

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-3  
REGISTRATION STATEMENT UNDER  
THE SECURITIES ACT OF 1933

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  
Number)

1061 EAST INDIANTOWN ROAD  
JUPITER, FLORIDA 33477  
(561) 745-1222  
(Address, and telephone number,  
of Registrant's principal executive offices)

JEFFREY P. MOONAN, ESQ.,  
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1061 EAST INDIANTOWN ROAD  
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Approximate date of commencement of proposed sale to the public:

AS SOON AS PRACTICABLE AFTER THE REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE (1)
Convertible Notes due 2004	\$86,250,000 (2)	100%	\$86,250,000	\$26,136.36

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Common Stock, \$.01  
par value (3) -- -- --  
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- (1) The filing fee has been calculated pursuant to Paragraphs (a) and (i) of Rule 457 promulgated under the Securities Act of 1933.
- (2) Includes \$11,250,000 aggregate principal of Notes subject to the Underwriters' over-allotment.
- (3) Such presently indeterminable number of shares of Common Stock as may be or become deliverable upon conversion of the Notes being registered thereby.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED APRIL 28, 1997

\$75,000,000  
[LOGO] PHOTRONICS, INC.  
. % Convertible Subordinated Notes due May 15, 2004  
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The Notes are convertible at any time prior to maturity, unless previously redeemed or repurchased, into shares of Common Stock, par value \$.01 per share ("Common Stock"), of Photronics, Inc. (the "Company") at a conversion rate of . shares per each \$1,000 principal amount of Notes (equivalent to a conversion price of approximately \$ . per share), subject to adjustment in certain circumstances. On April 25, 1997, the last reported bid price of the Common Stock, which is traded under the symbol "PLAB" on The Nasdaq National Market, was \$31.75 per share.

Interest on the Notes is payable on May 15 and November 15 of each year, commencing November 15, 1997. The Notes are redeemable in whole or in part at the Company's option at any time on or after May 16, 2000 at the redemption prices set forth herein, plus accrued interest to the date of redemption. See "Description of Notes -- Optional Redemption." The Notes are not entitled to any sinking fund. The Notes will mature on May 15, 2004.

In the event of a Change of Control (as defined herein), each holder of Notes may require the Company to repurchase its Notes, in whole or in part, for cash or, at the Company's option, Common Stock (valued at 95% of the average closing prices for the five trading days immediately preceding and including the third trading day prior to the repurchase date) at a repurchase price of 100% of the principal amount of Notes to be repurchased, plus accrued interest to the repurchase date. See "Description of Notes -- Repurchase at Option of Holders Upon a Change of Control."

The Notes are unsecured obligations subordinated in right of payment to all existing and future Senior Indebtedness (as defined herein) of the Company and effectively subordinated in right of payment to all indebtedness and other liabilities of the Company's subsidiaries. As of April 28, 1997, the Company had \$17.0 million of Senior Indebtedness outstanding. After giving effect to the offering of the Notes and the application of net proceeds therefrom, the Company will have \$2.0 million of Senior Indebtedness outstanding. As of February 2, 1997, the Company's subsidiaries had other indebtedness and liabilities of approximately \$46 million (excluding intercompany

obligations). The Indenture will not restrict the Company or its subsidiaries from incurring additional Senior Indebtedness or other indebtedness.

The Notes will be represented by a Global Note registered in the name of the nominee of The Depository Trust Company ("DTC"), which will act as depository. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. Except as described herein, Notes in definitive form will not be issued. The Notes will be issued in registered form in denominations of \$1,000 and integral multiples thereof. See "Description of the Notes -- Book-Entry."

FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY INVESTORS IN EVALUATING AN INVESTMENT IN THE SECURITIES OFFERED HEREBY, SEE "RISK FACTORS" BEGINNING ON PAGE 6.

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 THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.  
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	INITIAL PUBLIC OFFERING PRICE (1)	UNDERWRITING DISCOUNT (2)	PROCEEDS TO COMPANY (1)(3)
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Per Note . . . . .	100.0%	. %	. %
Total(4) . . . . .	\$75,000,000	\$ .	\$ .

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- (1) Plus accrued interest, if any, from May . , 1997.
  - (2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").
  - (3) Before deducting estimated expenses of \$375,000 payable by the Company.
  - (4) The Company has granted the Underwriters an option for 30 days to purchase up to an additional \$11,250,000 aggregate principal amount of Notes at the initial public offering price shown above, less the underwriting discount, solely to cover overallocments, if any. If such option is exercised in full, the total initial public offering price, underwriting discount and proceeds to the Company will be \$86,250,000, \$ . and \$ . , respectively. See "Underwriting."
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The Notes offered hereby are offered by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Notes will be ready for delivery in book-entry form only through the facilities of DTC in New York, New York, on or about May . , 1997 against payment therefor in immediately available funds.

GOLDMAN, SACHS & CO.  
 ROBERTSON, STEPHENS & COMPANY  
 SMITH BARNEY INC.

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 The date of this Prospectus is May . , 1997

Picture of Photomask	Photronics is a leading global manufacturer of photomasks, which are high precision quartz plates containing microscopic images of electronic circuits.	Picture of Person at Equipment Console
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Semiconductor/Photomask  
interface graphic

Photomasks are a key element in the manufacture of semiconductors and are used as masters to transfer circuit patterns onto semiconductor wafers.

Picture of Process Equipment		Picture of Photomask
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CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE NOTES AND THE COMMON STOCK, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES, AND THE IMPOSITION OF PENALTY BIDS, IN CONNECTION WITH THE OFFERING. IN ADDITION, IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS ALSO MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK ON THE NASDAQ NATIONAL MARKET, IN ACCORDANCE WITH RULE 103 UNDER THE SECURITIES EXCHANGE ACT OF 1934. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

## PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements and notes thereto appearing elsewhere in, or incorporated by reference into, this Prospectus. Unless otherwise indicated, the information in this Prospectus assumes no exercise of the Underwriters' over-allotment option.

### THE COMPANY

Photronics, Inc. ("Photronics" or the "Company") is a leading manufacturer of photomasks, which are used primarily by the semiconductor industry in the manufacture of integrated circuits. A photomask is a high precision photographic quartz plate that is used as a master to transfer microscopic circuit patterns onto semiconductor wafers during the fabrication of integrated circuits. The Company's manufacturing network includes five facilities in the United States (with a sixth under construction) as well as facilities in Singapore, Switzerland and the United Kingdom. Based upon available market information, the Company believes that it has a larger share of the United States market for photomasks than any other photomask manufacturer and is one of the largest photomask manufacturers in the world.

Photomasks are a key element in the manufacture of semiconductors and are used to transfer integrated circuit patterns onto semiconductor wafers during the fabrication of integrated circuits and, to a lesser extent, other types of electronic components. Each integrated circuit consists of a series of separate patterns, each of which is imaged onto a different photomask. The resulting series of photomasks is then used to successively layer the circuit patterns onto the semiconductor wafer. Demand for photomasks is driven both by semiconductor design activity and increases in the complexity of integrated circuits. As the complexity of integrated circuits has increased, the number and complexity of photomasks used in the manufacture of a single circuit also has increased. VLSI Research Inc. estimates that worldwide photomask sales exceeded \$1.7 billion in 1996 and projects a compound annual growth rate of approximately 17% through 2001.

Photomasks are manufactured by independent manufacturers, like the Company, and captives, which are semiconductor manufacturers that produce photomasks almost exclusively for their own use. Since the mid-1980s, there has been a trend in the United States and Europe toward the divestiture or closing of captive photomask operations by semiconductor manufacturers and an increase in the share of the market served by independent manufacturers. At the same time, the number of significant independent manufacturers in the United States and Europe has decreased from approximately 14 in the mid-1980s to four in 1996. The Company has completed a number of strategic acquisitions of both independent and captive photomask manufacturers.

The Company's objective is to expand its position as a worldwide leader in the manufacture of photomasks. The Company's strategy includes maintaining technological leadership through investment in state-of-the-art manufacturing capabilities, ensuring strong customer relationships through high levels of customer satisfaction and leveraging the Company's network of manufacturing facilities to provide timely product delivery and rapid response to customer demands. During 1996, the Company significantly expanded its operations in international markets by acquiring existing photomask operations located in the United Kingdom and Switzerland, establishing manufacturing operations in Singapore and acquiring an equity interest in a photomask manufacturing operation in Korea. The Company also continued its aggressive investment program in its manufacturing operations in the United States by completing a new state-of-the-art facility in Allen, Texas, starting construction of a facility in Austin, Texas and adding leading-edge manufacturing equipment to its existing operations.

The Company sells its products primarily through a direct sales force. The Company conducts its sales activities from ten sales locations in the United States, two in the United Kingdom, and one in each of Switzerland, Singapore and Taiwan. The

Company's customers include Analog Devices, Inc., Atmel Corp., Cirrus Logic, Inc., Cypress Semiconductor Corporation, LSI Logic Corp., Motorola Inc., Plessey Semiconductors Ltd., Symbios Logic Inc., Texas Instruments Incorporated, and VLSI Technology Inc.

The Company is a Connecticut corporation, organized in 1969. Its principal executive offices are located at 1061 East Indiantown Road, Jupiter, Florida 33473, telephone (561) 745-1222.

THE OFFERING

SECURITIES OFFERED . . . \$75,000,000 aggregate principal amount of . % Convertible Subordinated Notes due May 15, 2004 (the "Notes"). The Company has granted the Underwriters an option for 30 days to purchase up to \$11,250,000 additional aggregate principal amount of Notes, solely to cover over-allotments.

INTEREST PAYMENT DATES . . . . . Interest on the Notes is payable at the rate set forth on the cover page hereof, semi-annually on each May 15 and November 15, commencing November 15, 1997.

CONVERSION RIGHT . . . The Notes are convertible at any time prior to maturity, unless previously redeemed or repurchased, into shares of Common Stock at a conversion rate of . shares per \$1,000 principal amount of Notes (equivalent to a conversion price of approximately \$ . per share), subject to adjustment in certain circumstances as described herein. See "Description of Notes -- Conversion Rights."

SUBORDINATION . . . . . The Notes are subordinated in right of payment to all existing and future Senior Indebtedness (as defined herein) of the Company and will be effectively subordinated to all indebtedness and other liabilities of the Company's subsidiaries. As of April 28, 1997, the Company had \$17.0 million aggregate principal amount of Senior Indebtedness outstanding, approximately \$15 million of which will be repaid with the net proceeds from this offering. As of February 2, 1997, the Company's subsidiaries had other indebtedness and liabilities of approximately \$46 million (excluding intercompany obligations). The Indenture will not restrict the Company or its subsidiaries from incurring additional Senior Indebtedness or other indebtedness. See "Capitalization," "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Description of Notes -- Subordination."

OPTIONAL REDEMPTION . . . The Notes will be redeemable at the Company's option, in whole or in part, at any time on or after May 16, 2000 at the redemption prices set forth herein plus accrued interest to the date of redemption. See "Description of Notes -- Optional Redemption."

REPURCHASE AT OPTION OF HOLDERS UPON A CHANGE OF CONTROL . . . In the event of a Change of Control, each holder of Notes may require the Company to repurchase the Notes, in whole or in part, for cash or, at the Company's option, Common Stock (valued at 95% of the average closing prices for the five trading days immediately preceding and including the third trading day prior to the repurchase date) at a repurchase price of 100% of the principal amount

of Notes to be repurchased, plus accrued interest to the repurchase date. See "Description of Notes -- Repurchase at Option of Holders Upon a Change of Control."

USE OF PROCEEDS . . . .

The Company intends to use approximately \$15 million to repay outstanding borrowings under a revolving credit facility. The remainder of the net proceeds will be used for general corporate purposes, including capital expenditures and possible acquisitions. See "Use of Proceeds."



LISTING . . . . . The Notes will not be listed on any securities exchange or quoted on The Nasdaq Stock Market. Although each of the Underwriters has advised the Company that it intends to make a market in the Notes, they are not obligated to do so, and any market making may be discontinued at any time at the sole discretion of each of the Underwriters without notice. See "Underwriting."

COMMON STOCK . . . . . The Common Stock is quoted on The Nasdaq National Market under the symbol "PLAB."

SUMMARY CONSOLIDATED FINANCIAL DATA

	YEAR ENDED OCTOBER 31,				
	1992	1993	1994	1995	1996
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	(IN THOUSANDS, EXCEPT RATIOS AND PER SHARE DATA)				
CONSOLIDATED STATEMENT OF EARNINGS DATA:					
Net sales . . . . .	\$41,305	\$48,363	\$80,696	\$125,299	\$160,071
Operating income . . . . .	5,868	6,991	14,237	23,590	32,265
Income before income taxes . . . . .	6,719	7,436	15,301	29,842	33,903
Net income(2) . . . . .	\$ 4,367	\$ 4,908	\$10,336	\$ 18,632	\$ 21,003
Net income per share(2)(3) . . . . .	\$ 0.55	\$ 0.59	\$ 1.03	\$ 1.66	\$ 1.74
OTHER DATA:					
Ratio of earnings to fixed charges(4) . . . . .	67x	75x	205x	213x	213x

	THREE MONTHS ENDED	
	JANUARY 31, 1996	FEBRUARY 2, 1997(1)
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	(IN THOUSANDS, EXCEPT RATIOS AND PER SHARE DATA)	
CONSOLIDATED STATEMENT OF EARNINGS DATA:		
Net sales . . . . .	\$34,668	\$40,029
Operating income . . . . .	7,006	7,345
Income before income taxes . . . . .	7,551	8,625
Net income(2) . . . . .	\$ 4,651	\$ 5,325
Net income per share(2)(3) . . . . .	\$ 0.39	\$ 0.44

OTHER DATA:  
Ratio of earnings to

	FEBRUARY 2, 1997(1)	
	-----	
	AS	
	ACTUAL	ADJUSTED(5)
	-----	-----
	(IN THOUSANDS)	
CONSOLIDATED BALANCE SHEET DATA:		
Working capital . . . . .	\$ 16,494	\$ 88,869
Property, plant and equipment . . .	135,243	135,243
Total assets . . . . .	209,075	284,075
Long-term debt, less current portion (6) . . . . .	2,005	77,005
Total shareholders' equity . . . .	\$160,673	\$160,673

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- (1) Beginning with the current fiscal year, the Company has adopted a fiscal year ending on the Sunday closest to October 31.
- (2) Includes (i) a benefit of \$237,000, or \$0.02 per share, for fiscal 1994 representing the cumulative effect of the Company adopting Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," effective November 1, 1993, (ii) approximately \$2 million, or \$0.16 per share, for fiscal 1995 attributable to an after tax gain from the sale of equity investments less a non-recurring research and development charge related to an acquisition and (iii) \$0.7 million, or \$0.05 per share, for the first quarter of 1997 attributable to an after tax gain from the sale of equity investments.
- (3) Per share data reflect a 3-for-2 stock split effected in March 1995.
- (4) For purposes of calculating the ratio of earnings to fixed charges, (i) earnings consist of income before income taxes plus fixed charges and (ii) fixed charges consist of interest expense incurred.
- (5) As adjusted to give effect to the issuance and sale of the Notes and the application of net proceeds therefrom.
- (6) Does not include approximately \$15 million that the Company borrowed under its unsecured line of credit subsequent to February 2, 1997, which will be paid with the net proceeds from this offering. See "Use of Proceeds."

## RISK FACTORS

Prospective purchasers of the Notes should consider carefully the following risk factors relating to the offering and the business of the Company, together with the information and financial data set forth elsewhere or incorporated by reference in this Prospectus, prior to making an investment decision. Certain statements under this caption constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). See "--Forward-Looking Statements".

### DEPENDENCE ON SEMICONDUCTOR INDUSTRY

The Company sells substantially all of its photomasks to semiconductor designers and manufacturers. The Company believes that the demand for photomasks primarily depends on integrated circuit design activity rather than the volume of semiconductor sales. Consequently, an increase in semiconductor sales does not necessarily result in a corresponding increase in photomask sales. In addition, the reduced use of customized integrated circuits or other changes in the technology or methods of manufacturing semiconductors could reduce demand for photomasks even if demand for semiconductors increases. Further, advances in semiconductor and photomask design and semiconductor production methods could reduce the demand for photomasks. During the early 1990s, certain of these factors contributed to flat demand for photomasks despite increased semiconductor design activity. Although demand for photomasks has increased since late 1993, there can be no assurance that any of the foregoing factors will not have a material adverse effect on the Company's business and results of operations. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Business -- Industry Overview."

### FLUCTUATIONS IN QUARTERLY PERFORMANCE

The Company has experienced fluctuations in its quarterly operating results and it anticipates that such fluctuations will continue and could intensify in the future. Fluctuations in operating results may result in volatility in the price of the Common Stock and the Notes. Operating results may fluctuate as a result of many factors, including size and timing of orders and shipments, loss of significant customers, product mix, technological change, competition, sales of used equipment by the Company (which have widely varying gross margins) and general economic conditions. The Company's customers generally order the Company's products on an as-needed basis, and substantially all of the Company's net sales in any quarter are dependent on orders received during that quarter. Since the Company operates with a limited backlog and the rate of new orders may vary significantly from month to month, the Company's capital expenditures and expense levels are based primarily on sales forecasts. Consequently, if anticipated sales in any quarter do not occur when expected, capital expenditures and expense levels could be disproportionately high, and the Company's operating results would be adversely affected. Due to the foregoing factors, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and that such comparisons cannot be relied upon as indicators of future performance. In addition, in some future quarter the Company's operating results could be below the expectations of public market analysts and investors, which, in turn, could materially adversely affect the market price of the Common Stock and of the Notes. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Note 12 of Notes to Consolidated Financial Statements.

### RAPID TECHNOLOGICAL CHANGE

The photomask industry has been and is expected to continue to be characterized by technological change and evolving industry standards. In order to remain competitive, the Company will be required to continually anticipate, respond to and utilize changing technologies. In particular, the Company believes that as semiconductor geometries continue to become smaller, the Company will be required to manufacture optical proximity correction and phase-shift photomasks. These technologies currently are in developmental stages and the Company has not yet

manufactured these types of photomasks in significant volume. In addition, demand for photomasks has been and could in the future

be adversely affected by changes in methods of semiconductor manufacturing (which could affect the type or quantity of photomasks utilized) or increased market acceptance of alternative methods of transferring circuit designs onto semiconductor wafers which could reduce or eliminate the need for photomasks. If the Company were unable, due to resource, technological or other constraints, to anticipate, respond to or utilize these or other changing technologies, the Company's business and results of operations could be materially adversely affected. See "Business -- Research and Development."

#### CAPITAL INTENSIVE OPERATIONS

The manufacture of photomasks requires a significant investment in fixed assets. The Company expects that it will be required to continue to make significant capital expenditures in connection with its operations. There can be no assurance that the Company will be able to obtain any additional capital required in connection with such expansion on reasonable terms, or at all, or that any such expansion will not have a material adverse effect on the Company's business and results of operations, particularly during the start-up phase of new operations. See "Management's Discussion and Analysis of Results of Operations and Financial Condition."

