarantor's Party hereto, the Lender's Party hereto and JPMorganChase, as Administrative Agent.
10.9	Amendment to the Employee Stock Purchase Plan as of April 1, 1998.+
10.10	Amendment to the Employee Stock Purchase Plan as of March 24, 2004.+
10.13	The Company's 1996 Stock Option Plan, as amended March 13, 2003.+
10.15	The Company's 1998 Stock Option Plan, as amended March 13, 2003.+
10.18	The Company's 2000 Stock Option Plan, as amended March 13, 2003.+
10.19	Form of Agreement regarding life insurance between the Company and Executive.+
10.22	Employment Agreement between the Company and Edwin L. Lewis, dated January 4, 2005.+
21	List of Subsidiaries of the Company.
23	Consent of Deloitte & Touche LLP.
31.1	Certification of the 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 the 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 the 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 the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Represents a management contract or compensatory plan or arrangement.

The Company will provide a copy of any exhibit upon receipt of a written request for the particular exhibit or exhibits desired. All requests should be addressed to the Company's General Counsel at the address of the Company's principal executive offices.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON SUPPLEMENTAL SCHEDULE**

**Board of Directors and Shareholders
Photronics, Inc.
Brookfield, Connecticut**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed on page 50 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the Company's management. Such schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

**DELOITTE & TOUCHE LLP
Hartford, Connecticut
January 11, 2005**

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

January 12, 2005

Sean T. Smith
Vice President
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ CONSTANTINE S. MACRICOSTAS

January 12, 2005

Constantine S. Macricostas
Chairman and Chief Executive Officer
Director

By /s/ SEAN T. SMITH

January 12, 2005

Sean T. Smith
Vice President
Chief Financial Officer

By /s/ WALTER M. FIEDEROWICZ

January 12, 2005

Walter M. Fiederowicz
Director

By /s/ JOSEPH A. FIORITA, JR.

January 12, 2005

Joseph A. Fiorita, Jr.
Director

By /s/ GEORGE C. MACRICOSTAS

January 12, 2005

George C. Macricostas
Director

By /s/ WILLEM D. MARIS

January 12, 2005

Willem D. Maris
Director

By /s/ MITCHELL G. TYSON

January 12, 2005

Mitchell G. Tyson
Director

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EXHIBITS INDEX

<u>Exhibit Number</u>	<u>Description</u>
3 (i) (1)	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002 (Commission File Number 0-15451)).
3 (i) (2)	Amendment to the Certificate of Incorporation, dated July 9, 1986 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002 (Commission File Number 0-15451)).
3 (i) (3)	Amendment to the Certificate of Incorporation, dated April 9, 1990 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002 (Commission File Number 0-15451)).
3 (i) (4)	Amendment to the Certificate of Incorporation, dated March 16, 1995 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002 (Commission File Number 0-15451)).
3 (i) (5)	Amendment to the Certificate of Incorporation, dated November 13, 1997 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002 (Commission file number 0-15451)).
3 (i) (6)	Amendment to the Certificate of Incorporation, dated April 15, 2002 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002 (Commission File Number 0-15451)).
3 (ii) (1)	By-laws of the Company, (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, File Number 33-11694, which was declared effective by the Commission on March 10, 1987).
4.1	Form of Indenture between the Company and the Bank of Nova Scotia Trust Company of New York, as Trustee, relating to the 4.75% convertible subordinated notes due December 15, 2006 (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K405 for the fiscal year ended October 31, 2001 (Commission File Number 0-15451)).
4.2	Registration Rights Agreement dated December 12, 2001 between the Company, Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner and Smith Incorporated (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K405 for the fiscal year ended October 31, 2001 (Commission File Number 0-15451)).
4.3	Registration Rights Agreement dated April 4, 2002 between the Company and Photo (L) Limited, Mask (L) Limited, Lakeway (L) Limited, and March (L) Limited (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, File Number 333-88122 which was filed on May 13, 2002).
4.4	Form of Indenture between the Company and the Bank of New York, as Trustee, relating to the 2.25% Convertible Subordinated Notes due April 15, 2008 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, File Number 333-105918, which was filed on June 6, 2003).
4.5	Registration Rights Agreement, dated April 15, 2003 between the Company, Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner and Smith Incorporated and JP Morgan Securities, Inc. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3, File Number 333-105918).
4.6	The Company will furnish to the Commission upon request any other debt instrument referred to in Item 601(b)(4)(iii)(A) of Regulation S-K.

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10.1 Credit Agreement dated as of July 12, 2002 among the Company, JPMorganChase Bank, HSBC Bank USA, The Bank of New York, Fleet National Bank and Citizens Bank of Massachusetts (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2002 (Commission File Number 0-15451)).

- 10.2 First Amendment Agreement dated as of February 3, 2003 among the Company, the Borrowing Subsidiaries Party hereto, the Guarantors Party hereto, the Lenders Party hereto and JP Morgan Chase Bank, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 2, 2003 (Commission File Number 0-15451)).
- 10.3 Second Amendment Agreement dated as of April 9, 2003 among the Company, the Borrowing Subsidiaries Party hereto, the Guarantors Party hereto, the Lenders Party hereto and JP Morgan Chase, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 4, 2003 (Commission File Number 0-15451)).
- 10.4 Third Amendment Agreement dated as of September 1, 2004 among the Company, the Borrowing Subsidiaries Party hereto, the Guarantors Party hereto, the Lenders Party hereto and JPMorganChase, as Administrative Agent.
- 10.5 Master Service Agreement dated January 11, 2002 between the Company and RagingWire Telecommunications, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2002 (Commission File No. 0-15451)).
- 10.6 Real Estate Agreement dated June 19, 2002 between Constantine Macricostas and the Company (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2002 (Commission File Number 0-15451)).
- 10.7 Real Estate Agreement dated June 26, 2002 among George Macricostas and Stephen Macricostas and the Company (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2002 (Commission File Number 0-15451)).
- 10.8 The Company's 1992 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-8, File Number 33-47446 which was filed on April 24, 1994).+
- 10.9 Amendment to the Employee Stock Purchase Plan as of April 1, 1998.+
- 10.10 Amendment to the Employee Stock Purchase Plan as of March 24, 2004.+
- 10.11 The Company's 1994 Stock Option Plan (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-8, Commission File Number 33-78102 which was filed on April 22, 1994).+
- 10.12 The Company's 1996 Stock Option Plan (incorporated by reference to Exhibit 4(a) to the Company's Registration Statement on Form S-8, Commission File Number 333-02245, which was filed on April 4, 1996).+
- 10.13 The Company's 1996 Stock Option Plan, as amended March 13, 2003.+
- 10.14 The Company's 1998 Stock Option Plan (incorporated by reference to Appendix A to the Company's Proxy Statement dated February 12, 1998 filed with the Securities and Exchange Commission as definitive Proxy Statement pursuant to Rule 14a-101 on February 11, 1998 (Commission File Number 0-15451)).+
- 10.15 The Company's 1998 Stock Option Plan, as amended March 13, 2003.+
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- 10.16 The Company's 2000 Stock Option Plan (incorporated by reference to Appendix A to the Company's Notice of Annual Meeting and Proxy Statement dated April 4, 2000 on Form DEF 14A filed on March 6, 2000 (Commission File Number 0-15451)).+
- 10.17 The Company's 2000 Stock Plan, as amended on March 20, 2002 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Commission File Number 333-86846 which was filed on April 24, 2002).+
- 10.18 The Company's 2000 Stock Option Plan, as amended March 13, 2003.+
- 10.19 Form of Agreement regarding life insurance between the Company and Executive.+
- 10.20 Consulting Agreement between the Company and Constantine S. Macricostas, dated October 10, 1997 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for fiscal year ended November 2, 1998 (Commission File Number 0-15451)).+
- 10.21 Pull/Call Option Agreement dated August 21, 2001, by and among the Company, Photo (L) Limited, Mask (L) Limited, Lakeway (L) Limited, March (L) Limited, The HSBC Private Equity Fund 2 Limited, The HSBC Private Equity Fund, L.P., Taiwan Mask Corp. and Blue Water Ventures International Ltd. (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2001 (Commission File Number 0-15451)).
- 10.22 Employment Agreement between the Company and Edwin L. Lewis, dated January 4, 2005.+
- 21 List of Subsidiaries of the Company.
- 23 Consent of Deloitte & Touche LLP.

- 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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+ Represents a management contract or compensatory plan or arrangement.

The Company will provide a copy of any exhibit upon receipt of a written request for the particular exhibit or exhibits desired. All requests should be addressed to the Company's General Counsel at the address of the Company's principal executive offices.

Exhibit 10.4

September 1, 2004

Photronics, Inc.
15 Secor Road
Brookfield, Connecticut 06804

Re: Credit Agreement

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of July 12, 2002 (as amended, the "Credit Agreement") among Photronics, Inc., a Connecticut corporation (the "Company"); each of the Borrowing Subsidiaries party thereto; each of the Lenders party thereto; and JPMorgan Chase Bank, as Administrative Agent. All terms used herein and not defined herein shall have the meanings ascribed to them in the Credit Agreement.

Each of the Borrowers and the Lenders hereby agrees that: (i) Section 6.06(b)(v) of the Credit Agreement is hereby amended to substitute "4 ¾% Subordinated Notes so long as the aggregate amount of Permitted Investments minus outstanding Loans equals or exceeds \$140,000,000 after giving effect thereto" in place of "6% Subordinated Notes"; and (ii) Section 6.20 of the Credit Agreement is hereby amended to substitute", (b) for the fiscal year ending on October 31, 2004, \$100,000,000 and (c)" in place of "and (b)". In consideration of such amendments, the Company agrees to pay to the Administrative Agent on the date hereof a nonrefundable fee equal to \$10,000 to be allocated among the Lenders pro rata based on their respective Commitments.

The terms of this letter shall not operate as a waiver by the Administrative Agent, the Issuing Bank or any Lender of, or otherwise prejudice, the rights, remedies or powers of the Administrative Agent, the Issuing Bank or any Lender under the Credit Agreement, under any other Loan Document or under applicable law. Except as expressly provided herein: (i) no terms and provisions of the Loan Documents are modified or changed by this letter; and (ii) the terms and provisions of the Loan Documents shall continue in full force and effect.

Very truly yours,
JPMORGAN CHASE BANK, individually and as
Administrative Agent

By: /c/ David M. Nackley
Name: David M. Nackley
Title: Vice President

HSBC BANK USA

By: /c/ John V. Raleigh
Name: John V. Raleigh
Title: Vice President

THE BANK OF NEW YORK

By: /c/ Christine T. Rio
Name: Christine T. Rio
Title: Vice President

FLEET NATIONAL BANK

By: /c/ Debra E. DaVecchio
Name: Debra E. DaVecchio
Title: Managing Director

CITIZENS BANK OF MASSACHUSETTS

By: /c/ Daniel G. Eastman
Name: Daniel G. Eastman
Title: Senior Vice President

ACKNOWLEDGED AND AGREED:

PHOTRONICS, INC.,
a Connecticut corporation

By: /c/ Sean T. Smith
Name: Sean T. Smith
Title: Vice President, Chief Financial Officer

PHOTRONICS (UK) LIMITED,
a United Kingdom corporation

By: /c/ Sean T. Smith
Name: Sean T. Smith
Title: Director

By: /c/ Edwin L. Lewis
Name: Edwin L. Lewis
Title: Director

PKL, LTD., a Korean corporation

By: /c/ Sean T. Smith
Name: Sean T. Smith
Title: Director

PHOTRONICS SEMICONDUCTOR MASK CORPORATION,
a Republic of China corporation

By: /c/ Paul J. Fego
Name: Paul J. Fego
Title: Director

**EMPLOYEE STOCK PURCHASE PLAN
(Amended and Current as of April 1, 1998)**

ARTICLE I - General

1.1 The purpose of Photronics, Inc. Employee Stock Purchase Plan is to provide eligible employees of the Company and its designated subsidiaries (if any) with an opportunity to acquire a proprietary interest in the Company by the purchase of shares of the Common Stock of the Company directly from the Company through payroll deductions. It is felt that employee participation in the ownership of the Company will be to the mutual benefit of both the employees and the Company.

1.2 The Plan is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan shall, accordingly, be construed so as to extend and/or limit eligibility and participation in a manner consistent, and so as to otherwise comply, with the requirements of the Code.

1.3 Eligibility and participation in the Plan shall give any Employee only such rights as are set forth in the Plan and any amendments hereto and shall in no way affect or in any manner limit the Company's right to discharge the Employee, which right is expressly reserved by the Company, or impair the authority of the Plan Committee to limit the Employee's rights, claims or causes, as provided in the Plan.

ARTICLE II - Definitions

2.1 The following words and phrases, when used in the Plan, shall have the following respective meanings, unless the context clearly indicates otherwise:

"Authorized Leave of Absence"

Any leave of absence authorized under the Company's standard personnel practices, provided that all persons under similar circumstances must be treated equally in the granting of such Authorized Leave of Absence and provided further that the person returns to the employ of the Company upon the expiration of an Authorized Leave of Absence.

"Board of Directors"

The Board of Directors of Photronics, Inc.

"Code"

The Internal Revenue Code of 1986, as amended from time to time, and applicable Treasury Department regulations issued thereunder.

"Common Stock"

The Common Stock, par value \$0.01 per share, of the Company, or the securities adjusted or substituted therefor pursuant to Article XIV.

"Company"

Photronics, Inc., a Connecticut corporation, or its successor or successors or any present or future subsidiary of Photronics, Inc., which may be designated to participate in the Plan by the Board of Directors.

"Compensation"

The Compensation of an Eligible Employee shall be determined in accordance with procedures approved by the Plan Committee or the Board of Directors. In the absence of the adoption of specific procedures, Compensation of an Eligible Employee shall be the annualized salary or wages of such Employee based on such Employee's current rate of pay and work schedule, but excluding any discretionary overtime, sick pay, vacation pay or other benefits.

"Disability"

Disability shall have the same meaning set forth in Section 22(e)(3) of the Code or any successor provision thereto. At present, a disability is defined as a physical or mental impairment or incapacity which, in the opinion of a physician selected by the Plan Committee, can be expected to result in death or has lasted or can be expected to last for a continuous period of at least twelve (12) months and renders the Participant unable to engage in any substantial, gainful activity.

"Effective Date of the Plan"

The date on which the Plan shall have become effective pursuant to Article XVII, provided, however, that if the Plan shall not be approved by the stockholders of the Company as provided in Article XVII, the Plan and all rights granted hereunder shall be, and be deemed to have been, null and void.

"Eligible Employee"

An Employee who is eligible to participate in the Plan in accordance with provisions of Articles IV and V.

"Employee"

Any person who, on an Offering Date, is a common law employee of the Company and whose customary employment is for more than twenty (20) hours per week and for more than five (5) months per calendar year, other than any highly compensated employees (within the meaning of Section 414(q) of the Code or any successor provision thereto) of the Company who are excluded from participation hereunder by action of the Board of Directors. A person who is or has been on an Authorized Leave of Absence, and who in the absence of such Authorized Leave of Absence would have been classified as an Employee, shall in the discretion of the Plan Committee be considered to be an Employee, except to the extent that such determination is inconsistent with Section 423 of the Code. Such determination by the Plan Committee shall be final and conclusive.

"Offering"

An Offering in accordance with the provisions of Article V.

"Offering Date"

The date of an Offering as established by the Plan Committee pursuant to Section 5.1 hereof.

"Participant"

An Eligible Employee who subscribes for Shares pursuant to Article VI.

"Plan"

The Photronics, Inc. Employee Stock Purchase Plan set forth herein, as amended from time to time in accordance with the provisions of Article XV.

"Plan Committee"

The committee provided for in Article XII to administer the Plan.

"Purchase Date"

A Purchase Date as provided in Sections 8.1 or 10.3, as appropriate.

"Shares"

Shares of Common Stock offered under the Plan.

The masculine gender, whenever used in the Plan, shall be deemed to include the feminine gender, and whenever the plural is used it shall include the singular, if the context so requires.

ARTICLE III - Shares Subject to the Plan

3.1 Subject to the provisions of Article XIV hereof, the aggregate number of shares of Common Stock which may be issued under the Plan shall not exceed 600,000. The aggregate number of such shares which may be issued with respect to any Offering shall be determined by the Plan Committee with respect to such Offering. Such shares may be authorized but unissued shares of Common Stock or issued shares of Common Stock which are held by the Company. Any shares subscribed for under the Plan and not purchased as a result of the cancellation in whole or in part of such subscription shall (unless the Plan shall have terminated) be again available for issuance under the Plan.

ARTICLE IV - Eligibility

4.1 Each Employee who has been continuously employed by the Company for the one complete calendar month (or such longer period as may be determined by the Plan Committee) ending immediately prior to an Offering Date shall be eligible to participate in the Offering under the Plan made on such Offering Date.

4.2 Notwithstanding the provisions of Section 4.1, no Employee shall be offered Shares if, immediately after he would subscribe for such Shares, such Employee would own capital stock (including shares of Common Stock which may be purchased under such subscription and under any other outstanding subscriptions under the Plan or options to purchase shares of Common Stock of the Company held by such Employee, as computed in accordance with Section 423(b)(3) of the Code or any successor provision thereto) possessing 5% or more of the total combined voting power or value of all classes of stock of the Company. For purposes of determining the stock ownership of any Employee, the provisions of Section 424(d) of the Code shall apply.

ARTICLE V - Offering Under the Plan

5.1 Offerings under the Plan shall be made on such Offering Dates as shall be determined by the Plan Committee. Notwithstanding anything to the contrary, no Offering shall be made on any date prior to the date that a required registration statement with respect to such Offering filed under the Securities Act of 1933, as amended, has become effective. Nothing contained herein shall be deemed to require that an Offering be made in any year.

5.2 [a] Subject to the limitations set forth in Sections 5.2(b) and 6.3, and to the other terms and conditions of the Plan, in each offering under the Plan, each Eligible Employee on an Offering Date shall be offered the right during the Subscription Period as provided in Section 6.2, to subscribe to purchase such number of Shares as the percentage designated by the Plan Committee for such offering (not to exceed 5%) of his Compensation would buy, at a price equal to the product of (i) the fair market value of a Share on the Offering Date, multiplied by (ii) the Purchase Price percentage utilized under Section 5.3 hereof.

[b] Notwithstanding anything to the contrary contained in Sub-Section [a] of this Section 5.2, no Eligible Employee shall be eligible to subscribe for Shares in an Offering if, immediately after he would subscribe for such Shares, such subscription would permit his rights to purchase shares of Common Stock under all employee stock purchase plans of the Company to accrue at a rate which exceeds \$25,000 (or such other maximum amounts as may be prescribed from time to time under the Code) of the fair market value of such shares (determined as of the Offering Date for such Offering) for each calendar year in which such subscription would be outstanding at any time. For purposes of this limitation the provisions of Section 423(b)(8) of the Code shall be applicable.

5.3 The Purchase Price per share subscribed for all Shares in a particular Offering shall be an amount equal to such percentages, not greater than 100% nor less than 85%, as shall be determined by the Plan Committee on or prior to the Offering Date, of the fair market value of a share of Common Stock (determined in accordance with the provisions of Article XIII) on one of the following dates with respect to such Offering, with such date to be determined by the Plan Committee on or prior to the Offering Date: (i) the Offering Date, (ii) the Purchase Date, or (iii) the Offering Date or the Purchase Date (whichever would result in a lower Purchase Price for the Common Stock).

5.4 In order to participate in any Offering, an Eligible Employee entitled to subscribe for Shares in such Offering shall comply with the subscription procedures set forth in Article VI.

ARTICLE VI - Subscriptions for Shares

6.1 As soon as practicable after an Offering Date, the Company shall furnish to each Eligible Employee a Subscription Agreement setting forth the maximum number of Shares to which such Eligible Employee may subscribe in such Offering, the fair market value per share of Common Stock on the Offering Date, the Purchase Price for Shares in such Offering and such other terms and conditions consistent with the Plan as shall be determined by the Plan Committee.

6.2 Within fifteen (15) days after receipt of such Subscription Agreement, an Eligible Employee desiring to participate in the Offering shall notify the Plan Committee of the number of Shares for which he desires to subscribe. Such notification shall be effected by the Eligible Employee's completing, executing and returning to the Secretary of the Company the Subscription Agreement. All such subscriptions shall be deemed to have been made as of the Offering Date. No subscription shall be accepted from any person who is not an Eligible Employee on the date his subscription is received by the Company.

