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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 30, 2023

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 001-39063

PHOTRONICS, INC.
(Exact name of registrant as specified in its charter)

Connecticut	**06-0854886**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
15 Secor Road, Brookfield, Connecticut	**06804**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	**(203) 775-9000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
COMMON	PLAB	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ **No** ☐

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

Yes ☒ **No** ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐	Non-Accelerated Filer	☐	Smaller Reporting Company	☐	Emerging Growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The registrant had 62,548,494 shares of common stock outstanding as of August 31, 2023.

PHOTRONICS, INC.
QUARTERLY REPORT ON FORM 10-Q
July 30, 2023

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Glossary of Terms and Acronyms

Definitions of certain terms and acronyms that may appear in this report are provided below.

AMOLED	Active-matrix organic light-emitting diode. A technology used in mobile devices.
Application-specific IC	An integrated circuit customized for a particular use, rather than intended for general-purpose use
ASC	Accounting Standards Codification
ASP	Average Selling Price
ASU	Accounting Standards Update
Chip stacking	Placement of an integrated circuit on top of another integrated circuit, resulting in the reduction of the distance between the chips in a circuit board
COVID-19	Covid virus 2019, an infectious disease that was declared a pandemic by the World Health Organization in March 2020
DNP	Dai Nippon Printing Co., Ltd.
EUV	A wafer lithography technology using the industry standard extreme ultraviolet (EUV) wavelength. EUV photomasks function by selectively reflecting or blocking light, in contrast to conventional photomasks which function by selectively transmitting or blocking light
Exchange Act	The Securities Exchange Act of 1934 (as amended)
FASB	Financial Accounting Standards Board
Form 10-K	Annual Report on Form 10-K
Form 10-Q	Quarterly Report on Form 10-Q
FPDs	Flat-panel displays, or “displays”
Generation	In reference to flat-panel displays, refers to the size range of the underlying substrate to which a photomask is applied. Higher generation (or “G”) numbers represent larger substrates
High-end (photomasks)	For IC, photomasks that are 28nm or smaller; for FPD, AMOLED, G10.5+, and LTPS photomasks
ICs	Integrated circuits, or semiconductors
LIBOR	London Inter-Bank Offered Rate
LTPS	Low-Temperature Poly Silicon, a polycrystalline silicon synthesized at relatively low temperatures; polycrystalline silicon in thin-film transistors (TFTs) are used in liquid-crystal display (LCD) flat panels and to drive organic light-emitting diode (OLED) displays
MLA	Master Lease Agreement
Optical proximity correction	A photolithography enhancement technique applied to compensate for the limitations of light to maintain the edge placement integrity of an original design, imaged onto a silicon wafer, for further processing to an etched pattern.
PDMCX	Xiamen American Japan Photronics Mask Co., Ltd., a joint venture of Photronics and DNP
Phase-shift photomasks	Photomasks that take advantage of the interference generated by phase differences to improve image resolution in photolithography
Pure-play foundry	A company that does not produce a significant volume of IC products of its own design, but rather operates IC fabrication plants dedicated to producing ICs for other companies
RMB	Chinese renminbi
ROU (assets)	Right-of-use asset
SEC	Securities and Exchange Commission
Securities Act	The Securities Act of 1933 (as amended)
Sputtering	The bombardment of a material with energetic particles to cause microscopic particles of the material to eject from its surface.
U.S. GAAP	Accounting principles generally accepted in the United States of America
Wafer	A wafer, or silicon wafer, is a thin slice of semiconductor material that, in the fabrication of microelectronics, serves as the substrate for microelectronic devices built in and upon the wafer

Forward-Looking Statements

This Form 10-Q contains forward-looking statements, as defined by the SEC. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements made by us, or on our behalf. Forward-looking statements are statements other than statements of historical fact, including, without limitation, those statements that include such words as “anticipates”, “believes”, “estimates”, “expects”, “intends”, “may”, “plans”, “predicts”, and similar expressions, and, without limitation, may address our future plans, objectives, goals, strategies, events, or performance, as well as underlying assumptions and other statements that are other than statements of historical facts. On occasion, in other documents filed with the SEC, press releases, conferences, or by other means, we may discuss, publish, disseminate, or otherwise make available, forward-looking statements, including statements contained within Part I, Item 2 – “Management’s Discussion & Analysis of Financial Condition and Results of Operations” of this Form 10-Q.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. Our expectations, beliefs, and projections are expressed in good faith and are believed by us to have a reasonable basis, including, without limitation, management’s examination of historical operating trends, information contained in our records, and information we’ve obtained from other parties. However, we can offer no assurance that our expectations, beliefs, or projections will be realized, accomplished, or achieved.

Forward-looking statements within this Form 10-Q speak only as of the date of its filing, and we undertake no obligation to update any such statements to reflect changes in events or circumstances that may subsequently occur. Users of this Form 10-Q are cautioned that various factors may cause actual results to differ materially from those contained in any forward-looking statements found within this Form 10-Q and that they should not place undue reliance on any forward-looking statement. In addition, all forward-looking statements, whether written or oral and whether made by us or on our behalf, are expressly qualified by the risk factors provided in Part I, Item 1A “Risk Factors” of our Form 10-K, as well as any additional risk factors we may provide in Part II, Item 1A of our Quarterly Reports on Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PHOTRONICS, INC.
Condensed Consolidated Balance Sheets
(in thousands, except per share amounts)
(unaudited)

	July 30, 2023	October 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 448,479	$ 319,680
Short-term investments	27,325	38,820
Accounts receivable, net of allowance of $1,199 in 2023 and $1,002 in 2022	206,128	198,147
Inventories	55,379	50,753
Other current assets	34,900	37,252
Total current assets	772,211	644,652
Property, plant and equipment, net	701,459	643,873
Deferred income taxes	18,585	19,816
Other assets	11,088	7,489
Total assets	$ 1,503,343	$ 1,315,830
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 6,589	$ 10,024
Accounts payable	101,525	79,566
Accrued liabilities	82,538	104,207
Total current liabilities	190,652	193,797
Long-term debt	20,121	32,310
Other liabilities	40,694	27,634
Total liabilities	251,467	253,741
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value, 2,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.01 par value, 150,000 shares authorized, 61,284 shares issued and outstanding at July 30, 2023, and 60,791 shares issued and outstanding at October 31, 2022	613	608
Additional paid-in capital	499,886	493,741
Retained earnings	516,508	435,634
Accumulated other comprehensive loss	(55,795)	(98,456)
Total Photronics, Inc. shareholders' equity	961,212	831,527
Noncontrolling interests	290,664	230,562
Total equity	1,251,876	1,062,089
Total liabilities and equity	$ 1,503,343	$ 1,315,830

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Revenue	$ 224,206	$ 219,948	$ 664,603	$ 614,283
Cost of goods sold	137,405	136,085	413,323	400,338
Gross profit	86,801	83,863	251,280	213,945
Operating expenses:				
Selling, general, and administrative	18,032	15,960	52,728	48,306
Research and development	3,505	4,151	10,287	14,297
Total operating expenses	21,537	20,111	63,015	62,603
Other operating (loss), net	-	(23)	-	(17)
Operating income	65,264	63,729	188,265	151,325
Other income (expense):				
Foreign currency transactions impact, net	(4,543)	3,862	(10,769)	16,974
Interest income and other income, net	3,758	401	9,329	898
Interest expense	(126)	(622)	(324)	(1,502)
Income before income tax provision	64,353	67,370	186,501	167,695
Income tax provision	16,098	18,146	50,023	43,717
Net income	48,255	49,224	136,478	123,978
Net income attributable to noncontrolling interests	21,296	17,994	55,604	42,252
Net income attributable to Photronics, Inc. shareholders	$ 26,959	$ 31,230	$ 80,874	$ 81,726
Earnings per share:				
Basic	$ 0.44	$ 0.51	$ 1.32	$ 1.35
Diluted	$ 0.44	$ 0.51	$ 1.31	$ 1.34
Weighted-average number of common shares outstanding:				
Basic	61,233	60,701	61,089	60,488
Diluted	61,974	61,299	61,650	61,127

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	July 30, 2023	**July 31, 2022**	**July 30, 2023**	**July 31, 2022**
Net income	$ 48,255	$ 49,224	$ 136,478	$ 123,978
Other comprehensive (loss) income, net of tax of $0:				
Foreign currency translation adjustments	(3,639)	(22,136)	47,068	(76,086)
Other	80	61	91	229
Net other comprehensive (loss) income	(3,559)	(22,075)	47,159	(75,857)
Comprehensive income	44,696	27,149	183,637	48,121
Less: comprehensive income attributable to noncontrolling interests	14,027	13,809	60,102	27,775
Comprehensive income attributable to Photronics, Inc. shareholders	$ 30,669	$ 13,340	$ 123,535	$ 20,346

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC.
Condensed Consolidated Statements of Equity
(in thousands)
(unaudited)

	Three Months Ended July 30, 2023							
	Photronics, Inc. Shareholders							
	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance at April 30, 2023	61,185	$ 612	$ 497,391	$ 489,549	$ -	$ (59,505)	$ 276,637	$ 1,204,684
Net income	-	-	-	26,959	-	-	21,296	48,255
Other comprehensive loss	-	-	-	-	-	3,710	(7,269)	(3,559)
Shares issued under equity plans	99	1	452	-	-	-	-	453
Share-based compensation expense	-	-	2,043	-	-	-	-	2,043
Balance at July 30, 2023	61,284	$ 613	$ 499,886	$ 516,508	$ -	$ (55,795)	$ 290,664	$ 1,251,876

	Three Months Ended July 31, 2022							
	Photronics, Inc. Shareholders							
	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance at May 1, 2022	60,637	$ 606	$ 489,368	$ 367,344	$ -	$ (22,919)	$ 215,831	$ 1,050,230
Net income	-	-	-	31,230	-	-	17,994	49,224
Other comprehensive loss	-	-	-	-	-	(17,890)	(4,185)	(22,075)
Shares issued under equity plans	117	2	996	-	-	-	-	998
Share-based compensation expense	-	-	1,581	-	-	-	-	1,581
Balance at July 31, 2022	60,754	$ 608	$ 491,945	$ 398,574	$ -	$ (40,809)	$ 229,640	$ 1,079,958

See accompanying notes to condensed consolidated financial statements.