#### DEPENDENCE ON MAJOR CUSTOMERS

Approximately 26% of the Company's net sales in fiscal 1996 was derived from sales to Texas Instruments Incorporated ("Texas Instruments"). In addition, approximately 19% of net sales in fiscal 1996 was derived from sales to the Company's next four largest customers, but no customer other than Texas Instruments accounted for more than 10% of the Company's net sales in fiscal 1996. Although the Company has purchasing arrangements which assure the Company a specified amount of certain customers' requirements so long as the Company's performance is satisfactory, none of the Company's customers has contracts requiring it to purchase any minimum quantity of photomasks from the Company. Any loss of, or significant reduction in, orders from any of these customers, particularly Texas Instruments, could have a material adverse effect on the Company's business and results of operations. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Business -- Customers."

#### DEPENDENCE ON SUPPLIERS

The Company relies on a limited number of photomask equipment manufacturers to develop and supply the equipment used in the photomask manufacturing process. Significant manufacturing systems used by the Company usually are built to order and typically have order lead times that can exceed one year. Further, the Company relies on equipment suppliers to develop future generations of manufacturing systems to support the Company's requirements. The inability to obtain equipment when required could have a material adverse effect on the Company's business and results of operations.

The Company uses high precision quartz photomask blanks, pellicles (which are protective transparent cellulose membranes) and electronic grade chemicals in its manufacturing processes. Any delays or quality problems in connection with significant raw materials, particularly photomask blanks, could cause delays in shipments of photomasks which could adversely affect the Company's business and results of operations. The fluctuation of exchange rates with respect to prices of significant raw materials used in manufacturing also could have a material adverse effect on the Company's business and results of operations, although they have not been material to date. See "Business -- Materials and Supplies."

#### MANAGEMENT OF EXPANDING OPERATIONS

The Company recently has experienced rapid expansion of its operations, primarily due to its acquisitions of existing photomask manufacturing operations. The Company may make additional acquisitions in the future. This expansion has placed, and is expected to continue to place, significant demands



personnel and systems. Managing acquired operations entails numerous operational and financial risks, including difficulties in the assimilation of acquired operations, diversion of management's attention to other business concerns, amortization of acquired intangible assets and potential loss of key employees of acquired operations. Sales of acquired operations also may decline following an acquisition, particularly if there is an overlap of customers served by the Company and the acquired operation, and such customers transition to another vendor in order to ensure a second source of supply. Furthermore, in connection with any future acquisitions, the Company would be required to utilize its cash reserves and/or issue new securities, which could have a dilutive effect on the Company's earnings per share, particularly during the initial integration of the acquired operations into the Company's operations. In addition, the Company has experienced in the past, and could experience in the future, difficulties and delays in ramping up new production facilities. Any failure of the Company to successfully manage its expanding operations could have a material adverse effect on the Company's business and results of operations. See "Management's Discussion and Analysis of Results of Operations and Financial Condition."

#### COMPETITION

The photomask industry is highly competitive, and most of the Company's customers utilize more than one photomask supplier. The Company competes primarily with DuPont Photomasks, Inc. ("DuPont") and, to a lesser extent, with other independent photomask suppliers. The Company also competes with semiconductor manufacturers' captive photomask manufacturing operations. The Company expects to face continued competition from these and other suppliers in the future. Certain competitors have substantially greater financial, technical, sales, marketing and other resources than the Company.

The Company believes that consistency of product quality and timeliness of delivery are the principal factors considered by customers in selecting their photomask suppliers. The inability of the Company to meet these requirements could adversely affect the Company's sales. In the past, competition led to pressure to reduce prices which, the Company believes, contributed to the decrease in the number of independent manufacturers. There can be no assurance that there will not be pressure to reduce prices in the future. See "Business -- Competition."

#### EXPANSION INTO INTERNATIONAL MARKETS

In fiscal 1996, international sales accounted for approximately 18% of the Company's net sales. The Company believes that achieving significant additional international sales requires it to develop, among other things, a local presence in the markets on which it is focused. Such a strategy requires a significant investment of financial, management, operational and other resources. During fiscal 1996, the Company significantly expanded its operations in international markets by acquiring existing operations in the United Kingdom and Switzerland, establishing manufacturing operations in Singapore and acquiring an equity interest in a photomask manufacturing operation in Korea. In international markets, existing independent photomask suppliers, including, in certain markets, DuPont, have significant local presences and market share. Accordingly, the Company has encountered significant competition which could adversely affect the Company's ability to establish a significant presence in international markets that it targets.

Operations outside the United States are subject to inherent risks, including fluctuations in exchange rates, political and economic conditions in various countries, unexpected changes in regulatory requirements, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, longer accounts receivable payment cycles and potentially adverse tax consequences. There can be no assurance that such factors will not have a material adverse effect on the Company's ability to generate sales outside the United States and, consequently, on the Company's business and results of operations. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Business -- Strategy."





## DEPENDENCE ON MANAGEMENT AND TECHNICAL PERSONNEL

The Company's success, in part, depends upon key managerial, engineering and technical personnel, as well as its ability to continue to attract and retain additional personnel. The loss of certain key personnel could have a material adverse effect upon the Company's business and results of operations. There can be no assurance that the Company can retain its key managerial, engineering and technical employees or that it can attract similar additional employees in the future. While the Company believes that it provides competitive compensation and incentive packages, it does not have written employment agreements with employees. See "Business -- Employees" and "Management."

## SUBORDINATION

The Notes will be unsecured and subordinated in right of payment in full to all existing and future Senior Indebtedness of the Company. As a result of such subordination, in the event of the Company's liquidation or insolvency, a payment default with respect to Senior Indebtedness, a covenant default with respect to Senior Indebtedness or upon acceleration of the Notes due to an event of default, the assets of the Company will be available to pay obligations on the Notes only after all Senior Indebtedness has been paid in full, and there may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding. The Company may from time to time incur indebtedness constituting Senior Indebtedness. The Company conducts its operations through its subsidiaries. Accordingly, the Company's ability to meet its cash obligations depends, in part, upon the ability of its subsidiaries to make distributions to the Company, which is and will continue to be restricted by, among other limitations, applicable provisions of law. The Indenture will not restrict the ability of the Company's subsidiaries to incur contractual restrictions on their ability to make distributions to the Company. The right of the Company to participate in the assets of any subsidiary (and thus the ability of holders of the Notes to benefit indirectly from such assets) are generally subject to the prior claims of creditors, including trade creditors, of that subsidiary. The Notes, therefore, will be structurally subordinated to the claims of creditors, including trade creditors, of subsidiaries of the Company. As of April 28, 1997, the Company had \$17.0 million of Senior Indebtedness outstanding. After giving effect to the offering of the Notes and the application of net proceeds therefrom, the Company will have approximately \$2 million of Senior Indebtedness outstanding. As of February 2, 1997, the Company's subsidiaries had outstanding indebtedness and other liabilities of approximately \$46 million (excluding intercompany obligations). See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Description of Notes -- Subordination."

## LIMITATIONS ON REPURCHASE OF NOTES

Upon a Change in Control, each holder of Notes will have the right, at the holder's option, to require the Company to repurchase all or a portion of such holder's Notes. If a Change of Control were to occur, there can be no assurance that the Company would have sufficient funds to pay the repurchase price for all Notes tendered by the holders thereof. The Company's repurchase of Notes as a result of the occurrence of a Change of Control may be prohibited or limited by, or create an event of default under, the terms of agreements related to borrowings which the Company may enter into from time to time, including agreements relating to Senior Indebtedness. The Company also may elect to make any payment to holders of Notes upon a Change of Control using shares of Common Stock. See "Description of Notes -- Repurchase at Option of Holders Upon a Change of Control."

## ABSENCE OF PUBLIC MARKET FOR THE NOTES

The Notes will be a new issue of securities with no established trading market. Although the Underwriters have advised the Company that they intend to make a market in the Notes, they are not obligated to do so, and any such market making may be discontinued at any time at the sole discretion of any such Underwriter without notice. There can be no assurance

that an active market for the Notes will develop and continue upon completion of the offering or that the market price of the Notes will not decline. Various factors could cause the market

price of the Notes to fluctuate significantly, including changes in prevailing interest rates or changes in perceptions of the Company's creditworthiness. The trading price of the Notes also could be significantly affected by the market price of the Common Stock, which could be subject to wide fluctuations in response to a variety of factors, including quarterly variations in operating results, announcements of technological innovations or new products by the Company in the industry and general economic and market conditions. The Notes will not be listed on any securities exchange or quoted on the Nasdaq Stock Market and will only be traded on the over-the-counter market. See "-- Fluctuations in Stock Price" and "Underwriting."

#### FLUCTUATIONS IN STOCK PRICE

The trading prices of the Company's Common Stock have fluctuated significantly. The prices at which the Common Stock trades are determined in the marketplace and may be influenced by many factors, including the performance of, and investor expectations for, the Company, including shortfalls in net sales or earnings from levels expected by securities analysts, the trading volume in the Common Stock and general economic and market conditions. In addition, in recent years the stock market in general, and the shares of technology companies in particular, have experienced extreme price and volume fluctuations. This volatility has substantially affected the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of the Company's Common Stock and the Notes. There can be no assurance as to the price at which the Common Stock will trade in the future. See "Price Range of Common Stock."

#### FORWARD-LOOKING STATEMENTS

Certain statements contained in this Prospectus, including, without limitation, statements containing the words "believes," "anticipates," "intends," "expects" and words of similar import, constitute "forward-looking statements" within the meaning of the Reform Act. Such forward-looking statements involve known or unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and internationally, including in those localities in which the Company operates manufacturing facilities; uncertain demand for photomasks and the cyclical nature of the semiconductor industry; rapid technological changes; competition; the need for capital to fund the expansion of the Company's business; the ability to manage expanding operations; dependence on customers and suppliers; and other factors referenced in this Prospectus, including without limitation, those referenced under the captions "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Business." Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the Notes offered by the Company hereby, after deducting estimated underwriting discounts, commissions and offering expenses payable by the Company, are estimated to be approximately \$72.4 million (\$83.3 million if the Underwriters' over-allotment option is exercised in full).

The Company intends to use approximately \$15 million of the net proceeds from the offering to repay outstanding borrowings under the Company's unsecured revolving line of credit. Such borrowings bear interest at a fluctuating rate which, at April 28, 1997, was 6.6875% per annum, and mature on October 31, 1998. The Company incurred such indebtedness to finance working capital needs during the second quarter of fiscal 1997. After repayment of such borrowings, the unsecured revolving credit facility will remain available to the Company for future borrowings thereunder. The Company intends to use the remainder of the net proceeds for general corporate purposes, including capital expenditures. The Company may use a portion of the net proceeds in connection with the possible exercise of options to purchase additional equity in a Korean photomask manufacturer in which the Company has invested and shares of the minority shareholder of the Company's Swiss subsidiary. If the Company were to exercise both options in full, it would utilize aggregate net proceeds of approximately \$20 million. In addition, from time to time the Company evaluates and enters into negotiations with respect to potential acquisitions of the equipment and other assets of both captive and independent photomask manufacturers and may, as opportunities become available, make such acquisitions in the future. The foregoing represents the Company's best estimate of the allocation of the net proceeds from this offering based upon current economic and industry conditions and the current state of its business operations and plans. The application of proceeds for any particular purpose will depend on a number of factors, including the timing of expenditures and the availability of funds from operations or other sources. Pending such uses, proceeds will be invested in short-term instruments. See "Management's Discussion and Analysis of Results of Operations and Financial Condition."

### PRICE RANGE OF COMMON STOCK

The Company's Common Stock has been quoted on The Nasdaq National Market under the symbol "PLAB" since the Company's initial public offering in March 1987. The following table sets forth high and low sales prices for the Common Stock as reported on The Nasdaq National Market for the periods indicated. The Company effected a three-for-two stock split on March 20, 1995, and per share prices prior to such date have been adjusted to reflect such stock split.

	HIGH ----	LOW ---
Fiscal year ended October 31, 1995		
First quarter . . . . .	\$20.50	\$16.00
Second quarter . . . . .	24.50	19.17
Third quarter . . . . .	36.00	21.75
Fourth quarter . . . . .	40.48	25.50
Fiscal year ended October 31, 1996		
First quarter . . . . .	32.75	19.25
Second quarter . . . . .	27.50	18.75
Third quarter . . . . .	30.00	19.75
Fourth quarter . . . . .	35.00	24.75
Fiscal year ending November 2, 1997		
First quarter . . . . .	40.25	23.50
Second quarter (through April 25, 1997) . . . . .	38.50	26.25

On April 25, 1997, the last sale price for the Common Stock as reported on The Nasdaq National Market was \$31.75 per share. Based on information available to the Company, the Company believes that it has approximately 7,500 beneficial shareholders.



DIVIDEND POLICY

The Company has not paid any cash dividends to date and, for the foreseeable future, anticipates that earnings will continue to be retained for use in its business. The terms of the Company's financing agreements contain certain financial covenants, including covenants that require the maintenance of minimum net worth and working capital and compliance with ratios of total unsubordinated liabilities to tangible net worth and of accounts receivable and cash to current liabilities, which could have the effect of limiting the payment of dividends.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of February 2, 1997 and as adjusted to give effect to the issuance and sale of \$75,000,000 aggregate principal amount of the Notes being offered hereby.

	FEBRUARY 2, 1997	
	AS	
	ACTUAL	ADJUSTED
	(IN THOUSANDS)	
Long-term debt:(1)		
Convertible Subordinated Notes . . . . .	\$ --	\$ 75,000
Other indebtedness, less current portion(2) .	2,005	2,005
	2,005	77,005
	-----	-----
Shareholders' equity:		
Preferred Stock \$0.01 par value, 2,000,000 shares authorized; none issued and outstanding . . . . .	--	--
Common Stock, \$0.01 par value, 20,000,000 shares authorized; 11,983,744 shares issued; and 11,847,244 shares outstanding . . . . .	120	120
Additional paid-in capital . . . . .	78,084	78,084
Retained earnings . . . . .	79,298	79,298
Unrealized gains on investments(3) . . . . .	3,230	3,230
Treasury stock, 136,500 shares at cost . . .	(245)	(245)
Cumulative foreign exchange translation adjustment . . . . .	186	186
Total shareholders' equity . . . . .	160,673	160,673
Total capitalization . . . . .	\$162,678	\$237,678

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- (1) See Note 4 of Notes to Consolidated Financial Statements for a description of the Company's long-term debt.
- (2) Does not include approximately \$15 million that the Company borrowed under its revolving credit facility subsequent to February 2, 1997, which will be repaid with the net proceeds from this offering.
- (3) Reflects unrealized gains on the Company's shares in two publicly-held technology companies. See Note 2 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data of the Company as of October 31, 1992, 1993, 1994, 1995 and 1996 and for the years then ended have been derived from the audited consolidated financial statements of the Company. The financial statements as of October 31, 1995 and 1996 and for each of the years in the three year period ended October 31, 1996, and the report of Deloitte & Touche LLP, independent auditors, with respect to such periods, are included elsewhere in this Prospectus. The selected financial data as of February 2, 1997 and for the three months ended January 31, 1996 and February 2, 1997 have been derived from the unaudited financial statements which contain adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the financial information for such periods. The results of operations for the three months ended February 2, 1997 are not necessarily indicative of the operating results that may be expected for any other period or the full year. The data are qualified by reference to, and should be read in conjunction with, "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Consolidated Financial Statements and related notes and other financial information appearing elsewhere in this Prospectus or incorporated by reference herein. Beginning with the current fiscal year, the Company has adopted a fiscal year ending on the Sunday closest to October 31.

	YEAR ENDED OCTOBER 31,		
	1992	1993	1994
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
CONSOLIDATED STATEMENT OF EARNINGS DATA:			
Net sales . . . . .	\$41,305	\$48,363	\$80,696
Costs and expenses:			
Cost of sales . . . . .	27,142	32,048	51,204
Selling, general and administrative . . . . .	5,746	6,580	10,517
Research and development(1) . . . . .	2,549	2,744	4,738
Operating income . . . . .	5,868	6,991	14,237
Interest and other, net(2) . . . . .	851	445	1,064
Income before income taxes . . . . .	6,719	7,436	15,301
Provision for income taxes(3) . . . . .	2,352	2,528	4,965
Net income(3) . . . . .	\$ 4,367	\$ 4,908	\$10,336
Net income per common share(3)(4) . . . . .	\$ 0.55	\$ 0.59	\$ 1.03
Weighted average number of common shares outstanding(4) . . . . .	7,998	8,372	10,062

	YEAR ENDED OCTOBER 31,		THREE MONTHS ENDED	
	1995	1996	JANUARY 31, 1996	FEBRUARY 2, 1997
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
CONSOLIDATED STATEMENT OF EARNINGS DATA:				
Net sales . . . . .	\$125,299	\$160,071	\$34,668	\$40,029
Costs and expenses:				
Cost of sales . . . . .	76,683	98,267	21,252	25,347
Selling, general and administrative . . . . .	17,127	21,079	4,585	5,035
Research and development(1) . . . . .	7,899	8,460	1,825	2,302
Operating income . . . . .	23,590	32,265	7,006	7,345

Interest and other, net(2)	6,252	1,638	545	1,280
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Income before income taxes	29,842	33,903	7,551	8,625
Provision for income taxes(3)	11,210	12,900	2,900	3,300
	-----	-----	-----	-----
Net income(3)	\$18,632	\$21,003	\$ 4,651	\$ 5,325
	=====	=====	=====	=====
Net income per common share(3)(4)	\$ 1.66	\$ 1.74	\$ 0.39	\$ 0.44
	=====	=====	=====	=====
Weighted average number of common shares outstanding(4)	11,207	12,101	12,058	12,227
	=====	=====	=====	=====

OCTOBER 31,

-----	-----	-----
1992	1993	1994
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(IN THOUSANDS)

CONSOLIDATED BALANCE

SHEET DATA:

Working capital	\$20,771	\$17,577	\$32,329
Property, plant and equipment	25,148	41,585	39,205
Total assets(5)	52,026	74,441	98,346
Long-term debt, less current portion	1,698	1,051	495
Total shareholders' equity(5)	\$44,011	\$62,626	\$80,402

OCTOBER 31,

-----	-----	FEBRUARY 2,
1995	1996	1997
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(IN THOUSANDS)

CONSOLIDATED BALANCE

SHEET DATA:

Working capital	\$ 49,653	\$ 21,613	\$ 16,494
Property, plant and equipment	72,063	123,666	135,243
Total assets(5)	174,218	211,903	209,075
Long-term debt, less current portion	1,809	1,987	2,005
Total shareholders' equity(5)	\$134,045	\$156,417	\$160,673

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- (1) Includes a non-recurring charge of \$1.5 million in fiscal 1995 representing amounts assigned to certain research and development projects of Microphase Laboratories, Inc. ("Microphase"), which amounts were expensed at the time of the acquisition.
- (2) Includes net gains of \$5.1 million and \$1.1 million in fiscal 1995 and the three months ended February 2, 1997, respectively, from the sale of investments.
- (3) Includes (i) a benefit of \$237,000, or \$0.02 per share, for fiscal 1994 representing the cumulative effect of the Company adopting Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," effective November 1, 1993, (ii) approximately \$2 million, or \$0.16 per share, for fiscal 1995



attributable to an after-tax gain from the sale of equity investments less a non-recurring research and development charge related to the Microphase acquisition and (iii) \$0.7 million, or \$0.05 per share, for the first quarter of 1997 attributable to an after-tax gain from the sale of equity investments.

