

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.....January 31, 2002.....

OR

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

For the transition period from.....to.....

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

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

...CONNECTICUT...
State or other jurisdiction of
incorporation or organization)

...06-0854886...
(I.R.S. Employer
Identification No.)

...1061 EAST INDIANTOWN ROAD, JUPITER, FL...
(Address of principal executive offices)

...33477...
(Zip Code)

...(561) 745-1222...
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter 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 /X/ No / /

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

Class	Outstanding at February 28, 2002
COMMON STOCK, \$.01 PAR VALUE	30,394,011 SHARES

PHOTRONICS, INC.
AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM I. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PHOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

JANUARY 31,
OCTOBER 31,
2002 2001 --

(UNAUDITED)
ASSETS - ---

--- Current
assets: Cash
and cash
equivalents
\$ 152,672 \$
34,684
Accounts
receivable,
net 66,251
70,704
Inventories
21,081
21,492
Deferred
income taxes
and other
current
assets
28,220
24,516 -----

-- Total
current
assets
268,224
151,396
Property,
plant and
equipment,
net 414,308
402,776
Intangible
assets, net
92,514
93,199
Deferred
income taxes
12,844
12,840
Investments
and other
assets
24,785
13,327 -----

-- \$ 812,675
\$ 673,538
=====

LIABILITIES
AND
SHAREHOLDERS'
EQUITY - ---

Current
liabilities:
Current
portion of
long-term
debt and
notes
payable \$
34,563 \$
33,918
Accounts
payable
38,862
37,142 Other
accrued
liabilities
25,510
31,604 -----

-- Total
current
liabilities
98,935
102,664
Long-term
debt 325,445
188,021
Deferred
income taxes
and other
liabilities
51,941
50,682 -----

-- Total
liabilities
476,321
341,367 -----

--- Minority
interest
46,648
45,010 -----

--

Commitments
and
contingencies
Shareholders'
equity:
Preferred
stock, \$0.01
par value,
2,000 shares
authorized,
none issued
and
outstanding
-- -- Common
stock, \$0.01
par value,
75,000
shares
authorized,
30,370
shares
issued and
outstanding
at January
31, 2002 and
30,276
shares
issued and
outstanding
at October
31, 2001 304
303
Additional

paid-in	
capital	
148,187	
146,378	
Retained	
earnings	
164,967	
163,220	
Accumulated	
other	
comprehensive	
loss	
(23,752)	
(22,740) ---	

---- Total	
shareholders'	
equity	
289,706	
287,161 ----	

--- \$	
812,675 \$	
673,538	
=====	
=====	

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

THREE MONTHS	
ENDED -----	

----- JANUARY	
31, JANUARY	
31, 2002 2001	

---- Net	
sales \$	
95,686 \$	
98,557 Costs	
and expenses:	
Cost of sales	
67,754 63,229	
Selling,	
general and	
administrative	
13,845 13,474	
Research and	
development	
7,131 5,856 -	

--- Operating	
income 6,956	
15,998 Other	
expense, net	
(3,069)	
(2,776) -----	

Income before	
provision for	
income taxes	
and minority	
interest	
3,887 13,222	
Provision for	
income taxes	
500 3,700 ---	

- Income before minority interest	3,387	9,522
Minority interest in income of consolidated subsidiaries	(1,640)	
	(1,120)	-----
Net income \$	1,747	\$ 8,402
	=====	
Earnings per share: Basic	\$ 0.06	\$ 0.28
	=====	
Diluted \$	0.06	\$ 0.28
	=====	
Weighted average number of common shares outstanding:		
Basic	30,313	
	29,714	
	=====	
Diluted	31,202	34,147
	=====	
	=====	

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

THREE MONTHS ENDED -----		

JANUARY 31, JANUARY 31, 2002 2001 -		

Cash flows from operating activities:		
Net income	\$ 1,747	\$ 8,402
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation		

and
 amortization
 20,115
 17,653
 Other 29
 704 Changes
 in assets
 and
 liabilities:
 Accounts
 receivable
 4,184
 (7,415)
 Inventories
 247 (437)
 Other
 current
 assets
 (3,767)
 1,110
 Accounts
 payable and
 accrued
 liabilities
 196 10,760