	Nine Months Ended July 30, 2023							
	Photronics, Inc. Shareholders							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance at October 31, 2022	60,791	$ 608	$ 493,741	$ 435,634	$ -	$ (98,456)	$ 230,562	$ 1,062,089
Net income	-	-	-	80,874	-	-	55,604	136,478
Other comprehensive Income	-	-	-	-	-	42,661	4,498	47,159
Shares issued under equity plans	493	5	271	-	-	-	-	276
Share-based compensation expense	-	-	5,874	-	-	-	-	5,874
Balance at July 30, 2023	61,284	$ 613	$ 499,886	$ 516,508	$ -	$ (55,795)	$ 290,664	$ 1,251,876

	Nine Months Ended July 31, 2022							
	Photronics, Inc. Shareholders							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance at October 31, 2021	60,024	$ 600	$ 484,672	$ 317,849	$ -	$ 20,571	$ 176,870	$ 1,000,562
Net income	-	-	-	81,726	-	-	42,252	123,978
Other comprehensive loss	-	-	-	-	-	(61,380)	(14,477)	(75,857)
Shares issued under equity plans	917	9	4,170	-	-	-	-	4,179
Share-based compensation expense	-	-	4,623	-	-	-	-	4,623
Contribution from noncontrolling interest	-	-	-	-	-	-	24,995	24,995
Purchase of treasury stock	-	-	-	-	(2,522)	-	-	(2,522)
Retirement of treasury stock	(187)	(1)	(1,520)	(1,001)	2,522	-	-	-
Balance at July 31, 2022	60,754	$ 608	$ 491,945	$ 398,574	$ -	$ (40,809)	$ 229,640	$ 1,079,958

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	July 30, 2023	July 31, 2022
Cash flows from operating activities:		
Net income	$ 136,478	$ 123,978
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	59,523	61,210
Share-based compensation	5,874	4,623
Changes in assets and liabilities:		
Accounts receivable	(1,482)	(45,199)
Inventories	(2,693)	1,570
Other current assets	4,053	661
Accounts payable, accrued liabilities, and other	(6,197)	49,078
Net cash provided by operating activities	195,556	195,921
Cash flows from investing activities:		
Purchases of property, plant and equipment	(78,813)	(46,337)
Purchases of available-for-sale debt securities	(9,837)	-
Proceeds from maturities of available-for-sale debt securities	22,500	-
Government incentives	2,033	1,394
Other	(116)	(179)
Net cash used in investing activities	(64,233)	(45,122)
Cash flows from financing activities:		
Repayments of debt	(16,351)	(51,917)
Purchases of treasury stock	-	(2,522)
Contribution from noncontrolling interest	-	24,995
Proceeds from share-based arrangements	1,241	5,505
Net settlements of restricted stock awards	(1,292)	(1,463)
Net cash used in financing activities	(16,402)	(25,402)
Effects of exchange rate changes on cash, cash equivalents, and restricted cash	13,813	(21,308)
Net increase in cash, cash equivalents, and restricted cash	128,734	104,089
Cash, cash equivalents, and restricted cash at beginning of period	322,409	279,680
Cash, cash equivalents, and restricted cash at end of period	451,143	383,769
Less: Ending restricted cash	2,664	2,936
Cash and cash equivalents at end of period	$ 448,479	$ 380,833
Supplemental disclosure of non-cash information:		
Accruals for property, plant and equipment purchased during the period	$ 22,578	$ 5,558

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)
(in thousands, except share amounts and per share data)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

Photronics, Inc. (“Photronics”, “the Company”, “we”, “our”, or “us”) is one of the world’s leading manufacturers of photomasks, which are high-precision photographic quartz or glass plates containing microscopic images of electronic circuits. Photomasks are a key element in the manufacture of ICs and FPDs and are used as masters to transfer circuit patterns onto semiconductor wafers and FPD substrates during the fabrication of ICs, a variety of FPDs and, to a lesser extent, other types of electrical and optical components. We operate eleven manufacturing facilities, which are located in Taiwan (3), Korea, China (2), the United States (3), and Europe (2).

The accompanying unaudited condensed consolidated financial statements (“the financial statements”) have been prepared in accordance with U.S. GAAP for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of management, adjustments, all of which are of a normal recurring nature, considered necessary for a fair presentation have been included. The financial statements include the accounts of Photronics, its wholly owned subsidiaries, and the majority-owned subsidiaries, which it controls. All intercompany balances and transactions have been eliminated in consolidation. These financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Form 10-K for the fiscal year ended October 31, 2022, where we discuss and provide additional information about our accounting policies and the methods and assumptions used in our estimates.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect amounts reported in them. Our estimates, including those on the impact of COVID-19, are based on historical experience and on various assumptions that we believe to be reasonable under the facts and circumstances at the time they are made. Subsequent actual results may differ from such estimates. We review these estimates periodically and reflect any effects of revisions in the period in which they are determined.

Our business is typically impacted during the first quarter of our fiscal year by the North American, European, and Asian holiday periods, as some customers reduce their development and buying activities during this period. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2023.

NOTE 2 - SHORT-TERM INVESTMENTS

Short-term investments consist of U.S. government securities and are classified as available-for-sale. We classify available-for-sale securities on our consolidated balance sheet as follows:

-	Maturing within three months or less from the date of purchase	Cash and cash equivalents
-	Maturing, as of the date of purchase, more than three months, but with remaining maturities of less than one year, from the balance sheet date	Short-term investments
-	Maturing one year or more from the balance sheet date	Long-term marketable investments

As of July 30, 2023, all of our available-for-sale securities had, at their dates of purchase, remaining maturities of more than three months, but less than one year, and have been classified as Short-term investments.

Available-for-sale debt investments are reported at fair value, with unrealized gains or losses (net of tax) reported in Accumulated other comprehensive income. The fair values of our available-for-sale securities are Level 1 measurements, based on quoted prices from active markets for identical assets. In the event of a sale of an available-for-sale debt investment, we would determine the cost of the investment sold at the specific individual security level and would include any gain or loss in Interest income and other income, net, where we also report periodic interest earned and the amortization (accretion) of discounts (premiums) related to these investments. The table below provides information on our available-for-sale debt securities.

	July 30, 2023				October 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Government securities	$ 27,354	$ -	$ (29)	$ 27,325	$ 38,911	$ -	$ (91)	$ 38,820

NOTE 3 - INVENTORIES

Inventories are stated at the lower of cost, determined under the first-in, first-out (“FIFO”) method, or net realizable value. Presented below are the components of *Inventories* at the balance sheet dates.

	July 30, 2023	October 31, 2022
Raw materials	$ 53,875	$ 49,326
Work in process	1,501	1,408
Finished goods	3	19
	$ 55,379	$ 50,753

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT, NET

Presented below are the components of *Property, plant, and equipment, net* at the balance sheet dates.

	July 30, 2023	October 31, 2022
Land	$ 11,684	$ 11,134
Buildings and improvements	188,950	168,024
Machinery and equipment	1,942,524	1,769,478
Leasehold improvements	19,460	18,802
Furniture, fixtures, and office equipment	16,284	14,355
Construction in progress	56,985	90,846
	2,235,887	2,072,639
Accumulated depreciation and amortization	(1,534,428)	(1,428,766)
	$ 701,459	$ 643,873

Information on ROU assets resulting from finance leases, at the balance sheet dates, is presented below.

	July 30, 2023	October 31, 2022
Machinery and equipment	$ 42,820	$ 42,760
Accumulated amortization	(6,922)	(4,784)
	$ 35,898	$ 37,976

The following table presents depreciation expense (including the amortization of ROU assets) related to property, plant, and equipment incurred during the reporting periods.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Depreciation Expense	$ 20,346	$ 19,710	$ 59,255	$ 60,939

NOTE 5 - PDMCX JOINT VENTURE

In January 2018, Photronics, Inc., through its wholly owned Singapore subsidiary (hereinafter, within this Note "we", "Photronics", "us", or "our"), and DNP, through its wholly owned subsidiary "DNP Asia Pacific PTE, Ltd.", entered into a joint venture under which DNP obtained a 49.99% interest in our IC business in Xiamen, China. The joint venture, which we refer to as "PDMCX", was established to develop and manufacture photomasks for semiconductors. We entered into this joint venture to enable us to compete more effectively for the merchant photomask business in China, and to benefit from the additional resources and investment that DNP provides to enable us to offer advanced-process technology to our customers.

In 2020, in combination with local financing obtained by PDMCX, Photronics and DNP fulfilled their investment obligations under the PDMCX operating agreement ("the Agreement"). As discussed in Note 6, liens were granted to the local financing entity on property, plant, and equipment and were paid off during fiscal year 2023. These liens had an October 31, 2022, total carrying value of $70.7 million, as collateral for the loans.

Under the Agreement, DNP is afforded, under certain circumstances, the right to put its interest in PDMCX to Photronics. These circumstances include disputes regarding the strategic direction of PDMCX that may arise after the initial two-year term of the Agreement and cannot be resolved between the two parties. As of the date of issuance of these financial statements, DNP had not indicated its intention to exercise this right. In addition, both Photronics and DNP have the option to purchase, or put, their interest from, or to, the other party, should their ownership interest fall below twenty percent for a period of more than six consecutive months. Under all such circumstances, the sales of ownership interests would be at the exiting party's ownership percentage of the joint venture's net book value, with closing to take place within three business days of obtaining required approvals and clearance.

The following table presents net income we recorded from the operations of PDMCX during the reporting periods.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Net income from PDMCX	$ 7,130	$ 5,356	$ 19,700	$ 12,129

As required by the guidance in Topic 810 - "Consolidation" of the Accounting Standards Codification ("ASC"), we evaluated our involvement in PDMCX for the purpose of determining whether we should consolidate its results in our financial statements. The initial step of our evaluation was to determine whether PDMCX was a variable interest entity ("VIE"). Due to its lack of sufficient equity at risk to finance its activities without additional subordinated financial support, we determined that it was a VIE. Having made this determination, we then assessed whether we were the primary beneficiary of the VIE and concluded that we were the primary beneficiary during the current and prior year reporting periods; thus, as required, the PDMCX financial results have been consolidated with Photronics. Our conclusion was based on the facts that we held a controlling financial interest in PDMCX (which resulted from our having the power to direct the activities that most significantly impacted its economic performance) and had the obligation to absorb losses and the right to receive benefits that could potentially be significant to PDMCX. Our conclusions that we had the power to direct the activities that most significantly affected the economic performance of PDMCX during the current and prior year reporting periods were based on our right to appoint the majority of its board of directors, which has, among others, the powers to manage the business (through its rights to appoint and evaluate PDMCX's management), incur indebtedness, enter into agreements and commitments, and acquire and dispose of PDMCX's assets. In addition, as a result of the 50.01% variable interest we held during the current and prior year periods, we had the obligation to absorb losses, and the right to receive benefits, that could potentially be significant to PDMCX.