- (4) Share and per share data reflect a 3-for-2 split effected in March 1995.
- (5) Under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which the Company adopted effective October 1994, equity investments are included in assets at fair market value and unrealized gains on investments are reported as a separate component of total shareholders' equity. See Notes 1 and 2 of Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW

Photronics established itself as a multinational company during the fiscal year ended October 31, 1996, by acquiring two European operations, opening a new, state-of-the-art manufacturing facility in Singapore and acquiring a minority interest in an independent photomask manufacturer in Korea. These facilities, together with the Company's five United States manufacturing facilities, comprise a global manufacturing network of nine manufacturing facilities supporting semiconductor manufacturers in the Asian, European and North American markets. Net sales to foreign markets increased in each of the last three fiscal years. As a result of the international expansion, the Company expects that net sales to foreign markets will continue to increase.

European expansion included the acquisition of the photomask manufacturing operations and assets of Plessey Semiconductors Limited ("Plessey") located in Manchester, United Kingdom, on January 24, 1996, and a controlling interest in the Litomask Division ("Litomask") of Centre Suisse d'Electronique et de Microtechnique S.A. ("CSEM") located in Neuchatel, Switzerland, on April 1, 1996 (see Note 6 of Notes to the Consolidated Financial Statements). Individually, neither of these acquisitions had a material effect on the results of operations in fiscal 1996.

Net sales also have been affected by the increased demand for higher technology photomasks, which have higher average selling prices. To meet this demand and position the Company for future growth, the Company continues to make substantial investments in high-end manufacturing technology and capacity both at existing and new facilities. In addition to the Singapore facility, the Company completed construction of its new state-of-the-art facility in Allen, Texas, to which it relocated its Dallas, Texas operation in the fourth quarter of fiscal 1996. The Company currently is constructing a new manufacturing facility in Manchester, United Kingdom, to which the existing Manchester operations will be relocated during fiscal 1997. A new manufacturing facility near Austin, Texas, which the Company expects will be operational in late fiscal 1997, will be the Company's tenth manufacturing facility.

The Company acquired the photomask manufacturing operations and assets of Hoya Micro Mask, Inc. ("Micro Mask") in Sunnyvale, California, on December 1, 1994, and Microphase in Colorado Springs, Colorado, on June 20, 1995. The acquisition of Micro Mask contributed significantly to the Company's growth in fiscal 1995 and, to a lesser extent, in fiscal 1996. Except for a non-recurring charge in fiscal 1995 to research and development expenses (see Note 6 of Notes to the Consolidated Financial Statements), the financial results of the new Colorado facility did not have a material effect on the Company's results of operations or financial position.

The Company has an option to purchase additional equity of PK Limited, an independent Korean photomask manufacturer. If the Company were to acquire a controlling interest, PK Limited's results of operations and financial condition would be included in the Company's financial statements. At December 31, 1996, to the Company's knowledge, PK Limited had total liabilities of \$27.4 million, to which the Notes would be effectively subordinated.

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items in the Company's Consolidated Statement of Earnings for each period:

	YEAR ENDED OCTOBER 31, -----			THREE MONTHS ENDED -----	
	1994 ----	1995 ----	1996 ----	JANUARY 31, 1996 ----	FEBRUARY 2, 1997 ----
Net sales . . . . .	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of sales . . .	63.4	61.2	61.4	61.3	63.3
Selling, general and administrative . . .	13.0	13.7	13.2	13.2	12.6
Research and development(1) . . .	5.9	6.3	5.3	5.3	5.8
Operating income . .	17.7	18.8	20.1	20.2	18.3
Interest and other income, net(2) . . .	1.3	5.0	1.0	1.6	3.2
Income before income taxes . . . . .	19.0	23.8	21.1	21.8	21.5
Provision for income taxes(3) . . . . .	6.2	8.9	8.0	8.4	8.2
Net income(3) . . . .	12.8%	14.9%	13.1%	13.4%	13.3%
	=====	=====	=====	=====	=====

(1) Includes a non-recurring charge of \$1.5 million, or 1.2% of net sales, in fiscal 1995, representing amounts assigned to certain Microphase research and development projects acquired by the Company, which amounts were expensed by the Company at the time of the acquisition. See Note 6 of Notes to Consolidated Financial Statements.

(2) Includes net gains of \$0.8 million, \$5.1 million and \$1.1 million in fiscal 1994, fiscal 1995 and the first quarter of fiscal 1997, respectively, or 1.0%, 4.1% and 2.6% of net sales, respectively, from the sale by the Company of equity investments.

(3) Includes a benefit from the adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," of \$237,000 for fiscal 1994, or 0.3% of net sales.

### THREE MONTHS ENDED FEBRUARY 2, 1997 AND JANUARY 31, 1996

#### NET SALES

Net sales for the three months ended February 2, 1997 increased 15.5% to \$40.0 million compared with \$34.7 million for the three months ended January 31, 1996. Sales from Photronics' new international manufacturing operations accounted for slightly more than one-half of this increase. The remaining portion of the growth resulted from increased shipments to customers from existing facilities due to the availability of greater manufacturing capability, reflecting the implementation of the Company's capacity expansion program, as well as stronger overall demand.

#### COST OF SALES

Gross profit for the three months ended February 2, 1997 increased 9.4% to \$14.7 million compared with \$13.4 million for the same period in the prior fiscal year. Gross margin decreased to 36.7% for the three months ended February 2, 1997, as compared with 38.7% in the

corresponding period in the prior fiscal year. The increase in gross profit resulted principally from increases in sales volume, both from existing operations in the United States and from new international operations. To allow for increased manufacturing capability, the Company has continued to increase its staffing levels and added to its manufacturing systems, resulting in higher labor and equipment-related costs, including depreciation expense. The lower margins were due primarily to the Company's newly expanded manufacturing base, which was not fully utilized, as well as the inclusion of international operations which generated margins below those generally experienced

in the Company's domestic operations. Partially offsetting these increased costs were better margins resulting from a favorable product mix of complex photomasks during the current fiscal year. The Company anticipates that its fixed operating costs will increase in connection with its continuing capacity expansion which it expects to offset with increases in net sales.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 9.8% to \$5.0 million for the three months ended February 2, 1997, compared with \$4.6 million for the same period in the prior fiscal year. However, as a percentage of net sales, selling, general and administrative expenses decreased to 12.6% for the three months ended February 2, 1997, compared with 13.2% for the same period in the prior fiscal year. The increases in costs resulting from the addition of the international operations were offset by the absence of a proportionate increase in costs in the U.S. business which have not been significantly different than in the prior year.

#### RESEARCH AND DEVELOPMENT

Research and development expenses for the three months ended February 2, 1997, increased 26.1% to \$2.3 million, compared with \$1.8 million for the same period in the prior fiscal year. This increase reflects expansion of the Company's research and development organization and an increase in its development efforts which have focused on new high-end, more complex photomasks, including phase shift, optical proximity correction and deep ultra-violet technologies as well as large area photomasks. As a percentage of net sales, research and development expenses increased to 5.8% for the three months ended February 2, 1997, compared with 5.3% in the corresponding prior fiscal period.

#### OTHER INCOME

Interest and other income, net, for the three months ended February 2, 1997, increased to \$1.3 million compared with \$0.5 million for the same period in the prior fiscal year due principally to a \$1.1 million gain from the sale of investment securities, offset in part by a decrease in interest income resulting from lower levels of funds available for investment.

#### NET INCOME

Net income for the three months ended February 2, 1997, increased 14.5% to \$5.3 million, or \$0.44 per share, compared with \$4.7 million or \$0.39 per share, for the same period in the prior fiscal year. Net income in the first quarter of 1997 included \$0.7 million, or \$0.05 per share, from the gain on the sale of investment securities. The weighted average number of common shares outstanding increased to 12.2 million for the three months ended February 2, 1997, from 12.1 million for the same period in the prior fiscal year principally as a result of the issuance of shares in connection with employee stock option exercises since the first quarter of 1996.

#### FISCAL YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994

#### NET SALES

Net sales in fiscal 1996 increased 27.8% to \$160.1 million compared with net sales of \$125.3 million in the prior fiscal year. The majority of the growth was from increased shipments to customers from existing facilities due to greater manufacturing capacity resulting from the Company's capital expansion program, and from increased average selling prices due to a larger proportion of higher technology photomask shipments in fiscal 1996. Approximately 20% of the increase is attributable to the European acquisitions, including sales to Plessey under a long-term supply agreement which was executed in connection with the acquisition. The increase in sales was also favorably affected by the inclusion of a full year's sales for the Company's Colorado and Sunnyvale facilities which were acquired during fiscal 1995 and increased sales from the Company's wholly owned subsidiary, Beta Squared, Inc. ("Beta Squared"). Net sales for fiscal 1995 represented an increase of 55.3% over fiscal 1994 sales of \$80.7 million. Approximately one-half of the fiscal 1995 increase was attributable to the inclusion of the Company's new Sunnyvale facility, commencing December 1, 1994. Furthermore, shipments to customers from



existing facilities increased due to stronger demand generally and greater manufacturing capacity as the Company implemented its capacity expansion program.

#### COST OF SALES

Cost of sales for fiscal 1996 increased 28.1% to \$98.3 million compared to \$76.7 million for the prior fiscal year. These increases resulted principally from increases in sales volume, including those resulting from the Company's recent acquisitions. To meet the increased production demands, the Company has increased its staffing levels and manufacturing capacity, resulting in, among other things, increased labor costs, depreciation expense and equipment maintenance costs. As a percentage of net sales, cost of sales increased slightly to 61.4% in fiscal 1996, compared with 61.2% in fiscal 1995. Improvements from higher capacity utilization of the Company's installed equipment base and a more favorable mix of advanced photomasks were offset by the absorption of increased costs resulting from manufacturing capacity expansion and lower margins generally at recently acquired operations, at Beta Squared, and on sales contracted to foreign manufacturing partners. The Company anticipates that its fixed operating costs will increase in connection with its continuing capacity expansion. While cost of sales may increase initially, the Company expects to match these higher costs with continued increases in revenues as the new facilities and equipment progress to a higher level of utilization.

Cost of sales for fiscal 1995 increased 49.8% over fiscal 1994 cost of sales of \$51.2 million. This increase resulted principally from increases in sales volume, including those resulting from the Micro Mask acquisition. Staffing levels were increased to meet production demands and higher employee incentive compensation expenses were incurred as a result of the Company's performance. The addition of manufacturing capacity resulted in increased equipment-related costs, including maintenance and depreciation. However, as a percentage of net sales, cost of sales in fiscal 1995 decreased to 61.2% from 63.4% in fiscal 1994. This improvement was due primarily to the continued higher capacity utilization and greater operating efficiencies afforded by sales volume increases, most notably at the Company's Dallas, Texas, operation which was acquired from Toppan Printronics (USA), Inc. ("Toppan") on October 1, 1993, and a more favorable mix of more complex photomasks.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 23.1% to \$21.1 million in fiscal 1996 compared to \$17.1 million in fiscal 1995. Nearly half of the increase was due to the addition of the Company's foreign operations. The remaining increase primarily is attributable to the inclusion of a full year's expenses for the Company's Colorado and Sunnyvale facilities which were acquired during fiscal 1995 and increased staffing levels to accommodate the Company's significant growth, partially offset by lower incentive compensation expense. As a percentage of net sales, selling, general and administrative expenses decreased to 13.2% for fiscal 1996 compared to 13.7% in the prior fiscal year, largely due to the lower level of employee incentive compensation expense in fiscal 1996. Selling, general and administrative expenses in fiscal 1995 increased 62.9% over fiscal 1994 expenses of \$10.5 million. This increase was principally due to the inclusion of the Company's Sunnyvale facility and higher employee incentive compensation expenses resulting from the Company's performance. Moreover, increased staffing levels and other associated costs were incurred in the latter part of 1994 and in 1995 to accommodate the Company's business expansion. As a percentage of net sales, selling, general and administrative expenses in fiscal 1995 increased to 13.7% from 13.0% in fiscal 1994.

#### RESEARCH AND DEVELOPMENT

Research and development expenses for fiscal 1996 increased 7.1% to \$8.5 million from \$7.9 million for the prior fiscal year. In connection with the Microphase acquisition in fiscal 1995, the Company recorded a one-time charge of \$1.5 million, representing amounts assigned to certain Microphase research and development projects, principally for the manufacture of large area masks, which were expensed upon acquisition. Excluding this non-recurring charge, research and development expenses for fiscal 1996 increased approximately 32% compared to fiscal 1995. This increase reflects the

expansion of the Company's research and development organization and the resulting increase in its development efforts that have focused on new high-end, more complex photomasks utilizing phase shift, optical proximity correction and deep ultra-violet technologies, and on large



area photomasks. As a percentage of net sales, excluding the Microphase charge, research and development expenses increased slightly to 5.3% in fiscal 1996 from 5.1% in fiscal 1995. Research and development expenses in fiscal 1995, excluding the Microphase charge, increased approximately 35% over fiscal 1994 expenses of \$4.7 million. As a percentage of net sales, research and development expenses, excluding the Microphase charge, declined to 5.1% in fiscal 1995 from 5.9% of net sales in fiscal 1994 because of the substantial increase in net sales.

#### OTHER INCOME AND EXPENSE

Interest income for fiscal 1996 remained fairly constant at \$1.6 million. Other income, net, decreased to \$197,000 for fiscal 1996 compared to \$4.8 million for the prior fiscal year principally due to the \$5.1 million net gain from the sales of equity investments during fiscal 1995. Gains on disposition of investments in fiscal 1994 totaled \$831,000. Minority interest expense and foreign currency transaction gains or losses were not significant in fiscal 1996.

#### INCOME TAXES

For fiscal 1996, the Company provided Federal, state and foreign income taxes at an estimated combined effective annual tax rate of 38.0% as compared to 37.6% in fiscal 1995 and 34.0% in fiscal 1994. The increase in the Company's estimated tax rate primarily is the result of a decrease in tax-exempt investment income for fiscal 1996. The change in the estimated tax rate from fiscal 1994 to fiscal 1995 was the result of a larger portion of income being subject to the 35% incremental Federal income tax rate and a greater portion of the Company's income being generated in California following the Micro Mask acquisition. In 1994, the Company recognized the cumulative effect of the adoption of SFAS 109, "Accounting for Income Taxes," resulting in a benefit of \$237,000, or \$0.02 per share.

#### NET INCOME

Net income for fiscal 1996 amounted to \$21.0 million, or \$1.74 per share, compared with \$18.6 million, or \$1.66 per share, in fiscal 1995 and \$10.3 million, or \$1.03 per share, in fiscal 1994. Excluding the non-recurring research and development charge and the net gain from the sale of equity investments in the third quarter of fiscal 1995 which increased prior year net income by approximately \$2 million, or \$0.16 per share, net income for fiscal 1996 increased approximately 26%. Earnings per share were based on 12.1 million weighted average shares outstanding in fiscal 1996, compared with 11.2 million shares in 1995 and 10.1 million shares in 1994. The increases in weighted average shares outstanding in fiscal 1996 and 1995 principally are the result of a public offering of 1.5 million shares in April and May 1995 and the issuance of approximately 100,000 shares in connection with the Microphase acquisition in June 1995. All share and earnings per share amounts reflect a three-for-two stock split effected in March 1995.

QUARTERLY RESULTS

The following tables present unaudited quarterly consolidated financial data for each of the eight quarters in the period ended October 31, 1996 and for the fiscal quarter ended February 2, 1997 and such data as a percentage of net sales. This data has been prepared on a basis consistent with the audited consolidated financial statements appearing elsewhere in this Prospectus, and in the opinion of management, includes all necessary adjustments (consisting only of normal recurring adjustments) to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and notes thereto appearing elsewhere in this Prospectus. The results of operations for any quarter are not necessarily indicative of results to be expected for any future period.

	FISCAL 1995 THREE MONTHS ENDED			
	JANUARY 31, 1995	APRIL 30, 1995	JULY 31, 1995	OCTOBER 31, 1995
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net sales . . . . .	\$26,176	\$30,037	\$32,854	\$36,232
Costs and expenses:				
Cost of sales . . . . .	16,417	18,422	20,015	21,829
Selling, general and administrative . . . . .	3,543	4,104	4,489	4,991
Research and development(1) . . . . .	1,348	1,595	3,177	1,779
Operating income . . . . .	4,868	5,916	5,173	7,633
Interest and other income, net(2) . . . . .	334	179	5,187	552
Income before income taxes . . . . .	5,202	6,095	10,360	8,185
Provision for income taxes . . . . .	1,935	2,275	3,900	3,100
Net income(3) . . . . .	\$ 3,267	\$ 3,820	\$ 6,460	\$ 5,085
Net income per common share(3) . . . . .	\$ 0.32	\$ 0.36	\$ 0.54	\$ 0.42
Weighted average number of common shares outstanding . . . . .	10,256	10,513	11,945	12,113
Net sales . . . . .	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales . . . . .	62.7	61.3	60.9	60.2
Selling, general and administrative . . . . .	13.5	13.7	13.7	13.8
Research and development(1) . . . . .	5.2	5.3	9.7	4.9
Operating income . . . . .	18.6	19.7	15.7	21.1
Interest and other income, net(2) . . . . .	1.3	0.6	15.8	1.5

Income before income taxes . . . . .	19.9	20.3	31.5	22.6
Provision for income taxes . . . . .	7.4	7.6	11.8	8.6
Net income . . . . .	12.5%	12.7%	19.7%	14.0%

	FISCAL 1996 THREE MONTHS ENDED				FISCAL 1997 THREE MONTHS ENDED
	JANUARY 31, 1996	APRIL 30, 1996	JULY 31, 1996	OCTOBER 31, 1996	FEBRUARY 2, 1997

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Net sales . . . . .	\$34,668	\$40,514	\$42,677	\$42,212	\$40,029
Costs and expenses:					
Cost of sales . . . . .	21,252	24,811	26,249	25,955	25,347
Selling, general and administrative	4,585	5,447	5,587	5,460	5,035
Research and development(1 . . . . .	1,825	2,123	2,218	2,294	2,302
Operating income . . . . .	7,006	8,133	8,623	8,503	7,345
Interest and other income, net(2) . . . . .	545	334	290	469	1,280
Income before income taxes . . . . .	7,551	8,467	8,913	8,972	8,625
Provision for income taxes . . . . .	2,900	3,200	3,400	3,400	3,300
Net income(3) . . . . .	\$ 4,651	\$ 5,267	\$ 5,513	\$ 5,572	\$ 5,325
Net income per common share(3) . . . . .	\$ 0.39	\$ 0.44	\$ 0.46	\$ 0.46	\$ 0.44
Weighted average number of common shares outstanding . . . . .	12,058	12,048	12,111	12,196	12,227
Net sales . . . . .	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of sales . . . . .	61.3	61.2	61.5	61.5	63.3
Selling, general and administrative	13.2	13.4	13.1	12.9	12.6
Research and development(1). . . . .	5.3	5.3	5.2	5.5	5.8
Operating income . . . . .	20.2	20.1	20.2	20.1	18.3
Interest and other income, net(2) . . . . .	1.6	0.8	0.7	1.1	3.2
Income before income taxes . . . . .	21.8	20.9	20.9	21.2	21.5
Provision for income taxes . . . . .	8.4	7.9	8.0	8.0	8.2

Net income . . . . .	13.4%	13.0%	12.9%	13.2%	13.3%
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- (1) Includes a non-recurring charge of \$1.5 million, or 4.6% of net sales, in the three months ended July 31, 1995, representing amounts attributed to certain Microphase research and development projects, which were expensed at the time of the Microphase acquisition.
- (2) Includes net gains of \$0.4 million, \$4.7 million and \$1.1 million in the three months ended January 31, 1995, July 31, 1995 and February 2, 1997, respectively, or 1.5%, 14.3% and 2.6%, respectively, of net sales for such periods from the sale of equity investments.
- (3) Includes (i) approximately \$2 million, or \$0.16 per share, in the third quarter of fiscal 1995 attributable to the sale of equity investments less the non-recurring research and development charge and (ii) \$0.7 million, or \$0.05 per share, attributable to the sale of equity investments in the first quarter of fiscal 1997.