 Net cash
 provided by
 operating
 activities
 22,751
 30,777 ----

 ---- Cash
 flows from
 investing
 activities:
 Deposits on
 and
 purchases
 of
 property,
 plant and
 equipment
 (32,616)
 (13,782)
 Other
 (3,738)
 4,347 -----

 --- Net
 cash used
 in
 investing
 activities
 (36,354)
 (9,435) ---

 ----- Cash
 flows from
 financing
 activities:
 Repayment
 of long-
 term debt
 (60,740)
 (24,987)
 Proceeds
 from
 issuance of
 common
 stock 1,344
 584
 Proceeds
 from
 issuance of
 convertible
 debt, net
 193,431 --

 Net cash
 provided by
 (used in)
 financing
 activities
 134,035
 (24,403) --

 Effect of
 exchange
 rate
 changes on
 cash flows
 (2,444)
 (450) -----

 --- Net
 increase
 (decrease)
 in cash and
 cash
 equivalents
 117,988
 (3,511)
 Cash and
 cash
 equivalents
 at
 beginning
 of period
 34,684
 38,182 -----

 ---- Cash
 and cash
 equivalents
 at end of
 period \$
 152,672 \$
 34,671
 =====
 =====
 Cash paid
 during the
 period for:
 Interest \$
 4,547 \$
 4,581
 Income
 taxes \$ 46
 \$ 155

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 JANUARY 31, 2002
 (UNAUDITED)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended January 31, 2002 are not necessarily indicative of the results that may be expected for the year ending November 3,

2002. Certain amounts in the Condensed Consolidated Financial Statements for prior periods have been reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2001.

NOTE 2 - ACQUISITION OF PKL LTD.

In 2001 the Company completed the acquisition of a majority of the total share capital (approximately 51%) of PKL Ltd. ("PKL"), a photomask manufacturer based in Korea, for approximately \$56 million. The acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." Accordingly, a portion of the purchase price has been allocated to assets acquired and liabilities assumed based upon estimated fair values at the date of acquisition, while the balance of \$38.6 million was recorded as goodwill. The purchase price allocation is preliminary and further refinements are likely to be made upon the completion of the final valuation. The operating results of PKL have been included in the Consolidated Statement of Earnings from August 27, 2001, the date the Company acquired majority share. Pursuant to an agreement with certain shareholders of PKL, the Company may acquire an additional 1,000,000 shares, or approximately 32%, of PKL. Had the acquisition of PKL occurred at the beginning of fiscal 2001, the unaudited pro forma condensed consolidated net sales for the three months ended January 31, 2001 would have been \$109.1 million and the pro forma net income and earnings per share for the the three months ended January 31, 2001 would have been \$7.8 million and \$0.26 per share, respectively. In management's opinion, these unaudited pro forma amounts are not necessarily indicative of what the actual combined results of operations might have been if the acquisition of PKL had been effective at the beginning of the periods presented.

NOTE 3 - COMPREHENSIVE INCOME

The following table summarizes comprehensive income for the three months ended January 31, 2002 and 2001 (in thousands):

THREE MONTHS ENDED ----- ----- -----	
JANUARY 31, JANUARY 31, 2002 2001 -- -----	
----- Net income \$	
1,747 \$	
8,402 Other comprehensive income:	
Unrealized gains on investments	124 142
Foreign currency translation adjustments	(446) (434)
Net change in cash flow hedges (690)	
-- -----	

(1,012)	
(292) ----- -----	
Total comprehensive income \$ 735	
\$ 8,110	
=====	
=====	

NOTE 4 - EARNINGS PER SHARE

Earnings per share ("EPS") amounts are calculated in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Basic EPS is based on the weighted average number of common shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted.

A reconciliation of basic and diluted EPS for the three months ended January 31, 2002 and 2001, respectively, is as follows (in thousands, except per share amounts).