6.3 The minimum number of Shares for which an Eligible Employee will be permitted to subscribe in any Offering is ten (10) (or the number of Shares offered to him if fewer than ten). If at any time the Shares available for an Offering are oversubscribed, the Number of Shares for which each Eligible Employee is entitled to subscribe pursuant to Section 5.2 shall be reduced, pro rata, to such lower number as may be necessary to eliminate such over-subscription.

6.4 If an Eligible Employee fails to subscribe to the Shares within the period and in the manner prescribed in Section 6.2, he shall waive all rights to purchase Shares in that Offering.

ARTICLE VII - Payment for Shares

7.1 The aggregate Purchase Price for the Shares for which a Participant subscribes in any Offering in accordance with the provisions of Article VI of the Plan shall be paid by means of payroll deductions.

7.2 [a] The aggregate Purchase Price for Shares shall be paid by payroll deductions in equal amounts over a period of 24 months (or such shorter period as shall be determined by the Plan Committee in accordance with the Plan) from the Offering Date. The period over which such payroll deductions are to be made in hereinafter referred to as the "Payment Period".

[b] Such payroll deductions with respect to an Offering shall commence as soon as practicable after the receipt of the Company of the executed Subscription Agreement authorizing such payroll deductions, and shall cease upon the earlier of the termination of the Payment Period or payment in full of the Purchase Price for such Shares. A Participant may cancel his subscription to the extent provided for in Article X, but no other change in terms of his Subscription Agreement may be made during the Payment Period and, in particular, in no event may a Participant change the amount of his payroll deductions under such Subscription Agreement. All payroll deductions withheld from a Participant under a Subscription Agreement shall be credited to his account under the Plan. In the event that payroll deductions are simultaneously being made with respect to more than one Subscription Agreement, the aggregate amount of such payroll deductions at any payday shall be credited first toward the payment for Shares subscribed for in the earliest Offering. A Participant may not make any separate cash payment into his account, provided, however, that a Participant who has been deemed to be in the employ of the Company while on an Authorized Leave of Absence without pay during the Payment Period, may upon his return to the actual employ of the Company, make a cash payment into his account in an amount not exceeding the aggregate of the payroll deductions which would have been made during such Authorized Leave of Absence.

[c] All funds representing payroll deductions for the accounts of Participants will, except as provided in Section 7.3, be paid into the general funds of the Company. No interest will be paid or accrued under any circumstances on any funds withheld by the Company as payroll deductions pursuant to this Section 7.2 or on any other funds paid to the Company for purchases of Shares under the Plan.

7.3 Notwithstanding anything in this Article VII to the contrary, with respect to any Offering which is made prior to the approval of the Plan by the stockholders of the Company, all payroll deductions withheld for the accounts of Participants shall, until the Plan is approved by the stockholders, be held by the Company in a special escrow account for the benefit of such Participants. No interest will be paid or accrued under any circumstances on such funds. No Shares will be issued to such Participants until after approval of the Plan by the stockholders. In the event that the Plan is not approved by the stockholders within the period specified in Article XVII, all such funds will thereupon be promptly refunded to the respective Participants.

7.4 Failure to pay for subscribed Shares as provided in this Article VII shall constitute the cancellation of such subscription to the extent that any such Shares shall not have been so paid for.

ARTICLE VIII - Issuance of Shares

8.1 At the end of the Payment Period for an Offering, (each of which dates is referred to as a "Purchase Date"), the balance of all amounts then held in the account of a Participant representing payroll deductions pursuant to a Subscription Agreement shall be applied to the purchase by the Participant from the Company of the number of Shares equal to the amount of such balance divided by the Purchase Price per share for such Shares applicable on such Purchase Date up to the number of Shares provided for in the respective Subscription Agreement. Any amount remaining in the Participant's account in excess of the sum required to purchase whole Shares on a Purchase Date shall be promptly refunded to the Participant. As soon as practicable after a Purchase Date, the Company will issue and deliver to the Participant a certificate representing the Shares purchased by him from the Company on such Purchase Date. No fractional shares will be issued at any time.

8.2 A Participant who disposes (whether by sale, exchange, gift or otherwise) of any of the Shares acquired by him pursuant to the Plan within two (2) years after the Offering Date for such Shares or within one (1) year after the issuance of Shares to him shall notify the Company in writing of such disposition within thirty (30) days after such disposition.

ARTICLE IX - Rights of Stockholders

9.1 A Participant shall not have any rights to dividends or any other rights as a stockholder of the Company with respect to any Shares until such Shares shall have been issued to him as reflected by the books and records maintained by the Company's transfer agent relating to stockholders of the Company.

ARTICLE X - Voluntary Withdrawal/Termination of Employment

10.1 A Participant may discontinue his payroll deductions under a Subscription Agreement at any time by giving written notice thereof to the Plan Committee, effective for all payroll periods commencing five (5) days after receipt of such notice by the Plan Committee. The balance in the account of such Participant following such discontinuance shall be promptly refunded to the Participant. Withdrawal from an Offering pursuant to this Section 10.1 shall not affect an Eligible Employee's eligibility to participate in any other Offering under the Plan.

10.2 If the Participant's employment with the Company is terminated for any reason other than death while still an Employee, such Participant's rights to purchase Shares under any Subscription Agreement shall immediately terminate. Any balance remaining in his account as of the date of such termination of employment shall be promptly refunded to the Participant.

10.3 In the event of the death of an Employee who was a Participant prior to the purchase of the Shares for which he subscribed pursuant to Article VI hereof, the person or persons who acquired by laws of descent and distribution (his "Estate") his rights to purchase Shares under his Subscription Agreement(s), shall have the right within ninety (90) days after the death of the Participant (but in no event later than the termination of the Payment Period) to purchase from the Company that number of Shares subscribed for and not issued to the Participant prior to his death which the balance in the Participant's payroll deduction account is sufficient to purchase. The failure of the person or persons so acquiring his rights to so give notice of intention to purchase shall constitute a forfeiture of all further rights of the Participant or other persons to purchase such Shares and in such event, the balance in the Participant's payroll deduction account will be refunded, without interest. If the Participant dies more than fifty (50) days prior to the termination of the Payment Period and his Estate elects to purchase the Shares subscribed for, the Purchase Price for his Shares shall be the percentage, designated pursuant to Section 5.3, of the fair market value on the Offering Date, irrespective of the Purchase Price for other Participants.

ARTICLE XI - Non-Transferability of Subscription Rights

11.1 During the lifetime of a Participant, the Shares for which he subscribes may be purchased only by him. No Subscription Agreement of a Participant and no right under or interest in the Plan or any such Subscription Agreement (hereinafter collectively referred to as "Subscription Rights") may be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise), except by the Participant's will or by the applicable laws of descent and distribution, or may be subject to execution, attachment or similar process. Any assignment, transfer, pledge, hypothecation or other disposition of Subscription Rights, or any levy of execution, attachment or other process attempted upon Subscription Rights, shall be null and void and without effect, and in any such event all Subscription Rights shall, in the sole discretion of the Plan Committee (exercised by written notice to the Participant or to the person then entitled to purchase the Shares under the provisions of Sections 10.3 hereof), terminate as of the occurrence of any such event.

ARTICLE XII - Administration of the Plan

12.1 The Plan shall be administered by a Plan Committee which shall consist of two (2) or more members of the Board of Directors, none of whom shall be eligible to participate in the Plan. The members of the Plan Committee shall be appointed, and may be removed, by the Board of Directors. The Board of Directors shall have the power to remove and substitute for members of the Plan Committee and to fill any vacancy which may occur in the Plan Committee.

12.2 Unless otherwise determined by the Board of Directors, the members of the Plan Committee shall serve without additional compensation for their services. All expenses in connection with the administration of the Plan, including, but not limited to, clerical, legal and accounting fees, and other costs of administration, shall be paid by the Company.

12.3 The Chairman of the Plan Committee shall be designated by the Board of Directors. The Plan Committee shall select a Secretary who need not be a member of the Plan Committee. The Secretary, or in his absence, any member of the Plan Committee designated by the Chairman, shall keep the minutes of the proceedings of the Plan Committee and all data, records and documents relating to the administration of the Plan by the Plan Committee.

12.4 A quorum of the Plan Committee shall be such number as the Committee shall from time to time determine, but shall not be less than a majority of the entire Plan Committee. The acts of a majority of the members of the Plan Committee present at any meeting at which a quorum is present shall be the act of the Plan Committee. Members of the Plan Committee may participate in a meeting by means of telephone conference or similar communications procedure pursuant to which all persons participating in the meeting can hear each other. The Plan Committee may take action without a meeting if such action is evidenced by a writing signed by at least a majority of the entire Plan Committee.

12.5 The Plan Committee may, by an instrument in writing, delegate to one or more of its members or to an officer or officers of the Company any of its powers and its authority under the Plan, including the execution and delivery on its behalf of instruments, instructions and other documents.

12.6 It shall be the sole and exclusive duty and authority of the Plan Committee to interpret and construe the provisions of the Plan, to decide any disputes which may arise with regard to the status, eligibility and rights of Employees under the terms of the Plan, and any other persons claiming an interest under the terms of the Plan, and, in general, to direct the administration of the Plan.

12.7 The Plan Committee may adopt, and from time to time amend, such rules and regulations consistent with the purposes and provisions of the Plan, as it deems necessary or advisable to administer and effectuate the Plan.

12.8 The Plan Committee may shorten, lengthen (but not beyond thirty (30) days) or waive the time required by the Plan for the filing of any notice or other form under the Plan.

12.9 The discretionary powers granted hereunder to the Plan Committee shall in no event be exercised in any manner that will discriminate against individual employees or a class of employees or discriminate in favor of employees who are shareholders, officers, supervisors or highly compensated employees of the Company.

ARTICLE XIII - Valuation of Shares of Common Stock

13.1 For purposes of the Plan, the "fair market value" of a share of Common Stock as of any date shall be determined as follows:

[a] If the Common Stock is then listed on a national securities exchange, the "fair market value" shall be the closing price of a share of Common Stock on such exchange on such date, or, if there has been no sale of shares of Common Stock on that date, the closing price of a share of Common Stock on such exchange on the last preceding business day on which shares of Common Stock were traded.

[b] If the Common Stock is then listed on the National Association of Securities Dealers Automatic Quotation System National Market System, the "fair market value" shall be the average of the high and low sales prices of a share of Common Stock on that date, or if there has been no sale of shares of Common Stock on that date, the average of the high and low sales prices of Common Stock on the last preceding business day on which shares of Common Stock were traded.

ARTICLE XIV - Adjustments in Certain Events

14.1 If (i) the Company shall at any time be involved in a transaction to which sub-section [a] of Section 424 of the Code is applicable, (ii) the Company shall declare a dividend payable in, or shall sub-divide or combine, its Common Stock, or (iii) any other event shall occur which in the judgment of the Board of Directors necessitates action by way of adjusting the terms of the outstanding Subscription Agreements, the Board of Directors shall take any such action as in its judgment shall be appropriate to preserve Participant rights substantially proportionate to the rights existing prior to such event. To the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to outstanding Subscription Agreements, the aggregate number of shares available under Article III hereof for issuance under the Plan pursuant to outstanding Subscription Agreements and Subscription Agreements which may be entered into, and the aggregate number of shares available for issuance in any Offering and the number which may be subscribed for, shall be proportionately increased or decreased, as the case may be. No action shall be taken by the Board of Directors under the provisions of this Article XIV which, in its judgment, would constitute a modification, extension or renewal of the Subscription Agreement (within the meaning of Section 424[h] of the Code), or would prevent the Plan from qualifying as an "employee stock purchase plan" (within the meaning of Section 423 of the Code). The determination of the Board of Directors with respect to any matter referred to in this Article XIV shall be conclusive and binding upon each Participant.

ARTICLE XV - Termination and Amendment of the Plan

15.1 The Board of Directors may, without further approval by the stockholders of the Company, at any time terminate or amend the Plan without notice, or make such modifications of the Plan as it shall deem advisable; provided that the Board of Directors may not, without prior approval by the holders of a majority of the outstanding shares of Common Stock of the Company, amend or modify the Plan so as to (i) increase the maximum number of shares of Common Stock which may be issued under the Plan (except as contemplated in Article XIV hereof), (ii) extend the term during which Offerings may be made under the Plan or (iii) increase the maximum number of Shares which an Eligible Employee is entitled to purchase (except as contemplated in Article XIV hereof); and provided further that the Board of Directors may not amend or modify the Plan in any manner which would prevent the Plan from qualifying as an "employee stock purchase plan" (within the meaning of Section 423 of the Code). No termination, amendment or modification of the Plan may, without the consent of a Participant, adversely affect the rights of such Participant under an outstanding Subscription Agreement.

ARTICLE XVI -Miscellaneous

16.1 Unless otherwise expressly provided in the Plan, all notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received by the Secretary of the Company or when received in the form specified by the Company at the location and by the persons, designated by the Company for the receipt thereof.

16.2 Notwithstanding anything hereunder to the contrary, the offer, sale and delivery by the Company of Shares under the Plan to any Eligible Employee is subject to compliance with all applicable securities regulation and other federal and state laws. The terms of this Plan shall be construed under the laws of the State of Connecticut.

ARTICLE XVII - Effective Date

17.1 The Plan shall become effective at such time as the Plan has been adopted by the Board of Directors or such later date as shall be designated by the Board of Directors upon its adoption of the Plan; provided, however, that the Plan and all Subscription Agreements entered into thereunder shall be, and be deemed to have been, null and void if the Plan is not approved by the holders of a majority of the outstanding shares of Common Stock of the Company within twelve (12) months after the date on which the Plan is adopted by the Board of Directors.

**EMPLOYEE STOCK PURCHASE PLAN
(Amended and Current as of March 24, 2004)**

ARTICLE I - General

1.1 The purpose of Photronics, Inc. Employee Stock Purchase Plan is to provide eligible employees of the Company and its designated subsidiaries (if any) with an opportunity to acquire a proprietary interest in the Company by the purchase of shares of the Common Stock of the Company directly from the Company through payroll deductions. It is felt that employee participation in the ownership of the Company will be to the mutual benefit of both the employees and the Company.

1.2 The Plan is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan shall, accordingly, be construed so as to extend and/or limit eligibility and participation in a manner consistent, and so as to otherwise comply, with the requirements of the Code.

1.3 Eligibility and participation in the Plan shall give any Employee only such rights as are set forth in the Plan and any amendments hereto and shall in no way affect or in any manner limit the Company's right to discharge the Employee, which right is expressly reserved by the Company, or impair the authority of the Plan Committee to limit the Employee's rights, claims or causes, as provided in the Plan.

ARTICLE II - Definitions

2.1 The following words and phrases, when used in the Plan, shall have the following respective meanings, unless the context clearly indicates otherwise:

"Authorized Leave of Absence"

Any leave of absence authorized under the Company's standard personnel practices, provided that all persons under similar circumstances must be treated equally in the granting of such Authorized Leave of Absence and provided further that the person returns to the employ of the Company upon the expiration of an Authorized Leave of Absence.

"Board of Directors"

The Board of Directors of Photronics, Inc.

"Code"

The Internal Revenue Code of 1986, as amended from time to time, and applicable Treasury Department regulations issued thereunder.

"Common Stock"

The Common Stock, par value \$0.01 per share, of the Company, or the securities adjusted or substituted therefor pursuant to Article XIV.

"Company"

Photronics, Inc., a Connecticut corporation, or its successor or successors or any present or future subsidiary of Photronics, Inc., which may be designated to participate in the Plan by the Board of Directors.

"Compensation"

The Compensation of an Eligible Employee shall be determined in accordance with procedures approved by the Plan Committee or the Board of Directors. In the absence of the adoption of specific procedures, Compensation of an Eligible Employee shall be the annualized salary or wages of such Employee based on such Employee's current rate of pay and work schedule, but excluding any discretionary overtime, sick pay, vacation pay or other benefits.

"Disability"

Disability shall have the same meaning set forth in Section 22(e)(3) of the Code or any successor provision thereto. At present, a disability is defined as a physical or mental impairment or incapacity which, in the opinion of a physician selected by the Plan Committee, can be expected to result in death or has lasted or can be expected to last for a continuous period of at least twelve (12) months and renders the Participant unable to engage in any substantial, gainful activity.

"Effective Date of the Plan"

The date on which the Plan shall have become effective pursuant to Article XVII, provided, however, that if the Plan shall not be approved by the stockholders of the Company as provided in Article XVII, the Plan and all rights granted hereunder shall be, and be deemed to have been, null and void.

"Eligible Employee"

An Employee who is eligible to participate in the Plan in accordance with provisions of Articles IV and V.

"Employee"

Any person who, on an Offering Date, is a common law employee of the Company and whose customary employment is for more than twenty (20) hours per week and for more than five (5) months per calendar year, other than any highly compensated employees (within the meaning of Section 414(q) of the Code or any successor provision thereto) of the Company who are excluded from participation hereunder by action of the Board of Directors. A person who is or has been on an Authorized Leave of Absence, and who in the absence of such Authorized Leave of Absence would have been classified as an Employee, shall in the discretion of the Plan Committee be considered to be an Employee, except to the extent that such determination is inconsistent with Section 423 of the Code. Such determination by the Plan Committee shall be final and conclusive.

"Offering"

An Offering in accordance with the provisions of Article V.

"Offering Date"

The date of an Offering as established by the Plan Committee pursuant to Section 5.1 hereof.

"Participant"

An Eligible Employee who subscribes for Shares pursuant to Article VI.

"Plan"

The Photronics, Inc. Employee Stock Purchase Plan set forth herein, as amended from time to time in accordance with the provisions of Article XV.

"Plan Committee"

The committee provided for in Article XII to administer the Plan.

"Purchase Date"

A Purchase Date as provided in Sections 8.1 or 10.3, as appropriate.

"Shares"

Shares of Common Stock offered under the Plan.

The masculine gender, whenever used in the Plan, shall be deemed to include the feminine gender, and whenever the plural is used it shall include the singular, if the context so requires.

ARTICLE III - Shares Subject to the Plan

3.1 Subject to the provisions of Article XIV hereof, the aggregate number of shares of Common Stock which may be issued under the Plan shall not exceed 900,000. The aggregate number of such shares which may be issued with respect to any Offering shall be determined by the Plan Committee with respect to such Offering. Such shares may be authorized but unissued shares of Common Stock or issued shares of Common Stock which are held by the Company. Any shares subscribed for under the Plan and not purchased as a result of the cancellation in whole or in part of such subscription shall (unless the Plan shall have terminated) be again available for issuance under the Plan.

ARTICLE IV - Eligibility

4.1 Each Employee who has been continuously employed by the Company for the one complete calendar month (or such longer period as may be determined by the Plan Committee) ending immediately prior to an Offering Date shall be eligible to participate in the Offering under the Plan made on such Offering Date.

4.2 Notwithstanding the provisions of Section 4.1, no Employee shall be offered Shares if, immediately after he would subscribe for such Shares, such Employee would own capital stock (including shares of Common Stock which may be purchased under such subscription and under any other outstanding subscriptions under the Plan or options to purchase shares of Common Stock of the Company held by such Employee, as computed in accordance with Section 423(b)(3) of the Code or any successor provision thereto) possessing 5% or more of the total combined voting power or value of all classes of stock of the Company. For purposes of determining the stock ownership of any Employee, the provisions of Section 424(d) of the Code shall apply.

ARTICLE V - Offering Under the Plan

5.1 Offerings under the Plan shall be made on such Offering Dates as shall be determined by the Plan Committee. Notwithstanding anything to the contrary, no Offering shall be made on any date prior to the date that a required registration statement with respect to such Offering filed under the Securities Act of 1933, as amended, has become effective. Nothing contained herein shall be deemed to require that an Offering be made in any year.

5.2 [a] Subject to the limitations set forth in Sections 5.2(b) and 6.3, and to the other terms and conditions of the Plan, in each offering under the Plan, each Eligible Employee on an Offering Date shall be offered the right during the Subscription Period as provided in Section 6.2, to subscribe to purchase such number of Shares as the percentage designated by the Plan Committee for such offering (not to exceed 5%) of his Compensation would buy, at a price equal to the product of (i) the fair market value of a Share on the Offering Date, multiplied by (ii) the Purchase Price percentage utilized under Section 5.3 hereof.

[b] Notwithstanding anything to the contrary contained in Sub-Section [a] of this Section 5.2, no Eligible Employee shall be eligible to subscribe for Shares in an Offering if, immediately after he would subscribe for such Shares, such subscription would permit his rights to purchase shares of Common Stock under all employee stock purchase plans of the Company to accrue at a rate which exceeds \$25,000 (or such other maximum amounts as may be prescribed from time to time under the Code) of the fair market value of such shares (determined as of the Offering Date for such Offering) for each calendar year in which such subscription would be outstanding at any time. For purposes of this limitation the provisions of Section 423(b)(8) of the Code shall be applicable.