In the past, the Company has experienced fluctuations in its quarterly operating results and it anticipates that such fluctuations will continue and could intensify in the future. Operating results may fluctuate as a result of many factors, including size and timing of orders and shipments, product mix, sales of equipment (which have widely varying gross margins), technological change, competition, loss of significant customers and general economic conditions. The Company's customers generally order the Company's products on an as-needed basis, and substantially all of the Company's net sales in any quarter are dependent on orders received during the quarter. Since the Company operates with a limited backlog and the rate of new orders may vary significantly from month to month, the Company's capital expenditures and overhead expense levels are based primarily on sales forecasts. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, capital expenditures and overhead expense levels could be disproportionately high and the Company's operating results would be adversely affected. In addition, substantially all of the Company's net sales are derived from customers in the semiconductor industry. This industry is highly cyclical and has been characterized by periodic downturns, which in some cases have had severe effects on suppliers to the industry. There can be no assurance that any of the foregoing factors will not have a material adverse effect on the Company's business and results of operations.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's cash, cash equivalents and short-term investments decreased \$25.2 million during fiscal 1996, largely as a result of \$55.8 million of capital expenditures for building construction and equipment purchases in connection with the Company's expansion of manufacturing capacity and \$12.4 million for the acquisitions of the photomask manufacturing operations and assets of Plessey and Litomask and the investment in PK Limited. Offsetting these decreases during fiscal 1996 were cash provided by operating activities totaling \$38.6 million, \$2.8 million from sales of stock under employee stock option and purchase plans and the receipt of approximately \$1.0 million of local government financial incentives to be utilized for the Company's new Manchester operation. Cash, cash equivalents and short-term investments decreased \$13.7 million during the three months ended February 2, 1997, largely as a result of funding \$15.7 million of capital expenditures for equipment and construction in progress in connection with the Company's expansion of manufacturing capacity.

Accounts receivable increased to \$24.8 million at October 31, 1996 from \$17.9 million at October 31, 1995, primarily as a result of higher year-end sales levels, including sales by the new foreign operations, and slower collections generally. Accounts receivable increased only slightly during the first quarter of fiscal 1997. Inventories increased to \$8.0 million at October 31, 1996 from \$6.4 million at October 31, 1995, primarily due to general increases to accommodate the escalating sales volume and the addition of the foreign facilities. Inventories increased \$1.1 million, or 14%, from October 31, 1996 to \$9.1 million at February 2, 1997, as a result of the purchase of several machines for refurbishment and resale during the quarter by Beta Squared. Other current assets increased to \$6.2 million at October 31, 1996, from \$3.4 million at October 31, 1995, primarily due to an increase in prepaid income taxes and prepaid expenses at the newly acquired foreign operations.

Property, plant and equipment increased to \$135.2 million at February 2, 1997 and to \$123.7 million at October 31, 1996, from \$72.1 million at October 31, 1995. Deposits on and purchases of equipment, building construction at the new Allen, Texas and Singapore facilities, and construction in progress on the new Manchester and Austin, Texas facilities totaled \$55.8 million and \$15.7 million in fiscal 1996 and during the three months ended February 2, 1997, respectively, and fixed assets totaling \$8.1 million were acquired in connection with the Plessey and Litomask acquisitions in fiscal 1996. These increases were offset by depreciation expense totaling \$12.1 million and \$4.2 million in fiscal 1996 and the first quarter of fiscal 1997, respectively. Decreases in intangible assets from \$10.3 million at October 31, 1995 to \$9.3 million at October 31, 1996 and to \$9.0 million at February 2, 1997 was due primarily to amortization expense during the applicable periods.

Investments increased to \$13.2 million at October 31, 1996, from \$12.3 million at October 31, 1995, due to the Company's investment in

PK Limited, offset by a decrease in the fair values of the Company's available-for-sale investments during fiscal 1996. Investments decreased to \$10.4 million at February 2, 1997, due to the sale of certain investment securities as well as the net decrease in the fair value of investment securities during the period.

Accounts payable increased to \$34.2 million at October 31, 1996, from \$17.9 million at October 31, 1995, primarily due to increased payables related to the completion of new facilities during the fourth quarter, recent major equipment purchases, the addition of the foreign operations and a higher level of purchases generally due to the Company's growth. Accounts payable decreased \$4.2 million from October 31, 1996 to \$29.9 million at February 2, 1997, due to payments made of unusually high payables at October 31, 1996 which had resulted from the acceptance of significant equipment purchases at the end of fiscal 1996. Accrued salaries and wages and other accrued liabilities decreased to \$9.8 million at October 31, 1996, from \$11.9 million at October 31, 1995. This decrease is largely attributable to the settlement of fees in connection with the conclusion of several of the Company's expansion projects, together with lower sales, use and property tax liabilities because of the resolution of related assessments. Accrued salaries and wages and other accrued liabilities decreased to \$7.8 million at February 2, 1997, largely as a result of payments for fiscal 1996 incentive compensation and timing of other expenses.

The Company has amended its revolving credit facility to permit borrowings of up to \$30.0 million at any time through October 31, 1998. All amounts outstanding at October 31, 1998 will be due and payable on such date.

The Company did not incur any long-term debt during 1996. Changes in long-term debt are due to the imputation of interest on the obligation incurred in connection with the Micro Mask acquisition. Deferred income taxes decreased from \$8.3 million at October 31, 1995 to \$7.5 million at October 31, 1996 and to \$6.6 million at February 2, 1997, largely due to a reduction in unrealized gains on investments. Other liabilities increased to \$2.1 million at October 31, 1996, from \$265,000 at October 31, 1995, principally due to financial incentives received in connection with the Company's new Manchester operations and minority interest associated with the Company's Swiss subsidiary.

The Company's commitments represent on-going investments in additional manufacturing capacity as well as advanced equipment for research and development of the next generation of higher technology, more complex photomasks. At February 2, 1997, the Company had commitments outstanding for capital expenditures of approximately \$62 million. Additional commitments are expected to be incurred during fiscal 1997. Subsequent to the end of the first quarter of fiscal 1997, the Company utilized its revolving credit facility and, at April 28, 1997, approximately \$15 million was outstanding. The Company believes that its currently available resources, together with its capacity for substantial growth and its accessibility to other debt and equity financing sources, are sufficient to satisfy its cash requirements for the foreseeable future.

#### EFFECT OF NEW ACCOUNTING STANDARD

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share," which establishes new standards for the computation and disclosure of earnings per share ("EPS"). The new statement requires dual presentation of "basic" EPS and "diluted" EPS. 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. The Company cannot adopt SFAS 128 until the first quarter of fiscal year 1998. The effect of SFAS 128, had it been adopted beginning in fiscal year 1994, would have been to present basic EPS that would have been greater than EPS actually reported by \$0.03 in fiscal year 1994; \$0.07 in 1995; \$0.05 in 1996; and \$0.01 for the first quarter of 1996 and for the first quarter of 1997. The presentation of diluted EPS would have been the same as EPS actually reported for the respective periods.

## BUSINESS

Photronics is a leading manufacturer of photomasks, which are used primarily by the semiconductor industry in the manufacture of integrated circuits. A photomask is a high precision photographic quartz plate that is used as a master to transfer microscopic circuit patterns onto semiconductor wafers during the fabrication of integrated circuits. Based upon available market information, the Company believes that it has a larger share of the United States market for photomasks than any other photomask manufacturer and is one of the largest photomask manufacturers in the world.

During 1996, the Company focused on developing a global network and enhancing its technological and manufacturing capabilities by expanding its existing facilities and acquiring or establishing new manufacturing operations. The Company transferred its Dallas, Texas operations to a new, advanced manufacturing facility in Allen, Texas and began construction of another facility in Austin, Texas that the Company expects will begin operations by late 1997. The Company established manufacturing operations outside the United States by acquiring facilities in the United Kingdom and Switzerland, constructing a state-of-the-art manufacturing facility in Singapore and acquiring an equity interest in PK Limited, a Korean photomask manufacturer. As a result of these efforts and its continuing investment in sophisticated manufacturing equipment, the Company believes that its manufacturing capacity is among the largest and most advanced in the industry.

### INDUSTRY OVERVIEW

Photomasks are used to transfer circuit patterns onto semiconductor wafers during the fabrication of integrated circuits and, to a lesser extent, other types of electronic components. Each integrated circuit design consists of a series of separate patterns, each of which is imaged onto a different photomask. The resulting series of photomasks then is used to successively layer the circuit patterns onto the semiconductor wafer. The manufacture of modern photomasks requires the use of advanced cleanrooms and sophisticated lithography, inspection, repair and process systems as well as complex data handling capabilities.

VLSI Research Inc. estimates that worldwide photomask sales exceeded \$1.7 billion in 1996 and projects a compound annual growth rate of approximately 17% through 2001. These amounts include sales by both independent manufacturers and captives, which are semiconductor manufacturers that produce photomasks almost exclusively for their own use. Since the mid-1980s, there has been a trend in the United States and Europe towards the divestiture or closing of captive photomask operations by semiconductor manufacturers and an increase in the share of the market served by independent manufacturers. The Company believes that this trend is attributable to an increase in the complexity of integrated circuit devices and resultant increases in the complexity of photomasks necessary to produce such circuits. These developments have increased substantially the capital requirements and costs related to photomask operations, making it no longer cost effective in many cases for semiconductor manufacturers to maintain captive photomask operations. At the same time, due in part to these increasing capital requirements and competitive pressures, the number of significant independent manufacturers in the United States and Europe decreased from approximately 14 in the mid-1980s to four in 1996.

The Company believes that increased photomask demand reflects increased semiconductor design activity and is only indirectly affected by changes in semiconductor sales volumes. Increased design activity has been stimulated by both the rapid development of new generation semiconductor designs and the proliferation of application-specific integrated circuits. In addition, the Company believes the following factors have affected and will continue to affect the photomask industry:

- . Proliferation of Semiconductor Applications. Semiconductor devices of all types continue to be incorporated into new products, including cellular telephones, pagers,



automobiles, medical products, household appliances and other electronic consumer products. These applications are

function specific and typically require new integrated circuit designs and corresponding sets of photomasks. In addition, the demand for semiconductor devices from traditional markets such as computer systems is growing significantly as semiconductor content in electronic systems increases and as the market for personal computers and other electronic systems expands.

- . Increasing Device Complexity. Semiconductor manufacturers and designers continue to increase the complexity of integrated circuits which has led to a corresponding increase in the complexity and number of photomasks required in the manufacture of an integrated circuit. For example, a typical 64 Mbit DRAM uses 23 photomasks compared to 14 photomasks for an older generation 1 Mbit DRAM.
- . Limited High-End Photomask Manufacturing Capacity. High-end photomasks typically require more advanced manufacturing systems and processes. These systems generally are significantly more expensive than prior generation systems, and photomasks requiring these advanced systems are usually more expensive to produce. The Company believes that only a limited number of photomask manufacturers throughout the world currently have the capacity to produce high-end photomasks in significant volume.
- . New Advanced Semiconductor Manufacturing Facilities. In response to the increasing demand for integrated circuits, semiconductor manufacturers have added, or announced the addition of, a significant number of new state-of-the-art manufacturing facilities. These facilities are likely to require the most advanced photomasks.
- . Limited Technological Capabilities. As semiconductor manufacturers continue to increase the complexity of integrated circuits, they have encountered technological limitations in their installed equipment base. One solution to these limitations has been to incorporate advanced lithographic techniques into the design of photomasks. These advanced photomasks, generally known as phase-shift and optical proximity correction (OPC) photomasks, are among the most difficult and expensive photomasks to manufacture, and only a small number of photomask manufacturers have the expertise and the sophisticated equipment to manufacture such photomasks.

## STRATEGY

The Company's strategy to expand its position as a leader in the manufacture of photomasks consists of the following elements:

- . Maintain Technological Leadership. Maintaining technological leadership in photomask manufacture is important to the Company's long-term success. The Company invests in state-of-the-art manufacturing systems and facilities to support advanced technological and high volume demands. The Company will continue to devote significant resources to the development of technologies for the manufacture of advanced photomasks, including optical proximity correction and phase-shift photomasks, which are designed to improve circuit image resolution on a semiconductor wafer.
- . Ensure Strong Customer Relationships. Critical to the Company's position as an industry leader is developing and maintaining high levels of customer satisfaction. Because each photomask is specific to a particular circuit design and customers expect rapid delivery, the Company believes that consistency of product quality and timeliness of delivery are critical to its success. The Company has invested in the facilities and personnel necessary to expeditiously handle incoming customer designs and works closely with each customer to ensure that the customer's specifications are properly reflected in the final product. In addition, the Company has entered into arrangements with certain key customers under which the Company is designated a preferred supplier and the customer is assured a level of priority access to the Company's manufacturing capabilities.



- . Leverage Strategically Located Manufacturing Facilities. The Company believes that in certain markets proximity to customers is an important competitive factor. In order to accelerate delivery times and respond to customer demands, the Company has established multiple manufacturing facilities in key locations. The Company's manufacturing network now includes five facilities in the United States (with a sixth under construction) as well as facilities in Singapore, Switzerland and the United Kingdom. The Company also has an option to increase its equity ownership of a manufacturing operation in Korea. The Company continually evaluates new markets and acquisition opportunities to support its customers.
- . Provide Global Solution. As the semiconductor industry becomes increasingly global, the ability to satisfy a customer's requirements in multiple markets throughout the world can improve a manufacturer's market position. The Company has established manufacturing operations in Europe and Asia in order to achieve this objective and can support an individual customer's requirements across many markets.

#### MANUFACTURING TECHNOLOGY

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

The Company currently supports customers across the full spectrum of integrated circuit production technologies by manufacturing photomasks using electron beam or laser-based technologies and, to a significantly lesser degree, optical-based technologies. Laser-based or electron beam systems are the predominant technologies used for photomask manufacturing. Such technologies are capable of producing the finer line resolution, tighter overlay and larger die size for the larger and more complex circuits currently being designed. Laser and electron beam generated photomasks can be used with the most advanced processing techniques to produce VLSI (very large scale integrated circuit) devices. The Company currently owns a number of laser writing systems and electron beam systems and has committed to purchase additional advanced systems in order to maintain technological leadership. Compared to laser or electron beam generated photomasks, the production of photomasks by the optical method is less expensive, but also less precise. The optical method traditionally is used on less complex and lower priced photomasks.

The first several levels of photomasks frequently are required to be delivered by the Company within 24 hours from the time it receives a customer's design. The ability to manufacture high quality photomasks within short time periods is dependent upon efficient manufacturing methods, high yields and high equipment reliability. The Company believes that it meets these requirements and has made significant investments in manufacturing and data processing systems and statistical process control methods to optimize the manufacturing process and reduce cycle times.

Quality control is an integral part of the photomask manufacturing process. Photomasks are manufactured in temperature, humidity and particulate controlled cleanrooms because of the high level of precision, quality and yields required. Each photomask is inspected several times during the manufacturing process to ensure compliance with customer specifications. The Company has made a substantial investment in equipment to inspect and repair photomasks and to ensure that customer specifications are met. After inspection and any necessary repair, the Company utilizes technological processes to

clean the photomasks prior to shipment.

## SALES AND MARKETING

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

The Company conducts its sales and marketing activities through a staff of full-time sales personnel and customer service representatives who work closely with the Company's general management and technical personnel. In addition to the sales personnel at the Company's manufacturing facilities in Brookfield, Connecticut; Milpitas and Sunnyvale, California; Colorado Springs, Colorado; Allen, Texas; Manchester, United Kingdom; Neuchatel, Switzerland and Singapore, the Company has sales offices in Carlsbad, California; Austin, Texas; Raleigh, North Carolina; Hillsboro, Oregon; Lancaster, United Kingdom; and Taiwan.

The Company supports international customers through both its domestic and foreign facilities. The Company also has sub-contract manufacturing arrangements in Taiwan. The Company considers its presence in international markets important to attracting new customers, providing global solutions to its existing customers and serving customers that utilize manufacturing foundries outside of the United States, principally in Asia. Current customers include companies in Australia, Canada, Germany, Italy, Japan, Singapore, Switzerland, Taiwan and the United Kingdom. For a statement of the amount of net sales, operating income or loss, and assets attributable to each of the Company's geographic areas of operations, see Note 13 of Notes to the Consolidated Financial Statements.

## EQUIPMENT SALES AND SERVICES

In addition to the manufacture of photomasks, the Company, through its wholly-owned subsidiary, Beta Squared, manufactures, sells and services a wafer plasma etching system used in the processing of semiconductor wafers. The original system was developed by Texas Instruments which licensed to Beta Squared the right to manufacture and sell the system. Beta Squared also sells refurbished semiconductor manufacturing equipment, engineering services and replacement parts and field service for such equipment on a third-party basis. Such activities represented approximately 5% of the Company's net sales during fiscal 1996.

## CUSTOMERS

The Company primarily sells its products to leading semiconductor manufacturers. The Company's largest customers during fiscal 1996 included the following:

Advanced Micro Devices, Inc.	Micron Technology, Inc.
Analog Devices, Inc.	Motorola, Inc.
Atmel Corporation	National Semiconductor Corporation
Chartered Semiconductor Manufacturing, Ltd.	Orbit Semiconductor Inc.
Cirrus Logic, Inc.	Philips N.V.
Cypress Semiconductor Corporation	Plessey Semiconductors Limited
Digital Equipment Corporation	Symbios Logic Inc.
Integrated Device Technology, Inc.	Texas Instruments Incorporated
LSI Logic Corp.	Unitrode Corp.
	VLSI Technology Inc.
	Zilog, Inc.