The following table presents the carrying amounts of PDMCX assets and liabilities included in our condensed consolidated balance sheets. General creditors of PDMCX do not have recourse to the assets of Photronics (other than the net assets of PDMCX); therefore, our maximum exposure to loss from PDMCX is our interest in the carrying amount of the net assets of the joint venture.

	July 30, 2023		October 31, 2022	
Classification	**Carrying Amount**	**Photronics Interest**	**Carrying Amount**	**Photronics Interest**
Current assets	$ 133,729	$ 66,878	$ 127,542	$ 63,784
Noncurrent assets	142,718	71,373	119,392	59,708
Total assets	276,447	138,251	246,934	123,492
Current liabilities	46,517	23,263	51,274	25,643
Noncurrent liabilities	1,468	734	9,161	4,581
Total liabilities	47,985	23,997	60,435	30,224
Net assets	$ 228,462	$ 114,254	$ 186,499	$ 93,268

NOTE 6 - DEBT

Due to the Q2 FY23 payoff of the Xiamen Project loans, as of July 30, 2023, the Current portion of long-term debt and the Long-term debt balances were comprised of finance leases as described below:

As of July 30, 2023	Xiamen Project Loans	Finance Leases	Total
Principal due:			
Next 12 months	$ -	$ 6,589	6,589
Months 13 – 24	$ -	$ 20,090	20,090
Months 25 – 36	-	13	13
Months 37 – 48	-	13	13
Months 49 – 60	-	5	5
Long-term debt	-	20,121	20,121
Total debt	$ -	$ 26,710	26,710
Interest rate at balance sheet date	N/A%	N/A	
Basis spread on interest rates	0.00	N/A	
Interest rate reset	Quarterly	N/A	
Maturity date	December 2025	N/A	
Periodic payment amount	Varies as loans mature[(1)]	Varies as Lease mature	
Periodic payment frequency	Semiannual, on individual loans	Monthly	
Loan collateral (carrying amount)	$ N/A	$ 35,898[(2)]	

(1) During Q2 FY23, we repaid the entire balance of 26.4 million RMB (approximately $3.9 million) remaining on the loan, of which, 2.0 million RMB was due to be paid in June 2025 and 24.4 million RMB was due to be paid in December 2025.

(2) Represents the carrying amount at the balance sheet date of the related ROU assets, in which the lessors have secured interests.

The table below provides information on our long-term debt as of October 31, 2022.

As of October 31, 2022	Xiamen Project Loans	Xiamen Working Capital Loans	Finance Leases	Total
Principal due:				
Next 12 months	$ -	$ 3,512	$ 6,512	$ 10,024
Months 13 – 24	$ -	$ -	$ 6,610	$ 6,610
Months 25 – 36	1,098	-	17,961	19,059
Months 37 – 48	6,641	-	-	6,641
Long-term debt	$ 7,739	$ -	$ 24,571	$ 32,310
Interest rate at balance sheet date	4.30% - 4.45%	4.46%	N/A	
Basis spread on interest rates	0.00	76	N/A	
Interest rate reset	Quarterly	Monthly/Annually	N/A	
Maturity date	December 2025	July 2023	N/A	
Periodic payment amount	Varies as loans mature (1)	Increases as loans mature	Varies as leases mature	
Periodic payment frequency	Semiannual, on individual loans	Semiannual, on individual loans	Monthly	
Loan collateral (carrying amount)	$ 70,705	N/A	$ 37,976(2)	

(1) During the three-month period ended October 31, 2022, we repaid 81.0 million RMB (approximately $11.5 million) that had contractual maturity dates ranging from December 2023 through June 2025.

(2) Represents the carrying amount at the balance sheet date of the related ROU assets, in which the lessors have secured interests.

Finance Leases

In February 2021, we entered into a five-year $7.2 million finance lease for a high-end inspection tool. Monthly payments on the lease, which commenced in February 2021, are $0.1 million per month. Upon the payment of the fiftieth monthly payment and prior to payment of the fifty-first monthly payment, we may exercise an early buyout option to purchase the tool for $2.4 million. If we do not exercise the early buyout option, then at the end of the five-year lease term, the lease shall continue to renew on a month-to-month basis at the same rental terms; at our option, after the original term or any renewal periods, we may return the tool, elect to extend the lease, or purchase the tool at its fair market value. Since we are reasonably certain that we will exercise the early buyout option, our lease liability reflects such exercise and we have classified the lease as a finance lease. The interest rate implicit in the lease is 1.08%.

In December 2020, we entered into a five-year $35.5 million finance lease for a high-end lithography tool. Monthly payments on the lease, which commenced in January 2021, increased from $0.04 million during the first three months to $0.6 million for the following nine months, followed by forty-eight monthly payments of $0.5 million. As of the due date of the forty-eighth monthly payment, we may exercise an early buyout option to purchase the tool for $14.1 million. If we do not exercise the early buyout option, then at the end of the five-year lease term, at our option, we may return the tool, elect to extend the lease term for a period and a lease payment to be agreed with lessor at the time, or purchase the tool for its then-fair market value, as determined by the lessor. Since we are reasonably certain that we will exercise the early buyout option, our lease liability reflects such exercise and we have classified the lease as a finance lease. The interest rate implicit in the lease is 1.58%. The lease agreement incorporates the covenants included in our Corporate Credit Agreement, which are detailed below, and includes a cross-default provision for any agreement or instrument with an outstanding, committed balance greater than $5.0 million in which we are the indebted party.

Xiamen Project Loans

In November 2018, PDMCX obtained approval to borrow 345.0 million RMB from the Industrial and Commercial Bank of China. From November 2018 through July 2020, PDMCX entered into separate loan agreements (the “Project Loans”) for the entire approved amount. In February 2023, PDMCX repaid the entire outstanding balance of 26.4 million RMB ($3.9 million). As of July 30, 2023, PDMCX had no amount outstanding. The Project Loans were used to finance certain capital expenditures at the PDMCX facility and were collateralized by liens granted on the land use right, building, and certain equipment located at the facility. The interest rates on the Project Loans were variable (based on the RMB Loan Prime Rate of the National Interbank Funding Center), and interest incurred on the loans was eligible for reimbursement through incentives provided by the Xiamen Torch Hi-Tech Industrial Development Zone, which provided for such reimbursements up to a prescribed limit and duration. The Project Loans were subject to covenants and provisions, certain of which related to the assets pledged as security for the loans, all of which we were in compliance with as of July 30, 2023.

Xiamen Working Capital Loans

In November 2018, PDMCX obtained approval for revolving, unsecured credit of the equivalent of $25.0 million, pursuant to which PDMCX may enter into separate loan agreements with varying terms to maturity. This facility is subject to annual reviews and extensions, with the most recent extension set to expire in November 2023. In December 2022, we repaid our entire outstanding balance of 25.6 million RMB ($3.6 million). As of July 30, 2023, PDMCX had no amount outstanding against the approval. The interest rates are variable, based on the RMB Loan Prime Rate of the National Interbank Funding Center. Interest incurred on the loans related to the amount borrowed was eligible for reimbursement through incentives provided by the Xiamen Torch Hi-Tech Industrial Development Zone, which provided for such reimbursements up to a prescribed limit and duration.

Corporate Credit Agreement

In September 2018, we entered into a five-year amended and restated credit agreement (the “Credit Agreement”), which has a $50 million borrowing limit, with an expansion capacity to $100 million. The Credit Agreement is secured by substantially all of our assets located in the United States and common stock we own in certain subsidiaries. The Credit Agreement includes covenants around minimum interest coverage ratio, total leverage ratio, and minimum unrestricted cash balance (all of which we were in compliance with at July 30, 2023), and limits the amount of cash dividends, distributions, and redemptions we can pay on our common stock to an aggregate annual amount of $50 million. We had no outstanding borrowings against the Credit Agreement at July 30, 2023. The interest rate on the Credit Agreement (6.43% at July 30, 2023) is based on our total leverage ratio at one-month LIBOR plus a spread, as defined in the Credit Agreement.

Hefei Equipment Loan

In October 2020, our Hefei, China, facility was approved to borrow 200 million RMB from the China Construction Bank Corporation. In July 2022, we repaid our entire outstanding balance of 120.7 million RMB ($18.0 million). This credit facility was subject to annual reviews and extension; the most recent extension expired in August 2022, and we did not apply for an extension. The loan proceeds were used to fund purchases of two lithography tools at the Hefei facility. The interest rate on the loan was variable and based on the RMB Loan Prime Rate of the National Interbank Funding Center. The borrowings were secured by the Hefei facility, its related land use right, and certain manufacturing equipment. The Hefei Equipment Loan was subject to covenants and provisions, certain of which relate to the assets pledged as security for the loan, including covenants for the ratio of total liabilities to total assets and the ratio of current assets to current liabilities, all of which we were in compliance with at the time of repayment.

NOTE 7 - REVENUE

We recognize revenue when, or as, control of a good or service transfers to a customer, in an amount that reflects the consideration to which we expect to be entitled in exchange for transferring those goods or services. We account for an arrangement as a revenue contract when each party has approved and is committed to perform under the contract, the rights of the contracting parties regarding the goods or services to be transferred and the payment terms are identifiable, the arrangement has commercial substance, and collection of consideration is probable. Substantially all of our revenue comes from the sales of photomasks. We typically contract with our customers to sell sets of photomasks, which are comprised of multiple layers, the predominance of which we invoice as they ship to customers. As the photomasks are manufactured to customer specifications, they have no alternative use to us and, as our contracts generally provide us with the right to payment for work completed to date, we recognize revenue as we perform, or “over time”, on most of our contracts. We measure our performance to date using an input method, which is based on our estimated costs to complete the various manufacturing phases of a photomask. At the end of a reporting period, there are a number of uncompleted revenue contracts on which we have performed; for any such contracts under which we are entitled to be compensated for our costs incurred plus a reasonable profit, we recognize revenue and a corresponding contract asset for such performance. We account for shipping and handling activities that we perform after a customer obtains control of a good as being activities to fulfill our promise to transfer the good to the customer, rather than as promised services, or performance obligations, under the contract. We report our revenue net of any sales or similar taxes we collect on behalf of government entities.