5.3 The Purchase Price per share subscribed for all Shares in a particular Offering shall be an amount equal to such percentages, not greater than 100% nor less than 85%, as shall be determined by the Plan Committee on or prior to the Offering Date, of the fair market value of a share of Common Stock (determined in accordance with the provisions of Article XIII) on one of the following dates with respect to such Offering, with such date

to be determined by the Plan Committee on or prior to the Offering Date: (i) the Offering Date, (ii) the Purchase Date, or (iii) the Offering Date or the Purchase Date (whichever would result in a lower Purchase Price for the Common Stock).

5.4 In order to participate in any Offering, an Eligible Employee entitled to subscribe for Shares in such Offering shall comply with the subscription procedures set forth in Article VI.

ARTICLE VI - Subscriptions for Shares

6.1 As soon as practicable after an Offering Date, the Company shall furnish to each Eligible Employee a Subscription Agreement setting forth the maximum number of Shares to which such Eligible Employee may subscribe in such Offering, the fair market value per share of Common Stock on the Offering Date, the Purchase Price for Shares in such Offering and such other terms and conditions consistent with the Plan as shall be determined by the Plan Committee.

6.2 Within fifteen (15) days after receipt of such Subscription Agreement, an Eligible Employee desiring to participate in the Offering shall notify the Plan Committee of the number of Shares for which he desires to subscribe. Such notification shall be effected by the Eligible Employee's completing, executing and returning to the Secretary of the Company the Subscription Agreement. All such subscriptions shall be deemed to have been made as of the Offering Date. No subscription shall be accepted from any person who is not an Eligible Employee on the date his subscription is received by the Company.

6.3 The minimum number of Shares for which an Eligible Employee will be permitted to subscribe in any Offering is ten (10) (or the number of Shares offered to him if fewer than ten). If at any time the Shares available for an Offering are oversubscribed, the Number of Shares for which each Eligible Employee is entitled to subscribe pursuant to Section 5.2 shall be reduced, pro rata, to such lower number as may be necessary to eliminate such over-subscription.

6.4 If an Eligible Employee fails to subscribe to the Shares within the period and in the manner prescribed in Section 6.2, he shall waive all rights to purchase Shares in that Offering.

ARTICLE VII - Payment for Shares

7.1 The aggregate Purchase Price for the Shares for which a Participant subscribes in any Offering in accordance with the provisions of Article VI of the Plan shall be paid by means of payroll deductions.

7.2 [a] The aggregate Purchase Price for Shares shall be paid by payroll deductions in equal amounts over a period of 24 months (or such shorter period as shall be determined by the Plan Committee in accordance with the Plan) from the Offering Date. The period over which such payroll deductions are to be made in hereinafter referred to as the "Payment Period".

[b] Such payroll deductions with respect to an Offering shall commence as soon as practicable after the receipt of the Company of the executed Subscription Agreement authorizing such payroll deductions, and shall cease upon the earlier of the termination of the Payment Period or payment in full of the Purchase Price for such Shares. A Participant may cancel his subscription to the extent provided for in Article X, but no other change in terms of his Subscription Agreement may be made during the Payment Period and, in particular, in no event may a Participant change the amount of his payroll deductions under such Subscription Agreement. All payroll deductions withheld from a Participant under a Subscription Agreement shall be credited to his account under the Plan. In the event that payroll deductions are simultaneously being made with respect to more than one Subscription Agreement, the aggregate amount of such payroll deductions at any payday shall be credited first toward the payment for Shares subscribed for in the earliest Offering. A Participant may not make any separate cash payment into his account, provided, however, that a Participant who has been deemed to be in the employ of the Company while on an Authorized Leave of Absence without pay during the Payment Period, may upon his return to the actual employ of the Company, make a cash payment into his account in an amount not exceeding the aggregate of the payroll deductions which would have been made during such Authorized Leave of Absence.

[c] All funds representing payroll deductions for the accounts of Participants will, except as provided in Section 7.3, be paid into the general funds of the Company. No interest will be paid or accrued under any circumstances on any funds withheld by the Company as payroll deductions pursuant to this Section 7.2 or on any other funds paid to the Company for purchases of Shares under the Plan.

7.3 Notwithstanding anything in this Article VII to the contrary, with respect to any Offering which is made prior to the approval of the Plan by the stockholders of the Company, all payroll deductions withheld for the accounts of Participants shall, until the Plan is approved by the stockholders, be held by the Company in a special escrow account for the benefit of such Participants. No interest will be paid or accrued under any circumstances on such funds. No Shares will be issued to such Participants until after approval of the Plan by the stockholders. In the event that the Plan is not approved by the stockholders within the period specified in Article XVII, all such funds will thereupon be promptly refunded to the respective Participants.

7.4 Failure to pay for subscribed Shares as provided in this Article VII shall constitute the cancellation of such subscription to the extent that any such Shares shall not have been so paid for.

ARTICLE VIII - Issuance of Shares

8.1 At the end of the Payment Period for an Offering, (each of which dates is referred to as a "Purchase Date"), the balance of all amounts then held in the account of a Participant representing payroll deductions pursuant to a Subscription Agreement shall be applied to the purchase by the Participant from the Company of the number of Shares equal to the amount of such balance divided by the Purchase Price per share for such Shares applicable on such Purchase Date up to the number of Shares provided for in the respective Subscription Agreement. Any amount remaining in the Participant's account in excess of the sum required to purchase whole Shares on a Purchase Date shall be promptly refunded to the Participant. As soon as practicable after a Purchase Date, the Company will issue and deliver to the Participant a certificate representing the Shares purchased by him from the Company on such Purchase Date. No fractional shares will be issued at any time.

8.2 A Participant who disposes (whether by sale, exchange, gift or otherwise) of any of the Shares acquired by him pursuant to the Plan within two (2) years after the Offering Date for such Shares or within one (1) year after the issuance of Shares to him shall notify the Company in writing of such disposition within thirty (30) days after such disposition.

ARTICLE IX - Rights of Stockholders

9.1 A Participant shall not have any rights to dividends or any other rights as a stockholder of the Company with respect to any Shares until such Shares shall have been issued to him as reflected by the books and records maintained by the Company's transfer agent relating to stockholders of the Company.

ARTICLE X - Voluntary Withdrawal/Termination of Employment

10.1 A Participant may discontinue his payroll deductions under a Subscription Agreement at any time by giving written notice thereof to the Plan Committee, effective for all payroll periods commencing five (5) days after receipt of such notice by the Plan Committee. The balance in the account of such Participant following such discontinuance shall be promptly refunded to the Participant. Withdrawal from an Offering pursuant to this Section 10.1 shall not affect an Eligible Employee's eligibility to participate in any other Offering under the Plan.

10.2 If the Participant's employment with the Company is terminated for any reason other than death while still an Employee, such Participant's rights to purchase Shares under any Subscription Agreement shall immediately terminate. Any balance remaining in his account as of the date of such termination of employment shall be promptly refunded to the Participant.

10.3 In the event of the death of an Employee who was a Participant prior to the purchase of the Shares for which he subscribed pursuant to Article VI hereof, the person or persons who acquired by laws of descent and distribution (his "Estate") his rights to purchase Shares under his Subscription Agreement(s), shall have the right within ninety (90) days after the death of the Participant (but in no event later than the termination of the Payment Period) to purchase from the Company that number of Shares subscribed for and not issued to the Participant prior to his death which the balance in the Participant's payroll deduction account is sufficient to purchase. The failure of the person or persons so acquiring his rights to so give notice of intention to purchase shall constitute a forfeiture of all further rights of the Participant or other persons to purchase such Shares and in such event, the balance in the Participant's payroll deduction account will be refunded, without interest. If the Participant dies more than fifty (50) days prior to the termination of the Payment Period and his Estate elects to purchase the Shares subscribed for, the Purchase Price for his Shares shall be the percentage, designated pursuant to Section 5.3, of the fair market value on the Offering Date, irrespective of the Purchase Price for other Participants.

ARTICLE XI - Non-Transferability of Subscription Rights

11.1 During the lifetime of a Participant, the Shares for which he subscribes may be purchased only by him. No Subscription Agreement of a Participant and no right under or interest in the Plan or any such Subscription Agreement (hereinafter collectively referred to as "Subscription Rights") may be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise), except by the Participant's will or by the applicable laws of descent and distribution, or may be subject to execution, attachment or similar process. Any assignment, transfer, pledge, hypothecation or other disposition of Subscription Rights, or any levy of execution, attachment or other process attempted upon Subscription Rights, shall be null and void and without effect, and in any such event all Subscription Rights shall, in the sole discretion of the Plan Committee (exercised by written notice to the Participant or to the person then entitled to purchase the Shares under the provisions of Sections 10.3 hereof), terminate as of the occurrence of any such event.

ARTICLE XII - Administration of the Plan

12.1 The Plan shall be administered by a Plan Committee which shall consist of two (2) or more members of the Board of Directors, none of whom shall be eligible to participate in the Plan. The members of the Plan Committee shall be appointed, and may be removed, by the Board of Directors. The Board of Directors shall have the power to remove and substitute for members of the Plan Committee and to fill any vacancy which may occur in the Plan Committee.

12.2 Unless otherwise determined by the Board of Directors, the members of the Plan Committee shall serve without additional compensation for their services. All expenses in connection with the administration of the Plan, including, but not limited to, clerical, legal and accounting fees, and other costs of administration, shall be paid by the Company.

12.3 The Chairman of the Plan Committee shall be designated by the Board of Directors. The Plan Committee shall select a Secretary who need not be a member of the Plan Committee. The Secretary, or in his absence, any member of the Plan Committee designated by the Chairman, shall keep the minutes of the proceedings of the Plan Committee and all data, records and documents relating to the administration of the Plan by the Plan Committee.

12.4 A quorum of the Plan Committee shall be such number as the Committee shall from time to time determine, but shall not be less than a majority of the entire Plan Committee. The acts of a majority of the members of the Plan Committee present at any meeting at which a quorum is present shall be the act of the Plan Committee. Members of the Plan Committee may participate in a meeting by means of telephone conference or similar communications procedure pursuant to which all persons participating in the meeting can hear each other. The Plan Committee may take action without a meeting if such action is evidenced by a writing signed by at least a majority of the entire Plan Committee.

12.5 The Plan Committee may, by an instrument in writing, delegate to one or more of its members or to an officer or officers of the Company any of its powers and its authority under the Plan, including the execution and delivery on its behalf of instruments, instructions and other documents.

12.6 It shall be the sole and exclusive duty and authority of the Plan Committee to interpret and construe the provisions of the Plan, to decide any disputes which may arise with regard to the status, eligibility and rights of Employees under the terms of the Plan, and any other persons claiming an interest under the terms of the Plan, and, in general, to direct the administration of the Plan.

12.7 The Plan Committee may adopt, and from time to time amend, such rules and regulations consistent with the purposes and provisions of the Plan, as it deems necessary or advisable to administer and effectuate the Plan.

12.8 The Plan Committee may shorten, lengthen (but not beyond thirty (30) days) or waive the time required by the Plan for the filing of any notice or other form under the Plan.

12.9 The discretionary powers granted hereunder to the Plan Committee shall in no event be exercised in any manner that will discriminate against individual employees or a class of employees or discriminate in favor of employees who are shareholders, officers, supervisors or highly compensated employees of the Company.

ARTICLE XIII - Valuation of Shares of Common Stock

13.1 For purposes of the Plan, the "fair market value" of a share of Common Stock as of any date shall be determined as follows:

[a] If the Common Stock is then listed on a national securities exchange, the "fair market value" shall be the closing price of a share of Common Stock on such exchange on such date, or, if there has been no sale of shares of Common Stock on that date, the closing price of a share of Common Stock on such exchange on the last preceding business day on which shares of Common Stock were traded.

[b] If the Common Stock is then listed on the National Association of Securities Dealers Automatic Quotation System National Market System, the "fair market value" shall be the average of the high and low sales prices of a share of Common Stock on that date, or if there has been no sale of shares of Common Stock on that date, the average of the high and low sales prices of Common Stock on the last preceding business day on which shares of Common Stock were traded.

ARTICLE XIV - Adjustments in Certain Events

14.1 If (i) the Company shall at any time be involved in a transaction to which sub-section [a] of Section 424 of the Code is applicable, (ii) the Company shall declare a dividend payable in, or shall sub-divide or combine, its Common Stock, or (iii) any other event shall occur which in the judgment of the Board of Directors necessitates action by way of adjusting the terms of the outstanding Subscription Agreements, the Board of Directors shall take any such action as in its judgment shall be appropriate to preserve Participant rights substantially proportionate to the rights existing prior to such event. To the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to outstanding Subscription Agreements, the aggregate number of shares available under Article III hereof for issuance under the Plan pursuant to outstanding Subscription Agreements and Subscription Agreements which may be entered into, and the aggregate number of shares available for issuance in any Offering and the number which may be subscribed for, shall be proportionately increased or decreased, as the case may be. No action shall be taken by the Board of Directors under the provisions of this Article XIV which, in its judgment, would constitute a modification, extension or renewal of the Subscription Agreement (within the meaning of Section 424[h] of the Code), or would prevent the Plan from qualifying as an "employee stock purchase plan" (within the meaning of Section 423 of the Code). The determination of the Board of Directors with respect to any matter referred to in this Article XIV shall be conclusive and binding upon each Participant.

ARTICLE XV - Termination and Amendment of the Plan

15.1 The Board of Directors may, without further approval by the stockholders of the Company, at any time terminate or amend the Plan without notice, or make such modifications of the Plan as it shall deem advisable; provided that the Board of Directors may not, without prior approval by the holders of a majority of the outstanding shares of Common Stock of the Company, amend or modify the Plan so as to (i) increase the maximum number of shares of Common Stock which may be issued under the Plan (except as contemplated in Article XIV hereof), (ii) extend the term during which Offerings may be made under the Plan or (iii) increase the maximum number of Shares which an Eligible Employee is entitled to purchase (except as contemplated in Article XIV hereof); and provided further that the Board of Directors may not amend or modify the Plan in any manner which would prevent the Plan from qualifying as an "employee stock purchase plan" (within the meaning of Section 423 of the Code). No termination, amendment or modification of the Plan may, without the consent of a Participant, adversely affect the rights of such Participant under an outstanding Subscription Agreement.

ARTICLE XVI - Miscellaneous

16.1 Unless otherwise expressly provided in the Plan, all notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received by the Secretary of the Company or when received in the form specified by the Company at the location and by the persons, designated by the Company for the receipt thereof.

16.2 Notwithstanding anything hereunder to the contrary, the offer, sale and delivery by the Company of Shares under the Plan to any Eligible Employee is subject to compliance with all applicable securities regulation and other federal and state laws. The terms of this Plan shall be construed under the laws of the State of Connecticut.

ARTICLE XVII - Effective Date

17.1 The Plan shall become effective at such time as the Plan has been adopted by the Board of Directors or such later date as shall be designated by the Board of Directors upon its adoption of the Plan; provided, however, that the Plan and all Subscription Agreements entered into thereunder shall be, and be deemed to have been, null and void if the Plan is not approved by the holders of a majority of the outstanding shares of Common Stock of the Company within twelve (12) months after the date on which the Plan is adopted by the Board of Directors.

PHOTRONICS, INC.
1996 STOCK OPTION PLAN
(as Amended on March 13, 2003)

(1) PURPOSES OF THE PLAN

The purposes of this 1996 Stock Option Plan are:

- (a) to attract and retain the best available personnel for positions of substantial responsibility (both as Employees and as Outside Directors) in respect of the business of PHOTRONICS, INC., and any current subsidiary or any subsidiary which PHOTRONICS, INC. may hereafter organize or acquire;
- (b) to provide additional incentive to such personnel; and
- (c) to promote the success of the business.

(2) DEFINITIONS

As used herein, the following definitions shall apply:

- (a) "**Board**" shall mean the Board of Directors of PHOTRONICS, INC.
- (b) "**Code**" shall mean the Internal Revenue Code of 1986, as amended.
- (c) "**Compensation Committee**" shall mean a committee of the Board composed of at least two (2) members of the Board who may be "disinterested persons" as defined in Rule 16b-3(c)(2) promulgated under the Securities Exchange Act of 1934, as amended (the "Act"), or any successor provision thereto.
- (d) "**Common Stock**" shall mean the Common Stock of the Company.
- (e) "**Company**" shall mean PHOTRONICS, INC.
- (f) "**Outside Director**" shall mean a member of the Company's Board of Directors who is not also an Employee.
- (g) "**Disability**" shall have the meaning set forth in Section 22(e)(3) of the Code or in any successor provision thereto.
- (h) "**Employee**" shall mean a regular, salaried common law employee of the Company or any of its subsidiaries.
- (i) "**Option**" shall mean a stock option granted pursuant to the Plan.
- (j) "**Option Agreement**" shall mean the Stock Option Agreement entered into between the Company and an Employee or Outside Director upon the grant of an Option.
- (k) "**Option Price**" shall mean the exercise price determined pursuant to Section 4 hereof for the Shares to be issued pursuant to any Option granted under the Plan.
- (l) "**Optioned Stock**" shall mean the stock subject to an Option or Restricted Stock Award granted pursuant to the Plan.
- (m) "**Optionee**" shall mean an Employee or Outside Director who receives an Option or Restricted Stock Award.
- (n) "**Performance Stock Option**" means an Option which is subject to conditions which render it a Performance Stock Option under applicable law.
- (o) "**Plan**" shall mean this 1996 Stock Option Plan.
- (p) "**Restricted Stock Award**" means a restricted stock award granted pursuant to the Plan.
- (q) "**Restricted Stock Award Agreement**" means the Restricted Stock Award Agreement entered into between the Company and an Employee or Outside Director upon the grant of a Restricted Stock Award.
- (r) "**Share**" shall mean a share of the Common Stock of the Company as adjusted in accordance with Section 14 of the Plan.
- (s) "**10% Shareholder**" shall mean an individual who at the time an Option is granted hereunder owns, within the meaning of Section 422(b)(6) of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations.

(3) STOCK SUBJECT TO THE PLAN

Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares which may be optioned and sold or which may be issued and not subsequently forfeited pursuant to Restricted Stock Awards under the Plan, is six hundred thousand (600,000) Shares of the Common Stock of the Company provided, that no more than ten percent (10%) of the Shares authorized for issuance under this Plan may be issued pursuant to Restricted Stock Awards and no more than fifteen percent (15%) of the Shares authorized for issuance under this Plan may be issued to any one person during any one calendar year. Such Shares may be authorized but unissued or may be treasury shares.

If an Option should expire or become unexercisable for any reason without having been exercised in full or any shares issued pursuant to a Restricted Stock Award are forfeited, the unpurchased or forfeited Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for other Option(s) or Restricted Stock Awards under the Plan.

(4) ADMINISTRATION OF THE PLAN

(a) **Procedure** - The Plan shall be administered by the Board or the Compensation Committee. Members of the Board who are either eligible for grants under this Plan or have been given grants under this Plan may vote on any matters affecting the administration of the Plan or the grant of any Options or Restricted Stock Awards pursuant to the Plan, except that no such member shall act upon the granting of an Option or Restricted Stock Award to himself, but any such member may be counted in determining the existence of a quorum at any meeting of the Board during which action is taken with respect to the granting of Options or Restricted Stock Awards to him.

(b) **Powers of the Board and the Committee** - Subject to the provisions of the Plan, the Board or the Compensation Committee shall have the authority:

- i) to grant to any eligible Employee or Outside Director an Option or Restricted Stock Award, which shall be conditioned on the execution by such Employee or Outside Director of an Option Agreement or Restricted Stock Award Agreement in the form approved by the Board or the Committee;
- ii) to determine the Option Price for any Shares to be issued pursuant to an Option granted under the Plan, whether an Option is to be a Performance Stock Option and the conditions applicable to such Options, the conditions applicable to any Restricted Stock Award, the Employees or Outside Directors to whom and the time or times at which Options or Restricted Stock Awards shall be granted, to determine the exercise or vesting date of Options and Restricted Stock Awards (provided that in no event shall more than one-third (1/3) of the Options or Restricted Stock Awards included in any one grant be exercisable or vest prior to the first anniversary of the date of grant and an additional one-third (1/3) of such Options or Restricted Stock Awards be exercisable or vest on each of the second and third anniversaries of the date of grant except pursuant to the provisions of Section 16, whether the Option shall be a non-qualified or an incentive stock option (as defined in Section 422 of the Code or any successor provision thereto) and the number of Shares to be represented by each Option or Restricted Stock Award, and the term of each Option which in no event shall be more than ten (10) years from the date of the grant of the Option (five [5] years in the case of an incentive stock option granted to a 10% owner);
- iii) to interpret the Plan;
- iv) to prescribe, amend and rescind rules and regulations relating to the Plan;
- v) to determine the terms and provisions of each Option granted under the Plan (which need not be identical) and, with the consent of the holder thereof, to modify or amend each Option or Restricted Stock Award; provided, however, that in no event may the exercise price of an Option be reduced (except pursuant to Section 14) after it is issued;
- vi) subject to the provisions of sub-section (ii), above, to accelerate any exercise date of any Option or Restricted Stock Award except that the exercise date of any Option or Restricted Stock Award granted to any director or executive officer cannot be accelerated without such holder's consent if such acceleration would result in liability under Section 16 of the Act, or any successor provision thereto;
- vii) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Restricted Stock Award previously granted by the Board or the Compensation Committee; and
- viii) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(c) **Effect of Board's or Compensation Committee's Decision** - All decisions, determinations and interpretations of the Board or the Compensation Committee shall be final and binding on all Optionees and any other holders of any Options granted under the Plan.