The Company has continually expanded its customer base and, during fiscal 1996, sold its products and services to approximately 400 customers. The Company assumed an agreement with Texas Instruments as part of the acquisition of the Dallas, Texas operation in fiscal 1993 and, as a result, Texas Instruments became a more significant customer of the Company. In fiscal 1996, sales to Texas Instruments represented approximately 26% of net sales, and the loss of Texas Instruments or a significant decrease in the amount of the purchases by Texas Instruments from the Company would have a material adverse effect on the Company. The agreement with Texas Instruments continues until March 31, 2000 and provides that the Company will be Texas Instruments' principal photomask supplier in the United States and Europe so long as the Company's price, quality, service and delivery are competitive. The agreement also requires the Company to ensure that prices charged to Texas Instruments are not less favorable than those otherwise extended by the Company to other customers with similar specifications, volume, delivery and other requirements. During fiscal 1996, no single customer other than Texas Instruments accounted for more than 10% of the Company's net sales. The Company's five largest customers, in the aggregate, accounted for approximately 45% of net sales in fiscal 1996.

#### RESEARCH AND DEVELOPMENT

The Company conducts ongoing research and development programs intended to maintain the Company's leadership in technology and manufacturing efficiency. Since fiscal 1994, the Company has increased its investment in research and development activities and current efforts include deep ultraviolet, phase-shift and optical proximity correction photomasks for advanced semiconductor manufacturing. Phase-shift and optical proximity correction photomasks use advanced lithography techniques for enhanced resolutions of images on a semiconductor wafer. The Company incurred expenses of \$4.7 million, \$7.9 million (including a non-recurring charge of \$1.5 million) and \$8.5 million for research and development in fiscal 1994, 1995 and 1996, respectively. While the Company believes that it possesses valuable proprietary information and has received licenses under certain patents, the Company does not believe that patents are a material factor in the photomask manufacturing business and it holds only one patent.

#### MATERIALS AND SUPPLIES

Raw materials utilized by the Company generally include high precision quartz plates, which are used as photomask blanks, primarily obtained from Japanese suppliers (including Toppan Printing Co., the parent of Toppan ("Toppan Printing"), and Hoya Corporation ("Hoya")), pellicles (which are protective transparent cellulose membranes) and electronic grade chemicals used in the manufacturing process. Such materials are generally available from a number of suppliers and the Company is not dependent on any one supplier for its raw materials. The Company believes that its utilization of a broad range of suppliers enables it to access the most advanced material technology available. The Company has established purchasing arrangements with each of Toppan and Hoya and it is expected that the Company will purchase substantially all of its photomask blanks from Toppan and Hoya so long as their price, quality, delivery and service are competitive.

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

#### BACKLOG

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



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

## COMPETITION

The photomask industry is highly competitive and most of the Company's customers utilize more than one photomask supplier. The Company's ability to compete primarily depends upon the consistency of product quality and timeliness of delivery, as well as pricing, technical capability and service. The Company also believes that proximity to customers is an important factor in certain markets. Certain competitors have considerably greater financial and other resources than the Company. The Company believes that it is able to compete effectively because of its dedication to customer service, its investment in state-of-the-art photomask equipment and its experienced technical employees.

There has been a decrease since the mid-1980s in the number of independent manufacturers as a result of independents being acquired or discontinuing operations. The Company believes that entry into the market by a new independent manufacturer would require a major investment of capital, a significant period of time to establish a commercially viable operation and additional time to attain meaningful market share and achieve profitability. In the past, competition and relatively flat demand led to pressure to reduce prices which the Company believes contributed to the decrease in the number of independent manufacturers. Although independent photomask manufacturers have experienced increased demand since late 1993, there can be no assurance that past trends in pricing and demand will not re-emerge.

Based upon available market information, the Company believes that it has a larger share of the United States market than any other photomask manufacturer and is one of the largest photomask manufacturers in the world. Competitors in the United States include DuPont and Align-Rite; and in international markets, Dai Nippon Printing, Toppan, Hoya, DuPont, Taiwan Mask Corp., Innova, Align-Rite and Compugraphics. In addition, some of the Company's customers possess their own captive facilities for manufacturing photomasks and certain semiconductor manufacturers market their photomask manufacturing services to outside customers as well as to their internal organization.

## EMPLOYEES

As of April 1, 1997, the Company employed approximately 900 persons on a full-time basis. The Company believes that it offers competitive compensation and other benefits and that its employee relations are good. Except for employees in the United Kingdom, none of the Company's employees is represented by a union.

## PROPERTY

The Company's properties include buildings in which the Company currently conducts manufacturing operations or is constructing facilities for future manufacturing operations. The following table presents certain information about the Company's manufacturing facilities.

LOCATION -----	FACILITY SIZE (SQ. FT.) -----	TYPE OF INTEREST -----
Brookfield, Connecticut (Building #1)	19,600	Owned
Brookfield, Connecticut (Building #2)	20,000	Leased
Milpitas, California (2 buildings)	49,000	Leased
Sunnyvale, California (3 buildings)	40,000	Owned
Colorado Springs, Colorado	27,000	Leased
Allen, Texas	60,000	Owned
Austin, Texas (under construction)	50,000	Owned
Manchester, United Kingdom (current facility)	13,000	Leased
Manchester, United Kingdom (new facility under construction to replace current facility)	42,000	Owned
Neuchatel, Switzerland	7,000	Leased
Singapore	20,000	Leased

Lease terms range from less than one year, for facilities from which the Company is planning to relocate operations, to up to five years, with options to renew for certain facilities. In addition, the Company leases office space in Jupiter, Florida; Austin, Texas; Carlsbad, California; Hillsboro, Oregon and certain property adjacent to its facilities in Brookfield, Connecticut. During fiscal 1996, the Company leased real property at an aggregate annual rental of \$2.3 million and leased equipment at an aggregate annual rental of \$3.3 million.

The leased properties in Brookfield, Connecticut are leased from entities controlled by Constantine S. Macricostas under fixed lease rates which were determined by reference to fair market value rates at the beginning of the respective lease term. Mr. Macricostas is the Chairman of the Board, Chief Executive Officer and a director of the Company.

Other than new manufacturing facilities or systems which had not yet been placed into service, the Company believes that it substantially utilized its facilities during fiscal 1996.

## LEGAL PROCEEDINGS

The Company is not a party to any material pending legal

proceedings, nor is the property of the Company subject to any such proceedings.

## MANAGEMENT

The names of the officers and directors of the Company are set forth below, together with the positions held by each person in the Company and their ages as of April 24, 1997. All officers are elected annually by the Board of Directors and serve until their successors are duly elected and qualified.

NAME ----	AGE ---	POSITION -----
Constantine S. Macricostas	61	Chairman of the Board, Chief Executive Officer and Director
Michael J. Yomazzo	54	President, Chief Operating Officer and Director
Jeffrey P. Moonan	41	Senior Vice President, General Counsel and Secretary
Robert J. Bollo	52	Vice President Finance-- and Chief Financial Officer
David C. Heilman	58	Senior Vice President-- Sales and Marketing
James Northup	36	Senior Vice President-- Operations
Jack P. Moneta	54	Senior Vice President-- Business Development
Walter M. Fiederowicz	50	Director
Joseph A. Fiorita, Jr.	52	Director
Yukio Tagawa	59	Director

The terms of the Company's revolving credit facility specify that if Mr. Macricostas ceases to maintain day-to-day control of the Company, Mr. Yomazzo, or another replacement acceptable to the bank, must assume such duties, otherwise the Company may be declared in default.

For the past five years each of the officers and directors of the Company has held the office shown, except as follows:

Constantine S. Macricostas, a founder of the Company, served as Treasurer and Chief Financial Officer of the Company from 1974 until September 1987 and as President from 1974 until November 1990. Mr. Macricostas also serves as a Director of Nutmeg Federal Savings and Loan Association and The DII Group, Inc. (a provider of integrated electronic manufacturing products and services).

Michael J. Yomazzo has served as President and Chief Operating Officer since January 1994. From November 1990 until January 1994, he served as Executive Vice President; from July 1989 until November 1990, he served as Senior Vice President Finance and Planning and since 1977, he has served as a Vice President of the Company with responsibilities which have included finance, sales and marketing.

Jeffrey P. Moonan has served as Senior Vice President since January 1994 and General Counsel and Secretary since July 1988. From July 1989 until January 1994, he served as Vice President/Administration.

Robert J. Bollo has served as Vice President--Finance and Chief Financial Officer since November 1994. From August 1994 to November 1994, he served as Director of Finance. From April 1992 to July 1994, he was a Principal of CFO Associates, Inc., a financial management firm. Prior to April 1992, he was with Kollmorgen Corporation, serving as a Vice President since January 1990 and Controller and Chief Accounting Officer from February 1985 until January 1990.

David C. Heilman has served as Senior Vice President--Sales and Marketing since November 1996. From September 1993 until November 1996, he served as Vice President Sales and Marketing. Prior to joining the Company, he served in various capacities for more than five years with DuPont Photomasks, Inc., including as Executive Vice President and Chief Operating Officer, Vice President, Sales and Marketing and most recently as General Manager of DuPont's Kokomo, Indiana facility.

James Northup has served as Senior Vice President--Operations since November 1996. From May 1995 until November 1996, Mr. Northup served as Vice President--California, Connecticut and Colorado Operations; from January 1994 until May 1995, he served as Director of Connecticut Operations and from April 1990 until January 1994 he served as Operations Manager for the Company's Connecticut operations.

Jack P. Moneta has served as Senior Vice President--Business Development since November 1996. From January 1994 until November 1996, he served as Vice President--Texas Operations. From August 1992 to January 1994, he served as Director of Texas Operations. He served in various capacities with International Business Machines Corporation for 25 years, including most recently as the General Manager of IBM's United States photomask operations with overall responsibility for coordinating IBM's worldwide photomask operations.

Walter M. Fiederowicz has served since April 1997 as the President and Chief Executive Officer of World Corp, Inc., a holding company that owns approximately 61.3% of the common stock of World Airways, Inc. (a leading provider of long-range passenger and cargo air transportation services to major airlines) and approximately 28.9% of the common stock of IntelliData Technologies Corporation (a provider of caller identification based telecommunications devices, smart telephone and on-line electronics information services). From March 1996 until April 1997, Mr. Fiederowicz was a private investor and consultant. Mr. Fiederowicz served as chairman of Colonial Data Technologies Corp., (a distributor of telecommunications equipment) from August 1994 to March 1996. From January 1991 until July 1994, he held various positions, including executive vice president and chairman and served as director of Conning and Company (the parent company of an investment firm). Mr. Fiederowicz was chairman and director of Covenant Mutual Insurance Company, a property and casualty insurance company ("Covenant"), from 1989 until March 1993, and was president and chief executive officer of Covenant from 1989 until December 1992. Covenant was placed in rehabilitation by the Insurance Commissioner of the State of Connecticut in 1993 and subsequently liquidated as a result of losses in connection with insurance claims relating to Hurricane Andrew. Mr. Fiederowicz also serves as a director of IntelliData Technologies Corporation, Blau Marketing Technologies, Inc. (a marketing firm) and First Albany Companies, Inc. (the parent of a broker-dealer).

Joseph A. Fiorita, Jr. is a partner in Fiorita, Kornhaas and Van Houten, P.C., independent certified public accountants.

Yukio Tagawa has served as a Director of the Company since January 1997. Mr. Tagawa has served as Vice Divisional Manager for the Electronics Division of Toppan since June 1996 and as a Director of Toppan from June 1995. Prior to assuming such duties, Mr. Tagawa served in other managerial capacities with Toppan since March 1991. Toppan is a diversified manufacturing company with operations in printing and electronics industries (including photomask manufacture) and had revenues in excess of \$11 billion during its last fiscal year.



PRINCIPAL SHAREHOLDERS

The following table sets forth certain information known to the Company regarding the beneficial ownership of the Common Stock of Photronics as of April 1, 1997. Information is presented with respect to (i) persons beneficially owning five percent or more of the outstanding Common Stock; (ii) each director and certain executive officers of the Company and (iii) all directors and executive officers of the Company as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)	
	NUMBER -----	PERCENT -----
Constantine S. Macricostas (2)(3) . . . . . 1061 East Indiantown Road Jupiter, Florida 33477	1,595,459	13.3%
Toppan Printing Co., Ltd. . . . . 1, Kanda Izumi-cho Chiyoda-Ku Tokyo, Japan 101	1,590,000	13.4
Yukio Tagawa (4) . . . . . Toppan Printing Co., Ltd. 1, Kanda Izumi-cho Chiyoda-Ku Tokyo, Japan 101	1,590,000	13.4
Macricostas Partners, L.P. . . . . 1122 Bel Air Allen, Texas 75013	1,140,000	9.6
Michael J. Yomazzo (2)(5) . . . . .	195,609	1.6
Jeffrey P. Moonan (2) . . . . .	76,250	*
Walter M. Fiederowicz (2)(6). . . . .	26,125	*
Joseph A. Fiorita, Jr. (2). . . . .	13,925	*
Robert J. Bollo (2) . . . . .	7,500	*
Directors and Executive (7) . . . . . Officers as a group (seven persons)	3,504,868	28.9

-----  
\* Represents less than 1%.

- (1) Except as otherwise indicated, the named person has the sole voting and investment power with respect to the shares of the Company's Common Stock set forth opposite such person's name.
- (2) Includes shares of Common Stock subject to stock options exercisable as of May 30, 1997 as follows: Mr. Bollo (7,500); Mr. Fiederowicz (13,725); Mr. Fiorita (13,725); Mr. Macricostas (145,628); Mr. Yomazzo (56,400); and Mr. Moonan (65,000).
- (3) Includes 17,000 shares held by the wife of Mr. Macricostas, as to which shares he disclaims beneficial ownership. Also includes 1,140,000 shares owned by Macricostas Partners, L.P., of which Mr. Macricostas is a limited partner and 25,309 shares owned by the corporate general partner of such partnership of which



Mr. Macricostas is the President, a director and a significant shareholder. Mr. Macricostas disclaims beneficial ownership of those shares not represented by his ownership interests.

- (4) Includes 1,590,000 shares owned by Toppan Printing Co., Ltd. of which Mr. Tagawa is an executive officer and a director, as to which shares Mr. Tagawa disclaims beneficial ownership.
- (5) Also includes 31,000 shares held by the wife of Mr. Yomazzo, as to which shares he disclaims beneficial ownership.
- (6) Includes 6,000 shares owned by the wife of Mr. Fiederowicz and 1,375 shares owned by his children, as to which shares he disclaims beneficial ownership.
- (7) Includes the shares listed in notes (2), (3), (4), (5) and (6) above.

#### TOPPAN STOCK PURCHASE AGREEMENT

In October 1993, the Company sold 1,590,000 shares of Common Stock to Toppan Printing in connection with the Company's acquisition of the photomask manufacturing business of Toppan, a subsidiary of Toppan Printing. Under the terms of the stock purchase agreement, Toppan Printing may not acquire additional shares of the Company's Common Stock, if, after such acquisition, Toppan Printing beneficially will own more than 19% of the Company's outstanding Common Stock. The Company has granted Toppan Printing certain demand and piggyback registration rights commencing in 1996 with respect to shares of Common Stock owned by it. The stock purchase agreement restricts sales of Common Stock by Toppan Printing until October 1998 and grants to the Company rights of first refusal with respect to proposed sales to unaffiliated third parties, with certain exceptions. Such restrictions and rights of first refusal terminate in October 1998, or earlier if at any time Toppan Printing owns less than 5% of the Company's Common Stock or if certain other events occur. Under the stock purchase agreement, the Company is required to use its best efforts to nominate a director designated by Toppan Printing for as long as it owns at least 1,500,000 shares of Common Stock and such holdings represent at least 15% of the outstanding shares of the Company's Common Stock on a fully diluted basis. The stock purchase agreement also requires Toppan Printing to vote all voting securities of the Company that it beneficially owns in favor of each nominee for election to the Board who has been recommended by the Board. In addition, for a ten-year period, the Company agreed to pay Toppan Printing annual commissions of from 1% to 2.5% of sales over \$3 million to Texas Instruments. Such commissions amounted to approximately \$560,000 in fiscal 1996.

## DESCRIPTION OF NOTES

The Notes are to be issued under an Indenture, to be dated as of May . , 1997 (the "Indenture"), between the Company and The Chase Manhattan Bank, as trustee (the "Trustee"), a copy of which is filed as an exhibit to the Registration Statement. Wherever particular defined terms of the Indenture (including the Notes) are referred to, such defined terms are incorporated herein by reference (the Notes and various terms relating to the Notes being referred to in the Indenture as "Securities"). References in this section to the "Company" are solely to Photronics, Inc. and not to its subsidiaries. The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the detailed provisions of the Notes and the Indenture, including the definitions therein of certain terms. Section references below are references to sections of the Indenture.