As stated above, photomasks are manufactured to customer specifications in accordance with their proprietary designs; thus, they are individually unique. Due to their uniqueness and other factors, their transaction prices are individually established through negotiations with customers; consequently, our photomasks do not have standard or “list” prices. The transaction prices of the vast majority of our revenue contracts include only fixed amounts of consideration. In certain instances, such as when we offer a customer an early payment discount, an estimate of variable consideration would be included in the transaction price, but only to the extent that a significant reversal of revenue would not occur when the uncertainty related to the variability was resolved.

Contract Assets, Contract Liabilities, and Accounts Receivable

We recognize a contract asset when our performance under a contract precedes our receipt of consideration from a customer, or before payment is due, and our receipt of consideration is conditional upon factors other than the passage of time. Contract assets reflect our transfer of control of photomasks that are in process or completed but not yet shipped to customers. A receivable is recognized when we have an unconditional right to payment for our performance, which generally occurs when we ship the photomasks. Our contract assets primarily consist of a significant amount of our in-process production orders and fully manufactured photomasks which have not yet shipped, for which we have an enforceable right to collect consideration (including a reasonable profit) in the event the in-process orders are cancelled by customers. On an individual contract basis, we net contract assets with contract liabilities (deferred revenue) for financial reporting purposes. We did not identify impairment indicators for any outstanding contract assets during the three or nine-month periods ended July 30, 2023, or July 31, 2022.

The following table provides information about our contract balances at the balance sheet dates.

Classification	July 30, 2023	October 31, 2022
Contract Assets		
Other current assets	$ 15,610	$ 15,752
Contract Liabilities		
Accrued liabilities	$ 17,069	$ 18,872
Other liabilities	12,019	4,989
	$ 29,088	$ 23,861

The following table presents revenue recognized from contract liabilities that existed at the beginning of the reporting periods.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Revenue recognized from beginning liability	$ 10,755	$ 5,398	$ 10,524	$ 7,818

We generally record our accounts receivable at their billed amounts. All outstanding past due customer invoices are reviewed for collectability during, and at the end of, every reporting period. To the extent we believe a loss on the collection of a customer invoice is probable, we record the loss and credit an allowance for credit losses. In the event that an amount is determined to be uncollectible, we charge the allowance for credit losses and derecognize the related receivable. We incurred credit losses on our accounts receivable of $0.1 million during the three and nine-month periods ended July 30, 2023, and there were no charges for the three and nine-month periods ended July 31, 2022.

Our invoice terms generally range from net-thirty to ninety days, depending on both the geographic market in which the transaction occurs and our payment agreements with specific customers. In the event that our evaluation of a customer's business prospects, and financial condition indicate that the customer presents a collectability risk, we modify terms of sale, which may require payment in advance of performance. At the time of adoption, we elected the practical expedient allowed under ASC Topic 606 "Revenue from Contracts with Customers" ("Topic 606") that permits us not to adjust a contract's promised amount of consideration to reflect a financing component when the period between when we transfer control of goods or services to customers and when we are paid is one year or less.

In instances when we are paid in advance of our performance, we record a contract liability and, as allowed under the practical expedient in Topic 606, recognize interest expense only if the period between when we receive payment from the customer and the date when we expect to be entitled to the payment is greater than one year. Historically, advance payments we have received from customers have generally not preceded the completion of our performance obligations by more than one year.

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Disaggregation of Revenue

The following tables present our revenue for the three and nine-month periods ended July 30, 2023, and July 31, 2022, disaggregated by product type, geographic origin, and timing of recognition.

	Three Months Ended		Nine Months Ended	
Revenue by Product Type	**July 30, 2023**	**July 31, 2022**	**July 30, 2023**	**July 31, 2022**
IC				
High-end	$ 45,324	$ 52,698	$ 137,247	$ 150,983
Mainstream	117,816	108,555	349,536	285,829
Total IC	$ 163,140	$ 161,253	$ 486,783	$ 436,812
FPD				
High-end	$ 49,981	$ 50,693	$ 147,560	$ 143,579
Mainstream	11,085	8,002	30,260	33,892
Total FPD	$ 61,066	$ 58,695	$ 177,820	$ 177,471
	$ 224,206	$ 219,948	$ 664,603	$ 614,283

	Three Months Ended		Nine Months Ended	
Revenue by Geographic Origin	**July 30, 2023**	**July 31, 2022**	**July 30, 2023**	**July 31, 2022**
Taiwan	$ 81,594	$ 77,379	$ 237,610	$ 215,071
China	62,042	60,524	186,191	160,169
Korea	40,833	37,895	120,037	118,178
United States	29,696	34,685	92,073	92,196
Europe	9,535	8,932	27,257	27,352
Other	506	533	1,435	1,317
	$ 224,206	$ 219,948	$ 664,603	$ 614,283

	Three Months Ended		Nine Months Ended	
Revenue by Timing of Recognition	**July 30, 2023**	**July 31, 2022**	**July 30, 2023**	**July 31, 2022**
Over time	$ 214,647	$ 202,693	$ 627,188	$ 565,726
At a point in time	9,559	17,255	37,415	48,557
	$ 224,206	$ 219,948	$ 664,603	$ 614,283

Contract Costs

We pay commissions to third-party sales agents for certain sales they procure on our behalf. However, the bases of the commissions are the transaction prices of the sales, which are completed in less than one year; thus, no relationship is established with a customer that will result in future business. Therefore, we do not recognize any portion of these sales commissions as costs of obtaining a contract, nor do we currently foresee other circumstances under which we would recognize contract obtainment costs as assets.

Remaining Performance Obligations

As we are typically required to fulfill customer orders within a short period of time, our backlog of orders has historically been two to three weeks for FPD photomasks and one to two weeks for IC photomasks. However, the demand for some IC photomasks has expanded beyond the industry's capacity to supply them within the traditional time period; thus, the backlog, in some cases, can expand to as long as two to three months. As allowed under Topic 606, we have elected not to disclose our remaining performance obligations, which represent the costs associated with the completion of the manufacturing process of in-process photomasks related to contracts that have an original duration of one year or less.

Product Warranties

Our photomasks are sold under warranties that generally range from one to twenty-four months. We warrant that our photomasks conform to customer specifications and will typically repair, replace, or issue a refund for any photomasks that fail to do so. The warranties do not represent separate performance obligations in our revenue contracts. Historically, customer claims under warranties have been immaterial.

NOTE 8 - SHARE-BASED COMPENSATION

In March 2016, shareholders approved our current equity incentive compensation plan (the "Plan"), under which incentive stock options, non-qualified stock options, stock grants, stock-based awards, restricted stock, restricted stock units, stock appreciation rights, performance units, performance stock, and other stock or cash awards may be granted. Shares to be issued under the Plan may be authorized and unissued shares, issued shares that have been reacquired by us (in the open market or in private transactions), or a combination thereof. The maximum number of shares of common stock approved that may be issued under the Plan was four million shares. On March 16, 2023, at its annual meeting of shareholders, the shareholders of Photronics, Inc., approved amendments to the Plan to increase the number of shares available for issuance by an additional one million shares, thereby increasing the shares available for issuance under the Plan from four million to five million. Awards may be granted to officers, employees, directors, consultants, advisors, and independent contractors of Photronics or its subsidiaries. In the event of a change in control (as defined in the Plan), the vesting of awards may be accelerated. The Plan, aspects of which are more fully described below, prohibits further awards from being issued under prior plans. The table below presents information on our share-based compensation expenses for the three and nine-month periods ended July 30, 2023, and July 31, 2022.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Expense reported in:				
Cost of goods sold	$ 322	$ 303	$ 892	$ 628
Selling, general, and administrative	1,499	1,115	4,407	3,539
Research and development	222	163	575	456
Total expense incurred	$ 2,043	$ 1,581	$ 5,874	$ 4,623
Expense by award type:				
Restricted stock awards	$ 2,043	$ 1,506	$ 5,782	$ 4,189
Stock options	-	20	1	279
Employee stock purchase plan	-	55	91	155
Total expense incurred	$ 2,043	$ 1,581	$ 5,874	$ 4,623
Income tax benefits of share-based compensation	$ 152	$ 135	$ 513	$ 323
Share-based compensation cost capitalized	$ -	$ -	$ -	$ -

Restricted Stock Awards

We periodically grant restricted stock awards, the restrictions on which typically lapse over a service period of one to four years. The fair value of the awards is determined on the date of grant, based on the closing price of our common stock. The table below presents information on our restricted stock awards for the three and nine-month periods ended July 30, 2023, and July 31, 2022.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Number of shares granted in period	-	107,824	786,500	643,224
Weighted-average grant-date fair value of awards (in dollars per share)	$ -	$ 15.95	$ 16.77	$ 18.72
Compensation cost not yet recognized	$ 14,511	$ 10,256	$ 14,511	$ 10,256
Weighted-average amortization period for cost not yet recognized (in years)	2.9	2.8	2.9	2.8
Shares outstanding at balance sheet date	1,267,247	916,554	1,267,247	916,554

Stock Options

Option awards generally vest in one to four years and have a ten-year contractual term. All incentive and non-qualified stock option grants must have an exercise price no less than the market value of the underlying common stock on the date of grant. The grant-date fair values of options are based on closing prices of our common stock on the dates of grant and are calculated using the Black-Scholes option pricing model. Expected volatility is based on the historical volatility of our common stock. We use historical option exercise behavior and employee termination data to estimate expected term, which represents the period of time that options are expected to remain outstanding. The risk-free rate of return for the estimated term of an option is based on the U.S. Treasury yield curve in effect at the date of grant. The table below presents information on our stock options for the three and nine-month periods ended July 30, 2023, and July 31, 2022.