(5) ELIGIBILITY

Options and Restricted Stock Awards under the Plan may be granted only to such Employees or to such Outside Directors as the Board or the Compensation Committee shall select. An Employee or Outside Director who has been granted an Option or Restricted Stock Award may, if he is otherwise eligible, be granted additional Options or Restricted Stock Awards. Incentive stock options may be granted only to an "employee" of the Company, as that term is used Section 422 of the Code or any successor provision thereto. No incentive stock option may be granted to a 10% Shareholder unless the Option Price is at least 110% of the fair market value of such stock on date of grant and the term of such option does not exceed five (5) years.

(6) TERM OF PLAN

Subject to the provisions of Section 22 hereof, the Plan shall become effective on adoption by the Board. The Plan shall continue in effect for a term of ten (10) years unless sooner terminated under Section 18 hereof.

(7) TERM OF OPTION OR RESTRICTED STOCK AWARD

Except as provided under Code Section 422(c)(5) with respect to a 10% Shareholder's incentive stock option and unless of shorter duration as provided in the terms of an Option or Restricted Stock Award Agreement, the term of each Option or forfeiture period for a Restricted Stock Award granted under the Plan shall be determined by the Board or the Compensation Committee but, in no event, shall it be for a period in excess of ten (10) years from the date of grant thereof.

(8) MAXIMUM ALLOTMENT OF OPTIONS

The aggregate fair market value (determined as of the date the Option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by any individual during any calendar year under the Plan and all other plans of the Company or any parent or subsidiary of the Company shall not exceed \$100,000 or such other amount as is permitted by the Code.

(9) OPTION PRICE

The Option Price for the Shares to be issued pursuant to any Option shall be as stated in the Option Agreement and shall be not less than the greater of (a) the fair market value of such Shares on date of grant of the Option as determined by the Board or the Compensation Committee (except that with respect to an incentive stock option issued to a 10% Shareholder, 110% of the fair market value), or (b) the par value of such Shares. Except pursuant to Section 14, in no event shall the Option Price for an Option be reduced after it is issued.

(10) EXERCISE OF OPTIONS

(a) Procedure for Exercise - Any Option shall be exercisable on such terms and conditions as are set forth in the Option Agreement. The purchase price of the Shares as to which an Option shall be exercised shall be paid in full at the time of exercise at the election of the holder of an Option:

- i) in cash or currency of the United States of America;
- ii) by tendering to the Company shares of the Company's Common Stock, then owned by him, having a fair market value equal to the cash exercise price applicable to the purchase price of the Shares as to which an Option is being exercised;
- iii) partly in cash and partly in shares of the Company's Common Stock valued at fair market value; or
- iv) Subject to compliance with applicable law, including, without limitation, Section 402 of the Sarbanes-Oxley Act of 2002, by delivery of a properly completed exercise notice together with irrevocable instructions to a broker (in form and substance acceptable to the Company) to promptly deliver to the Company the amount of sale or loan proceeds required to pay the purchase price and any applicable withholding taxes.

Such fair market value shall be determined as of the close of the business day immediately preceding the day on which the Option is exercised by the Board or the Compensation Committee, whose determination shall be final and conclusive. An Option shall be deemed to be exercised when:

- i) written notice of such exercise has been given to the Company in accordance with the terms of the Option Agreement by the person entitled to exercise the Option;
- ii) payment as described above for the Shares with respect to which the Option is exercised has been received by the Company; and
- iii) such payment is accompanied by any representations or agreements required by the terms of this Plan or the Option Agreement.

A holder of an Option shall not have any rights to dividends or any other rights as a stockholder of the Company with respect to any shares covered by his Option until such shares shall have been issued to him as reflected by the books and records maintained by the Company's transfer agent relating to stockholders of the Company.

(b) Termination of Employment or Director Relationship/Death or Disability of Optionee

(i) Except as otherwise provided pursuant to (ii) below or by the Board or the Compensation Committee, if, for any reason, an Optionee shall cease to be an Employee or an Outside Director's service on the Board shall terminate, his or her right to exercise any non-qualified stock options shall cease thirty (30) days after the date of such termination; provided, however, that if an Employee's employment is terminated for cause or an outside Director's service is terminated due to his or her removal for cause, said Option shall terminate immediately. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting, or continuation of service as an Outside Director, nor shall it interfere in any way with his right or the Company's right to terminate such relationship at any time subject to the provisions of any applicable contract. Except as otherwise provided by the Board or the Compensation Committee, an option may be exercised under this paragraph only to the extent of the accrued right to exercise at the time of termination, and only to the extent that the Option is otherwise exercisable pursuant to the initial term provided for in the Option Agreement covering such Option.

(ii) In the event of the death or disability of an Optionee, any non-qualified stock options which were exercisable by the Optionee on the date of his death or disability shall remain exercisable for a period of six (6) months by the Optionee, the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance. An Option may be exercised under this paragraph only to the extent of the accrued right to exercise at the time of death or disability, as the case may be, and only to the extent that the Option is otherwise exercisable pursuant to its initial term.

(11) NON-TRANSFERABILITY OF OPTIONS AND RESTRICTED STOCK AWARDS

The Option and, unless and until the shares subject to a Restricted Stock Award are no longer subject to forfeiture, shares subject to a Restricted Stock Award may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and an Option may be exercised during the lifetime of the Optionee only by the Optionee.

(12) RESTRICTED STOCK AWARD

The Shares subject to a Restricted Stock Award shall be issued in the name of the recipient as soon as reasonably practicable after the date of grant of the Restricted Stock Award (and after the recipient has executed a Restricted Stock Award Agreement and any other documents which the Board or the Compensation Committee, in its absolute discretion, may require) without the requirement for payment of any cash consideration by such recipient, but shall be held by the Company until all risk of forfeiture shall have lapsed. Any certificate representing such Shares may bear such restrictive legend, if any, as the Board or the Compensation Committee may determine. Shares issued pursuant to Restricted Stock Awards shall be subject to such restrictions, terms and conditions as the Board or the Compensation Committee may establish, which may include, without limitation, the achievement of specific goals, and shall vest at such time or times as the Board or the Compensation Committee shall determine. The Board or the Compensation Committee may, in their sole discretion, make such adjustments to the goals applicable to a Restricted Stock Award as they deem necessary or advisable due to changes in criteria used for the specific goals or other factors which they deem appropriate.

Upon issuance of the Shares subject to a Restricted Stock Award, the recipient shall, subject to Section II, have all the rights of a stockholder with respect to such Shares, including the right to vote such Shares, but all dividends and other distributions paid or made with respect to such Shares shall be held by the Company subject to the restrictions, terms and conditions of the Restricted Stock Award.

As promptly as practicable after the shares of Common Stock subject to a Restricted Stock Award, cease to be subject to forfeiture, the certificate representing such Shares, or a new certificate without any inapplicable restrictive legend if the original certificate bore a restrictive legend, shall be delivered to the recipient or, in the event of the death of a recipient prior to delivery, to his personal representative.

In the event of the termination of employment of a recipient of a Restricted Stock Award with the consent of the Company or due to death, disability or normal retirement, the Board or the Compensation Committee may, in its sole discretion, deem that the restrictions, terms and conditions of the Restricted Stock Award have been met for all or part of the Shares subject thereto, subject to such further terms and conditions, if any, as the Board or the Compensation Committee may determine.

(13) FORFEITURE OF OPTIONS AND REPAYMENT OF MARKET VALUE OF OPTIONS OR AWARDS

If, at any time within one (1) year after an Optionee ceases to be an Employee or Outside Director, such Optionee engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including, but not limited to:

- (a) conduct related to such Optionee's employment for which either criminal or civil penalties against the Optionee may be sought;
- (b) violation of Company policies, including, without limitation, the Company's insider trading policy;
- (c) accepting employment with or serving as a consultant, advisor or in any other capacity to an employer that is in competition with or acting against the interests of the Company, including employing or recruiting any present, former or future employee of the Company;
- (d) disclosing or mis-using any confidential information or material concerning the Company; or,
- (e) participating in a hostile takeover attempt, then:

i) Options and Restricted Stock Awards shall terminate effective the date on which such Optionee enters into such activity, unless terminated sooner by operation of another term or condition of this Plan;

ii) the aggregate difference between the exercise price of Options exercised within one (1) year of the date (the "Termination Date") Optionee ceased to be an Employee or Outside Consultant and the closing market value of the Shares covered by such Options; and

iii) the aggregate of the closing market value for all Shares subject to Restricted Stock Awards as to which forfeiture provision expired within one (1) year prior to the Termination Date shall be paid by the Optionee to the Company.

By accepting any Option or Restricted Stock Award, each Optionee consents to a deduction from any amounts the Company owes such Optionee from time to time (including amounts owed as wages or other compensation, fringe benefits or vacation pay, as well as any other amounts owed by the Company), to the extent of the amounts the Optionee owes the Company under the foregoing paragraph. Whether or not the Company elects to make any set-off in whole or in part, if the company does not recover by means of set-off the full amount the Optionee owes it, calculated as set forth above, each Optionee agrees to pay immediately the unpaid balance to the Company. Optionees may be released from their obligations under this Section above only by the Board of Directors or the Compensation Committee.

(14) ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

In the event there is any change in the Common Stock through the declaration of stock dividends, or through a recapitalization resulting in a stock split, or combination or exchange of Shares, or reorganization, or otherwise, the Board or the Compensation Committee shall appropriately adjust the number or class of Shares covered by any Option or Restricted Stock Award, as well as the price to be paid therefore; and, in the event of any such change in the outstanding Common Stock, the aggregate number and class of Shares available under the Plan shall be appropriately adjusted.

No fractional Shares of the Common Stock shall be issuable on account of any action aforesaid, and the aggregate number of Shares then covered by the Option or Restricted Stock Award when changed as a result of such action shall be reduced to the largest number of whole Shares resulting from such action unless the Board or the Compensation Committee, in its discretion, shall determine to issue scrip certificates in respect of any fractional Shares, which scrip certificates shall be in a form and have such terms and conditions as the Board or the Compensation Committee in its discretion shall prescribe.

(15) MERGER, CONSOLIDATION, ETC.

In the event that any consolidation of the Company with, or merger of the Company into, any other corporation (other than a consolidation or merger in which the Company is the continuing corporation) or any sale or transfer of all or substantially all of the assets of the Company is contemplated, the Board may provide that any Optionee shall be given the opportunity to exercise any and all Options which such Optionee then holds prior to such consolidation, merger or sale of assets and, notwithstanding any provisions of this Plan or of an Option Agreement to the contrary, the exercisability of such Option shall be accelerated as appropriate to allow for such exercise and the Board may terminate each outstanding Option as of a date to be fixed by the Board or Compensation Committee, which shall not be earlier than five (5) days after the date such Options become exercisable.

(16) WITHHOLDING TAX

The Company may make such provisions (including accepting Shares as payment or reducing the number of Shares to be issued) as it may deem appropriate for the withholding of any taxes which the Company determines it is required to withhold in connection with the grant or exercise of any Option or Restricted Stock Award or the disposition of any Common Stock acquired pursuant to the exercise of an Option or Restricted Stock Award. If an Optionee who exercises all or part of an Option subsequently disposes of Common Stock in a "disqualifying disposition" described under Code Section 422(c)(2), such Optionee shall so notify the Company, forward such information as is thereby requested by the Company and, if so requested by the Company, pay to the Company such dollar amounts as are necessary to satisfy the Company's tax withholding obligations resulting from such disposition.

(17) TIME OF GRANTING OPTIONS

The date of grant of an Option or Restricted Stock Award under the Plan shall for all purposes be the date on which the Board or Compensation Committee makes the determination granting such Option or Restricted Stock Award. Notice of the determination shall be given to the Optionee within a reasonable time after the date of such grant.

(18) AMENDMENT AND TERMINATION OF THE PLAN

(a) Amendment - The Board, without approval of the shareholders, may amend the Plan from time to time in such respects as the Board may deem advisable except that the Board may not, except with approval of the shareholders, amend the eligibility requirements of this Plan or increase the number of shares subject to this Plan except as permitted by Section 14.

(b) Termination - The Board, without approval of the shareholders, may at any time terminate the Plan.

(c) Effect of Amendment or Termination - Any such amendment or termination of the Plan shall not affect Options or Restricted Stock Awards already granted, and such Options or Restricted Stock Awards shall remain in full force and effect as if this Plan had not been amended or terminated and shall be deemed to incorporate the terms of this Plan as it existed on the dates the Options or Restricted Stock Awards were granted.

(19) CONDITIONS UPON ISSUANCE OF SHARES

Shares shall not be issued with respect to an Option or Restricted Stock Award granted under the Plan unless the exercise of such Option or termination of the forfeiture period for such Restricted Stock Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Act, the rules and regulations promulgated thereunder, the requirements of any stock exchange upon which the Shares may then be listed, and applicable state securities laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is necessary or desirable under any of the aforementioned relevant provisions of law.

(20) RESERVATION OF SHARES

During the terms of this Plan, the Company will at all times reserve and keep available a number of Shares sufficient to satisfy the requirements of the Plan.

Inability of the Company to obtain from any regulatory body having jurisdiction such authority as is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder shall relieve the Company of any liability in respect of the non-issuance or sale of such Shares as to which such requisite authority shall not have been obtained.

(21) GOVERNING LAW

The Plan and the rights of all persons hereunder shall be governed by the laws of the State of Connecticut, without regard to principles of conflict of laws.

(22) MISCELLANEOUS

Participation under the Plan shall not affect eligibility for any profit-sharing, bonus, insurance, pension, or other extra compensation plan which the Company or any subsidiary may at any time adopt for employees, except to the extent that any law or regulation governing any such plan so provides. By acceptance of a grant of an Option or Restricted Stock Award under the Plan, each employee shall be deemed to agree that any income realized upon the receipt or exercise thereof or upon the disposition of the shares received pursuant thereto is special incentive compensation and will not be taken into account as "wages", "salary" or "compensation" in determining the amount of any payment under any pension, retirement, incentive, profit-sharing, employee stock purchase or deferred compensation plan of the Company or any subsidiary.

(23) SHAREHOLDER'S APPROVAL

The Plan shall be subject to approval by the affirmative vote of the holders of a majority of the shares of Common Stock present and voting at a duly held shareholders' meeting within twelve (12) months before or after adoption of the Plan by the Board and any Option or Restricted Stock Award, granted hereunder prior to such approval shall be conditioned thereon.

PHOTRONICS, INC.
1998 STOCK OPTION PLAN
(as Amended on March 13, 2003)

(1) PURPOSES OF THE PLAN

The purposes of this 1998 Stock Option Plan are:

- (a) To attract and retain the best available personnel for positions of substantial responsibility (both as Employees and as Outside Directors) in respect of the business of PHOTRONICS, INC., and any current subsidiary or any subsidiary which PHOTRONICS, INC. may hereafter organize or acquire;
- (b) To provide additional incentive to such personnel; and
- (c) To promote the success of the business.

(2) DEFINITIONS

As used herein, the following definitions shall apply:

- (a) "**Board**" shall mean the Board of Directors of PHOTRONICS, INC.
- (b) "**Code**" shall mean the Internal Revenue Code of 1986, as amended.
- (c) "**Compensation Committee**" shall mean a committee of the Board composed of at least two (2) members of the Board who may be "disinterested persons" as defined in Rule 16b-3(c)(2) promulgated under the Securities Exchange Act of 1934, as amended (the "Act"), or any successor provision thereto.
- (d) "**Common Stock**" shall mean the Common Stock of the Company.
- (e) "**Company**" shall mean PHOTRONICS, INC.
- (f) "**Outside Director**" shall mean a member of the Company's Board of Directors who is not also an Employee.
- (g) "**Disability**" shall have the meaning set forth in Section 22(e)(3) of the Code or in any successor provision thereto.
- (h) "**Employee**" shall mean a regular, salaried common law employee of the Company or any of its subsidiaries or affiliates.
- (i) "**Option**" shall mean a stock option granted pursuant to the Plan.
- (j) "**Option Agreement**" shall mean the Stock Option Agreement entered into between the Company and an Employee or Outside Director upon the grant of an Option.
- (k) "**Option Price**" shall mean the exercise price determined pursuant to Section 4 hereof for the Shares to be issued pursuant to any Option granted under the Plan.
- (l) "**Optioned Stock**" shall mean the stock subject to an Option or Restricted Stock Award granted pursuant to the Plan.
- (m) "**Optionee**" shall mean an Employee or Outside Director who receives an Option or Restricted Stock Award.
- (n) "**Performance Stock Option**" means an Option which is subject to conditions which render it a Performance Stock Option under applicable law.
- (o) "**Plan**" shall mean this 1998 Stock Option Plan.
- (p) "**Restricted Stock Award**" means a restricted stock award granted pursuant to the Plan.
- (q) "**Restricted Stock Award Agreement**" means the Restricted Stock Award Agreement entered into between the Company and an Employee or Outside Director upon the grant of a Restricted Stock Award.
- (r) "**Share**" shall mean a share of the Common Stock of the Company as adjusted in accordance with Section 14 of the Plan.
- (s) "**10% Shareholder**" shall mean an individual who at the time an Option is granted hereunder owns, within the meaning of Section 422(b)(6) of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations.

(3) STOCK SUBJECT TO THE PLAN

Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares which may be optioned and sold or which may be issued and not subsequently forfeited pursuant to Restricted Stock Awards under the Plan, is one million (1,000,000) Shares of the Common Stock of the Company provided, that no more than ten percent (10%) of the Shares authorized for issuance under this Plan may be issued pursuant to Restricted Stock Awards and no more than fifteen percent (15%) of the Shares authorized for issuance under this Plan may be issued to any one person during any one calendar year. Such Shares may be authorized but unissued or may be treasury shares.

If an Option should expire or become unexercisable for any reason without having been exercised in full or any shares issued pursuant to a Restricted Stock Award are forfeited, the unpurchased or forfeited Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for other Option(s) or Restricted Stock Awards under the Plan.

(4) ADMINISTRATION OF THE PLAN

(a) **Procedure** - The Plan shall be administered by the Board or the Compensation Committee. Members of the Board who are either eligible for grants under this Plan or have been given grants under this Plan may vote on any matters affecting the administration of the Plan or the grant of any Options or Restricted Stock Awards pursuant to the Plan, except that no such member shall act upon the granting of an Option or Restricted Stock Award to himself, but any such member may be counted in determining the existence of a quorum at any meeting of the Board during which action is taken with respect to the granting of Options or Restricted Stock Awards to him.

(b) **Powers of the Board and the Committee** - Subject to the provisions of the Plan, the Board or the Compensation Committee shall have the authority:

- i) to grant to any eligible Employee or Outside Director an Option or Restricted Stock Award, which shall be conditioned on the execution by such Employee or Outside Director of an Option Agreement or Restricted Stock Award Agreement in the form approved by the Board or the Committee;
- ii) to determine the Option Price for any Shares to be issued pursuant to an Option granted under the Plan, whether an Option is to be a Performance Stock Option and the conditions applicable to such Options, the conditions applicable to any Restricted Stock Award, the Employees or Outside Directors to whom and the time or times at which Options or Restricted Stock Awards shall be granted, to determine the exercise or vesting date of Options and Restricted Stock Awards, whether the Option shall be a non-qualified or an incentive stock option (as defined in Section 422 of the Code or any successor provision thereto) and the number of Shares to be represented by each Option or Restricted Stock Award, and the term of each Option which in no event shall be more than ten (10) years from the date of the grant of the Option (five [5] years in the case of an incentive stock option granted to a 10% owner);

iii) to interpret the Plan;

iv) to prescribe, amend and rescind rules and regulations relating to the Plan;

v) to determine the terms and provisions of each Option granted under the Plan (which need not be identical) and, with the consent of the holder thereof, to modify or amend each Option or Restricted Stock Award; provided, however, that in no event may the exercise price of an Option be reduced (except pursuant to Section 14) after it is issued;

vi) to accelerate any exercise date of any Option or Restricted Stock Award except that the exercise date of any Option or Restricted Stock Award granted to any director or executive officer cannot be accelerated without such holder's consent if such acceleration would result in liability under Section 16 of the Act, or any successor provision thereto;

vii) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Restricted Stock Award previously granted by the Board or the Compensation Committee; and

viii) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(c) Effect of Board's or Compensation Committee's Decision - All decisions, determinations and interpretations of the Board or the Compensation Committee shall be final and binding on all Optionees and any other holders of any Options granted under the Plan.