### GENERAL

The Notes will be unsecured subordinated obligations of the Company, will be limited to \$86,250,000 aggregate principal amount, and will mature on May 15, 2004. The Notes will bear interest at the rate per annum shown on the front cover of this Prospectus from the date of issuance, payable semiannually on May 15 and November 15 of each year, commencing on November 15, 1997. (Section 301)

The Notes will be convertible into Common Stock initially at the conversion rate stated on the cover page hereof, subject to adjustment upon the occurrence of certain events described under "-- Conversion Rights," at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased. (Section 1301)

The Notes are redeemable under the circumstances and at the redemption prices set forth below under "-- Optional Redemption," plus accrued interest to the Redemption Date. (Section 1101)

The Notes will be issued only in fully registered form, without coupons, in denominations of \$1,000 and any integral multiple thereof. (Section 302) No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. (Section 305)

### CONVERSION RIGHTS

The Holder of any Note will have the right, at the Holder's option, to convert any portion of the principal amount of a Note that is an integral multiple of \$1,000 into shares of Common Stock at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased, at a conversion rate of . shares of Common Stock per \$1,000 principal amount of Notes (the "Conversion Rate") (equivalent to a conversion price of approximately \$ . per share of Common Stock) (subject to adjustment as described below). The right to convert a Note called for redemption or tendered for repurchase will terminate at the close of business on the Redemption Date or the Repurchase Date for such Note, as the case may be. (Section 1301)

The right of conversion attaching to any Note may be exercised by the Holder by delivering the Note at the specified office of the Conversion Agent, accompanied by a duly signed and completed notice of conversion, a copy of which may be obtained from the Trustee. The conversion date will be the date on which the Note and the duly signed and completed notice of conversion are so delivered. As promptly as practicable on or after the conversion date, the Company will issue and deliver to the Trustee a certificate or certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share; such certificate will be sent by the Trustee to the Conversion Agent (if other than the Trustee) for delivery to the Holder. Such shares of Common Stock issuable upon conversion of the Notes, in accordance with the provisions of the Indenture, will be fully paid and nonassessable and will rank pari passu with the other shares of Common Stock of the



Company outstanding from time to time. Any Note surrendered for conversion during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date (except Notes (or portions thereof) called for redemption on a Redemption Date or which are repurchasable on a Repurchase Date occurring, in either case, within such period) must be accompanied by payment of an amount equal to the interest payable on such Interest Payment Date on the principal amount of Notes being surrendered for conversion. The interest so payable on such Interest Payment Date with respect to any Note (or portion thereof, if applicable) which has been called for redemption on a Redemption Date, or which may be repurchased on a Repurchase Date, occurring, in either case, during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date, which Note (or portions thereof, if applicable) is surrendered for conversion during such period, shall be paid to the Holder of such Note being converted in an amount equal to the interest that would have been payable on such Note if such Note had been converted as of the close of business on such Interest Payment Date. The interest so payable on such Interest Payment Date in respect of any Note (or portion thereof, as the case may be) which has not been called for redemption on a Redemption Date, or is not eligible for repurchase on a Repurchase Date, occurring, in either case, during the period from the close of business on any Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date, which Note (or portion thereof, as the case may be) is surrendered for conversion during such period, shall be paid to the Holder of such Note as of such Regular Record Date. Interest payable in respect of any Note surrendered for conversion or repurchase on or after an Interest Payment Date shall be paid to the Holder of such Note as of the next preceding Regular Record Date, notwithstanding the exercise of the right of conversion or repurchase. As a result of the foregoing provisions, except as provided above, Holders that surrender Notes for conversion on a date that is not an Interest Payment Date will not receive any interest from the Interest Payment Date next preceding the date of conversion to the date of conversion or for any later period, even if the Notes are surrendered after a notice of redemption (except for the payment of interest on Notes called for redemption on a Redemption Date or to be repurchased on a Repurchase Date between a Regular Record Date and the Interest Payment Date to which it relates, as provided above). No other payment or adjustment for interest, or for any dividends in respect of Common Stock, will be made upon conversion. Holders of Common Stock issued upon conversion will not be entitled to receive any dividends payable to holders of Common Stock as of any record time or date before the close of business on the conversion date. No fractional shares will be issued upon conversion but, in lieu thereof, the Company will pay an appropriate amount in cash based on the market price of Common Stock at the close of business on the day of conversion. (Sections 101, 203, 307, 1302 and 1303)

A Holder delivering a Note for conversion will not be required to pay any taxes or duties in respect of the issue or delivery of Common Stock on conversion but will be required to pay any tax or duty which may be payable in respect of any transfer involved in the issue or delivery of the Common Stock in a name other than that of the Holder of the Note. Certificates representing shares of Common Stock will not be issued or delivered unless all taxes and duties, if any, payable by the Holder have been paid. (Section 1308)

The Conversion Rate is subject to adjustment in certain events, including, without duplication: (a) dividends (and other distributions) payable in Common Stock, (b) the issuance to all holders of Common Stock of rights, options or warrants entitling them to subscribe for or purchase Common Stock at less than the then Current Market Price of such Common Stock (determined as provided in the Indenture) as of the record date for shareholders entitled to receive such rights, options or warrants, (c) subdivisions, combinations and reclassifications of Common Stock, (d) distributions to all holders of Common Stock of evidences of indebtedness of the Company, shares of capital stock, or other property (including securities, but excluding those dividends,

rights, options, warrants and distributions referred to above, dividends and distributions paid exclusively in cash and in mergers and consolidations to which the next succeeding paragraph applies), (e) distributions consisting exclusively of cash (excluding any cash portion of distributions referred to in (d) above, or cash distributed upon a merger or consolidation to which the next succeeding paragraph applies) to all holders of Common Stock in an aggregate amount that, combined together with (i) other such all-cash distributions made within the preceding 12 months in respect of which no adjustment has been made and (ii) any cash and the fair market value of other consideration

payable in respect of any tender offer by the Company or any of its subsidiaries for Common Stock concluded within the preceding 12 months in respect of which no adjustment has been made, exceeds 10% of the Company's market capitalization (being the product of the then Current Market Price per share of the Common Stock and the number of shares of Common Stock then outstanding) on the record date for such distribution, and (f) the successful completion of a tender offer made by the Company or any of its subsidiaries for Common Stock which involves an aggregate consideration that, together with (i) any cash and other consideration payable in a tender offer by the Company or any of its subsidiaries for Common Stock expiring within the 12 months preceding the expiration of such tender offer in respect of which no adjustment has been made and (ii) the aggregate amount of any such all-cash distributions referred to in (e) above to all holders of Common Stock within the 12 months preceding the expiration of such tender offer in respect of which no adjustments have been made, exceeds 10% of the Company's market capitalization on the expiration of such tender offer. Notwithstanding the foregoing, (i) if the options, rights or warrants described in clause (b) above are exercisable only upon the occurrence of certain triggering events, then the Conversion Rate will not be adjusted until such triggering events occur and (ii) if such options, rights or warrants expire unexercised, the Conversion Rate will be readjusted to take into account only the actual number of such options, rights or warrants which were exercised. The Company reserves the right to make such increases in the Conversion Rate in addition to those required in the foregoing provisions as it considers to be advisable in order that any event treated for federal income tax purposes as a dividend or distribution of stock or issuance of rights or warrants to purchase or subscribe for stock will not be taxable to the recipients. No adjustment of the Conversion Rate will be required to be made until the cumulative adjustments amount to 1% or more of the Conversion Rate. (Section 1304) The Company shall compute any adjustments to the Conversion Rate pursuant to this paragraph and will give notice to the Holders of the Notes of any adjustments. (Section 1305)

In case of any consolidation or merger of the Company with or into another Person or any merger of another Person into the Company (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of the Common Stock), or in case of any sale or transfer of all or substantially all of the assets of the Company, each Note then outstanding will, without the consent of the Holder of any Note, become convertible only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock into which such Note was convertible immediately prior thereto (assuming such holder of Common Stock failed to exercise any rights of election and that such Note was then convertible). (Section 1311)

To the extent permitted by applicable law, the Company from time to time may increase the Conversion Rate by any amount for any period of time if the period is at least twenty (20) days, the increase is irrevocable during such period, and the Board of Directors shall have made a determination that such increase would be in the best interests of the Company, which determination shall be conclusive; provided, however, that no such increase shall be taken into account for purposes of determining whether the Closing Price Per Share of the Common Stock equals or exceeds 105% of the Conversion Price in connection with an event which would otherwise be a Change of Control. Whenever the Conversion Rate is increased pursuant to the preceding sentence, the Company shall give notice of the increase to the Holders at least fifteen (15) days prior to the date the increased Conversion Rate takes effect, and such notice shall state the increased Conversion Rate and the period during which it will be in effect. (Section 1304)

If at any time the Company makes a distribution of property to its stockholders which would be taxable to such stockholders as a dividend for United States federal income tax purposes (e.g., distributions of evidences of indebtedness or assets of the Company, but generally not stock dividends on Common Stock or rights to subscribe for Common Stock) and, pursuant to the

anti-dilution provisions of the Indenture, the number of shares into which Notes are convertible is increased, such increase may be deemed for federal income tax purposes to be the payment of a taxable dividend to Holders of Notes. See "Certain Federal Income Tax Considerations."

SUBORDINATION

The payment of the principal of, premium, if any, and interest on the Notes will be subordinated in right of payment, to the extent set forth in the Indenture, to the prior payment in full of the principal of, premium, if any, interest and other amounts in respect of all Senior Indebtedness of the Company. As of April 28, 1997, the Company had \$17.0 million of Senior Indebtedness outstanding. At such date, after giving effect to this offering and the application of proceeds therefrom, the Company would have had \$2.0 million of Senior Indebtedness outstanding. Senior Indebtedness is defined in the Indenture to mean the principal of (and premium, if any) and interest (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding) on, and all fees and other amounts payable in connection with, the following, whether absolute or contingent, secured or unsecured, due or to become due, outstanding on the date of the Indenture or thereafter created, incurred or assumed: (a) indebtedness of the Company to banks, insurance companies and other financial institutions evidenced by credit or loan agreements, notes or other written obligations, (b) all other indebtedness of the Company (including indebtedness of others guaranteed by the Company) other than the Notes, whether outstanding on the date of the Indenture or thereafter created, incurred or assumed, which is (i) for money borrowed or (ii) evidenced by a note, security, debenture, bond or similar instrument, (c) obligations of the Company as lessee under leases required to be capitalized on the balance sheet of the lessee under generally accepted accounting principles, (d) obligations of the Company under interest rate and currency swaps, caps, floors, collars or similar agreements or arrangements, (e) obligations of the Company issued or assumed as the deferred purchase price of property, (f) obligations of the Company for the reimbursement of letters of credit to the extent such obligations are Senior Indebtedness under clauses (a) through (c) of this paragraph, and (g) renewals, extensions, modifications, restatements and refundings of, and any amendments, modifications or supplements to, or any indebtedness or obligation issued in exchange for, any such indebtedness or obligation described in clauses (a) through (d) of this paragraph; provided, however, that Senior Indebtedness shall not include any such indebtedness or obligation if the terms of such indebtedness or obligation (or the terms of the instrument under which, or pursuant to which, it is issued) expressly provide that such indebtedness or obligation shall not be senior in right of payment to the Notes, or expressly provide that such indebtedness or obligation is *pari passu* with or junior to the Notes. (Sections 101, 1201, 1202 and 1216)

No payment on account of principal, premium, if any, or interest on, the Notes may be made by the Company if there shall have occurred (i) a default in the payment of principal, premium, if any, or interest (including a default under any repurchase or redemption obligation) with respect to any Senior Indebtedness or (ii) any other event of default with respect to any Senior Indebtedness, permitting the holders thereof to accelerate the maturity thereof, and such event of default shall not have been cured or waived or shall not have ceased to exist after written notice of such event of default shall have been given to the Company and the Trustee by any holder of Senior Indebtedness. Upon any acceleration of the principal due on the Notes or payment or distribution of assets of the Company to creditors upon any dissolution, winding up, liquidation or reorganization, whether voluntary or involuntary, or in bankruptcy, insolvency, receivership or other similar proceedings of the Company, all principal, premium, if any, and interest or other amounts due on all Senior Indebtedness must be paid in full before the Holders of the Notes are entitled to receive any payment. By reason of such subordination, in the event of insolvency, creditors of the Company who are holders of Senior Indebtedness are likely to recover more, ratably, than the Holders of the Notes, and such subordination may result in a reduction or elimination of payments to the Holders of the Notes. (Sections 1202, 1203 and 1204)

The Company is a holding company with no business operations of its own. Accordingly, the Notes will be structurally subordinated to all indebtedness and other liabilities (including



trade payables and lease obligations) of the Company's subsidiaries, as any right of the Company to receive any assets of its subsidiaries upon their liquidation or reorganization (and the consequent right of the Holders of the Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors (including trade creditors), except to the extent that the Company itself is recognized as a creditor of such subsidiary, in which case the claims of the Company would still be subordinate to any security interest in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by the Company. As of February 2, 1997, the Company's subsidiaries had an aggregate outstanding

amount of total indebtedness and other liabilities of approximately \$46 million, which amount will remain outstanding after giving effect to the offering of the Notes and the application of net proceeds therefrom.

The Indenture does not limit the Company's ability to incur Senior Indebtedness or any other indebtedness.

#### OPTIONAL REDEMPTION

The Notes may not be redeemed prior to May 16, 2000. Thereafter, the Notes may be redeemed, in whole or in part, at the option of the Company, upon not less than 20 nor more than 60 days' prior notice as provided under "-- Notices" below, at the redemption prices set forth below.

The redemption prices (expressed as a percentage of principal amount) are as follows for the 12-month period beginning on May 16 of the following years:

Year	Redemption Price
----	-----
2000	. %
2001	.
2002	.
2003	.

and thereafter at a redemption price equal to 100% of the principal amount, in each case together with accrued interest to the date of redemption. (Section 203, Article Eleven)

No sinking fund is provided for the Notes.

#### REPURCHASE AT OPTION OF HOLDERS UPON A CHANGE OF CONTROL

If a Change of Control (as defined) occurs, each Holder of Notes shall have the right, at the Holder's option, to require the Company to repurchase all of such Holder's Notes, or any portion of the principal amount thereof that is equal to \$1,000 or an integral multiple of \$1,000 in excess thereof, on the date (the "Repurchase Date") that is 45 days after the date of the Company Notice (as defined), at a price equal to 100% of the principal amount of the Notes to be repurchased, together with interest accrued to the Repurchase Date (the "Repurchase Price"). (Section 1401)

The Company may, at its option, in lieu of paying the Repurchase Price in cash, pay the Repurchase Price in Common Stock valued at 95% of the average of the closing prices of the Common Stock for the five consecutive Trading Days ending on and including the third Trading Day preceding the Repurchase Date; provided that payment may not be made in Common Stock unless the Company satisfies certain conditions with respect to such payment as provided in the Indenture. (Sections 1401 and 1402)

Within 30 days after the occurrence of a Change of Control, the Company is obligated to give to all Holders of the Notes notice, as provided in the Indenture (the "Company Notice"), of the occurrence of such Change of Control and of the repurchase right arising as a result thereof, or, at the request of the Company on or before the 15th day after such occurrence, the Trustee shall give the Company Notice. The Company must also deliver a copy of the Company Notice to the Trustee and to the office of each Paying Agent. To exercise the repurchase right, a Holder of Notes must deliver on or before the 30th day after the date of the Company Notice irrevocable written notice to the Trustee or Paying Agent of the Holder's exercise of such right, together with the Notes with respect to which the right is being exercised. (Section 1403)

A Change of Control shall be deemed to have occurred at such time after the original issuance of the Notes as there shall occur:

(i) the acquisition by any Person (including any syndicate or group deemed to be a "person" under Section 13(d) (3) of the Exchange Act) of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of capital stock of the Company entitling such Person to exercise 50% or more of the total voting power of all shares of capital stock of the Company entitled to vote generally in elections of directors, other than any such acquisition by the Company, any Subsidiary of the Company or any employee benefit plan of the Company; or

(ii) any consolidation or merger of the Company with or into any other Person, any merger of another Person into the Company, or any conveyance, sale, transfer, or lease of all or substantially all of the assets of the Company (other than (a) any consolidation or merger (x) which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock, and (y) pursuant to which the holders of 50% or more of the total voting power of all shares of capital stock of the Company entitled to vote generally in elections of directors immediately prior to such transaction have the entitlement to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of the continuing or surviving corporation entitled to vote generally in elections of directors of the continuing or surviving corporation immediately after such transaction and (b) a merger which is effected solely to change the jurisdiction of incorporation of the Company and results in a reclassification, conversion or exchange of outstanding shares of Common Stock into solely shares of common stock);

provided, however, that a Change of Control shall not be deemed to have occurred if (i) the Closing Price Per Share of the Common Stock for any five Trading Days within the period of 10 consecutive Trading Days ending immediately after the later of the Change of Control or the public announcement of the Change of Control (in the case of a Change of Control under clause (i) above) or ending immediately prior to the date of the Change of Control (in the case of a Change of Control under clause (ii) above) shall equal or exceed 105% of the Conversion Price of the Notes in effect on each such Trading Day or (ii) all of the consideration (excluding cash payments for fractional shares or cash payments for appraisal rights) in the transaction or transactions constituting the Change of Control consists of shares of common stock or securities convertible into common stock that are, or upon issuance will be traded on a national securities exchange or through The Nasdaq National Market and as a result of such transaction or transactions the Notes become convertible solely into such common stock or securities. The "Conversion Price" is equal to \$1,000 divided by the Conversion Rate. "Beneficial owner" shall be determined in accordance with Rule 13d-3 promulgated by the Commission under the Exchange Act, as in effect on the date of original execution of the Indenture. (Section 1404)

The Company's ability to repurchase Notes upon the occurrence of a Change of Control is subject to limitations. There can be no assurance that the Company would have the financial resources, or would be able to arrange financing, to pay the Repurchase Price for all the Notes that might be delivered by Holders of Notes seeking to exercise the purchase right. In addition, the Company's ability to purchase Notes may be limited or prohibited by the terms of its Senior Indebtedness. The Company's ability to purchase Notes with cash may also be limited by the terms of its subsidiaries' then-existing borrowing arrangements due to dividend restrictions. Any failure by the Company to repurchase the Notes when required following a Change of Control could result in an Event of Default under the Indenture whether or not such repurchase is permitted by the subordination provisions of the Indenture. Any such default may, in turn, cause a default under Senior Indebtedness of the Company. Moreover, the occurrence of a Change of Control may cause an event of default

under Senior Indebtedness of the Company. As a result, in any such case, any repurchase of the Notes would, absent a waiver, be prohibited under the subordination provisions of the Indenture until the Senior Indebtedness is paid in full. See "-- Subordination" and "Risk Factors -- Subordination."

Rule 13e-4 under the Exchange Act requires the dissemination of certain information to security holders in the event of an issuer tender offer and may apply in the event that the repurchase option becomes available to Holders of the Notes. The Company will comply with this rule to the extent applicable at that time.

The foregoing provisions would not necessarily afford Holders of the Notes protection in the event of highly leveraged or other transactions involving the Company that may adversely affect Holders.