	Three Months Ended				Nine Months Ended			
	July 30, 2023		July 31, 2022		July 30, 2023		July 31, 2022	
Number of options granted in period		-		-		-		-
Cash received from options exercised	$	512	$	1,007	$	1,094	$	5,157
Compensation cost not yet recognized	$	-	$	33	$	-	$	33
Weighted-average amortization period for cost not yet recognized (in years)		-		0.5		-		0.5

Information on outstanding and exercisable option awards as of July 30, 2023, is presented below.

Options	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)		Aggregate Intrinsic Value
Outstanding and exercisable at July 30, 2023	473,300	$	10.17	2.80	$	7,600

NOTE 9 - INCOME TAXES

We calculate our provision for income taxes at the end of each interim reporting period on the basis of an estimated annual effective tax rate adjusted for tax items that are discrete to each period. The table below sets forth the primary reasons that our effective income tax rates differed from the U.S. statutory tax rates in effect during the three and nine-month periods ended July 30, 2023, and July 31, 2022.

Reporting Period	U.S. Statutory Tax Rates	Photronics Effective Tax Rates	Primary Reasons for Differences
Three months ended July 30, 2023	21.0%	25.0%	Non-recognition of the tax benefit of losses that, in certain jurisdictions, have been offset by valuation allowances, non-U.S. pre-tax income being taxed at higher statutory rates in the non-U.S. jurisdictions, and the establishment of uncertain tax positions in non-U.S. jurisdiction.
Three months ended July 31, 2022	21.0%	26.9%	Non-recognition of the tax benefit of losses that, in certain jurisdictions, have been offset by valuation allowances, non-U.S. pre-tax income being taxed at higher statutory rates in the non-U.S. jurisdictions, and the establishment of uncertain tax positions in non-U.S. jurisdiction.
Nine Months ended July 30, 2023	21.0%	26.8%	Non-recognition of the tax benefit of losses that, in certain jurisdictions, have been offset by valuation allowances, non-U.S. pre-tax income being taxed at higher statutory rates in the non-U.S. jurisdictions, and the establishment of uncertain tax positions in non-U.S. jurisdiction.
Nine Months ended July 31, 2022	21.0%	26.1%	Non-recognition of the tax benefit of losses that, in certain jurisdictions, have been offset by valuation allowances, non-U.S. pre-tax income being taxed at higher statutory rates in the non-U.S. jurisdictions, and the establishment of uncertain tax positions in non-U.S. jurisdiction.

Uncertain Tax Positions

We include unrecognized tax benefits in *Other liabilities*, and we include any applicable interests and penalties related to uncertain tax positions in our income tax provision. Although the timing of reversal of uncertain tax positions may be uncertain, as they can be dependent upon the settlement of tax audits, we believe that the amount of uncertain tax positions (including interest and penalties, and net of tax benefits) that may be resolved over the next twelve months is immaterial. Resolution of these uncertain tax positions may result from either or both the lapses of statutes of limitations and tax settlements. We are no longer subject to tax authority examinations in the U.S., major foreign, or state tax jurisdictions for years prior to fiscal year 2017. The table below presents information on our unrecognized tax benefits as of the balance sheet dates.

	July 30, 2023		October 31, 2022	
Unrecognized tax benefits related to uncertain tax positions	$	7,927	$	5,599
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	$	7,927	$	5,599
Accrued interest and penalties related to uncertain tax positions	$	625	$	395

NOTE 10 - EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are presented below.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Net income attributable to Photronics, Inc. shareholders	$ 26,959	$ 31,230	$ 80,874	$ 81,726
Effect of dilutive securities	-	-	-	-
Earnings used for diluted earnings per share	$ 26,959	$ 31,230	$ 80,874	$ 81,726
Weighted-average common shares computations:				
Weighted-average common shares used for basic earnings per share	61,233	60,701	61,089	60,488
Effect of dilutive securities:				
Share-based payment awards	741	598	561	639
Potentially dilutive common shares	741	598	561	639
Weighted-average common shares used for diluted earnings per share	61,974	61,299	61,650	61,127
Basic earnings per share	$ 0.44	$ 0.51	$ 1.32	$ 1.35
Diluted earnings per share	$ 0.44	$ 0.51	$ 1.31	$ 1.34

The table below illustrates the outstanding weighted-average share-based payment awards that were excluded from the calculation of diluted earnings per share because their exercise price exceeded the average market value of the common shares for the period or, under application of the treasury stock method, they were otherwise determined to be antidilutive.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Share-based payment awards	-	1	178	418
Total potentially dilutive shares excluded	-	1	178	418

NOTE 11 - COMMITMENTS AND CONTINGENCIES

As of July 30, 2023, we had commitments outstanding for capital expenditures of approximately $118.0 million, primarily for purchases of high-end equipment.

In May 2022, we were informed of a customs audit in one of our China operations. We estimated a contingency ranging from $2.2 million to $3.7 million, which included unpaid additional customs duties and related interest and penalties for the previous three years (the period under audit). In the three and nine-month periods ended July 31, 2022, we recorded a contingent loss of $2.2 million, as we believed this was the most likely outcome. The $2.2 million amount was recorded with a charge to *Cost of goods sold* in the condensed consolidated statements of income and *Accrued liabilities* in the condensed consolidated balance sheets. In November 2022, upon settlement of the audit, we reversed $1.0 million of the accrual.

We are subject to various other claims that arise in the ordinary course of business. We believe that our potential liability under such claims, individually or in the aggregate, will not have a material effect on our consolidated financial statements.

NOTE 12 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME BY COMPONENT

The following tables set forth the changes in our accumulated other comprehensive (loss) income by component (net of tax of $0) for the three and nine-month periods ended July 30, 2023, and July 31, 2022.

	Three Months Ended July 30, 2023		
	Foreign Currency Translation Adjustments	Other	Total
Balance at April 30, 2023	$ (58,790)	$ (715)	$ (59,505)
Other comprehensive (loss) income	(3,639)	80	(3,559)
Other comprehensive (loss) income attributable to noncontrolling interests	7,293	(24)	7,269
Balance at July 30, 2023	$ (55,136)	$ (659)	$ (55,795)

	Three Months Ended July 31, 2022		
	Foreign Currency Translation Adjustments	Other	Total
Balance at May 1, 2022	$ (22,097)	$ (822)	$ (22,919)
Other comprehensive (loss) income	(22,136)	61	(22,075)
Other comprehensive (loss) income attributable to noncontrolling interests	4,215	(30)	4,185
Balance at July 31, 2022	$ (40,018)	$ (791)	$ (40,809)

	Nine Months Ended July 30, 2023		
	Foreign Currency Translation Adjustments	Other	Total
Balance at October 31, 2022	$ (97,790)	$ (666)	$ (98,456)
Other comprehensive income	47,068	91	47,159
Other comprehensive (loss) attributable to noncontrolling interests	(4,414)	(84)	(4,498)
Balance at July 30, 2023	$ (55,136)	$ (659)	$ (55,795)

	Nine Months Ended July 31, 2022		
	Foreign Currency Translation Adjustments	Other	Total
Balance at October 31, 2021	$ 21,476	$ (905)	$ 20,571
Other comprehensive (loss) income	(76,086)	229	(75,857)
Other comprehensive (loss) income attributable to noncontrolling interests	14,592	(115)	14,477
Balance at July 31, 2022	$ (40,018)	$ (791)	$ (40,809)

NOTE 13 - FAIR VALUE MEASUREMENTS

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

The fair values of our cash and certain cash equivalents (Level 1 measurements), accounts receivable, accounts payable, and certain other current assets and current liabilities (Level 2 measurements) approximate their carrying values due to their short-term maturities. The fair values of our Short-term investments are Level 1 measurements. (Please refer to “Investments” within Note 2 for additional fair value information on our Short-term investments.) The fair values of certain cash equivalents are Level 2 measurements that are provided by independent third-party pricing services or other independent entities, which may use matrix pricing, valuation models, or other methods which utilize observable market data. The fair values of our variable-rate debt instruments are Level 2 measurements and approximate their carrying values due to the variable nature of their underlying interest rates. Other than our Short-term investments, we did not have any assets or liabilities measured at fair value, on a recurring or a nonrecurring basis, at July 30, 2023, or October 31, 2022.

NOTE 14 - SHARE REPURCHASE PROGRAMS

In September 2020, the Company's board of directors authorized the repurchase of up to $100 million of its common stock, pursuant to a repurchase plan under Rule 10b5-1 of the Securities Act. We commenced repurchasing shares under this authorization on September 16, 2020. All of the shares repurchased under this authorization prior to January 30, 2022, have been retired prior to that date. As of July 30, 2023, $31.7 million was available under this authorization for the purchase of additional shares. The table below presents information on this repurchase program for the three and nine-month periods ended July 30, 2023, and July 31, 2022.

	Three Months Ended		Nine Months Ended	
	July 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Number of shares repurchased	-	-	-	188
Cost of shares repurchased	$ -	$ -	$ -	$ 2,522
Average price paid per share	$ -	$ -	$ -	$ 13.43

NOTE 15 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Updates to be Adopted

In November 2021, the FASB issued ASU 2021-10, "Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance", to increase the transparency of government assistance including the disclosure of the types of assistance an entity receives, an entity's method of accounting for government assistance, and the effect of the assistance on an entity's financial statements. The guidance in this Update will be effective for Photronics in its fiscal year 2023 Form 10-K, with early application of the amendments allowed. The amendments are to be applied prospectively to all transactions within the scope of the amendments that are reflected in financial statements at the date of initial application and new transactions that are entered into after the date of initial application or, retrospectively to those transactions. We are currently evaluating the effect the adoption of this ASU may have on our disclosures.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting", which provides optional expedients and exceptions to applying the guidance on contract modifications, hedge accounting, and other transactions, to simplify the accounting for transitioning from LIBOR, and other interbank offered rates expected to be discontinued, to alternative reference rates. The guidance in this Update was effective upon its issuance; if elected, it is to be applied prospectively through December 31, 2022. We are currently evaluating the effect the potential adoption of this ASU may have on our consolidated financial statements.

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

Overview

Management's discussion and analysis (“MD&A”) of the Company's financial condition and results of operations should be read in conjunction with its condensed consolidated financial statements and related notes. Various sections of this MD&A contain forward-looking statements, all of which are presented based on current expectations, which may be adversely affected by uncertainties and risk factors (presented throughout this filing and in the Company's Form 10-K for fiscal year 2022), that may cause actual results to materially differ from these expectations. See “Forward-Looking Statements”.