(5) ELIGIBILITY

Options and Restricted Stock Awards under the Plan may be granted only to such Employees or to such Outside Directors as the Board or the Compensation Committee shall select. An Employee or Outside Director who has been granted an Option or Restricted Stock Award may, if he is otherwise eligible, be granted additional Options or Restricted Stock Awards. Incentive stock options may be granted only to an "employee" of the Company, as that term is used Section 422 of the Code or any successor provision thereto. No incentive stock option may be granted to a 10% Shareholder unless the Option Price is at least 110% of the fair market value of such stock on date of grant and the term of such option does not exceed five (5) years.

(6) TERM OF PLAN

Subject to the provisions of Section 22 hereof, the Plan shall become effective on adoption by the Board. The Plan shall continue in effect for a term of ten (10) years unless sooner terminated under Section 18 hereof.

(7) TERM OF OPTION OR RESTRICTED STOCK AWARD

Except as provided under Code Section 422(c)(5) with respect to a 10% Shareholder's incentive stock option and unless of shorter duration as provided in the terms of an Option or Restricted Stock Award Agreement, the term of each Option or forfeiture period for a Restricted Stock Award granted under the Plan shall be determined by the Board or the Compensation Committee but, in no event, shall it be for a period in excess of ten (10) years from the date of grant thereof.

(8) MAXIMUM ALLOTMENT OF OPTIONS

The aggregate fair market value (determined as of the date the Option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by any individual during any calendar year under the Plan and all other plans of the Company or any parent or subsidiary of the Company shall not exceed \$100,000 or such other amount as is permitted by the Code.

(9) OPTION PRICE

The Option Price for the Shares to be issued pursuant to any Option shall be as stated in the Option Agreement and shall be not less than the greater of (a) the fair market value of such Shares on date of grant of the Option as determined by the Board or the Compensation Committee (except that with respect to an incentive stock option issued to a 10% Shareholder, 110% of the fair market value), or (b) the par value of such Shares. Except pursuant to Section 14, in no event shall the Option Price for an Option be reduced after it is issued.

(10) EXERCISE OF OPTIONS

(a) Procedure for Exercise - Any Option shall be exercisable on such terms and conditions as are set forth in the Option Agreement. The purchase price of the Shares as to which an Option shall be exercised shall be paid in full at the time of exercise at the election of the holder of an Option:

i) in cash or currency of the United States of America;

ii) by tendering to the Company shares of the Company's Common Stock, then owned by him, having a fair market value equal to the cash exercise price applicable to the purchase price of the Shares as to which an Option is being exercised;

iii) partly in cash and partly in shares of the Company's Common Stock valued at fair market value; or

iv) Subject to compliance with applicable law, including, without limitation, Section 402 of the Sarbanes-Oxley Act of 2002, by delivery of a properly completed exercise notice together with irrevocable instructions to a broker (in form and substance acceptable to the Company) to promptly deliver to the Company the amount of sale or loan proceeds required to pay the purchase price and any applicable withholding taxes.

Such fair market value shall be determined as of the close of the business day immediately preceding the day on which the Option is exercised by the Board or the Compensation Committee, whose determination shall be final and conclusive. An Option shall be deemed to be exercised when:

i) written notice of such exercise has been given to the Company in accordance with the terms of the Option Agreement by the person entitled to exercise the Option;

ii) payment as described above for the Shares with respect to which the Option is exercised has been received by the Company; and

iii) such payment is accompanied by any representations or agreements required by the terms of this Plan or the Option Agreement.

A holder of an Option shall not have any rights to dividends or any other rights as a stockholder of the Company with respect to any shares covered by his Option until such shares shall have been issued to him as reflected by the books and records maintained by the Company's transfer agent relating to stockholders of the Company.

(b) Termination of Employment or Director Relationship/Death or Disability of Optionee-

i) Except as otherwise provided pursuant to (ii) below or by the Board or the Compensation Committee, if, for any reason, an Optionee shall cease to be an Employee or an Outside Director's service on the Board shall terminate, his or her right to exercise any non-qualified stock options shall cease thirty (30) days after the date of such termination; provided, however, that if an Employee's employment is terminated for cause or an outside Director's service is terminated due to his or her removal for cause, said Option shall terminate immediately. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting, or continuation of service as an Outside Director, nor shall it interfere in any way with his right or the Company's right to terminate such relationship at any time subject to the provisions of any applicable contract. Except as otherwise provided by the Board or the Compensation Committee, an option may be exercised under this paragraph only to the extent of the accrued right to exercise at the time of termination, and only to the extent that the Option is otherwise exercisable pursuant to the initial term provided for in the Option Agreement covering such Option.

ii) In the event of the death or disability of an Optionee, any non-qualified stock options which were exercisable by the Optionee on the date of his death or disability shall remain exercisable for a period of six (6) months by the Optionee, the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance. An Option may be exercised under this paragraph only to the extent of the accrued right to exercise at the time of death or disability, as the case may be, and only to the extent that the Option is otherwise exercisable pursuant to its initial term.

(11) NON-TRANSFERABILITY OF OPTIONS AND RESTRICTED STOCK AWARDS

The Option and, unless and until the shares subject to a Restricted Stock Award are no longer subject to forfeiture, shares subject to a Restricted Stock Award may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and an Option may be exercised during the lifetime of the Optionee only by the Optionee.

(12) RESTRICTED STOCK AWARD

The Shares subject to a Restricted Stock Award shall be issued in the name of the recipient as soon as reasonably practicable after the date of grant of the Restricted Stock Award (and after the recipient has executed a Restricted Stock Award Agreement and any other documents which the Board or the Compensation Committee, in its absolute discretion, may require) without the requirement for payment of any cash consideration by such recipient, but shall be held by the Company until all risk of forfeiture shall have lapsed. Any certificate representing such Shares may bear such restrictive legend, if any, as the Board or the Compensation Committee may determine. Shares issued pursuant to Restricted Stock Awards shall be subject to such restrictions, terms and conditions as the Board or the Compensation Committee may establish, which may include, without limitation, the achievement of specific goals, and shall vest at such time or times as the Board or the Compensation Committee shall determine. The Board or the Compensation Committee may, in their sole discretion, make such adjustments to the goals applicable to a Restricted Stock Award as they deem necessary or advisable due to changes in criteria used for the specific goals or other factors which they deem appropriate.

Upon issuance of the Shares subject to a Restricted Stock Award, the recipient shall, subject to Section II, have all the rights of a stockholder with respect to such Shares, including the right to vote such Shares, but all dividends and other distributions paid or made with respect to such Shares shall be held by the Company subject to the restrictions, terms and conditions of the Restricted Stock Award.

As promptly as practicable after the shares of Common Stock subject to a Restricted Stock Award, cease to be subject to forfeiture, the certificate representing such Shares, or a new certificate without any inapplicable restrictive legend if the original certificate bore a restrictive legend, shall be delivered to the recipient or, in the event of the death of a recipient prior to delivery, to his personal representative.

In the event of the termination of employment of a recipient of a Restricted Stock Award with the consent of the Company or due to death, disability or normal retirement, the Board or the Compensation Committee may, in its sole discretion, deem that the restrictions, terms and conditions of the Restricted Stock Award have been met for all or part of the Shares subject thereto, subject to such further terms and conditions, if any, as the Board or the Compensation Committee may determine.

(13) FORFEITURE OF OPTIONS AND REPAYMENT OF MARKET VALUE OF OPTIONS OR AWARDS

If, at any time within one (1) year after an Optionee ceases to be an Employee or Outside Director, such Optionee engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including, but not limited to:

- (a) conduct related to such Optionee's employment for which either criminal or civil penalties against the Optionee may be sought;
- (b) violation of Company policies, including, without limitation, the Company's insider trading policy;
- (c) accepting employment with or serving as a consultant, advisor or in any other capacity to an employer that is in competition with or acting against the interests of the Company, including employing or recruiting any present, former or future employee of the Company;
- (d) disclosing or mis-using any confidential information or material concerning the Company; or,
- (e) participating in a hostile takeover attempt, then:
 - i) Options and Restricted Stock Awards shall terminate effective the date on which such Optionee enters into such activity, unless terminated sooner by operation of another term or condition of this Plan;
 - ii) the aggregate difference between the exercise price of Options exercised within one (1) year of the date (the "Termination Date") Optionee ceased to be an Employee or Outside Consultant and the closing market value of the Shares covered by such Options; and
 - iii) the aggregate of the closing market value for all Shares subject to Restricted Stock Awards as to which forfeiture provision expired within one (1) year prior to the Termination Date shall be paid by the Optionee to the Company.

By accepting any Option or Restricted Stock Award, each Optionee consents to a deduction from any amounts the Company owes such Optionee from time to time (including amounts owed as wages or other compensation, fringe benefits or vacation pay, as well as any other amounts owed by the Company), to the extent of the amounts the Optionee owes the Company under the foregoing paragraph. Whether or not the Company elects to make any set-off in whole or in part, if the company does not recover by means of set-off the full amount the Optionee owes it, calculated as set forth above, each Optionee agrees to pay immediately the unpaid balance to the Company. Optionees may be released from their obligations under this Section above only by the Board of Directors or the Compensation Committee.

(14) ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

In the event there is any change in the Common Stock through the declaration of stock dividends, or through a recapitalization resulting in a stock split, or combination or exchange of Shares, or reorganization, or otherwise, the Board or the Compensation Committee shall appropriately adjust the number or class of Shares covered by any Option or Restricted Stock Award, as well as the price to be paid therefor; and, in the event of any such change in the outstanding Common Stock, the aggregate number and class of Shares available under the Plan shall be appropriately adjusted.

No fractional Shares of the Common Stock shall be issuable on account of any action aforesaid, and the aggregate number of Shares then covered by the Option or Restricted Stock Award when changed as a result of such action shall be reduced to the largest number of whole Shares resulting from such action unless the Board or the Compensation Committee, in its discretion, shall determine to issue scrip certificates in respect of any fractional Shares, which scrip certificates shall be in a form and have such terms and conditions as the Board or the Compensation Committee in its discretion shall prescribe.

(15) MERGER, CONSOLIDATION, ETC.

In the event that any consolidation of the Company with, or merger of the Company into, any other corporation (other than a consolidation or merger in which the Company is the continuing corporation) or any sale or transfer of all or substantially all of the assets of the Company is contemplated, the Board may provide that any Optionee shall be given the opportunity to exercise any and all Options which such Optionee then holds prior to such consolidation, merger or sale of assets and, notwithstanding any provisions of this Plan or of an Option Agreement to the contrary, the exercisability of such Option shall be accelerated as appropriate to allow for such exercise and the Board may terminate each outstanding Option as of a date to be fixed by the Board or Compensation Committee, which shall not be earlier than five (5) days after the date such Options become exercisable.

(16) WITHHOLDING TAX

The Company may make such provisions (including accepting Shares as payment or reducing the number of Shares to be issued) as it may deem appropriate for the withholding of any taxes which the Company determines it is required to withhold in connection with the grant or exercise of any Option or Restricted Stock Award or the disposition of any Common Stock acquired pursuant to the exercise of an Option or Restricted Stock Award. If an Optionee who exercises all or part of an Option subsequently disposes of Common Stock in a "disqualifying disposition" described under Code Section 422(c)(2), such Optionee shall so notify the Company, forward such information as is thereby requested by the Company and, if so requested by the Company, pay to the Company such dollar amounts as are necessary to satisfy the Company's tax withholding obligations resulting from such disposition.

(17) TIME OF GRANTING OPTIONS

The date of grant of an Option or Restricted Stock Award under the Plan shall for all purposes be the date on which the Board or Compensation Committee makes the determination granting such Option or Restricted Stock Award. Notice of the determination shall be given to the Optionee within a reasonable time after the date of such grant.

(18) AMENDMENT AND TERMINATION OF THE PLAN

(a) Amendment- The Board, without approval of the shareholders, may amend the Plan from time to time in such respects as the Board may deem advisable except that the Board may not, except with approval of the shareholders, amend the eligibility requirements of this Plan or increase the number of shares subject to this Plan except as permitted by Section 14.

(b) Termination- The Board, without approval of the shareholders, may at any time terminate the Plan.

(c) Effect of Amendment or Termination- Any such amendment or termination of the Plan shall not affect Options or Restricted Stock Awards already granted, and such Options or Restricted Stock Awards shall remain in full force and effect as if this Plan had not been amended or terminated and shall be deemed to incorporate the terms of this Plan as it existed on the dates the Options or Restricted Stock Awards were granted.

(19) CONDITIONS UPON ISSUANCE OF SHARES

Shares shall not be issued with respect to an Option or Restricted Stock Award granted under the Plan unless the exercise of such Option or termination of the forfeiture period for such Restricted Stock Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Act, the rules and regulations promulgated thereunder, the requirements of any stock exchange upon which the Shares may then be listed, and applicable state securities laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is necessary or desirable under any of the aforementioned relevant provisions of law.

(20) RESERVATION OF SHARES

During the terms of this Plan, the Company will at all times reserve and keep available a number of Shares sufficient to satisfy the requirements of the Plan.

Inability of the Company to obtain from any regulatory body having jurisdiction such authority as is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder shall relieve the Company of any liability in respect of the non-issuance or sale of such Shares as to which such requisite authority shall not have been obtained.

(21) GOVERNING LAW

The Plan and the rights of all persons hereunder shall be governed by the laws of the State of Connecticut, without regard to principles of conflict of laws.

(22) MISCELLANEOUS

Participation under the Plan shall not affect eligibility for any profit-sharing, bonus, insurance, pension, or other extra compensation plan which the Company or any subsidiary may at any time adopt for employees, except to the extent that any law or regulation governing any such plan so provides. By acceptance of a grant of an Option or Restricted Stock Award under the Plan, each employee shall be deemed to agree that any income realized upon the receipt or exercise thereof or upon the disposition of the shares received pursuant thereto is special incentive compensation and will not be taken into account as "wages", "salary" or "compensation" in determining the amount of any payment under any pension, retirement, incentive, profit-sharing, employee stock purchase or deferred compensation plan of the Company or any subsidiary.

(23) SHAREHOLDERS' APPROVAL

The Plan shall be subject to approval by the affirmative vote of the holders of a majority of the shares of Common Stock present and voting at a duly held shareholders' meeting within twelve (12) months before or after adoption of the Plan by the Board and any Option or Restricted Stock Award, granted hereunder prior to such approval shall be conditioned thereon.

PHOTRONICS, INC.
2000 STOCK PLAN
(as Amended on March 13, 2003)

(1) PURPOSES OF THE PLAN

The purposes of this 2000 Stock Plan are:

- (a) To attract and retain the best available personnel for positions of substantial responsibility (both as Employees and as Outside Directors) in respect of the business of PHOTRONICS, INC., and any current subsidiary or any subsidiary which PHOTRONICS, INC. may hereafter organize or acquire;
- (b) To provide additional incentive to such personnel; and
- (c) To promote the success of the business.

(2) DEFINITIONS

As used herein, the following definitions shall apply:

- (a) "**Award**" shall mean an Option or a Restricted Stock Award.
- (b) "**Board**" shall mean the Board of Directors of PHOTRONICS, INC.
- (c) "**Change of Control**" means the occurrence of an event defined in Section 15 of the Plan.
- (d) "**Code**" shall mean the Internal Revenue Code of 1986, as amended.
- (e) "**Common Stock**" shall mean the common stock of the Company.
- (f) "**Company**" shall mean PHOTRONICS, INC.
- (g) "**Compensation Committee**" shall mean a committee of the Board composed of at least two (2) members of the Board.
- (h) "**Disability**" shall have the meaning set forth in Section 22(e)(3) of the Code or in any successor provision thereto.
- (i) "**Employee**" shall mean a regular, salaried common law employee of the Company or any of its subsidiaries or affiliates.
- (j) "**Option**" shall mean a stock option granted pursuant to the Plan.
- (k) "**Option Agreement**" shall mean the stock option agreement entered into between the Company and an Employee or Outside Director upon the grant of an Option.
- (l) "**Option Price**" shall mean the exercise price determined pursuant to Section 4 hereof for the Shares to be issued pursuant to any Option granted under the Plan.
- (m) "**Optioned Stock**" shall mean the stock subject to an Option or Restricted Stock Award granted pursuant to the Plan.
- (n) "**Optionee**" shall mean an Employee or Outside Director who receives an Option or Restricted Stock Award.
- (o) "**Outside Director**" shall mean a member of the Company's Board of Directors who is not also an Employee.
- (p) "**Performance Award**" means an Option or Restricted Stock Award which is subject to conditions which render it a performance stock award under applicable law.
- (q) "**Plan**" shall mean this 2000 Stock Plan.
- (r) "**Restricted Stock Award**" means a restricted stock award granted pursuant to the Plan.
- (s) "**Restricted Stock Award Agreement**" means the Restricted Stock Award Agreement entered into between the Company and an Employee or Outside Director upon the grant of a Restricted Stock Award.
- (t) "**Share**" shall mean a share of the Common Stock of the Company as adjusted in accordance with Section 14 of the Plan.
- (u) "**10% Shareholder**" shall mean an individual who at the time an Option is granted hereunder owns, within the meaning of Section 422(b)(6) of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations.

(3) STOCK SUBJECT TO THE PLAN

Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares for which Awards may be granted under the Plan, is Two Million Five Hundred Thousand (2,500,000) Shares of Common Stock; provided, that Awards for no more than ten percent (10%) of the Shares authorized for issuance under this Plan may be granted cumulatively pursuant to Restricted Stock Awards and Awards for no more than fifteen percent (15%) of the Shares authorized for issuance under this Plan may be granted to any one person during any one calendar year. Shares issued under the Plan may be authorized but unissued, or treasury Shares, or Shares reacquired by the Company, or any combination of the foregoing.

If an Option should expire, be cancelled or become unexercisable for any reason without having been exercised in full, or any Shares issued pursuant to a Restricted Stock Award are forfeited or the Restricted Stock Award is cancelled, the unexercised, cancelled or forfeited Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for the grant of other Awards under the Plan.

(4) ADMINISTRATION OF THE PLAN

- (a) **Procedure** - The Plan shall be administered by the Board or the Compensation Committee. Members of the Board who are either eligible for grants under this Plan or have been given grants under this Plan may vote on any matters affecting the administration of the Plan or the grant of any Options or Restricted Stock Awards pursuant to the Plan, except that no such member shall act upon the granting of an Option or Restricted Stock Award to himself, but any such member may be counted in determining the existence of a quorum at any meeting of the Board during which action is taken with respect to the granting of Options or Restricted Stock Awards to him.
- (b) **Powers of the Board and the Committee** - Subject to the provisions of the Plan, the Board or the Compensation Committee shall have the authority:
 - i) to grant to any eligible Employee or Outside Director an Option or Restricted Stock Award, which shall be conditioned on the execution by such Employee or Outside Director of an Option Agreement or Restricted Stock Award Agreement in the form approved by the Board or the Committee;
 - ii) to determine the Option Price for any Shares to be issued pursuant to an Option granted under the Plan, whether an Option is to be a Performance Award and the conditions applicable to such Options, the conditions applicable to any Restricted Stock Award, the Employees or Outside Directors to whom and the time or times at which Options or Restricted Stock Awards shall be granted, to determine the exercise or vesting date of Options and Restricted Stock Awards, whether the Option shall be a non-qualified or an incentive stock option (as defined in Section 422 of the Code or any successor provision thereto) and the number of Shares to be represented by each Option or Restricted Stock Award, and the term of each Option which in no event shall be more than ten (10) years from the date of the grant of the Option (five [5] years in the case of an incentive stock option granted to a 10% owner);
 - iii) to interpret the Plan;
 - iv) to prescribe, amend and rescind rules and regulations relating to the Plan;
 - v) to determine the terms and provisions of each Option granted under the Plan (which need not be identical) and, (with the consent of the holder thereof) to modify or amend each Option or Restricted Stock Award; provided, however, that in no event may the exercise price of an Option be reduced (except pursuant to Section 14) after it is issued;
 - vi) to accelerate any exercise date of any Option or Restricted Stock Award except that the exercise date of any Option or Restricted Stock Award granted to any director or executive officer cannot be accelerated without such holder's consent if such acceleration would result in liability under Section 16 of the Act, or any successor provision thereto;
 - vii) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Restricted Stock Award previously granted by the Board or the Compensation Committee; and
 - viii) to make all other determinations deemed necessary or advisable for the administration of the Plan.
- (c) **Effect of Board's or Compensation Committee's Decision** - All decisions, determinations and interpretations of the Board or the Compensation Committee shall be final and binding on all the holders of any Awards granted under the Plan.