#### MERGERS AND SALES OF ASSETS BY THE COMPANY

The Company may not consolidate with or merge into any other Person or convey, transfer, or lease its properties and assets substantially as an entirety to any Person, and the Company may not permit any Person to merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless (a) the Person formed by such consolidation or into which the Company is merged or the Person to which the properties and assets of the Company are so transferred or leased is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States, any state thereof or the District of Columbia and has expressly assumed the due and punctual payment of the principal of, premium, if any, and interest on the Notes and the performance of the other covenants of the Company under the Indenture and has provided for conversion rights in accordance with the Indenture, (b) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, and (c) the Company has provided to the Trustee an Officer's Certificate and Opinion of Counsel if required by the Indenture. (Section 801)

#### EVENTS OF DEFAULT

The following will be Events of Default under the Indenture: (a) failure to pay principal or Redemption Price of any Note when due, whether or not such payment is prohibited by the subordination provisions of the Indenture; (b) failure to pay any interest on any Note when due, continuing for 30 days, whether or not such payment is prohibited by the subordination provisions of the Indenture; (c) default in the Company's obligation to provide a Company Notice of a Change in Control; (d) failure to perform any other covenant of the Company in the Indenture, continuing for 60 days after written notice as provided in the Indenture; (e) any indebtedness for money borrowed by the Company in an aggregate principal amount in excess of \$15 million is not paid at final maturity or upon acceleration thereof and such default in payment or acceleration is not cured or rescinded within 30 days after written notice as provided in the Indenture; and (f) certain events of bankruptcy, insolvency or reorganization. (Section 501) Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Trustee reasonable indemnity. (Section 603) Subject to such provisions for the indemnification of the Trustee, the Holders of a majority in aggregate principal amount of the Outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. (Section 512)

If an Event of Default (other than an Event of Default specified in clause (f) above) occurs and is continuing, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Outstanding Notes, by notice in writing to the Company, may declare the principal of all the Notes to be due and payable immediately, and upon any such declaration such principal and any accrued interest thereon will become immediately due and payable. If an Event of Default specified in clause (f) occurs and is continuing, the principal and any accrued interest on all of the then Outstanding

Notes shall ipso facto become due and payable immediately without any declaration or other Act on the part of the Trustee or any Holder. (Section 502)

At any time after a declaration of acceleration has been made but before a judgment or decree based on acceleration, the Holders of a majority in aggregate principal amount of Outstanding Notes may, under certain circumstances, rescind and

annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal and interest have been cured or waived as provided in the Indenture. (Section 502)

No Holder of any Note will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless such Holder shall have previously given to the Trustee written notice of a continuing Event of Default and unless also the Holders of at least 25% in aggregate principal amount of the Outstanding Notes shall have made written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as trustee, and the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Notes a direction inconsistent with such request and shall have failed to institute such proceeding within 60 days. (Section 507) However, such limitations do not apply to a suit instituted by a Holder of a Note for the enforcement of payment of the principal of, premium, if any, or interest on such Note on or after the respective due dates expressed in such Note or of the right to convert such Note in accordance with the Indenture. (Section 508)

The Company will be required to furnish to the Trustee annually a statement as to the performance by the Company of certain of its obligations under the Indenture and as to any default in such performance. (Section 1004)

#### MODIFICATION AND WAIVER

Modifications and amendments of the Indenture may be made, and certain past defaults by the Company may be waived, with the written consent of the Holders of not less than a majority in aggregate principal amount of the Notes at the time Outstanding. However, no such modification or amendment may, without the consent of the Holder of each outstanding Note affected thereby, (a) change the Stated Maturity of the principal of, or any installment of interest on, any Note, (b) reduce the principal amount of, or the premium, if any, or rate of interest on, any Note, (c) reduce the amount payable upon redemption or mandatory repurchase, (d) modify the provisions with respect to the repurchase right of the Holders in a manner adverse to the Holders, (e) change the place or currency of payment of principal of, premium, if any, or interest on, any Note, (f) impair the right to institute suit for the enforcement of any payment on or with respect to any Note (including any payment of the Repurchase Price in respect of such Note), (g) modify the obligation of the Company to maintain an office or agency in New York City, (h) except as otherwise permitted by the Indenture or contemplated by provisions concerning consolidation, merger, conveyance, transfer, sale or lease of all or substantially all of the property and assets of the Company, adversely affect the right of Holders to convert any of the Notes or to require the Company to repurchase any Note other than as provided in the Indenture, (i) modify the subordination provisions in a manner adverse to the Holders of the Notes, (j) reduce the above-stated percentage of Outstanding Notes necessary to modify or amend the Indenture, or (k) reduce the percentage of aggregate principal amount of Outstanding Notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults. (Sections 902 and 513)

The Holders of a majority in aggregate principal amount of the Outstanding Notes may waive compliance by the Company with certain restrictive provisions of the Indenture. (Section 1009) The Holders of a majority in aggregate principal amount of the Outstanding Notes also may waive any past default under the Indenture, except a default in the payment of principal, premium, if any, or interest. (Section 513)

#### TRANSFER AND EXCHANGE

The Company has initially appointed the Trustee as Security Registrar and transfer agent for the Notes, acting through its Corporate Trust Office in the City of New York. The Company reserves the right to vary or terminate the appointment of the Security Registrar or of any transfer agent or to appoint additional or other transfer agents or to approve any change in the office through which any security registrar or any transfer





## PURCHASE AND CANCELLATION

The Company or any Subsidiary may at any time and from time to time purchase Notes at any price in the open market or otherwise.

All Notes surrendered for payment, redemption, repurchase, registration of transfer or exchange or conversion shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee. All Notes so delivered to the Trustee shall be canceled promptly by the Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes canceled as provided in the Indenture. All canceled Notes held by the Trustee shall be disposed of in accordance with the Trustee's normal procedures. (Section 309)

## TITLE

The Company and the Trustee may treat the registered owner (as reflected in the Security Register) of any Note as the absolute owner thereof (whether or not such Note shall be overdue) for the purpose of making payment and for all other purposes. (Section 308)

## NOTICES

Notice to Holders of the Notes will be given by mail to the addresses of such Holders as they appear in the Security Register. Such notices will be deemed to have been given on the date of such mailing. (Section 106)

Notice of a redemption of Notes will be given at least once not less than 20 nor more than 60 days prior to the Redemption Date (which notice shall be irrevocable) and will specify, among other things, the Redemption Date. (Section 1105)

## SATISFACTION AND DISCHARGE

The Company may discharge its payment obligations under the Indenture while Notes remain outstanding if (a) all outstanding Notes have become due and payable or will become due and payable at their scheduled maturity within one year, (b) all outstanding Notes are scheduled for redemption within one year or (c) all outstanding Notes are delivered to the Trustee for conversion in accordance with the Indenture and in the case of (a) or (b) above, the Company has deposited with the Trustee an amount sufficient to pay and discharge the entire indebtedness on all outstanding Notes on the date of their scheduled maturity or the scheduled date of redemption. (Section 401)

## REPLACEMENT OF NOTES

Notes that become mutilated, destroyed, stolen or lost will be replaced by the Company at the expense of the Holder upon delivery to the Trustee of the mutilated Notes or evidence of the loss, theft or destruction thereof satisfactory to the Company and the Trustee. In the case of a lost, stolen or destroyed Note, indemnity satisfactory to the Trustee and the Company may be required at the expense of the Holder of such Note before a replacement Note will be issued. (Section 306)

## GOVERNING LAW

The Indenture and the Notes will be governed by and construed in accordance with the laws of the State of New York. (Section 112)

## THE TRUSTEE

In case an Event of Default shall occur (and shall not be cured), the Trustee will be required to use the degree of care of a prudent person in the conduct of his own affairs in the exercise of its powers. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any of the Holders of Notes, unless they shall have offered to the Trustee security or indemnity satisfactory to it. (Sections 601 and 603)

#### BOOK-ENTRY

The Notes will be issued in the form of a global note (the "Global Note") deposited with, or on behalf of, DTC and registered in the name of Cede & Co. as DTC's nominee. Owners of beneficial interests in the Notes represented by the Global Note will hold such interests pursuant to the procedures and practices of DTC and must exercise any rights in respect of their interests (including any right to convert or require repurchase of their interests) in accordance with those procedures and practices. Such beneficial owners will not be Holders, and will not be entitled to any rights under the Global Note or the Indenture, with respect to the Global Note, and the Company and the Trustee, and any of their respective agents, may treat DTC as the sole Holder and owner of the Global Note.

DTC has advised the Company as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.

Unless and until they are exchanged in whole or in part for certificated Notes in definitive form as set forth below, the Global Note may not be transferred except as a whole by DTC to a nominee of DTC, or by a nominee of DTC to DTC or another nominee of DTC.

The Notes represented by the Global Note will not be exchangeable for certificated Notes, provided that if DTC is at any time unwilling, unable or ineligible to continue as depository, or an Event of Default has occurred and is continuing with respect to the Global Note, the Company may issue individual Notes in definitive form in exchange for the Global Note. In the event of such an exchange, an owner of a beneficial interest in a Global Note will be entitled to physical delivery of Notes in definitive form equal in principal amount to such beneficial interest and to have such Notes registered in its name. Individual Notes so issued in definitive form will be issued in denominations of \$1,000 and any larger amount that is an integral multiple of \$1,000 and will be issued in registered form only, without coupons.

Payments of principal of and interest on the Notes will be made by the Company through the Trustee to DTC or its nominee, as the case may be, as the registered owner of the Global Note. Neither the Company nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of the Global Note or for maintaining, supervising or reviewing any

records relating to such beneficial ownership interests. The Company expects that DTC, upon receipt of any payment of principal or interest in respect of the Global Note, will credit the accounts of the related participants with payment in amounts

proportionate to their respective holdings in principal amount of beneficial interest in the Global Note as shown on the records of DTC. The Company also expects that payments by participants to owners of beneficial interests in the Global Note will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participants.

So long as the Notes are represented by a Global Note, DTC or its nominee will be the only entity that can exercise a right to repayment pursuant to the Holder's option to elect repayment of its Notes or the right of conversion of the Notes. Notice by participants or by owners of beneficial interests in a Global Note held through such participants of the exercise of the option to elect repayment, or the right of conversion, of beneficial interests in Notes represented by the Global Note must be transmitted to DTC in accordance with its procedures on a form required by DTC and provided to participants. In order to ensure that DTC's nominee will timely exercise a right to repayment, or the right of conversion, with respect to a particular Note, the beneficial owner of such Notes must instruct the broker or other participant through which it holds an interest in such Notes to notify DTC of its desire to exercise a right to repayment, or the right of conversion. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other participant through which it holds an interest in a Note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to DTC. The Company will not be liable for any delay in delivery of such notice to DTC.

## DESCRIPTION OF CAPITAL STOCK

### GENERAL

The Company's authorized capital stock consists of 2 million shares of preferred stock, \$.01 par value, of which no shares are issued and outstanding, and 20 million shares of Common Stock, \$.01 par value per share, of which 11,874,790 shares are issued and outstanding as of April 1, 1997.

### COMMON STOCK

The holders of validly issued and outstanding shares of Common Stock are entitled to one vote per share on all matters to be voted upon by stockholders. At a meeting of stockholders at which a quorum is present, a majority of the votes cast decides all questions, unless the matter is one upon which, by express provision of the Certificate of Incorporation, the By-Laws or statute, a different vote is required. There is no cumulative voting with respect to the election of directors, which means that the holders of a majority of the shares can elect all the directors if they choose to do so, and in such event, the holders of the remaining shares would not be able to elect any directors.

The holders of Common Stock have no preemptive rights, nor are there any redemption rights provisions with respect to Common Stock. The shares offered hereby, when issued and paid for, will be fully paid and nonassessable and not subject to further call or assessment by the Company.

The holders of Common Stock are entitled to such dividends, if any, as may be declared by the Board of Directors in its discretion out of funds legally available for the purpose and to participate pro rata in any distribution of the Company's assets upon liquidation.

The Company has reserved 1,424,720 shares of Common Stock for issuance under its stock option plans and has reserved 207,199 shares of Common stock for issuance under an employee stock purchase plan. See Note 8 of Notes to Consolidated Financial Statements.

### PREFERRED STOCK

The Board of Directors has the authority by resolution to issue up to 2,000,000 shares of Preferred Stock in one or more series and to fix the number of shares constituting any such series, the voting powers, designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including the dividend rights, dividend rate, terms of redemption (including sinking fund provisions), redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series, without any further vote or action by the stockholders. For example, the Board of Directors is authorized to issue a series of Preferred Stock that would have the right to vote separately or with any other series of Preferred Stock on any proposed amendment to the Company's Certificate of Incorporation or any other proposed corporate action including business combinations and other transactions. However, the Board of Directors currently does not contemplate the issuance of any Preferred Stock.

### CERTAIN EFFECTS OF AUTHORIZED BUT UNISSUED STOCK

At April 1, 1997, there were 6,357,091 shares of Common Stock which were not outstanding or reserved for issuance and 2,000,000 shares of unissued and undesignated Preferred Stock. These additional shares may be utilized for a variety of proper corporate purposes, including future public offerings to raise additional capital or facilitate corporate acquisitions. The Company does not currently have any plan to issue additional shares of Common Stock or Preferred Stock (other than shares of Common Stock to be issued upon the exercise of

outstanding options and warrants and other than shares of Common Stock reserved for issuance under the Company's stock option plans).

One of the effects of the existence of unissued and unreserved Common Stock and undesignated Preferred Stock may be to enable the Board of Directors to issue shares to persons friendly to current management, which could render more difficult or discourage an attempt to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of the Company's management. The Board of Directors can issue the Preferred Stock without stockholder approval, with voting and conversion rights which could adversely affect the voting rights of the common stockholders.

#### TRANSFER AGENT

The transfer agent and registrar for the Common Stock is Registrar & Transfer Company, Cranford, New Jersey.

#### LISTING

The Common Stock is quoted on The Nasdaq National Market under the symbol "PLAB."

## CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain United States federal income tax considerations relating to the purchase, ownership and disposition of the Notes and of Common Stock into which Notes may be converted, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change. This summary deals only with holders that are United States persons and that will hold Notes and Common Stock into which Notes may be converted as "capital assets" (within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code" )) and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, tax-exempt organizations, insurance companies, dealers in securities or currencies, or persons that will hold Notes as a position in a hedging transaction, "straddle" or "conversion transaction" for tax purposes. As used herein, the term "United States person" means (1) a citizen or resident of the United States, (2) an entity created or organized in or under the laws of the United States or any political subdivision thereof that is classified as a corporation or as a partnership, (3) an estate the income of which is subject to United States federal income taxation regardless of its source, or (4) a trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more U.S. fiduciaries have the authority to control all the trust's substantial decisions. The term "United States" means the United States of America (including the States and the District of Columbia). This summary discusses the tax considerations applicable to the initial purchasers of the Notes who purchase the Notes at their "issue price" as defined in Section 1273 of the Code and does not discuss the tax considerations applicable to subsequent purchasers of the Notes. The summary below does not address the tax consequences resulting upon a repurchase of the Notes by the Company in exchange for Common Stock upon a Change of Control. The Company has not sought any ruling from the Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

INVESTORS CONSIDERING THE PURCHASE OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE UNITED STATES FEDERAL INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

### PAYMENT OF INTEREST

Interest on a Note generally will be includable in the income of a Holder as ordinary income at the time such interest is received or accrued, in accordance with such Holder's method of accounting for United States federal income tax purposes.

### SALE, EXCHANGE OR REDEMPTION OF THE NOTES

Upon the sale, exchange or redemption of a Note (excluding conversion), a Holder generally will recognize capital gain or loss equal to the difference between (i) the amount of cash proceeds and the fair market value of any property received on the sale, exchange or redemption (except to the extent such amount is attributable to accrued interest income not previously included in income which is taxable as ordinary income) and (ii) such Holder's adjusted tax basis in the Note. A Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such Holder. Such capital gain or loss will be long-term capital gain or loss if the Holder's holding period in the Note is more than one year at the time of sale, exchange or redemption.

### CONVERSION OF THE NOTES

A Holder generally will not recognize any income, gain or loss upon conversion of a Note into Common Stock except with respect to cash received in lieu of a fractional share of Common Stock. A Holder's tax basis in the Common Stock received on conversion of a Note will be the same as such Holder's adjusted tax basis in the Note at the time of conversion (reduced by any basis allocable to a fractional share interest), and the holding period for the Common Stock received on conversion will generally include the holding period of the Note converted.

Cash received in lieu of a fractional share of Common Stock upon conversion will be treated as a payment in exchange for the fractional share of Common Stock. Accordingly, the receipt of cash in lieu of a fractional share of Common Stock generally will result in capital gain or loss (measured by the difference between the cash received for the fractional share and the Holder's adjusted tax basis in the fractional share).

#### CONSTRUCTIVE DISTRIBUTIONS

If at any time (i) the Company makes a distribution of cash or property to its stockholders or purchases Common Stock and such distribution or purchase would be taxable to such stockholders as a dividend for United States federal income tax purposes (e.g., distributions of evidences of indebtedness or assets of the Company, but generally not stock dividends or rights to subscribe for Common Stock) and, pursuant to the antidilution provisions of the Indenture, the conversion rate of the Notes is increased, or (ii), the conversion rate of the Notes is increased at the discretion of the Company, such increase in conversion rate may be deemed to be the Holders of Notes (pursuant to Section 305 of the Code). Holders of Notes could therefore be required to report taxable income as a result of an event pursuant to which they received no cash or property.

#### DIVIDENDS

Dividends paid on the Common Stock generally will be includable in the income of a Holder as ordinary income to the extent of the Company's current or accumulated earnings and profits. Subject to certain limitations, a corporate taxpayer holding Common Stock that receives dividends thereon generally will be eligible for a dividends-received deduction equal to 70 percent of the dividends received. Under legislation proposed as part of the Clinton administration's fiscal year 1998 budget proposal, the 70 percent dividends-received deduction would be reduced to 50 percent for dividends paid or accrued more than 30 days after the date of enactment of the legislation.

#### SALE OF COMMON STOCK

Upon the sale or exchange of Common Stock, a Holder generally will recognize capital gain or loss equal to the difference between (i) the amount of cash and the fair market value of any property received upon the sale or exchange and (ii) such Holder's adjusted tax basis in the Common Stock. Such capital gain or loss will be long-term if the Holder's holding period in Common Stock is more than one year at the time of the sale or exchange. A Holder's basis and holding period in Common Stock received upon conversion of a Note are determined as discussed above under " --Conversion of the Notes."

#### INFORMATION REPORTING AND BACKUP WITHHOLDING TAX

In general, information reporting requirements will apply to payments of principal, premium, if any, and interest on a Note, payments of dividends on Common Stock, payments of the proceeds of the sale of a Note or Common Stock to certain noncorporate Holders, and a 31% backup withholding tax may apply to such payments if the Holder (i) fails to furnish or certify his correct taxpayer identification number to the payor in the manner required, (ii) is notified by the IRS that he has failed to report payments of interest and dividends properly, or (iii) does not otherwise establish his entitlement to an exemption. Any amounts withheld under the backup withholding rules from a payment to a Holder will be allowed as a credit against such Holder's United States federal income tax and may entitle the Holder to a refund, provided that the required information is



furnished to the IRS.

## LEGAL MATTERS

The validity of the Notes offered hereby will be passed upon for the Company by Reid & Priest LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by Ropes & Gray, Boston, Massachusetts. Ropes & Gray will rely on the opinion of Reid & Priest LLP as to matters of New York law.

## EXPERTS

The consolidated financial statements as of October 31, 1995 and 1996 and for each of the three years in the period ended October 31, 1996 included and incorporated by reference in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are included and incorporated by reference herein (which reports express an unqualified opinion and include an explanatory paragraph referring to the 1994 change in accounting for investments and income taxes), and have been so included and incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

## AVAILABLE INFORMATION

The Company has filed with the Commission a Registration Statement on Form S-3 (the "Registration Statement") under the Securities Act, with respect to the Notes offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and such Notes, reference is hereby made to such Registration Statement and to the exhibits and schedules thereto. The Company is subject to the informational requirements of the 1934 Act, and, in accordance therewith, files reports, proxy statements, and other information with the Commission. Such Registration Statement, reports, proxy statements and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following Regional Offices of the Commission: New York Regional Office, Seven World Trade Center, 13th Floor, New York, New York 10048; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the Commission maintains a site on the World Wide Web at <http://www.sec.gov> that contains reports, proxy and other information statements of the Company and other information regarding registrants that file electronically with the Commission.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents which have been filed by the Company with the Securities and Exchange Commission (the "Commission") (File Number 0-15451) pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), are incorporated herein by reference: the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1996; all reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the Company's Annual Report on Form 10-K and the description of the Company's Common Stock contained in the Company's Registration Statement on Form 8-A, dated March 3, 1987, pursuant to Section 12 of the 1934 Act.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act, after the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference and to be a part hereof from the respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or



superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will furnish, without charge, to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the foregoing documents incorporated herein by reference (other than certain exhibits). Requests for such documents should be directed to Michael McCarthy, Manager of Investor Relations, Photronics, Inc., P.O. Box 5226, 15 Secor Road, Brookfield, Connecticut, 06804, telephone (203) 775-9000.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
PHOTRONICS, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders  
Photronics, Inc.  
Jupiter, Florida

We have audited the accompanying consolidated balance sheets of Photronics, Inc. and subsidiaries at October 31, 1995 and 1996, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended October 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Photronics, Inc. and its subsidiaries as of October 31, 1995 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1994 the Company changed its method of accounting for investments and income taxes.