We sell substantially all of our photomasks to semiconductor designers and manufacturers, and manufacturers of FPDs. Photomask technology is also being applied to the fabrication of other higher-performance electronic products such as photonics, microelectronic mechanical systems, and certain nanotechnology applications. Our selling cycle is tightly interwoven with the development and release of new semiconductor and display designs and applications, particularly as they relate to the semiconductor industry's migration to more advanced product innovation, design methodologies, and fabrication processes. The demand for photomasks primarily depends on design activity rather than sales volumes from products manufactured using photomask technologies. Consequently, an increase in semiconductor or display sales does not necessarily result in a corresponding increase in photomask sales. However, the reduced use of customized ICs, reductions in design complexity, other changes in the technology or methods of manufacturing or designing semiconductors, or a slowdown in the introduction of new semiconductor or display designs could reduce demand for photomasks – even if the demand for semiconductors and displays increases. Advances in semiconductor, display, and photomask design and production methods that shift the burden of achieving device performance away from lithography could also reduce the demand for photomasks. Historically, the microelectronics industry has been volatile, experiencing periodic downturns and slowdowns in design activity. These negative trends have been characterized by, among other things, diminished product demand, excess production capacity, and accelerated erosion of selling prices, with a concomitant effect on revenue and profitability.

We are typically required to fulfill customer orders within a short period of time, sometimes within twenty-four hours. This results in a minimal level of backlog, typically two to three weeks of backlog for FPD photomasks and one to two weeks for IC photomasks. However, the demand for some IC photomasks has expanded beyond the industry’s capacity to supply them within the traditional time period; thus, for some products, the backlog can expand to as long as two to three months.

The global semiconductor and FPD industries are driven by end markets which have been closely tied to consumer-driven applications of high-performance devices, including, but not limited to, mobile display devices, mobile communications, and computing solutions. While we 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, we believe that such transitions and cycles will continue into the future, beneficially and adversely affecting our business, financial condition, and operating results as they occur. We believe our ability to remain successful in these environments is dependent upon the achievement of our goals of being a service and technology leader and efficient solutions supplier, which we believe should enable us to continually reinvest in our global infrastructure.

Impact of the COVID-19 Pandemic

All of our facilities have continued to operate throughout the COVID-19 pandemic. However, since shortly after it was first identified near the end of calendar year 2019, the pandemic has had an impact on our business in a number of ways including customer shutdowns, which led to delays in new photomask design releases, and travel restrictions, which delayed tool installations and servicing. To date, we have not experienced significant raw material shortages; however, supply-chain disruptions could potentially delay or prevent us from fulfilling customer orders.

At certain facilities, employees not required to be on-site to maintain production have worked remotely at various times – either at our discretion or due to government mandates. The implementation of these measures has not materially affected our operations.

Results of Operations
Three Months Ended July 30, 2023

The following table presents selected operating information expressed as a percentage of revenue. The columns may not foot due to rounding.

	Three Months Ended			Nine Months Ended	
	July 30, 2023	April 30, 2023	July 31, 2022	July 30, 2023	July 31, 2022
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	61.3	61.4	61.9	62.2	65.2
Gross profit	38.7	38.6	38.1	37.8	34.8
Operating expenses:					
Selling, general, and administrative	8.0	7.8	7.3	7.9	7.9
Research and development	1.6	1.5	1.9	1.5	2.3
Operating income	29.1%	29.2%	29.0%	28.3%	24.6%
Other operating expense, net	-0.4	5.9	1.7	-0.3	2.7
Income before income tax provision	28.7	35.2	30.6	28.1	27.3
Income tax provision	7.2	9.3	8.3	7.5	7.1
Net income	21.5	25.8	22.4	20.5	20.2
Net income attributable to noncontrolling interests	9.5	8.4	8.2	8.4	6.9
Net income attributable to Photronics, Inc. shareholders	12.0%	17.4%	14.2%	12.2%	13.3%

Note: All tabular comparisons included in the following discussion, unless otherwise indicated, are for the three months ended July 30, 2023 (Q3 FY23), April 30, 2023 (Q2 FY23), and July 31, 2022 (Q3 FY22), and for the Nine Months ended July 30, 2023 (YTD FY23) and July 31, 2022 (YTD FY22), in millions of dollars. The columns may not foot due to rounding.

Revenue

Our quarterly revenues can be affected by the seasonal purchasing practices of our customers. As a result, demand for our products is typically reduced during the first quarter of our fiscal year by the North American, European, and Asian holiday periods, as some of our customers reduce their development and, consequently, their buying activities during those periods.

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The following tables present changes in disaggregated revenue in Q3 FY23 and YTD FY23 from revenue in prior reporting periods.

Quarterly Changes in Revenue by Product Type

	Q3 FY23 compared with Q2 FY23			Q3 FY23 compared with Q3 FY22		YTD FY23 from YTD FY22		
	Revenue in Q3 FY23	**Increase (Decrease)**	**Percent Change**	**Increase (Decrease)**	**Percent Change**	**Revenue in YTD FY23**	**Increase (Decrease)**	**Percent Change**
IC								
High-end *	$ 45.3	$ 1.4	3.2%	$ (7.4)	-14.0%	$ 137.2	$ (13.7)	-9.1%
Mainstream	117.8	(5.3)	-4.3%	9.3	8.5%	349.5	63.7	22.3%
Total IC	$ 163.1	$ (3.9)	-2.3%	$ 1.9	1.2%	486.7	$ 50.0	11.4%
FPD								
High-end *	$ 50.0	$ (1.9)	-3.7%	$ (0.7)	-1.4%	$ 147.6	$ 4.0	2.8%
Mainstream	11.1	0.7	7.0%	3.1	38.5%	30.3	(3.6)	-10.7%
Total FPD	$ 61.1	$ (1.2)	-1.9%	$ 2.4	4.0%	$ 177.9	$ 0.4	0.2%
Total Revenue	$ 224.2	$ (5.1)	-2.2%	$ 4.3	1.9%	$ 664.6	$ 50.3	8.2%

* High-end photomasks typically have higher average selling prices (ASPs) than mainstream products.

*Quarterly Changes in Revenue by Geographic Origin***

	Q3 FY23 compared with Q2 FY23			Q3 FY23 compared with Q3 FY22		YTD FY23 from YTD22		
	Revenue in Q3 FY23	**Increase (Decrease)**	**Percent Change**	**Increase (Decrease)**	**Percent Change**	**Revenue in YTD FY23**	**Increase (Decrease)**	**Percent Change**
Taiwan	$ 81.6	$ 1.1	1.4%	$ 4.2	5.4%	$ 237.6	$ 22.5	10.5%
China	62.0	(3.2)	-4.9%	1.5	2.5%	186.2	26.0	16.2%
Korea	40.8	(0.5)	-1.3%	3.0	7.8%	120.0	1.9	1.6%
United States	29.7	(2.8)	-8.6%	(5.0)	-14.4%	92.1	(0.1)	-0.1%
Europe	9.6	0.3	2.8%	0.6	6.8%	27.3	(0.1)	-0.3%
Other	0.5	-	1.2%	-	-5.1%	1.4	0.1	9.0%
	$ 224.2	$ (5.1)	-2.2%	$ 4.3	1.9%	$ 664.6	$ 50.3	8.2%

** This table disaggregates revenue by the location in which it was earned.

Revenue in Q3 FY23 was $224.2 million, representing a decrease of 2.2% compared with Q2 FY23 and an increase of 1.9% from Q3 FY22.

IC photomask revenue decreased by 2.3% compared with Q2 FY23. The decrease from Q2 FY 23 was primarily the result of reduced mainstream demand in Asia. IC Photomask revenue increased 1.2% and 11.4% from Q3 FY22 and on a YTD basis. These increases were driven by continued strong demand in Asia, and favorable pricing, resulting from robust design activity for mainstream products used for computer chips in the production of consumer goods, products considered part of the “internet-of-things”, 5G wireless technology applications, and cryptocurrency mining.

FPD revenue decreased 1.9% compared with Q2FY23. The decrease from Q2 FY23 was due to reduced high end demand, particularly from G10.5+ and LTPS Photomasks, more than offsetting continued strength in AMOLED demand. FPD revenue increased 4.0% from Q3 FY22 due to increased mainstream demand. High-end demand softened, as AMOLED growth was offset by G10.5%+ and LTPS photomasks. On a YTD basis, FPD increased 0.2% as demand for high-end photomasks specifically AMOLED, exceeded softness in mainstream. We believe that strong demand for AMOLED photomasks will continue, as expected technology advances drives increasing overall demand for higher-value masks.

Gross Margin

	Q3 FY23	Q2 FY23	Percent Change	Q3 FY22	Percent Change	YTD FY23	YTD FY22	Percent Change
Gross profit	$ 86.8	$ 88.4	-1.8%	$ 83.9	3.5%	251.3	213.9	17.5%
Gross margin	38.7%	38.6%		38.1%		37.8%	34.8%	

Gross margin increased 10 basis points in Q3 FY23, from Q2 FY23. Material costs decreased 3.4% from the prior quarter, and, as a percentage of revenue, by 29 basis points. Labor cost decreased 1.8% from the prior quarter, but, as a percentage of revenue, increased by 5 basis points. Equipment and other overhead costs decreased 1.9% but increased 8 basis points as a percentage of revenue.

Gross margin increased 60 basis points, in Q3 FY23, from Q3 FY22, primarily as a result of the increase in revenue from the prior year quarter and favorable product mix. Material costs decreased 1.8% from the prior year quarter, and decreased as a percentage of revenue by 89 basis points. Labor and benefits costs increased 7.8% from the prior year quarter, and increased, as a percent of revenue, by 60 basis points as labor increased in both the U.S. and at several Asia-based facilities, reflecting labor market conditions. Equipment and other overhead costs increased 0.8% but decreased 30 basis points as a percentage of revenue. Increased utilities, equipment service contract costs and importation costs, partially offset by decreased WIP, were the most significant contributors to the net increase in equipment and other overhead costs.