AVERAGE NET SHARES EARNINGS INCOME OUTSTANDING PER SHARE	----- ----- ----- ----- ----- -----
2002: - - -	
--- Basic	
\$1,747	
30,313	
\$0.06	
Effect of potential dilution	
===== from	
exercise of stock options -	
889 -----	
Diluted	
(a) \$1,747	
31,202	
\$0.06	
=====	
=====	
=====	
2001: - - -	
--- Basic	
\$8,402	
29,714	
\$0.28	
Effect of potential dilution	
===== from	
exercise of stock options	
and	
conversion of notes	
1,077	
4,433 ----	
Diluted	
\$9,479	
34,147	
\$0.28	
=====	
=====	
=====	

(a) The effect of the conversion of the Company's convertible notes for the three months ended January 31, 2002 is anti-dilutive. If the assumed conversion of convertible subordinated notes had been dilutive, the incremental additional shares outstanding would have been 6,396 for the three months ended January 31, 2002.

On December 12, 2001 the Company sold \$200 million of 4.75% Convertible Subordinated Notes due 2006 ("Notes") in a private offering pursuant to SEC Rule 144A. The Notes are convertible into the Company's common stock at a conversion price of \$37.00 per share. Net proceeds from the issuance amounted to approximately \$193.4 million. Concurrent with the issuance of the Notes, on December 12, 2001 the Company repaid all of the outstanding borrowings under its Revolving Credit Agreement which amounted to \$57.7 million and terminated the agreement. The Company intends to obtain a new revolving credit agreement during 2002.

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

Effective November 1, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." With the adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life, but will be subject to an annual assessment for impairment by applying a fair-value based test. Within six months (by April 30, 2002) of adoption of SFAS No. 142, the Company will complete a transitional impairment review to identify if there is an impairment to the goodwill or intangible assets of indefinite life using a fair value methodology. This method differs from an undiscounted cash flow methodology which continues to be used for intangible assets with an identifiable life. Any impairment loss resulting from the transitional impairment test will be recorded as a cumulative effect of a change in accounting principle for the quarter ending April 30, 2002. Subsequent impairment losses will be reflected in operating income in the Statement of Earnings.

As required by SFAS No. 142, the results for the prior year's quarter have not been restated. A reconciliation of net income as if SFAS No. 142 had been adopted is presented below for the three months ended January 31, 2001 (in thousands).

Three Months Ended ----- ----- ----- - January 31, January 31, 2002 2001 ----- ----- -----	Reported net income: \$1,747 \$8,402 Goodwill amortization - 254 ----- -----	Adjusted net income \$1,747 \$8,656 =====	Basic and diluted earnings per share: Reported basic and diluted earnings per share \$ 0.06 \$ 0.28 Goodwill amortization - 0.01 ----- -----	Adjusted basic and diluted earnings per share \$ 0.06 \$ 0.29 =====
--	---	---	---	---

Goodwill at January 31, 2002 and October 31, 2001 amounted to approximately \$85.1 million. Other intangible assets, which continue to be amortized, consist of software development costs and non-compete agreements. The balance of other intangible assets at January 31, 2002 consists of the following (in thousands):

Other intangible assets	\$12,984
Less accumulated amortization	(5,595)

	\$ 7,389
	=====

Amortization expense of other intangible assets for the quarter ended January 31, 2002 was approximately \$0.7 million. Future estimated annual amortization expense (in thousands) of other intangibles is expected to be \$2,740 in 2002, \$2,707 in 2003, and \$1,942 in 2004.

NOTE 7 - DERIVATIVE INSTRUMENTS, HEDGING INSTRUMENTS AND HEDGING ACTIVITY

In fiscal year 2001, the Company entered into forward currency contracts to hedge transactions to purchase equipment to be settled in Japanese Yen. Such derivatives were designated and qualified as cash flow hedging instruments and were reported at fair value. These transactions were settled during the first quarter of 2002 resulting in a loss of \$1.1 million, which was recorded in other comprehensive loss, as these hedges were highly effective, and the forecasted purchase of equipment occurred. Therefore, the losses on the contracts are included in Accumulated Other Comprehensive Loss and will be amortized as a charge to earnings over the estimated useful life of the related equipment.

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

OVERVIEW

In 2001, the Company completed the acquisition of a majority equity interest in PKL Ltd. ("PKL"), a leading Korean photomask supplier for an aggregate purchase price of \$56 million. Prior to 2001, the Company owned approximately 6% of PKL. The acquisition was accounted for as a purchase. The operating results of PKL have been included in the Company's Consolidated Statement of Earnings since August 27, 2001.