(5) ELIGIBILITY

Options and Restricted Stock Awards under the Plan may be granted only to such Employees or to such Outside Directors as the Board or the Compensation Committee shall select. An Employee or Outside Director who has been granted an Award may, if he or she is otherwise eligible, be granted additional Awards. Incentive stock options may be granted only in accordance with Section 422 of the Code, as may be amended from time to time, or any successor provision thereto, and in accordance with any applicable regulations promulgated thereunder.

(6) TERM OF PLAN

Subject to the provisions of Section 22 hereof, the Plan shall become effective on January 11, 2000, subject to approval by the shareholders of the Company. The Plan shall continue in effect for a term of ten (10) years thereafter, unless sooner terminated under Section 18 hereof.

(7) TERM OF OPTION OR RESTRICTED STOCK AWARD

Except as provided under Code Section 422(c)(5) with respect to a 10% Shareholder's incentive stock option and unless of shorter duration as provided in the terms of an Option or Restricted Stock Award Agreement, the term of each Option or forfeiture period for a Restricted Stock Award granted under the Plan shall be determined by the Board or the Compensation Committee but, in no event, shall it be for a period in excess of ten (10) years from the date of grant thereof.

(8) MAXIMUM ALLOTMENT OF OPTIONS

The aggregate fair market value (determined as of the date the Option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by any individual during any calendar year under the Plan and all other plans of the Company or any parent or subsidiary of the Company shall not exceed \$100,000 or such other amount as is permitted by the Code and regulations promulgated thereunder with respect to incentive stock options.

(9) OPTION PRICE

The Option Price for the Shares to be issued pursuant to any Option shall be as stated in the Option Agreement and shall be not less than the greater of (a) the fair market value of such Shares on date of grant of the Option as determined by the Board or the Compensation Committee (except that with respect to an incentive stock option issued to a 10% Shareholder, 110% of the fair market value or such other percentage as may be permitted by the Code and regulations promulgated thereunder), or (b) the par value of such Shares.

(10) EXERCISE OF OPTIONS

(a) **Procedure for Exercise** - Any Option shall be exercisable on such terms and conditions as are set forth in the Option Agreement. The purchase price of the Shares as to which an Option shall be exercised shall be paid in full at the time of exercise at the election of the holder of an Option:

i) in cash or currency of the United States of America;

ii) by tendering to the Company shares of the Company's Common Stock, then owned by him, having a fair market value equal to the cash exercise price applicable to the purchase price of the Shares as to which an Option is being exercised;

iii) partly in cash and partly in shares of the Company's Common Stock valued at fair market value; or

iv) Subject to compliance with applicable law, including, without limitation, Section 402 of the Sarbanes-Oxley Act of 2002, by delivery of a properly completed exercise notice together with irrevocable instructions to a broker (in form and substance acceptable to the Company) to promptly deliver to the Company the amount of sale or loan proceeds required to pay the purchase price and any applicable withholding taxes.

Such fair market value shall be the closing price per share of the Common Stock as reported on the NASD National Market (or on any successor market or a market or exchange on which the Common Stock is then traded), as of the close of business on the day immediately preceding the day on which the Option is exercised. If the Common Stock is not traded on the NASD National Market or any other market or exchange, the fair market value shall be determined by the Board or the Compensation Committee, whose determination shall be final and conclusive.

An Option shall be deemed to be exercised when:

i) written notice of such exercise has been given to the Company in accordance with the terms of the Option Agreement by the person entitled to exercise the Option;

ii) payment as described above for the Shares with respect to which the Option is exercised has been received by the Company; and

iii) such payment is accompanied by any representations or agreements required by the terms of this Plan or the Option Agreement.

A holder of an Option shall not have any rights to dividends or any other rights as a stockholder of the Company with respect to any shares covered by his Option until such shares shall have been issued to him as reflected by the books and records maintained by the Company's transfer agent relating to stockholders of the Company.

(b) Termination of Employment or Director Relationship/Death or Disability of Optionee

i) Except as otherwise provided pursuant to (ii) below or by the Board or the Compensation Committee, if, for any reason, an Optionee shall cease to be an Employee or an Outside Director's service on the Board shall terminate, his or her right to exercise any non-qualified stock options shall cease thirty (30) days after the date of such termination; provided, however, that if an Employee's employment is terminated for cause or an outside Director's service is terminated due to his or her removal for cause, said Option shall terminate immediately. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting, or continuation of service as an Outside Director, nor shall it interfere in any way with his right or the Company's right to terminate such relationship at any time subject to the provisions of any applicable contract. Except as otherwise provided by the Board or the Compensation Committee, an option may be exercised under this paragraph only to the extent of the accrued right to exercise at the time of termination, and only to the extent that the Option is otherwise exercisable pursuant to the initial term provided for in the Option Agreement covering such Option.

ii) In the event of the death or Disability of an Optionee, any non-qualified stock options which were exercisable by the Optionee on the date of his death or Disability shall remain exercisable for a period of six (6) months by the Optionee, the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance. An Option may be exercised under this paragraph only to the extent of the accrued right to exercise at the time of death or Disability, as the case may be, and only to the extent that the Option is otherwise exercisable pursuant to its initial term.

iii) If an Employee's employment with the Company shall terminate for any reason, he or she may exercise an incentive stock option for such period after termination as provided above for non-qualified stock options, but for no longer than the maximum period after termination allowed by Code Section 422 and the regulations promulgated thereunder; provided, however, that if employment shall terminate by reason of discharge for cause, the Option shall terminate immediately upon such termination.

(11) NON-TRANSFERABILITY OF OPTIONS AND RESTRICTED STOCK AWARDS

Except as provided below, an Option and, unless and until the shares subject to a Restricted Stock Award are no longer subject to forfeiture, shares subject to a Restricted Stock Award, may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and an Option may be exercised during the lifetime of the Optionee only by the Optionee. Notwithstanding the foregoing, the Board or the Compensation Committee may permit the transfer of non-qualified stock options by such optionees to such persons or entities, and upon such terms or conditions as the Board or Compensation Committee may determine from time to time.

(12) RESTRICTED STOCK AWARD

The Shares subject to a Restricted Stock Award shall be issued in the name of the recipient as soon as reasonably practicable after the date of grant of the Restricted Stock Award (and after the recipient has executed a Restricted Stock Award Agreement and any other documents which the Board or the Compensation Committee, in its absolute discretion, may require) without the requirement for payment of any cash consideration by such recipient, but shall be held by the Company until all risk of forfeiture shall have lapsed. Any certificate representing such Shares may bear such restrictive legend, if any, as the Board or the Compensation Committee may determine. Shares issued pursuant to Restricted Stock Awards shall be subject to such restrictions, terms and conditions as the Board or the Compensation Committee may establish, which may include, without limitation, the achievement of specific goals, and shall vest at such time or times as the Board or the Compensation Committee shall determine. The Board or the Compensation Committee may, in its sole discretion, make such adjustments to the goals applicable to a Restricted Stock Award as they deem necessary or advisable due to changes in criteria used for the specific goals or other factors which they deem appropriate.

Upon issuance of the Shares subject to a Restricted Stock Award, the recipient shall, subject to Section II, have all the rights of a stockholder with respect to such Shares, including the right to vote such Shares, but all dividends and other distributions paid or made with respect to such Shares shall be held by the Company subject to the restrictions, terms and conditions of the Restricted Stock Award.

As promptly as practicable after the shares of Common Stock subject to a Restricted Stock Award cease to be subject to forfeiture, the certificate representing such Shares, or a new certificate without any inapplicable restrictive legend if the original certificate bore a restrictive legend, shall be delivered to the recipient or, in the event of the death of a recipient prior to delivery, to his estate or other legally appointed personal representative.

In the event of the termination of employment or service as an Outside Director of a recipient of a Restricted Stock Award due to death, disability or normal retirement, the Board or the Compensation Committee may, in its sole discretion, deem that the restrictions, terms and conditions of the Restricted Stock Award have been met for all or part of the Shares subject thereto, subject to such further terms and conditions, if any, as the Board or the Compensation Committee may determine.

(13) FORFEITURE OF OPTIONS AND REPAYMENT OF MARKET VALUE OF OPTIONS OR AWARDS

If, at any time within one (1) year after an Optionee ceases to be an Employee or Outside Director, such Optionee engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including, but not limited to:

a) conduct related to such Optionee's employment for which either criminal or civil penalties against the Optionee may be sought;

b) violation of Company policies, including, without limitation, the Company's insider trading policy;

(c) accepting employment with or serving as a consultant, advisor or in any other capacity to an employer that is in competition with or acting against the interests of the Company, including employing or recruiting any present, former or future employee of the Company;

(d) disclosing or mis-using any confidential information or material concerning the Company; or,

(e) participating in a hostile takeover attempt, then:

i) Options and Restricted Stock Awards shall terminate effective the date on which such Optionee enters into such activity, unless terminated sooner by operation of another term or condition of this Plan;

ii) the aggregate difference between the exercise price of Options exercised within one (1) year of the date Optionee ceased to be an Employee or an Outside Director (the "Termination Date") and the closing market value of the Shares covered by such Options; and

iii) the aggregate of the closing market value for all Shares subject to Restricted Stock Awards as to which forfeiture provision expired within one (1) year prior to the Termination Date shall be paid by the Optionee to the Company.

By accepting any Option or Restricted Stock Award, each Optionee consents to a deduction from any amounts the Company owes such Optionee from time to time (including amounts owed as wages or other compensation, fringe benefits or vacation pay, as well as any other amounts owed by the Company), to the extent of the amounts the Optionee owes the Company under the foregoing paragraph. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount the Optionee owes it, calculated as set forth above, each Optionee agrees to pay immediately the unpaid balance to the Company. Optionees may be released from their obligations under this Section above only by the Board of Directors or the Compensation Committee.

(14) ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

In the event there is any change in the Common Stock through the declaration of stock dividends, or through a recapitalization resulting in a stock split, or combination or exchange of Shares, or reorganization, or otherwise, the Board or the Compensation Committee shall appropriately adjust the number or class of Shares covered by an Award, as well as the exercise price of Options; and, in the event of any such change in the outstanding Common Stock, the aggregate number and class of Shares available for the grant of Awards under the Plan shall be appropriately adjusted.

No fractional Shares of the Common Stock shall be issuable on account of any action aforesaid, and the aggregate number of Shares then covered by the Award when changed as a result of such action shall be reduced to the largest number of whole Shares resulting from such action unless the Board or the Compensation Committee, in its discretion, shall determine to issue scrip certificates in respect of any fractional Shares, which scrip certificates shall be in a form and have such terms and conditions as the Board or the Compensation Committee in its discretion shall prescribe.

(15) CHANGE OF CONTROL

(a) For purposes of this Plan, a Change of Control shall occur if there shall occur:

i) (A) any consolidation or merger in which the Company is not the continuing or surviving corporation or pursuant to which shares of stock of the Company entitled to vote in the election of directors of the Company would be converted into cash, securities or other property, other than a merger of the Company in which holders of such stock of the Company immediately prior to the merger have the same proportionate ownership of common stock entitled to vote in the election of directors of the surviving corporation immediately after the merger as immediately before, or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company.

(b) Notwithstanding any provisions in this Plan to the contrary:

i) Each outstanding Option granted under the Plan shall become immediately exercisable in full for the aggregate number of shares covered thereby upon the occurrence of a Change of Control described in this Section 15 and shall continue to be exercisable in full provided, however, that no Option shall be exercisable beyond the expiration date of its original term.

ii) The restrictions applicable to shares of a Restricted Stock Award shall lapse upon the occurrence of a Change of Control, and the holder thereof shall be entitled to receive, and the Company shall issue, immediately after the date of the Change of Control, unrestricted certificates for all of such shares.

iii) If a Change of Control occurs during the course of a performance period applicable to a Performance Award, the holder of such Performance Award shall be deemed to have satisfied the performance objectives effective on the date of such occurrence. Options granted pursuant to Performance Awards shall immediately vest and be treated as set forth in subsection (b)(i) above, and the restrictions applicable to any Restricted Stock Award shall lapse and shall be treated as set forth in subsection (b)(ii) above immediately following the occurrence of such Change of Control.

iv) In the event of a Change of Control, no amendment, suspension or termination of the Plan thereafter shall impair or reduce the rights of any person with respect to any award made under the Plan.

(16) WITHHOLDING TAX

The Company may make such provisions (including accepting Shares as payment or reducing the number of Shares to be issued) as it may deem appropriate for the withholding of any taxes which the Company determines it is required to withhold in connection with the grant or exercise of any Award or the disposition of any Common Stock acquired pursuant to the exercise of an Option or Restricted Stock Award. If an Optionee who exercises all or part of an Option subsequently disposes of Common Stock in a "disqualifying disposition" described under Code Section 422(c)(2), such Optionee shall so notify the Company, forward such information as is thereby requested by the Company and, if so requested by the Company, pay to the Company such dollar amounts as are necessary to satisfy the Company's tax withholding obligations resulting from such disposition.

(17) TIME OF GRANTING OPTIONS

The date of grant of an Award under the Plan shall for all purposes be the date on which the Board or Compensation Committee makes the determination granting such Award. Notice of the determination shall be given to the Optionee within a reasonable time after the date of such grant.

(18) AMENDMENT AND TERMINATION OF THE PLAN

(a) **Amendment** - The Board, without approval of the shareholders, may amend the Plan from time to time in such respects as the Board may deem advisable except that the Board may not, without the approval of the shareholders, amend the Plan to the extent that such amendment would require shareholder approval under the Code in order for Options to be granted as incentive stock options or in order for Awards to be considered "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

(b) **Termination** - The Board, without approval of the shareholders, may at any time suspend or terminate the Plan.

(c) **Effect of Amendment or Termination** - Any such amendment or termination of the Plan shall not adversely affect Awards previously granted.

(19) CONDITIONS UPON ISSUANCE OF SHARES

Shares shall not be issued with respect to an Award granted under the Plan unless the exercise of such Option or termination of the forfeiture period for such Restricted Stock Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Act, the rules and regulations promulgated thereunder, the requirements of any stock exchange upon which the Shares may then be listed, and applicable state securities laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is necessary or desirable under any of the aforementioned relevant provisions of law.

(20) RESERVATION OF SHARES

During the terms of this Plan, the Company will at all times reserve and keep available a number of Shares sufficient to satisfy the requirements of the Plan.

Inability of the Company to obtain from any regulatory body having jurisdiction such authority as is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder shall relieve the Company of any liability in respect of the non-issuance or sale of such Shares as to which such requisite authority shall not have been obtained.

(21) GOVERNING LAW

The Plan and the rights of all persons hereunder shall be governed by the laws of the State of Connecticut, without regard to principles of conflict of laws.

(22) MISCELLANEOUS

Participation under the Plan shall not affect eligibility for any profit-sharing, bonus, insurance, pension, or other extra compensation plan which the Company or any subsidiary may at any time adopt for employees, except to the extent that any law or regulation governing any such plan so provides. By acceptance of an Award under the Plan, each employee shall be deemed to agree that any income realized upon the receipt or exercise thereof or upon the disposition of the shares received pursuant thereto is special incentive compensation and will not be taken into account as "wages", "salary" or "compensation" in determining the amount of any payment under any pension, retirement, incentive, profit-sharing, employee stock purchase or deferred compensation plan of the Company or any subsidiary.

(23) SHAREHOLDERS' APPROVAL

The Plan shall be subject to approval by the affirmative vote of the holders of a majority of the shares of Common Stock present and voting at a duly held shareholders' meeting within twelve (12) months before or after adoption of the Plan by the Board and any Award, granted hereunder prior to such approval shall be conditioned thereon.

AGREEMENT

Agreement made as of April 26, 1995, by and between Photronics, Inc., a Connecticut corporation having its principal offices at 1061 East Indiantown Road, Jupiter, Florida 33477 (the "Company") and _____, _____, _____, _____ (the "Owner").

WHEREAS, the _____ (the "Executive") serves as an Executive Officer of the Company; and

WHEREAS, the Company and the Owner desire to enter into an agreement whereby the Company will provide certain insurance and other benefits on the life of the Executive.

NOW, THEREFORE, in consideration of the mutual covenants and obligations set forth in this Agreement, the Company and the Owner hereby agree as follows:

I - DEFINITION OF TERMS AND CONSTRUCTION

A) Definitions:

- (1) "Owner" shall mean the owner of the Policy.
- (2) "Policy" shall mean the life insurance policy on the life of the Executive owned by the Owner which is purchased with premiums paid by the Company.
- (3) "Board of Directors" shall mean the Board of Directors of the Company.
- (4) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any successor statute.
- (5) "Effective Date" shall mean the date hereof.

B) Plurals:

Where appearing in this Agreement, the singular shall include the plural, and vice-versa, unless the context clearly indicates a different meaning.

C) Headings:

The headings and sub-headings in this Agreement are inserted for the convenience of reference only and are to be ignored in any construction of the provisions hereof.

II - PAYMENT OF PREMIUMS

The Company agrees that provided the Executive remains in the employ of the Company, the Company will timely pay \$_____ each year for insurance premiums (the "Premiums") under the Policy for a period of ten (10) years from the Effective Date. If the Executive leaves the employ of the Company (including as a result of a discharge by the Company), the Company shall have no further obligations to make payments pursuant to this Article II, except as set forth in Article IV, below. Except as provided in Article IV, below, in the event the Executive shall only be in the employ of the Company for a portion of any year during the ten (10) year period referred to above, the obligation of the Company to pay premiums for that year shall be pro-rated based on the number of whole or partial months the Executive was employed for that year divided by twelve (12).

III - REPAYMENT OF PREMIUMS

The Owner shall assign to the Company, in accordance with the form of assignment attached hereto (the "Assignment"), the right to the proceeds and cash value of the Policy to the extent of Premiums paid by the Company. The Owner shall have all other rights to the Policy except that the Owner shall not surrender or cancel the Policy or withdraw any cash value of the Policy unless and until the Company's right to receive a refund of Premiums paid has been satisfied or waived; provided further, however, that nothing contained herein shall require the Owner or the Executive to pay any premiums under the Policy. The Company's right to receive a repayment of Premiums paid shall be limited to the proceeds and cash value of the Policy and shall be non-recourse to the Owner and the Executive.

IV - RETIREMENT

In the event the Executive retires from the employ of the Company, the Company agrees that it shall continue paying Premiums for that number of years equal to the number of complete years of service with the Company completed by the Executive since the date

of this Agreement but for not more than five (5) years or the remaining portion of term set forth in Article II, above, whichever is less; provided that, if the Executive shall be engaged in any activities which are competitive with the Company, which activities continue after written notice from the Company, the Company shall have no further obligation to pay any Premiums under this Agreement. In order to retire from the Company, the Executive must be at least 55 years of age, have been employed by the Company for at least 20 years and have been employed by the Company for at least three (3) years since the date of this Agreement. In the event the Executive retires and has been employed by the Company for at least three (3) years since the date of this Agreement, the Company agrees that it shall waive, upon such retirement, its right to receive a refund of Premiums in accordance with Article III.

V - TERMINATION OF EMPLOYMENT

In the event the Executive leaves the employ of the Company for any reason (including discharge by the Company), except for retirement in accordance with Article IV, above, the Company reserves the right, and the Owner assigns to the Company, the right to cancel the Policy in order to obtain a repayment of Premiums paid from the cash value of the Policy. Any cash value in excess of the Premiums shall belong to the Owner.

VI - BENEFICIARY/DIVIDENDS

Except as set forth in Article III above, or Article VII below, the Owner shall have the right to designate the beneficiary of the Policy. The Owner agrees that so long as the Company's right to receive a refund of Premiums paid has not been satisfied or waived, all dividends declared on the Policy shall be applied to purchase additional paid up insurance on the life of the Executive unless the Company consents to another application.