Gross margin increased by 3.0 percentage points in YTD FY23, from YTD FY22, primarily as a result of the increase in revenue from the prior year and favorable product mix. Material costs increased 0.2% from YTD FY22, but decreased 190 basis points, as a percentage of revenue. Labor costs increased 11.5% from YTD FY22 and increased 34 basis points as a percentage of revenue. The increase was primarily the result of increased labor cost in Asia. Equipment and other overhead costs rose 2.8%, but decreased 143 basis points, as a percentage of revenue. Increased WIP and reduced R&D reclassification costs, partially offset by decreased importation costs, Outsourced manufacturing, and depreciation expense, were the most significant contributors to the net increase in equipment and other overhead costs.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses were $18.0 million in Q3 FY23, compared with $17.9 million in Q2 FY23. The increase of $0.1 million was primarily the result of increased compensation and related expenses of $1.0 million which was offset by decreases in professional fees of $0.5 million. Selling, general, and administrative expenses increased $2.0 million in Q3 FY23, from $16.0 million in Q3 FY22, primarily as a result of increased compensation and related expenses of $2.0 million.

Selling, general, and administrative expenses increased $4.4 million in YTD FY23 to $52.7 million, compared with $48.3 million in YTD FY22. The increase was driven by the results of increased compensation and related expense of $3.1 million and increased professional fees of $1.1 million.

Research and Development Expenses

Research and development expenses, which primarily consist of development and qualification efforts related to process technologies for high-end IC and FPD applications, were $3.5 million in Q3 FY23, $3.5 million in Q2 FY23, and $4.2 million in Q3 FY22. Research and development expenses remained flat compared to Q2 FY23 and decreased compared to Q3 FY22 as a result of less development activities in the U.S.

Research and development expenses decreased by $4.0 million in YTD FY 23 to $10.3 million, compared with $14.3 million in YTD FY22. The decrease was driven by less development activities in the U.S.

Non-operating Income (Expense)

	Q3 FY23	Q2 FY23	Q3 FY22	YTD FY23	YTD FY22
Foreign currency transactions impact, net	$ (4.5)	$ 10.7	$ 3.8	$ (10.8)	$ 17.0
Interest expense, net	(0.1)	(0.1)	(0.6)	(0.3)	(1.5)
Interest income and other income (expense), net	3.7	3.0	0.4	9.3	0.9
Non-operating income (expense), net	$ (0.9)	$ 13.6	$ 3.6	$ (1.8)	$ 16.4

Non-operating income (expense) decreased $14.5 million to $(0.9) million in Q3 FY23, compared with $13.6 million in Q2 FY23, primarily due to foreign currency transactions impact, net, driven by unfavorable movements of the South Korean won and the RMB against the U.S. dollar. Non-operating income (expense) decreased $4.5 million from Q3 FY22, primarily due to foreign currency transaction impact, net, driven by unfavorable movements of the South Korean won and RMB against the U.S. dollar.

Interest income and other income (expense), net, increased to $3.7 million in Q3 FY23, compared with $3.0 million in Q2 FY23, and $0.4 million in Q3 FY22 driven by an increase in cash invested and higher interest rates.

Non-operating income (expense) decreased $18.1 million to $(1.8) million in YTD FY23, compared with $16.4 million in YTD FY22, primarily due to foreign currency transactions impact, net, driven by unfavorable movements of the South Korean won and the New Taiwan dollar against the U.S. dollar.

Interest income and other income (expense), net, increased to $9.3 million in YTD FY23, compared with $0.9 million in YTD FY22, primarily due to an increase in cash invested and higher interest rates.

Income Tax Provision

	Q3 FY23	Q2 FY23	Q3 FY22	YTD FY23	YTD FY22
Income tax provision	$ 16.1	$ 21.3	$ 18.1	$ 50.0	$ 43.7
Effective income tax rate	25.0%	26.5%	26.9%	26.8%	26.1%

The effective income tax rate is sensitive to the jurisdictional mix of earnings, due in part to the non-recognition of tax benefits on losses in jurisdictions with valuation allowances where the tax benefits of the losses are not available.

The effective income tax rate decrease in Q3 FY23, compared with Q2 FY23 and Q3 FY22 is primarily due to changes in the jurisdictional mix of earnings and a decrease in foreign taxes in Q3 FY23.

The effective income tax rate increase in YTD FY23 compared with YTD FY22, is primarily due to changes in the jurisdictional mix of earnings and an increase in foreign taxes in Q2 FY23.

Provisions enacted in the Tax Cuts and Jobs Act of 2017 (“TCJA”) include requiring the capitalization for tax purposes of research and experimental expenditures and became effective for tax years beginning our fiscal year 2023. We have implemented this change and will continue to stay up-to-date with guidance that could impact interpretation of the law.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $21.3 million in Q3 FY23, compared with $19.3 million in Q2 FY23, and $18.0 million in Q3 FY22. The increases from Q3 FY22 to Q3 FY23 resulted from increased net income at our Taiwan-based and China-based IC joint ventures.

Liquidity and Capital Resources

Cash and cash equivalents were $448.5 million and $319.7 million as of July 30, 2023, and October 31, 2022, respectively. As of the most recent balance sheet date, total cash and cash equivalents included $429.9 million held by foreign subsidiaries. Net Cash, a non-GAAP financial measure as defined and discussed in the *Non-GAAP Financial Measures* section below, was $421.8 million and $277.4 million as of July 30, 2023, and October 31, 2022, respectively. Our primary sources of liquidity are our cash on hand, cash we generate from operations, and borrowing capacity we have available from financial institutions. Our corporate credit agreement has a $50 million borrowing limit, with an expansion capacity to $100 million. Although we have not accessed funds under our corporate credit facilities since 2011, it continues to afford us financial flexibility. In addition, in China, we currently have approximately $25.0 million of borrowing capacity to support local operations. See Note 6 to the condensed consolidated financial statements for additional information on our currently available financing.

We continually evaluate alternatives for efficiently funding our capital expenditures and ongoing operations. These reviews may result in our engagement in a variety of investing and financing transactions, in the transfer of cash among subsidiaries, and/or the repatriation of cash to the U.S. The transfer of funds among subsidiaries could be subject to foreign withholding taxes; in certain jurisdictions, repatriation of these funds to the U.S. may subject them to U.S. state income taxes and/or local country withholding taxes. We believe that our liquidity, including available financing, is sufficient to meet our requirements through the next twelve months and thereafter for the foreseeable future. Through the utilization of our existing liquidity, cash we generate from operations, short-term investments, and (potentially) our borrowing capacity under our financing arrangements, we plan to continue to invest in our business, with our investments targeted to align with our customers' technology road maps. We may also elect to use our cash to reduce our debt through early repayments. In addition, we stand ready to invest in mergers, acquisitions, or strategic partnerships, should a suitable opportunity arise.

We estimate capital expenditures for full year FY23 will be approximately $130.0 million; these investments will be targeted towards high-end and mainstream IC capacity and efficiency, and enable us to support our customers' near-term demands. As of July 30, 2023, we had outstanding capital commitments of approximately $118.0 million and recognized liabilities related to capital equipment purchases of approximately $23.5 million. Although payment timing could vary, primarily as a result of the timing of tool delivery, installation, and testing, we currently estimate that we will fund $120.3 million of our total $141.5 million committed and recognized obligations for capital expenditures over the next twelve months. Please refer to Note 6 to the condensed consolidated financial statements for information on our outstanding debt.

In September 2020, the Company's board of directors authorized the repurchase of up to $100 million of its common stock, pursuant to a repurchase plan under Rule 10b5-1 of the Securities Act. This authorization does not obligate the Company to repurchase any dollar amount or number of shares of common stock. As of July 30, 2023, our current share repurchase program had approximately $31.7 million remaining under its authorization. Depending on market conditions, we may utilize some or the entire remaining approved amount to reacquire additional shares. On August 16, 2022, the Inflation Reduction Act ("IRA") was enacted in the U.S. Among other provisions, the IRA included a one percent excise tax on corporate share repurchases. The one percent excise tax on share repurchases applies to shares repurchased after December 31, 2022, and excludes repurchases under $1 million. We do not anticipate that the IRA will have a material effect on our liquidity.

As discussed in Note 5 to the condensed consolidated financial statements, DNP, the noncontrolling interest in our China-based joint venture has, under certain circumstances, the right to put its interest in the joint venture to Photronics, or to purchase our interest in the joint venture. Under all such circumstances, the sale of DNP's interest would be at its ownership percentage of the joint venture's net book value, with closing to take place within three business days of obtaining required approvals and clearance. As of the date of issuance of this report, DNP had not indicated its intention to exercise this right. As of July 30, 2023, Photronics and DNP each had net investments in this joint venture of approximately $114.3 million.

Cash Flows

	YTD FY23	YTD FY22
Net cash provided by operating activities	$ 195.6	$ 195.9
Net cash used in investing activities	$ (64.2)	$ (45.1)
Net cash used in financing activities	$ (16.4)	$ (25.4)

Operating Activities: *Net cash provided by operating activities* reflects net income adjusted for certain non-cash items, including depreciation and amortization, share-based compensation, and the impacts of cash from changes in operating assets and liabilities. Net cash provided by operating activities remained nearly unchanged in YTD FY23, compared with YTD FY22.

Free Cash Flow, which is a non-GAAP financial measure as discussed in the “Non-GAAP Financial Measures” section below, decreased by $32.8 million compared with YTD FY22, primarily due to the increase in spending on property, plant, and equipment.

Investing Activities: *Net cash flows used in investing activities* primarily consisted of purchases of property, plant, and equipment of $78.8 million, which increased $32.5 million and proceeds from available-for-sale debt securities of $22.5 million, which increased $22.5 million in YTD FY23, compared with YTD FY22.

Financing Activities: Net cash used in financing activities decreased by $9.0 million in YTD FY23, compared with YTD FY22, primarily due to decreased debt repayments of $35.6 million, partially offset by contributions from noncontrolling interests in our majority owned subsidiaries in Taiwan and China of $25.0 million in YTD FY22, which did not repeat during YTD FY23.

The increase in our cash balance from YTD FY22 was favorably impacted by the effects of exchange rate changes in the amount of $13.8 million in YTD FY23, which was in contrast to the $21.3 million unfavorable impact effect of exchange rate changes had on our cash balance in YTD FY22.