In April 2001, the Company initiated a plan ("the consolidation plan") to consolidate its global photomask-manufacturing network in order to increase capacity utilization and manufacturing efficiencies, as well as to accelerate the expansion of its world-class technology development. The Company initiated the consolidation plan as the final phase of its June 2000 merger with Align-Rite. Total consolidation and related charges associated with this plan of \$38.1 million were recorded in the second quarter of 2001. Of the total charge, \$30.6 million related to the consolidation plan and \$7.5 million related to the impairment of intangible assets.

The significant components of the consolidation plan included the closing of the former Align-Rite manufacturing facilities in Burbank, California, Palm Bay, Florida and Heilbronn, Germany. The Company anticipates that the closing of these facilities will maximize capacity utilization at its remaining facilities. As part of the plan, the Company reduced its work force by approximately 120 employees.

The consolidation charge of \$30.6 million includes: \$4.0 million of cash charges for severance benefits for terminated employees paid during their entitlement periods, principally during the fourth quarter of 2001, \$4.5 million for facilities closings and lease termination costs expended over the projected lease terms; and non-cash charges of \$22.1 million that approximate the carrying value of fixed assets that are primarily associated with the consolidation plan based upon their expected disposition. Through January 31, 2002 cash charges of approximately \$4.6 million had been paid.

The charges also included \$7.5 million that were related to the

impairment in value of associated intangible assets. It was determined during the period that such assets no longer had any future economic benefit to the Company because the anticipated undiscounted cumulative cash flows from these assets were insufficient to support their carrying value.

MATERIAL CHANGES IN RESULTS OF OPERATIONS
THREE MONTHS ENDED JANUARY 31, 2002 VERSUS JANUARY 31, 2001

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

Three Months Ended ----- ----- -----	January 31, January 31, 2002 2001 --- -----
----- Net sales	100.0%
100.0% Cost of sales	70.8
64.2 -----	--
--- Gross margin	29.2
35.8 Selling, general and administrative expenses	14.5
13.7 Research and development expenses	7.4
5.9 -----	---
-- Operating income	7.3%
16.2% =====	=====

Net sales for the quarter ended January 31, 2002 decreased 2.9% to \$95.7 million compared with \$98.6 million for the corresponding prior year period. The decrease in sales was attributable to the continuing slow-down in design releases for mature technology products and competitive pricing pressures for photomasks associated with the global semiconductor downturn over the last nine months. The decline in volume for mature technology products was somewhat mitigated by an improved mix of high-end technology products, which have design rules of 0.18 micron and below, and the inclusion of sales from our majority-held subsidiary in Korea. International operations for the quarter ended January 31, 2002 accounted for 44% of net sales as compared to 33% in the quarter ended January 31, 2001. The Company continues to see weaknesses in selling prices for mature technology products, but has benefited from its continued investments in high-end manufacturing capabilities.

Gross margin for the quarter ended January 31, 2002 decreased to 29.2% of net sales as compared to 35.8% during the corresponding period last year. The decrease is primarily associated with lower utilization of our expanding fixed equipment cost base coupled with decreased demand for mature technology products. The effect from increased revenue associated with improved high-end demand during the first quarter of 2002 was mitigated by continued investments in the Company's global manufacturing network, including our new Korea operation.

Selling, general and administrative expenses increased 2.8% to \$13.8 million for the quarter ended January 31, 2002, compared with \$13.5 million for the same period in the prior fiscal year. As a percentage of net sales, selling, general and administrative expenses increased to 14.5% as compared to 13.7% for the same period in the prior fiscal year. Increased selling, general and administrative expenses associated with the inclusion of our new Korean subsidiary were mitigated by efficiencies realized from the Company's 2001 consolidation plan.

Research and development expenses for the quarter ended January 31, 2002 increased to \$7.1 million compared with \$5.9 million for the same period in the prior fiscal year. This increase reflects continued development of advanced, subwavelength reticle solutions and inclusion of our Korean subsidiary. Research

and development was 7.4% of net sales for the quarter ended January 31, 2002, compared to 5.9% in the corresponding prior year period.

Net other expense of \$3.1 million for the quarter ended January 31, 2002 increased \$0.3 million compared to the quarter ended January 31, 2001. The increase from last year is due to higher interest costs associated with increased borrowings resulting from our \$200 million convertible debt issuance in December and borrowings associated with the Korean acquisition.