VII - RIGHTS TO THE PROCEEDS AT DEATH

Upon the death of the Executive while this Agreement is in force, the Owner will, without delay, take whatever action is necessary and required to collect the total death proceeds payable under the Policy from the insurer. Proceeds of the Policy equal to the Premiums paid by the Company shall be paid to the Company by the insurer unless repayment of the Premiums have been waived by the Company. The balance of the proceeds of the Policy shall be paid to the beneficiary of the Policy by the insurer.

VIII - AMENDMENTS

- (1) The Company and the Executive may, by a written instrument signed by both such parties, amend this Agreement at any time and in any manner.
- (2) The Company reserves the right to amend, in whole or in part, and in any manner, any or all of the provisions of this Agreement by action of its Board of Directors for the purposes of complying with any provision of the Code or any other technical or legal requirements, provided that no such amendment shall reduce the amount of the Premiums to be paid by the Company.

IX - RELEASE

At any time, the Owner shall have the right to pay cash to the Company in an amount equal to the Premiums paid by the Company in exchange for the Company's interest in such Policy. In such event, the Company shall transfer its interest in such Policy to the Owner. Upon release by the Company of all of its interest in such Policy, the Owner will thereafter own such Policy free from the Assignment and from this Agreement.

X - MISCELLANEOUS

A) Rights of Creditors:

Neither the Owner, the Executive nor any other persons shall have any interest in any Premiums to be paid by the Company or in amounts to be paid to the Company under the Policy by the insurer, such amounts being subject to the claims of the Company's general creditors.

B) Agents:

The Company may employ agents and provide for such clerical, legal, actuarial, accounting, advisory or other services as it deems necessary to perform its duties under this Agreement. The

Company shall bear the cost of such services and all other expenses it incurs in connection with the administration of this Agreement.

C) Liability and Indemnification:

Except for its own gross negligence, willful misconduct or willful breach of the terms of this Agreement, the Company shall be indemnified and held harmless by the Owner against liability or losses occurring by reason of any act or omission of the Company or any other person.

D) Cooperation of Parties:

All parties to this Agreement and any person claiming any interest hereunder agree to perform any and all acts and execute any and all documents and papers which are necessary or desirable for carrying out this Agreement or any of its provisions.

E) Governing Law:

This Agreement is made and entered into in the State of Florida and all matters concerning its validity, construction and administration shall be governed by the laws of the State of Florida.

F) Non-Guarantee of Employment:

Nothing contained in this Agreement shall be construed as a contract or guarantee of employment between the Company and the Executive.

G) Counsel:

The Company may consult with legal counsel with respect to the meaning or construction of this Agreement, its obligations or duties hereunder or with respect to any action or proceeding or any question of law, and it shall be fully protected with respect to any action taken or omitted by it in good faith pursuant to the advice of legal counsel.

H) Notices:

For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or mailed by United States registered or certified mail, return receipt requested, postage prepaid, or by nationally recognized overnight delivery service providing for a signed return receipt, addressed to the Executive at the home address set forth in the Company's records and to the Company at the address set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board of Directors, or, where appropriate, to the Company's Personnel Department, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

I) Entire Agreement:

This Agreement contains the entire understanding between the Company and the Owner with respect to the payment of Premiums or repayment of Premiums.

J) Severability:

In the event any one or more provisions of this Agreement are held to be invalid or unenforceable, such illegality or unenforceability shall not affect the validity or enforceability of the other provisions hereof and such other provisions shall remain in full force and effect unaffected by such invalidity or unenforceability.

K) Execution in Counterparts:

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

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

PHOTRONICS, INC.

By: _____

Name:

Title:

The undersigned, the Executive named in the above agreement, consents to the issuance of the Policy.

ASSIGNMENT OF LIFE INSURANCE DEATH BENEFIT
AS COLLATERAL

(Execute in duplicate)

A) For value received, the undersigned hereby assigns, transfers and sets over to PHOTRONICS, INC., its successors or assigns, (herein called the Assignee") the death benefit under Policy No. _____, issued by Massachusetts Mutual Life Insurance Company or its MML affiliated Insurance Company (herein called the "Insurer"; the identity of the Insurance Company is determined by the policy number) and any supplementary contracts issued in connection therewith (said policy and contracts being herein called the "Policy"); upon the life of _____ and the right to surrender the Policy subject to all of the terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The undersigned by this instrument agrees and the Assignee by the acceptance of this assignment agrees to the conditions and provisions herein set forth.

B) It is understood and agreed that the Assignee shall have the right to collect from the Insurer the net proceeds of the Policy when it becomes a claim by death or maturity and the right to surrender the Policy and that all other rights under the Policy, including, by way of illustration and not limitation, the right to make the Policy loans, the right to designate and change the beneficiary, and the right to elect and to receive dividends are reserved exclusively to the owner of the Policy and are excluded from this assignment and do not pass by virtue hereof and may be exercised by the owner on the sole signature of the owner; provided, further however, that the owner of the Policy shall not make any Policy loans or change the manner in which dividends are received or applied without the written consent of the Assignee. Nothing herein shall affect funds, if any, now or hereafter held by the Insurer for the purpose of paying premiums under the Policy.

C) The Assignee covenants and agrees with the undersigned as follows:

1) That any balance of sums received hereunder from the Insurer remaining after payment of the then existing Liabilities, matured or unmatured, shall be paid by the Assignee to the persons entitled thereto under the terms of the Policy had this assignment not been executed.

2) That the Assignee, not having any right to obtain policy loans from the Insurer, will not take any steps to borrow against the Policy, except that the owner of the Policy MAY direct the Insurer to pay the proceeds of any Policy loan to the Assignee, in which event the Assignee shall reduce the amount of existing Liabilities by the amount of such Policy loan and interest accrued to the date such Policy loans are repaid by the Assignee.

3) That the Assignee will upon request forward without unreasonable delay to the Insurer the Policy for endorsement of any designation or change of beneficiary or any election of an optional mode of settlement; provided, however, that any such designation, change or election shall be made subject to this assignment and to the rights of the Assignee hereunder.

4) That, upon surrender of the Policy or any portion thereof or upon the surrender of any or all of the paid-up additions standing to the credit of the Policy, if any, by the undersigned at any time before any death benefit is payable under the Policy, the Assignee shall have the right to collect such surrender proceeds of the Policy or any such surrender value of such paid-up additions up to the amount of the Liabilities and any balance shall be paid to the owner of the Policy.

D) This assignment of the life insurance death benefit under the Policy is made as collateral security for all liabilities of the undersigned, or any of them, to the Assignee, either now existing or that may hereafter arise with respect to premiums advanced for

or paid on the Policy by the Assignee (all of which liabilities secured or to become secured are herein called "Liabilities").

E) The Insurer is hereby authorized to recognize the Assignee's claim hereunder. In the event any death benefit, surrender value, cash value or other proceeds of the Policy are to be paid, the Insurer shall request a joint statement from the Assignee and the undersigned of the allocation of such proceeds. Separate checks in accordance with such joint statement shall be issued by the Insurer and shall constitute full disclosure and release therefor to the Insurer. In the event the Assignee and the undersigned do not agree to a joint schedule, the Insurer shall have the right to place such proceeds in an escrow account for the benefit of Assignee and the undersigned, as their interests may appear, and the Escrow Agent shall hold such proceeds until the matter is settled, either by mutual consent or a final binding judgment which is no longer appealable.

F) The Assignee may take or release other security, may release any party primarily or secondarily liable for any of the Liabilities, may grant extensions, renewals or indulgences with respect to the Liabilities, or may apply to the Liabilities in such order as the Assignee shall determine, the insurance death benefit payable under the Policy hereby assigned without resorting or regard to other security.

G) In the event of any conflict between the provisions of this assignment and provisions of the note or other evidence of any Liability, with respect to the Policy or rights of collateral security therein, the provisions of this assignment shall prevail.

H) The undersigned declares no proceedings in bankruptcy are pending against him and that his property is not subject to any assignment for the benefit of creditors.

Signed and sealed this _____ day of _____, 19__.

_____	_____
Witness	Owner
_____	_____
Address	Address

ACCEPTANCE OF ASSIGNMENT	_____
	Date

ATTEST	(TYPE/PRINT NAME OF ASSIGNEE)
(SEAL)	_____
BY: _____	BY: _____
Signature and Title	Signature and Title

RELEASE OF ASSIGNMENT

For Value Received, the Policy and all claims thereunder conveyed by the within assignment are hereby released.

PHOTRONICS, INC.
 By: _____
 Title: _____
 Date: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of January 4, 2005 by and between Photonics, Inc., a Connecticut corporation (the "Company"), having a principal place of business at 15 Secor Road, Brookfield, CT 06804 and Edwin L. Lewis ("Executive") residing at 59 Delafield Island Road, Darien, CT 06820.

WITNESSETH:

WHEREAS, the Company and Executive desire to enter into this Agreement to assure the Company of the continuing service of Executive and to set forth the terms and conditions of Executive's employment with the Company.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties agree as follows:

1. **Term.** The Company agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms of this Agreement. Subject to Section 5, the term of Executive's employment shall commence on the date hereof and continue for three (3) years thereafter unless this Agreement is earlier terminated as provided herein (the "Term"); provided, however, that unless the Company gives written notice to Executive at least thirty (30) days prior to the end of the Term of this Agreement (as the Term may be extended pursuant to this Section 1), on each anniversary of the date hereof, the Term of this Agreement shall automatically be extended for an additional one (1) year period.
2. **Services.** So long as this Agreement shall continue in effect, Executive shall devote Executive's full business time, energy and ability to the business, affairs and interests of the Company and its subsidiaries and matters related thereto. Executive shall use his best efforts and abilities to promote the Company's interests and shall perform faithfully the services contemplated by this Agreement in accordance with the Company's policies as established by the Board of Directors of the Company.
3. **Duties and Responsibilities.**
 - (a) Executive shall serve as the Vice President, General Counsel and Secretary of the Company. In the performance of Executive's duties, Executive shall report directly to the CEO or as otherwise directed by the CEO or the Company's Board of Directors, and shall have such duties, responsibilities and authority as may from time to time be assigned to the Executive by the CEO or the Company's Board of Directors.
 - (b) In addition, Executive agrees to observe and comply with the policies, rules and regulations of the Company. The Company agrees that the duties which may be assigned to Executive shall be the customary duties of the office of Vice President, General Counsel and Secretary and shall not be inconsistent with the provisions of the charter documents of the Company or applicable law.
4. **Compensation.**
 - (a) **Base Compensation.** During the Term, the Company agrees to pay Executive a base salary at the rate of \$210,000 per year payable in accordance with the Company's customary payroll practices generally applicable to similarly situated employees as may be in effect from time to time (the "Base Salary"). All payments required hereunder, including the payments required by this Section 4(a), may be allocated by the Company to one or more of its subsidiaries to which Executive renders services but the Company shall remain responsible for all payments hereunder and Executive shall have no obligation to seek payment from such subsidiaries.
 - (b) **Periodic Review.** The Compensation Committee or the Board of Directors of the Company shall review Executive's Base Salary and Benefits (as defined below) from time to time in accordance with the normal business practices of the Company. The Company may in its sole discretion increase the Base Salary during the Term. The amount of any increase combined with the previous year's Base Salary shall then constitute Executive's Base Salary for purposes of this Agreement.
 - (c) **Additional Benefits.** During the Term, the Executive shall be entitled to participate in the employee benefit plans and arrangements as the Company may establish from time to time in which other employees similarly situated are entitled to participate (which may include, without limitation, bonus plan(s), medical plan, dental plan, disability plan, basic life insurance and business travel accident insurance plan, 401(k) plan, stock option or stock purchase plans or any successor plans thereto (the "Benefits"). The Company shall have the right to terminate or change any such plans or programs at any time.
 - (d) **Automobile Allowance.** During the Term of this Agreement, the Company shall provide the Executive with an automobile allowance or company car consistent with the Company's policies and provisions applicable to other similarly situated executives of the Company.
 - (e) **Vacation.** During the Term of this Agreement, Executive shall be entitled to four (4) weeks' paid vacation per calendar year, which shall not be transferable to any subsequent year.
5. **Termination.** This Agreement and all rights and obligations hereunder, except the rights and obligations contained in this Section 5, Section 7 (Confidential Information), Section 8 (Non-Competition), Section 9 (Intellectual Property) and Section 10 (Remedies), which shall survive any termination hereunder, shall terminate upon the earliest to occur of any of the following:
 - (a) **Resignation without Good Reason; Retirement.** Upon the resignation by Executive without Good Reason (as defined below) following at least thirty (30) days written notice to the Company or retirement from the Company in accordance with the normal retirement policies of the Company, Executive shall be entitled to receive a payment in the amount of the sum of (A) Executive's Base Salary through the date of termination to the extent not theretofore paid, (B) any compensation previously deferred by Executive (together with any accrued interest or earnings thereon), and (C) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (A), (B) and (C) shall be hereinafter referred to as the "Accrued Obligations"), in a lump sum, subject to statutory deductions and withholdings, in cash within ten (10) business days after the date of termination or any earlier time required by applicable law.
 - (b) **Death or Disability of Executive.**
 - (i) If Executive's employment is terminated by reason of Executive's death or disability, this Agreement shall terminate without further obligations to Executive (or Executive's heirs or legal representatives) under this Agreement, other than for:
 - (1) Payment of any Accrued Obligations, which shall be paid to Executive or Executive's estate or beneficiary, as applicable, in a lump sum, subject to statutory deductions and withholdings, in cash within ten (10) business days after the date of termination or any earlier time required by applicable law.
 - (2) Payment to Executive or Executive's estate or beneficiary, as applicable, of any amount accrued pursuant to the terms of any other applicable benefit plan.
 - (ii) If Executive shall become disabled, Executive's employment may be terminated only by written notice from the Company to Executive.
 - (iii) For the purposes of this Agreement, "disability" or "disabled" shall mean a mental or physical incapacity which prevents Executive from performing Executive's duties with the Company for a period of three hundred sixty (360) consecutive calendar days, as certified by a physician selected by the Company or its insurers.
 - (c) **Termination for Cause.**
 - (i) The Company may terminate Executive's employment and all of Executive's rights to receive Base Salary, and any Benefits hereunder for Cause.
 - (ii) Upon such termination for Cause, Executive shall be entitled to receive any Accrued Obligations, which shall be paid to Executive in a lump sum, subject to statutory deductions and withholdings, in cash within ten (10) business days after the date of termination or any earlier time required by applicable law.
 - (iii) For purposes of this Agreement, the term "Cause" shall be defined as any of the following:
 - (1) Executive's material breach of any of any obligations under this Agreement (other than by reason of physical or mental illness, injury, or condition);
 - (2) Executive's conviction by, or entry of a plea of "guilty" or "nolo contendere" in a court of competent and final jurisdiction for any felony that impairs his ability to perform his duties to the Company or any crime of moral turpitude;
 - (3) Executive's commission of an act of fraud upon the Company;
 - (4) Executive's engaging in willful or reckless misconduct or gross negligence in connection with any property or activity of the Company or its Affiliates;
 - (5) Executive's repeated and intemperate use of alcohol or illegal drugs after written notice from the Board or Directors;
 - (6) Executive's material breach of any other material obligation to the Company (other than by reason of physical or mental illness, injury, or condition) that is or could reasonably be expected to result in material harm to the Company;
 - (7) Executive's becoming insolvent or filing for bankruptcy;
 - (8) Executive's becoming barred or prohibited by the SEC from holding my position with the Company; or
 - (9) Executive's violation of any duty of loyalty (i.e., engaging in self-interested transactions, misappropriation of business opportunities that belong to the Company, or a breach of Executive's fiduciary duties to the Company).
 - (d) **Termination Without Cause; Resignation For Good Reason.**
 - (i) Notwithstanding any other provision of this Section 5, (i) the Company, upon thirty (30) days advance notice to Executive, shall have the right to terminate Executive's employment with the Company without Cause at any time, including, without limitation, in connection expiration of the Term and (ii) Executive, upon thirty (30) days advance notice to the Company, shall have the right to resign for Good Reason.
 - (ii) If Executive is so terminated without Cause or resigns for Good Reason, Executive shall receive from the Company:
 - (1) Any Accrued Obligations through the date of termination, which shall be paid to Executive in a lump sum, subject to statutory deductions and withholdings, in cash within ten (10) business days after the date of termination or any earlier time required by applicable law.
 - (2) A payment ("Severance Payment") equal to twelve (12) months of Executive's current Base Salary. The Severance Payment shall be paid by the Company to Executive in equal installments in accordance with the Company's customary payroll practices generally applicable to similarly situated employees as may be in effect from time and shall be subject to statutory deductions and withholdings.
 - (3) To the extent permitted by applicable law and the terms of the plans, the continuation of medical and dental plan benefits for a period of three hundred sixty (360) days ("Benefit Period"), provided that Executive shall be required to make all required contributions to such plans as Executive did prior to the date of termination date. Subsequent to the Benefit Period, Executive will be eligible to continue medical insurance coverage for any remaining period required under COBRA.

(iii) As used in this Agreement, the term "Good Reason" shall mean (i) (except as set forth in Section 5(e)) the relocation of the Company's principal executive offices to a location outside the contiguous 48 United States without the consent of Executive or (ii) any reduction in salary or benefits contrary to this Agreement, without the consent of Executive.

(iv) As a condition to receiving the payment and benefits extension contemplated by this Section 5(d), Executive agrees to execute and deliver to the Company the Release substantially in the form attached to this Agreement as Exhibit A.

(e) Change of Control.

(i) For purposes of the Agreement, a "change of control" means, and shall be deemed to have taken place, if:

(1) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity or person, or any syndicate or group deemed to be a person under Section 14 (d) (2) of the Exchange Act, is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities entitled to vote in the election of directors of the Company;

(2) during any period of two (2) consecutive years (not including any period prior to the execution of this Agreement) individuals who at the beginning of such period constituted the Board and any new directors, whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least three-fourths (3/4ths) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board;

(3) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (a "Transaction"), and shareholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than 50% of the combined voting power of the Company or other corporation resulting from such Transaction; or

(4) there is a "change in control" of the Company within the meaning of Section 280G of the U.S. Federal internal revenue code of 1986.

(ii) For the purposes of this Section 5(e), the term "Good Reason" shall mean the relocation of the Company's principal executive offices to a location which is more than fifty (50) miles from its then-current location without the consent of Executive.

(iii) In the event Executive is terminated by the Company for any reason (other than for Cause as defined in Section 5(c) thereof, but including a resignation for Good Reason as defined in Section 5(e)(ii)), during the period three (3) months before or two (2) years following a "change in control" of the Company (or any successor), Executive shall be entitled to receive a cash payment equal to eighteen (18) months of Executive's current Base Salary and the benefits described in Section 5(d)(ii) of the Agreement. Upon such "change of control" during the Term, the Term of this Agreement shall automatically be the period equal to the longer of (i) two (2) years from the date of the "change of control" or (ii) the remaining period of the initial three (3) year Term after the "change of control". In no event shall Executive be entitled to receive both the Severance Payment described in Section 5(d) hereof and the "change of control" payment described in this Section 5(e).

(iv) Any payments to be made to Executive in connection with this Section 5(e) shall be made in a lump sum, subject to statutory deductions and withholdings, in cash within ten (10) business days after the date of termination or any earlier time required by applicable law.

(f) Tax Consideration.

(i) In the event that the aggregate of all payments or benefits made or provided to the Executive under this Agreement and under all other plans and programs of the Company (the "Aggregate Payment") is determined to constitute a Parachute Payment, as such term is defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to the Executive an additional amount (the "Gross-Up Amount"), prior to the time any excise tax ("Excise Tax") is imposed by Section 4999 of the Code is payable with respect to such Aggregate Payment, which, after the imposition of all excise, federal, state and local income taxes, enables the Executive to retain a total amount equal to the Aggregate Payment prior to the payment of the Gross-Up Amount. Notwithstanding the foregoing, if it shall be determined that the Executive is entitled to receive the Gross-Up Amount, but the portion of the Aggregate Payment that would be treated as a Parachute Payment does not exceed 125% of the greatest amount that could be paid to the Executive such that the receipt of the Aggregate Payment would not give rise to any Excise Tax (the "Safe Harbor Amount"), then no Gross-Up Amount shall be paid to the Executive and the Aggregate Payment shall be reduced to the Safe Harbor Amount.