Non-GAAP Financial Measures

Non-GAAP Non-operating (loss) income, Non-GAAP Income tax provision, Non-GAAP Noncontrolling interests, Non-GAAP Net Income attributable to Photronics, Inc. shareholders and non-GAAP earnings per share, Free Cash Flow, and Net Cash are "non-GAAP financial measures" as such term is defined by the Securities and Exchange Commission and may differ from similarly named non-GAAP financial measures used by other companies. The financial tables below reconcile Photronics, Inc. financial results under GAAP to non-GAAP financial information. We believe these non-GAAP financial measures that exclude certain items are useful for analysts and investors to evaluate our future on-going performance because they enable a more meaningful comparison of our projected performance with our historical results. These non-GAAP metrics are not intended to represent funds available for our discretionary use and are not intended to represent, or be used as a substitute for, net income attributable to Photronics, Inc. shareholders, diluted earnings per share, cash and cash equivalents, or cash flows from operations, as measured under GAAP. The items excluded from these non-GAAP metrics but included in the calculation of their closest GAAP equivalent, are significant components of the condensed consolidated statements of income, condensed consolidated balance sheets and statement of cash flows and must be considered in performing a comprehensive assessment of overall financial performance.

The following table reconciles *GAAP to Non-GAAP Income* at the balance sheet dates. The columns may not foot due to rounding.

	Three Months ended		
	July 30, 2023	**April 30, 2023**	**July 31, 2022**
Reconciliation of GAAP to Non-GAAP Non-operating (loss) income:			
GAAP Non-operating (loss) income, net	$ (0.9)	$ 13.5	$ 3.6
FX (gain) loss	4.5	(10.7)	(3.9)
Non-GAAP Non-operating (loss) income, net	$ 3.6	$ 2.9	$ (0.2)
Reconciliation of GAAP to Non-GAAP Income tax provision:			
GAAP Income tax provision	$ 16.1	$ 21.3	$ 18.1
Estimated tax effects of FX (gain) loss	(1.2)	2.8	1.0
Non-GAAP Income tax provision	$ 17.3	$ 18.5	$ 17.2
Reconciliation of GAAP to Non-GAAP Noncontrolling interest:			
GAAP Noncontrolling interest	$ 21.3	$ 19.3	$ 18.0
Estimated noncontrolling interest effects of above	1.3	0.9	0.5
Non-GAAP Noncontrolling interest	$ 20.0	$ 18.4	$ 17.5
Reconciliation of GAAP to Non-GAAP Net Income:			
GAAP Net Income	$ 27.0	$ 39.9	$ 31.2
FX (gain) loss	4.5	(10.7)	(3.9)
Estimated tax effects of above	(1.2)	2.8	1.0
Estimated noncontrolling interest effects of above	1.3	0.9	0.5
Non-GAAP Net Income	$ 31.6	$ 32.9	$ 28.9
Weighted-average number of common shares outstanding - Diluted	61,974	61,507	61,299
Reconciliation of GAAP to Non-GAAP EPS:			
GAAP diluted earnings per share	$ 0.44	$ 0.65	$ 0.51
Effects of the above adjustments	$ 0.07	$ (0.11)	$ (0.04)
Non-GAAP diluted earnings per share	$ 0.51	$ 0.54	$ 0.47

The following table reconciles *Net cash provided by operating activities* to Free Cash Flow for YTD FY23 and YTD FY22. The columns may not foot due to rounding. Prior year amounts in the non-GAAP disclosure below have been recast to eliminate government incentives to conform to current year presentation.

	YTD FY23	YTD FY22
Free Cash Flow		
Net cash provided by operating activities	$ 195.6	$ 195.9
Purchases of property, plant, and equipment	(78.8)	(46.3)
Free cash flow	$ 116.8	$ 149.6

The following table reconciles *Cash and cash equivalents* to Net Cash at the balance sheet dates. The increase in Net Cash was primarily driven by an increase in *Net cash provided by operating activities* and decreased spending on property, plant, and equipment, as discussed above. The columns may not foot due to rounding. Prior year amounts in the non-GAAP disclosure below have been recast to eliminate government incentives to conform to current year presentation.

	As of	
	July 30, 2023	October 31, 2022
Net Cash		
Cash and cash equivalents	$ 448.5	$ 319.7
Current portion of Long-term debt	(6.6)	(10.0)
Long-term debt	(20.1)	(32.3)
Net cash	$ 421.8	$ 277.3

Business Outlook

Our current business outlook and guidance was provided in the Photronics Q3 FY23 earnings release, earnings presentation, and financial results conference call, but is not incorporated herein. These can be accessed in the investor section of our website - www.photronics.com.

Our future results of operations and the other forward-looking statements contained in this filing and in the Photronics Q3 FY23 earnings presentation and the related financial results conference call and slide deck involve a number of risks and uncertainties, some of which are discussed in Part I, Item 1A of our 2022 Form 10-K. A number of other unforeseeable factors could cause actual results to differ materially from our expectations.

Critical Accounting Estimates

Please refer to Part II, Item 7 of our 2022 Form 10-K for discussion of our critical accounting estimates. There have been no changes to our critical accounting estimates since the filing of our Form 10-K for the year ended October 31, 2022.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

We conduct business in several major international currencies throughout our worldwide operations, and our financial performance may be affected by fluctuations in the exchange rates of these currencies. Changes in exchange rates can positively or negatively affect our reported revenue, operating income, assets, liabilities, and equity. The functional currencies of our Asian subsidiaries are the South Korean won, the New Taiwan dollar, the RMB, and the Singapore dollar. The functional currencies of our European subsidiaries are the British pound and the euro. In addition, we engage in transactions in, and have exposures to, the Japanese yen.

We attempt to minimize our risk of foreign currency transaction losses by producing products in the same country in which the products are sold (thereby generating revenues and incurring expenses in the same currency), and by managing our working capital. However, in some instances, we sell products in a currency other than the functional currency of the country where it was produced, or purchase products in a currency that differs from the functional currency of the purchasing entity. We may also enter into derivative contracts to mitigate our exposure to foreign currency fluctuations when we have a significant purchase obligation, or a significant receivable denominated in a currency that differs from the functional currency of the transacting subsidiary. We do not enter into derivatives for speculative purposes. There can be no assurance that this approach will protect us from the need to recognize significant foreign currency transaction gains and losses, especially in the event of a significant adverse movement in the value of any foreign currency in which we conduct business against any of our functional currencies, including the U.S. dollar.

Our primary net foreign currency exposures as of July 30, 2023, included the South Korean won, the Japanese yen, the New Taiwan dollar, the RMB, the Singapore dollar, the British pound sterling, and the euro. As of that date, a 10% adverse movement in the value of currencies different from the functional currencies of our subsidiaries would have resulted in a net unrealized pre-tax loss of $51.0 million, which represents an increase of $3.0 million from our exposure at April 30, 2023. Our most significant exposures at July 30, 2023, were exposures of the South Korean won, the RMB, and the New Taiwan Dollar to the U.S. dollar, which were, respectively, $12.7 million, $11.1 million, and $24.4 million at that date. We do not believe that a 10% change in the exchange rates of non-US dollar currencies, other than the aforementioned currencies and the Japanese yen, would have had a material effect on our July 30, 2023, condensed consolidated financial statements.

Interest Rate Risk

A 10% adverse movement in the interest rates on our variable rate borrowings would not have had a material effect on our July 30, 2023, condensed consolidated financial statements.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the third fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Please refer to Note 11 within Item 1 of this report for information on legal proceedings involving the Company.

Item 1A. RISK FACTORS

There have been no material changes to our risk factors as set forth in “Item 1A. Risk Factors” in our 2022 Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

In September 2020, the Company’s board of directors authorized the repurchase of up to $100 million of its common stock, pursuant to a repurchase plan under Rule 10b5-1 of the Securities Act. The share repurchase program commenced on September 14, 2020, and all shares repurchased under this program were retired. The table below presents share repurchase activity during the third quarter of 2023 in connection with the payment of withholding taxes related to the stock awards.

	Total Number of Shares Purchased	Average Price Paid Per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Dollar Value of Shares That May Yet Be Purchased (in millions)
May 1, 2023 – May 28, 2023	2,943	$ 17.23	0	$ 31.7
May 29, 2023 – June 25, 2023	0	$ 0.00	0	$ 31.7
June 26, 2023 – July 30, 2023	279	$ 25.64	0	$ 31.7
Total	3,222		0	

Certain of our debt agreements and lease arrangements include limitations on the amounts of dividends we may pay. Please refer to Note 6 of the condensed consolidated financial statements for information on these limitations.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Item 5. OTHER INFORMATION

Rule 10b5-1 Trading Arrangements

Our directors and officers (as defined in Rule 16a-1 under the Exchange Act) may from time to time enter into plans or other arrangements for the purchase or sale of our shares that are intended to satisfy the affirmative defense conditions of Rule 10b5–1(c) or may represent a non-Rule 10b5-1 trading arrangement under the Exchange Act. During the quarter ended July 30, 2023, no such plans or arrangements were adopted or terminated, including by modification.

Item 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference Form	Exhibit	Filing Date	Filed or Furnished Herewith
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
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.				X
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.				X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				X

SIGNATURES

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

Photronics, Inc.
(Registrant)

By: /s/ JOHN P. JORDAN
JOHN P. JORDAN
Executive Vice President,
Chief Financial Officer
(Principal Financial Officer)

Date: September 6, 2023

By: /s/ ERIC RIVERA
ERIC RIVERA
Vice President,
Corporate Controller
(Principal Accounting Officer)

Date: September 6, 2023

EXHIBIT 31.1

I, Frank Lee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Photronics, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Frank Lee

Frank Lee
Chief Executive Officer
September 6, 2023

EXHIBIT 31.2

I, John P. Jordan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Photronics, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN P. JORDAN
John P. Jordan
Chief Financial Officer
September 6, 2023

EXHIBIT 32.1

Section 1350 Certification of the Chief Executive Officer

I, Frank Lee, Chief Executive Officer of Photronics, Inc. (the “Company”), certify, to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarter ended July 30, 2023 (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.

The foregoing certification is being furnished pursuant to 18 U.S.C. § 1350 and will not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

/s/ Frank Lee

Frank Lee
Chief Executive Officer
September 6, 2023

EXHIBIT 32.2

Section 1350 Certification of the Chief Financial Officer

I, John P. Jordan, Chief Financial Officer of Photronics, Inc. (the “Company”), certify, to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarter ended July 30, 2023 (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.

The foregoing certification is being furnished pursuant to 18 U.S.C. § 1350 and will not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

/s/ JOHN P. JORDAN

John P. Jordan
Chief Financial Officer
September 6, 2023