Minority interest of \$1.6 million for the three months ended January 31, 2002 reflects the minority interest in earnings of the Company's subsidiaries in Taiwan and Korea.

Net income for the three months ended January 31, 2002, decreased to \$1.7 million, or \$0.06 per basic and diluted share. These amounts compare to \$8.4 million, or \$0.28 per basic and diluted share, for the corresponding prior year period.

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LIQUIDITY AND CAPITAL RESOURCES

On December 12, 2001 the Company sold \$200 million of 4.75% Convertible Subordinated Notes due 2006 ("Notes") in a private offering pursuant to SEC Rule 144A. The Notes are convertible into the Company's common stock at a conversion price of \$37.00 per share. Net proceeds from the issuance amounted to approximately \$193.4 million. Concurrent with the issuance of the Notes, on December 12, 2001 the Company repaid all of the outstanding borrowings under its Revolving Credit Agreement which amounted to \$57.7 million and terminated the agreement. The Company intends to obtain a new revolving credit agreement during 2002.

The Company's working capital at January 31, 2002 increased to \$169.3 million compared to \$48.7 million at October 31, 2001, primarily as a result of the net proceeds received from the convertible debt offering. Cash and cash equivalents at January 31, 2002 were \$152.7 million compared to \$34.7 million at October 31, 2001. Cash provided by operating activities for the quarter ended January 31, 2002 decreased to \$22.8 million compared to \$30.8 million for the quarter ended January 31, 2001, primarily as a result of reduced net income. Cash used in investing activities of \$36.4 million consisted principally of capital equipment purchases. The Company expects capital expenditures for 2002 to be approximately \$125 million, which will be used primarily to expand the Company's high-end technical capability. Cash flows provided by financing activities of \$134.0 million consisted of the net proceeds from the \$200 million convertible note issuance, offset by the repayment of the Company's revolving credit agreement.

Photronics' commitments represent investments in additional manufacturing capacity as well as advanced equipment for the production of high-end photomasks. At January 31, 2002, Photronics had commitments outstanding for capital expenditures of approximately \$85.0 million. Additional commitments for capital expenditures are expected to be incurred during fiscal 2002. Photronics will continue to use its working capital to finance its capital expenditures. Photronics believes that its currently available resources, together with its capacity for substantial growth and its access to other debt and equity financing sources, are sufficient to satisfy its currently planned capital expenditures, as well as its anticipated working capital requirements for the foreseeable future.

EFFECT OF NEW ACCOUNTING STANDARDS

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 becomes effective for the Company's financial statements issued for fiscal year 2003. The Company does not expect the pronouncements to have a material impact on its consolidated financial position, consolidated results of operations or consolidated cash flows.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, in the normal course of doing business, is exposed to the risks associated with foreign currency exchange rates and changes in interest rates.

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FOREIGN CURRENCY EXCHANGE RATE RISK

The Company conducts business in several major international currencies through its worldwide operations, and as a result, is subject to changes in foreign exchange rates of the various currencies. Changes in exchange rates can positively or negatively affect the Company's sales, gross margins and retained earnings. The Company attempts to minimize currency exposure risk by producing its products in the same country or region in which the products are sold so it can manage its working capital by generating revenues and incurring expenses in the same currency. There can be no assurance that this approach will be successful, especially in the event of a significant and sudden decline in the value of any of the international currencies in the Company's worldwide operations. The Company does not engage in purchasing forward exchange contracts for speculative purposes.

INTEREST RATE RISK

The majority of the Company's borrowings are in the form of its convertible subordinated notes, which bear interest rates ranging from 4.75% to 6.0% and secured notes payable which bear interest between approximately 4.5% and 7.3%. The Company does not expect changes in interest rates to have a material effect on income or cash flows in 2002, although there can be no assurances that interest rates will not change significantly.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
See Exhibits Index.
- (b) Reports on Form 8-K
On December 13, 2001 the Company filed a current report on Form 8-K announcing the sale of \$175,000,000 of 4 3/4% Convertible Subordinated Notes due 2006.

SIGNATURES

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

PHOTRONICS, INC.
Registrant

By: /s/ SEAN T. SMITH

Sean T. Smith
Vice President
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

DATE: MARCH 13, 2002