(ii) All determinations required to be made under this Section 5(f), including whether the Aggregate Payment constitutes a Parachute Payment, the amount of the Gross-Up Amount to be paid to the Executive, if any, and the determination of the Safe Harbor Amount, if applicable, shall be made in good faith by the by the Company's regular outside auditors (the "Accounting Firm"); provided, however, that such Accounting Firm presents its rationale and supporting calculations to the Executive upon his request and shall in good faith work to resolve any discrepancies raised by accountants or lawyers chosen by the Executive who present reasonable critiques of the determination. If a dispute over the methodology or conclusions of the Accounting Firm cannot be resolved between the parties, an impartial accounting firm shall be consulted to resolve the dispute. All fees and expenses of the Accounting Firm incurred in connection with the retention of the Accounting Firm pursuant to this Section 5(f) shall be borne by the Company. All fees and expenses of the accountants and lawyers chosen by the Executive and, if retained, the additional accounting firm, incurred in connection with the resolution of any disputes pursuant to this Section 5(f) shall be borne by the non-prevailing party.

(iii) As a result of uncertainty in the application of Sections 280G and 4999 of the Code at the time of the determination by the Accounting Firm, the parties hereto acknowledge and agree that it is possible that the Company will have paid a Gross-Up Amount that exceeds the amount that the Company should have paid pursuant to this Section 5(f) (the "Overpayment") or that the Company will have paid a Gross-Up Amount that is less than the amount that the Company should have paid pursuant to this Section 5(f) (the "Underpayment"). In the event the Accounting Firm, in a written opinion delivered to the Company and to the Executive, determines that, based upon the assertion of a deficiency by the Internal Revenue Service against the Executive, which the Accounting Firm believes has a high probability of success, an Overpayment has been made, then any such Overpayment shall, to the extent permitted under applicable law (including Section 402 of the Sarbanes-Oxley Act of 2002), be treated for all purposes as a loan to the Executive which the Executive shall promptly repay to the Company together with interest at the Applicable Federal Rate provided for in Section 7872(f)(2) of the Code; provided, however, the Executive may contest any such determination by the Accounting Firm at his own expense. In the event the Accounting Firm, based upon controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest at the Applicable Federal Rate provided for in Section 7872(f)(2) of the Code.

(g) Treatment of Stock Options Upon a Termination.

(i) If this Agreement is terminated pursuant to clause (e) of this Section 5, all stock options or similar rights granted to Executive pursuant to the Company's stock option plans shall immediately vest as of the date of termination and Executive may exercise any such vested stock options for a period of 390 days following such termination, but in no event later than ten (10) years after grant.

(ii) If this Agreement is terminated pursuant to clause (c) of this Section 5, all stock options granted to Executive pursuant to the Company's stock plans shall terminate immediately.

To the extent that the Executive has been granted stock options intended to be incentive stock options under Section 422 of the Internal Revenue Code, such stock options shall cease to be incentive stock options and shall be treated as nonqualified stock options if the options are exercised by the Employee more than three (3) months (one year in case of death or disability as defined in Section 422 of the Internal Revenue Code) following termination of employment.

Except as expressly modified by this clause (g) of this Section 5, all stock options and similar rights granted under the Company's stock plans shall remain subject to all of the terms and conditions of the applicable stock plans and agreements evidencing the grants thereof.

(h) Status of Executive During Exclusivity Period. If this Agreement is terminated pursuant to clauses (b) or (d) of this Section 5, during Executive's Exclusivity Period the Executive shall be deemed and treated as an employee of the Company for the purposes of all payroll, benefits, welfare and stock option plans; provided, however, that Executive shall not be entitled to payment of Base Salary or any other monetary compensation for the same period as, and in addition to, any Severance Payment, nor shall any stock options held by the Executive vest after the effective date of termination.

(i) Exclusive Remedy. Executive agrees that the payments other benefits provided and contemplated by this Agreement shall constitute the sole and exclusive obligation of the Company in respect of Executive's employment with and relationship to the Company and that the full payment thereof shall be the sole and exclusive remedy for any termination of Executive's employment. Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment.

6. Business Expenses. During the Term of this Agreement, to the extent that such expenditures satisfy the criteria under the Internal Revenue Code or other applicable laws for deductibility by the Company (whether or not fully deductible by the Company) for federal income tax purposes as ordinary and necessary business expenses, the Company shall provide the Executive with reimbursement of reasonable business expenses incurred by the Executive while conducting Company business in a manner consistent with the Company's policies and provisions applicable to the Executives of the Company.

7. Confidential Information.

(a) Executive acknowledges that the nature of Executive's employment by the Company is such that Executive shall have access to information of a confidential and/or trade secret nature which has great value to the Company and which constitutes a substantial basis and foundation upon which the business of the Company is based. Such information includes (A) trade secrets, inventions, mask works, ideas, processes, manufacturing, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments or experimental work, designs, and techniques; (B) information regarding plans for research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; (C) information regarding the skills and compensation of other employees the Company or its affiliates, including but not limited to, their respective business plans or clients (including, without limitation, customer lists and lists of customer sources), or information relating to the products, services, customers, sales or business affairs of the Company or its Affiliates (the "Confidential Information").

(b) Executive shall keep all such Confidential Information in confidence during the Term of this Agreement and at any time thereafter and shall not disclose any of such Confidential Information to any other person, except to the extent such disclosure is (i) necessary to the performance of this Agreement and in furtherance of the Company's best interests, (ii) required by applicable law, (iii) lawfully obtainable from other sources, or (iv) authorized in writing by the Board. Upon termination of Executive's employment with the Company, Executive shall deliver to the Company all documents, records, notebooks, work papers, and all similar material containing any of the foregoing information, whether prepared by Executive, the Company or anyone else.

8. Non-Competition. Executive covenants and agrees that commencing on the date hereof and continuing for the entire Term of Executive's employment and for period of twelve (12) months thereafter (the "Exclusivity Period"), Executive shall not, and shall cause each of its affiliates (if applicable) not to:

(a) Acquire any controlling ownership interest in or engage, directly or indirectly, for themselves or as agent, consultant, employee or otherwise, in any business which is competitive with or damaging to the business of the Company or any subsidiary of the Company, whether such business is now owned or hereafter organized or acquired;

(b) Undertake the planning for or organization of, directly or indirectly, alone or in combination with any person or entity any business activity which is competitive with or damaging to the business of the Company or any subsidiary of the Company;

(c) Solicit, attempt to solicit, or assist others in soliciting or attempting to solicit, directly or indirectly, any business related to the business of the Company from any customers or prospective customers of the Company; for the purposes of this Section 8, the term "customer" means any entity or person who is or has been a client or customer of the Company during the time which Executive was employed with the Company, and the term "prospective customer" means a person or entity who became known to the Company during the time which Executive was employed with the Company as a result of that person's or entity's interest in obtaining the services or products of the Company; and

(d) Solicit, attempt to solicit, or assist others in soliciting or attempting to solicit, directly or indirectly, for employment or similar capacity, any person who is an employee of, or an independent contractor for, the Company or its direct or indirect subsidiaries, parents or Affiliates or who was such an employee within twelve (12) months prior to the date of such solicitation or attempted solicitation.

(e) Executive acknowledges that in the event of his employment with the Company terminates for any reason, Executive will be able to earn a livelihood without violating the foregoing restrictions.

(f) If any provision or clause, or portion thereof, within this [Section 8](#) shall be held by any court or other tribunal of competent jurisdiction to be illegal, invalid, or unenforceable in such jurisdiction, the remainder of such provision shall not be thereby affected and shall be given full effect, without regard to the invalid portion. It is the intention of the parties that, if any court construes any provision or clause within this [Section 8](#), or any portion thereof, to be illegal, void or unenforceable because of the duration of such provision or the geographic area or matter covered thereby, such court shall reduce the duration, area, or matter of such provision, and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. Intellectual Property.

(a) Executive has no interest (except as disclosed to the Company) in any inventions, designs, improvements, patents, copyrights and discoveries which are useful in or directly or indirectly related to the business of the Company or to any experimental work carried on by the Company. Except as may be limited by applicable law, all inventions, designs, improvements, patents, copyrights and discoveries conceived by Executive during the Term of this Agreement which are useful in or directly or indirectly related to the business of the Company or to any experimental work carried on by the Company, shall be the property of the Company. Executive will promptly and fully disclose to the Company all such inventions, designs, improvements, patents, copyrights and discoveries (whether developed individually or with other persons) and will take all steps necessary and reasonably required to assure the Company's ownership thereof and to assist the Company in protecting or defending the Company's proprietary rights therein.

(b) Executive also agrees to assist the Company in obtaining United States or foreign letters patent and copyright registrations covering inventions assigned hereunder to the Company and that Executive's obligation to assist the Company shall continue beyond the termination of Executive's employment but the Company shall compensate Executive at a reasonable rate for time actually spent by Executive at the Company's request with respect to such assistance. If the Company is unable because of Executive's mental or physical incapacity or for any other reason to secure Executive's signature to apply for or to pursue any application for any United States or foreign letters patent or copyright registrations covering inventions assigned to the Company, then Executive hereby irrevocably designates and appoints the Company, each of its duly authorized officers and agents as Executive's agent and attorney-in-fact to act for and in Executive's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by Executive. Executive will further assist the Company in every way to enforce any copyrights or patents obtained including, without limitation, testifying in any suit or proceeding involving any of the copyrights or patents or executing any documents deemed necessary by the Company, all without further consideration but at the expense of the Company. If Executive is called upon to render such assistance after the termination of Executive's employment, then Executive shall be entitled to a fair and reasonable per diem fee in addition to reimbursement of any expenses incurred at the request of the Company.

10. Remedies. The parties hereto agree that the services to be rendered by Executive pursuant to this Agreement, and the rights and privileges granted to the Company pursuant to this Agreement, are of a special, unique, extraordinary and intellectual character, which gives them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in any action at law, and that a breach by Executive of any of the terms of this Agreement will cause the Company great and irreparable injury and damage. Executive hereby expressly agrees that the Company shall be entitled to the remedies of injunction, specific performance and other equitable relief to prevent a breach of this Agreement by Executive. This [Section 10](#) shall not be construed as a waiver of any other rights or remedies which the Company may have for damages or otherwise.

11. Return of Property. Executive agrees to return, on or before the termination date, all property belonging to the Company, including but not limited to computers, PDA, telephone and other credit cards, Company business records, Company automobile (if applicable), etc.

12. Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

13. Succession. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns and any such successor or assignee shall be deemed substituted for the Company under the terms of this Agreement for all purposes. As used herein, "successor" and "assignee" shall include any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires the stock of the Company or to which the Company assigns this Agreement by operation of law or otherwise. The obligations and duties of Executive hereunder are personal and otherwise not assignable. Executive's obligations and representations under this Agreement will survive the termination of Executive's employment, regardless of the manner of such termination.

14. Notices. Any notice or other communication provided for in this Agreement shall be in writing and sent if to the Company to its principal office at:

Photronics, Inc.
15 Secor Road, PO Box 5226
Brookfield, Connecticut 06804

Attention: Chief Executive Officer
With a copy to the Vice President, Chief Financial Officer of Photronics, Inc.

or at such other address as the Company may from time to time in writing designate, and if to Executive at the address set forth above or at such address as Executive may from time to time in writing designate. Each such notice or other communication shall be effective (i) if given by written telecommunication, three (3) days after its transmission to the applicable number so specified in (or pursuant to) this [Section 14](#) and a verification of receipt is received, (ii) if given by certified mail, once verification of receipt is received, or (iii) if given by any other means, when actually delivered to the addressee at such address and verification of receipt is received.

15. Adequate Consideration. Executive acknowledges that the cash severance and other benefits to be provided by the Company to Executive are not available under any current plan or policies of the Company. Accordingly, Executive further acknowledges that the payments and benefits under this Agreement provide adequate consideration for Executive's obligations to the Company contained in [Section 7](#) (Confidential Information), [Section 8](#) (Non-Competition), [Section 10](#) (Remedies) and [Exhibit A](#) (Release).

16. Entire Agreement. This Agreement contains the entire agreement of the parties relating to the subject matter hereof and supersedes any prior agreements, undertakings, commitments and practices relating to Executive's employment by the Company.

17. Amendments. No amendment or modification of the terms of this Agreement shall be valid unless made in writing, duly executed by both parties.

18. Waiver. No failure on the part of any party to exercise or delay in exercising any right hereunder shall be deemed a waiver thereof or of any other right, nor shall any single or partial exercise preclude any further or other exercise of such right or any other right.

19. Governing Law. This Agreement, and the legal relations between the parties, shall be governed by and construed in accordance with the laws of the State of Connecticut without regard to conflicts of law doctrines and any court action arising out of this Agreement shall be brought in any court of competent jurisdiction within the State of Connecticut.

20. Attorneys' Fees. If any litigation shall occur between Executive and the Company which litigation arises out of or as a result of this Agreement or the acts of the parties hereto pursuant to this Agreement, or which seeks an interpretation of this Agreement, the prevailing party shall be entitled to recover all costs and expenses of such litigation, including reasonable attorneys' fees and costs.

21. Withholding. All compensation payable hereunder, including salary and other benefits, shall be subject to applicable taxes, withholding and other required, normal or elected employee deductions.

22. Counterparts. This Agreement and any amendment hereto may be executed in one or more counterparts. All of such counterparts shall constitute one and the same agreement and shall become effective when a copy signed by each party has been delivered to the other party.

23. Headings. Section and other headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

THE COMPANY

PHOTRONICS, INC.

By: /s/ Constantine S. Macricostas
Name: Constantine S. Macricostas
Title: Chief Executive Officer

EXECUTIVE

/s/ Edwin L. Lewis
Name: Edwin L. Lewis
Address: 59 Delafield Island Road
Darien, Connecticut, 06820

EXHIBIT A

RELEASE

1. I signed an Employment Agreement with Photronics, Inc. (the "Company"), dated _____ (the "Agreement"), wherein I agreed to the terms applicable to certain terminations of employment with the Company. Pursuant to the terms of the Agreement, I am entitled to certain severance payments and benefits, described in the Agreement, provided that I sign this Release.

2. In consideration of the severance payments described in the Agreement, I, on behalf of myself, my heirs, agents, representatives, predecessors, successors and assigns, hereby irrevocably release, acquit and forever discharge the Company and each of its respective agents, employees, representatives, parents, subsidiaries, divisions, affiliates, officers, directors, shareholders, investors, employees, attorneys, transferors, transferees, predecessors, successors and assigns, jointly and severally (the "[Released Parties](#)") of and from any and all debts, suits, claims, actions, causes of action, controversies, demands, rights, damages, losses, expenses, costs, attorneys' fees, compensation, liabilities and obligations whatsoever, suspected or unsuspected, known or unknown, foreseen or unforeseen, arising at any time up to and including the date of this Release, save and except for the parties' obligations and rights under the Agreement. In recognition of the consideration set forth in the Agreement, I hereby release and forever discharge the Released Parties from any and all claims, actions and causes of action, I have or may have as of the date of this Release arising under any state or federal civil rights or human rights law, or under the Federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder ("ADEA"). By signing this Release, I hereby acknowledge and confirm the following: (a) I was advised in writing by the Company in connection with my termination to consult with an attorney of my choice prior to signing this Agreement, including without limitation, the terms relating to my release of claims arising under ADEA and any other law, rule or regulation referred to above; (b) I was given a period of not fewer than 21 days to consider the terms of this Agreement and to consult with an attorney of my choosing with respect hereto; and (c) I am providing the release and discharge set forth in this paragraph only in exchange for consideration in addition to anything of value to which I was already entitled.

3. The Agreement and this Release may be revoked by me within the 7-day period commencing on the date I sign this Release (the "Revocation Period"). In the event of any such revocation, all obligations of the Company under the Agreement will terminate and be of no further force and effect as of the date of such revocation and both the Company and I will have and be entitled to exercise all rights that would have existed had the Agreement and Release not been entered into. No such revocation will be effective unless it is in writing and signed by me and received by the Company prior to the expiration of the Revocation Period.

Name

Date

Witness

Date

Subsidiaries of Photronics, Inc.

**State or Jurisdiction
of Incorporation or Organization**

Align-Rite International, Inc.	(California, USA)
Align-Rite Corporation	(Nevada, USA)
Align-Rite, Inc.	(Florida, USA)
Align-Rite International, Ltd.	(United Kingdom)
Photronics (Wales) Limited	(United Kingdom)
Photronics, B.V.	(Netherlands)
Photronics (Heilbronn) GmbH (in liquidation)	(Germany)
Beta Squared, Inc.	(Connecticut, USA)
Beta Squared I, LLC	(Delaware, USA)
Beta Squared I, LP (1)	(Texas, USA)
Photronics Arizona, Inc.	(Arizona, USA)
Photronics California, Inc.	(California, USA)
Photronics Connecticut, Inc.	(Connecticut, USA)
Photronics Investment Services, Inc.	(Nevada, USA)
Photronics Oregon, Inc.	(Oregon, USA)
Photronics Texas, Inc.	(Texas, USA)
Photronics Texas I, LLC	Delaware, USA)
Photronics Texas I, LP (2)	(Texas, USA)
Photronics-Toppan Texas, Inc.	(Texas, USA)
Photronics Texas II, LLC	(Delaware, USA)
Photronics Texas II, LP (3)	(Texas, USA)
PLI Management Corporation	(Florida, USA)
Chip Canal Associates, Ltd.	(United Kingdom)
Photronics Bermuda, Ltd.	(Bermuda)
Photronics France, SAS	(France)
Photronics Germany, GmbH	(Germany)
Photronics MZD GmbH & Co.	(Germany)
Photronics MZD Verwaltungs, GmbH	(Germany)
Photronics Hellas, S.A.	(Greece)
Photronics Imaging Technologies (Shanghai) Co., Ltd.	(China)
Photronics International Trading (Shanghai) Co., Ltd.	(China)
Photronics Luxembourg, S.a.r.l.	(Luxembourg)
Photronics Semiconductor Mask Corporation (4)	(Taiwan, R.O.C.)
Photronics Services, S.A.	(Switzerland)
Photronics Singapore Pte, Ltd.	(Singapore)
Photronics UK, Ltd.	(United Kingdom)
PK Ltd. (5)	(Korea)

Note: Entities directly owned by subsidiaries of Photronics, Inc. are indented and listed below their immediate parent. Ownership is 100% unless otherwise indicated.

- (1) 99.0% owned by Beta Squared I, LLC, and 1.0% owned by Beta Squared, Inc. (directly and indirectly, in the aggregate, wholly owned by Photronics, Inc.).
- (2) 99.0% owned by Photronics Texas I, LLC, and 1.0% owned by Photronics Texas, Inc. (directly and indirectly, in the aggregate, wholly owned by Photronics, Inc.).
- (3) 99.0% owned by Photronics Texas II, LLC, and 1.0% owned by Photronics Toppan-Texas, Inc. (directly and indirectly, in the aggregate, wholly owned by Photronics, Inc.).
- (4) 57.53% owned by Photronics, Inc.
- (5) 69.18% owned by Photronics, Inc. and 7.23% owned by Photronics Singapore Pte Ltd. (directly and indirectly, in the aggregate, wholly owned by Photronics, Inc.).

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements Nos. 333-02245, 333-42010, 333-50809, 333-86846, 33-17530, 33-28118 and 33-78102 on Form S-8 and Registration Statement Nos. 333-105918 and 333-88122 on Form S-3 of Photronics, Inc. of our report dated January 11, 2005 appearing in this Annual Report on Form 10-K of Photronics, Inc. for the year ended October 31, 2004.

/s/ Deloitte & Touche LLP
Hartford, Connecticut
January 12, 2005

Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer

I, Constantine S. Macricostas, Chairman and Chief Executive Officer of Photronics, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Photronics, Inc.
2. Based on my knowledge, this annual 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 annual report.
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fourth fiscal quarter 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:
 - 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.

January 12, 2005

/s/ CONSTANTINE S. MACRICOSTAS

Constantine S. Macricostas
Chairman and Chief Executive Officer

EXHIBIT 31.2

Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer

I, Sean T. Smith, Chief Financial Officer of Photronics, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Photronics, Inc.
2. Based on my knowledge, this annual 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 annual report.
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fourth fiscal quarter 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:
 - 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.

January 12, 2005

/s/ SEAN T. SMITH

Sean T. Smith
Chief Financial Officer

EXHIBIT 32.1

Section 1350 Certification of the Chief Executive Officer

I, Constantine S. Macricostas, Chairman and 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, to my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the fiscal year ended October 31, 2004 (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/ CONSTANTINE S. MACRICOSTAS

Constantine S. Macricostas
Chairman and Chief Executive Officer
January 12, 2005

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, to my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the fiscal year ended October 31, 2004 (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
January 12, 2005