/S/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Hartford, Connecticut  
December 9, 1996

PHOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET  
(DOLLARS IN THOUSANDS)

	OCTOBER 31,		FEBRUARY 2,
	----- 1995	----- 1996	----- 1997
			----- (UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents. . . . .	\$ 35,644	\$ 18,766	\$ 7,836
Short-term investments . . . . .	16,221	7,918	5,104
Accounts receivable (less allowance for doubtful accounts of \$195 in 1995 and \$235 in 1996 and 1997, unaudited) . . . . .	17,857	24,750	25,467
Inventories . . . . .	6,357	7,992	9,102
Other current assets . . . . .	3,380	6,154	6,771
	-----	-----	-----
Total current assets . . . . .	79,459	65,580	54,280
Property, plant and equipment. . . . .	72,063	123,666	135,243
Intangible assets (less accumulated amortization of \$2,156 in 1995, \$3,256 in 1996 and \$3,535 in 1997, unaudited) . . . . .	10,289	9,305	9,026
Investments. . . . .	12,329	13,239	10,412
Other assets . . . . .	78	113	114
	-----	-----	-----
	\$174,218	\$211,903	\$209,075
	=====	=====	=====

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	OCTOBER 31,		FEBRUARY 2,
	1995	1996	1997
	-----	-----	-----
			(UNAUDITED)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt . . . .	\$ 36	\$ 38	\$ 39
Accounts payable . . .	17,850	34,168	29,949
Accrued salaries and wages . . . . .	5,810	5,561	4,169
Other accrued liabilities . . . . .	6,110	4,200	3,629
	-----	-----	-----
Total current liabilities . . .	29,806	43,967	37,786
Long-term debt . . . . .	1,809	1,987	2,005
Deferred income taxes . .	8,293	7,481	6,596
	265	2,051	2,015
Other liabilities . . . . .	-----	-----	-----
Total liabilities . . . . .	40,173	55,486	48,402
	-----	-----	-----
Commitments and contingencies			
Shareholders' equity:			
Preferred stock, \$0.01 par value, 2,000,000 shares authorized, none issued and outstanding . . . . .	--	--	--
Common stock, \$0.01 par value, 20,000,000 shares authorized, 11,758,292 shares issued in 1995, 11,973,290 shares issued in 1996 and 11,983,744 shares issued in 1997 (unaudited) . . . . .	118	120	120
Additional paid-in capital . . . . .	75,083	77,833	78,084
Retained earnings . . .	52,970	73,973	79,298
Unrealized gains on investments . . . . .	6,471	4,678	3,230
Treasury stock, 136,500 shares at cost . . . . .	(245)	(245)	(245)
Cumulative foreign currency translation adjustment . . . . .	--	58	186
Deferred compensation	(352)	--	--



on restricted stock . . . . .	-----	-----	-----
Total			
shareholders'	134,045	156,417	160,673
equity . . . . .	-----	-----	-----
	\$174,218	\$211,903	\$209,075
	=====	=====	=====

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

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

	YEAR ENDED OCTOBER 31,		
	1994	1995	1996
Net sales . . . . .	\$80,696	\$125,299	\$160,071
Costs and expenses:			
Cost of sales . . . . .	51,204	76,683	98,267
Selling, general and administrative . . . . .	10,517	17,127	21,079
Research and development . . . . .	4,738	7,899	8,460
Operating income . . . . .	14,237	23,590	32,265
Interest income . . . . .	568	1,627	1,601
Interest expense . . . . .	(75)	(141)	(160)
Other income, net . . . . .	571	4,766	197
Income before income taxes and cumulative effect of change in accounting for income taxes . .	15,301	29,842	33,903
Provision for income taxes . . . . .	5,202	11,210	12,900
Income before cumulative effect of change in accounting for income taxes . . . . .	10,099	18,632	21,003
Cumulative effect of change in accounting for income taxes . .	237	--	--
Net income . . . . .	\$10,336	\$ 18,632	\$ 21,003
Net income per common share:			
Income before cumulative effect of change in accounting for income taxes . . . . .	\$ 1.01	\$ 1.66	\$ 1.74
Cumulative effect of change in accounting for income taxes . .	0.02	--	--
Net income . . . . .	\$ 1.03	\$ 1.66	\$ 1.74
Weighted average number of common shares outstanding . . . . .	10,062	11,207	12,101

THREE MONTHS ENDED

JANUARY 31,      FEBRUARY 2,  
1996              1997

(UNAUDITED)

Net sales . . . . .	\$34,668	\$40,029
Costs and expenses:		
Cost of sales . . . . .	21,252	25,347
Selling, general and administrative	4,585	5,035
Research and development . . . . .	1,825	2,302
	-----	-----
Operating income . . . . .	7,006	7,345
Interest income . . . . .	575	238
Interest expense . . . . .	(36)	(36)
Other income, net . . . . .	6	1,078
	-----	-----
Income before income taxes and cumulative effect of change in accounting for income taxes . . . . .	7,551	8,625
	2,900	3,300
Provision for income taxes . . . . .	-----	-----
Income before cumulative effect of change in accounting for income taxes	4,651	5,325
Cumulative effect of change in accounting for income taxes . . . . .	--	--
	-----	-----
Net income . . . . .	<u>\$ 4,651</u>	<u>\$ 5,325</u>
Net income per common share:		
Income before cumulative effect of change in accounting for income taxes	\$ 0.39	\$ 0.44
Cumulative effect of change in accounting for income taxes . . . . .	--	--
	-----	-----
Net income . . . . .	<u>\$ 0.39</u>	<u>\$ 0.44</u>
Weighted average number of common shares outstanding . . . . .	<u>12,058</u>	<u>12,227</u>

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(IN THOUSANDS)

(INFORMATION AS OF AND FOR THE THREE MONTHS ENDED FEBRUARY 2, 1997 IS UNAUDITED)

	COMMON STOCK		ADDI- TIONAL PAID-IN CAPITAL
	SHARES	AMOUNT	
Balance at			
November 1, 1993 . . . . .	6,484	\$ 65	\$38,804
Net income . . . . .	--	--	--
Sale of common stock through employee stock option and purchase plans . . . . .	124	1	1,478
Restricted stock awards	52	1	1,056
Amortization of restricted stock to compensation expense . . . . .	--	--	--
Cumulative effect of change in accounting for investments . . . . .	--	--	--
	-----	-----	-----
Balance at			
October 31, 1994 . . . . .	6,660	67	41,338
Net income . . . . .	--	--	--
Sale of common stock in connection with public offering . . . . .	1,500	15	29,336
Issuance of common stock related to acquisition . . . . .	98	1	2,399
Sale of common stock through warrants and employee stock option and purchase plans . . . . .	170	2	2,043
Amortization of restricted stock to compensation expense . . . . .	--	--	--
Change in unrealized gains on investments . . . . .	--	--	--
Three-for-two stock split . . . . .	3,330	33	(33)
	-----	-----	-----
Balance at			
October 31, 1995 . . . . .	11,758	118	75,083
Net income . . . . .	--	--	--
Sale of common stock through employee stock option and purchase plans . . . . .	215	2	2,750
Foreign currency			

translation adjustment . . . . .	--	--	--
Amortization of restricted stock to compensation expense .	--	--	--
Change in unrealized gains on investments .	--	--	--
	-----	-----	-----
Balance at October 31, 1996 . . .	11,973	120	77,833

	RETAINED EARNINGS	UNREAL-IZED GAINS ON INVESTMENTS	TREASURY STOCK
	-----	-----	-----
Balance at November 1, 1993 . . .	\$24,002	\$ --	\$(245)
Net income . . . . .	10,336	--	--
Sale of common stock through employee stock option and purchase plans . . . .	--	--	--
Restricted stock awards	--	--	--
Amortization of restricted stock to compensation expense .	--	--	--
Cumulative effect of change in accounting for investments . . .	--	5,608	--
	-----	-----	-----
Balance at October 31, 1994 . . .	34,338	5,608	(245)
Net income . . . . .	18,632	--	--
Sale of common stock in connection with public offering . . .	--	--	--
Issuance of common stock related to acquisition . . . . .	--	--	--
Sale of common stock through warrants and employee stock option and purchase plans . .	--	--	--
Amortization of restricted stock to compensation expense .	--	--	--
Change in unrealized gains on investments .	--	863	--
Three-for-two stock split . . . . .	--	--	--
	-----	-----	-----
Balance at October 31, 1995 . . .	52,970	6,471	(245)
Net income . . . . .	21,003	--	--
Sale of common stock through employee stock option and			

purchase plans . . . .	--	--	--
Foreign currency translation adjustment . . . . .	--	--	--
Amortization of restricted stock to compensation expense .	--	--	--
Change in unrealized gains on investments .	--	(1,793)	--
	-----	-----	-----
Balance at October 31, 1996 . . .	73,973	4,678	(245)

	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT	DEFERRED COMPENSATION ON RESTRICTED STOCK	TOTAL SHAREHOLDERS' EQUITY
	-----	-----	-----
Balance at November 1, 1993 . . . . .	\$ --	\$ --	\$ 62,626
Net income . . . . .	--	--	10,336
Sale of common stock through employee stock option and purchase plans . . . . .	--	--	1,479
Restricted stock awards	--	(1,057)	--
Amortization of restricted stock to compensation expense .	--	353	353
Cumulative effect of change in accounting for investments . . .	--	--	5,608
	-----	-----	-----
Balance at October 31, 1994 . . .	--	(704)	80,402
Net income . . . . .	--	--	18,632
Sale of common stock in connection with public offering . . .	--	--	29,351
Issuance of common stock related to acquisition . . . . .	--	--	2,400
Sale of common stock through warrants and employee stock option and purchase plans . .	--	--	2,045
Amortization of restricted stock to compensation expense .	--	352	352
Change in unrealized gains on investments .	--	--	863
Three-for-two stock split . . . . .	--	--	--
	-----	-----	-----
Balance at October 31, 1995 . . .	--	(352)	134,045
Net income . . . . .	--	--	21,003

Sale of common stock through employee stock option and purchase plans . . . .	--	--	2,752
Foreign currency translation adjustment . . . . .	58	--	58
Amortization of restricted stock to compensation expense .	--	352	352
Change in unrealized gains on investments .	--	--	(1,793)
	-----	-----	-----
Balance at October 31, 1996 . . .	58	--	156,417

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (CONTINUED)

(IN THOUSANDS)

(INFORMATION AS OF AND FOR THE THREE MONTHS ENDED FEBRUARY 2, 1997 IS UNAUDITED)

	COMMON STOCK		ADDI- TIONAL PAID-IN CAPITAL
	SHARES	AMOUNT	
Net income . . . . .	--	--	--
Sale of common stock through employee stock option and purchase plans . . .	11	--	251
Foreign currency translation adjustment . . . . .	--	--	--
Change in unrealized gains on investments	--	--	--
Balance at February 2, 1997 (unaudited) . . . . .	11,984	\$120	\$78,084

  

	RETAINED EARNINGS	UNREAL- IZED GAINS ON INVEST- MENTS	TREASURY STOCK
Net income . . . . .	5,325	--	--
Sale of common stock through employee stock option and purchase plans . . .	--	--	--
Foreign currency translation adjustment . . . . .	--	--	--
Change in unrealized gains on investments	--	(1,448)	--
Balance at February 2, 1997 (unaudited) . . . . .	\$79,298	\$3,230	\$(245)

  

	CUMULA- TIVE FOREIGN CURRENCY TRANS- LATION ADJUST- MENT	DEFERRED COMPENSA- TION ON RESTRICTED STOCK	TOTAL SHAREHOLDERS' EQUITY
Net income . . . . .	--	--	5,325



Sale of common stock through employee stock option and purchase plans . . .	--	--	251
Foreign currency translation adjustment . . . . .	128	--	128
Change in unrealized gains on investments	--	--	(1,448)
	----	-----	-----
Balance at February 2, 1997 (unaudited) . . . . .	\$186 =====	\$ -- =====	\$160,673 =====

See accompanying notes to consolidated financial statements.

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

	YEAR ENDED OCTOBER 31,		
	1994	1995	1996
	----	----	----
Cash flows from operating activities:			
Net income.....	\$10,336	\$18,632	\$21,003
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment...	7,953	8,747	12,120
Amortization of intangible assets..	694	1,039	1,100
Gain on disposition of investments.	(831)	(5,110)	--
Deferred income taxes.....	847	(842)	1,000
Cumulative effect of change in accounting for income taxes.....	(237)	--	--
Research and development expense from acquisition.....	--	1,484	--
Other.....	403	377	626
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable.....	(372)	(7,639)	(6,893)
Inventories.....	437	(2,922)	(1,228)
Other current assets.....	(533)	199	(3,260)
Accounts payable and accrued liabilities.....	2,305	19,587	14,159
	-----	-----	-----
Net cash provided by operating activities.....	21,002	33,552	38,627
	-----	-----	-----
Cash flows from investing activities:			
Acquisitions of and investment in photomask operations.....	--	(10,536)	(12,397)
Deposits on and purchases of property, plant and equipment...	(6,187)	(35,547)	(55,762)
Net change in short-term investments.....	961	(13,686)	8,303
Proceeds from sale of investments..	615	5,750	--
Other.....	(269)	90	1,635
	-----	-----	-----
Net cash used in investing activities...	(4,880)	(53,929)	(58,221)
	-----	-----	-----
Cash flows from financing activities:			
Repayment of long-term debt.....	(735)	(467)	(36)
Proceeds from issuance of common stock.....	1,479	31,396	2,752
	-----	-----	-----

Net cash provided by financing activities.....	744	30,929	2,716
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	16,866	10,552	(16,878)
Cash and cash equivalents at beginning of period.....	8,226	25,092	35,644
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$25,092	\$35,644	\$18,766
	=====	=====	=====

THREE MONTHS ENDED

-----  
JANUARY 31,      FEBRUARY 2,  
1996                      1997  
-----

(UNAUDITED)

Cash flows from operating activities:

Net income.....	\$4,651	\$5,325
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment.....	2,569	4,243
Amortization of intangible assets.....	266	247
Gain on disposition of investments....	--	(1,060)
Deferred income taxes.....	94	185
Cumulative effect of change in accounting for income taxes.....	--	--
Research and development expense from acquisition.....	--	--
Other.....	39	27
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable.....	291	(717)
Inventories.....	34	(1,110)
Other current assets.....	(318)	(617)
Accounts payable and accrued liabilities.....	(1,702)	(6,218)
	-----	-----
Net cash provided by operating activities..	5,924	305
	-----	-----

Cash flows from investing activities:

Acquisitions of and investment in photomask operations.....	(4,900)	--
Deposits on and purchases of property, plant and equipment.....	(9,629)	(15,730)
Net change in short-term investments..	11,026	2,814
Proceeds from sale of investments.....	--	1,369
Other.....	4	70
	-----	-----
Net cash used in investing activities.....	(3,499)	(11,477)
	-----	-----

Cash flows from financing activities:

Repayment of long-term debt.....	(9)	(9)
	786	251
Proceeds from issuance of common stock	-----	-----
	777	242
Net cash provided by financing activities..	-----	-----
Net increase (decrease) in cash and cash equivalents.....	3,202	(10,930)
Cash and cash equivalents at beginning of period.....	35,644	18,766
	-----	-----
Cash and cash equivalents at end of period.	\$38,846	\$7,836
	=====	=====

See accompanying notes to consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION AS OF AND FOR THE THREE MONTHS ENDED  
JANUARY 31, 1996 AND FEBRUARY 2, 1997 IS UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Photronics, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated. Certain amounts in the consolidated financial statements for periods prior to October 31, 1996 have been reclassified to conform to the current presentation. The Company has adopted a fiscal year ending on the Sunday closest to October 31, beginning with the current fiscal year.

FOREIGN CURRENCY TRANSLATION

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

The Company's debt and equity investments available for sale are carried at fair value. Prior to 1994, such investments were carried at cost. Short-term investments include a diversified portfolio of high quality marketable securities which will be liquidated as needed to meet the Company's current cash requirements. All other investments are classified as non-current assets. Unrealized gains and losses, net of tax, are reported as a separate component of shareholders' equity. Gains and losses are included in income when realized, determined based on the disposition of specifically identified investments.

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

For financial reporting purposes, depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 15 to 40 years, machinery and equipment over 3 to 10 years and furniture, fixtures and office equipment over 3 to 5 years. Leasehold improvements are amortized over the life of the lease or the estimated useful life of the improvement, whichever is less. For income tax purposes, depreciation is

PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

computed using various accelerated methods and, in some cases, different useful lives than those used for financial reporting.

INTANGIBLE ASSETS

Intangible assets include goodwill which represents the excess of cost over fair value of assets acquired and is being amortized on a straight-line basis over fifteen to twenty years. Costs allocated to sales, non-compete and technology agreements arising from business acquisitions and other intangible assets are being amortized on a straight-line basis over the respective agreement periods ranging from three to ten years. The future economic benefit of the carrying value of intangible assets is reviewed periodically and any diminution in useful life or impairment in value based on future anticipated cash flows would be recorded in the period so determined.

INCOME TAXES

The provision for income taxes is computed on the basis of consolidated financial statement income. Deferred income taxes reflect the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. The Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes," effective November 1, 1993. The cumulative effect of adopting SFAS 109 was an increase in income of \$237, or \$0.02 per share, for fiscal 1994.

NET INCOME PER COMMON SHARE

Net income per common and common equivalent share is calculated using the weighted average number of common and common equivalent shares outstanding during each year. When dilutive, stock options and stock purchase warrants are included as common equivalent shares using the treasury stock method.

STOCK OPTIONS

The Company records stock option awards in accordance with the provisions of Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, which the Company will be required to adopt in fiscal 1997. Under SFAS 123, companies can elect, but are not required, to recognize compensation expense for all stock-based awards, using a fair value methodology. The Company does not believe that adoption of SFAS 123 will have a material effect on its financial statements.

NOTE 2 - INVESTMENTS

Short-term investments consist principally of municipal bonds, commercial paper, and money market and bond funds. The estimated fair value of short-term investments, based upon current yields of like securities, approximates cost, resulting in no significant unrealized gains or losses. Short-term investments at October 31, 1996, mature by their terms, as follows:

Due within one year . . . . .	\$4,113
Due after one year, but within three years. . . . .	3,276
Due after three years . . . . .	529
	-----
	\$7,918
	=====

Other investments consist of available-for-sale equity securities of publicly traded technology companies and a minority interest in a photomask manufacturer in Korea. The fair values of available-for-sale investments



PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

are based upon quoted market prices. The Company is a supplier to one of the investee companies. The estimated fair value of the non-available-for-sale investment is based upon the financial condition and the operating results and projections of the investee and is considered to approximate cost. Unrealized gains on investments were determined as follows:

	OCTOBER 31,		FEBRUARY 2,
	-----	-----	-----
	1995	1996	1997
	-----	-----	-----
			(UNAUDITED)
Fair value . . . . .	\$12,329	\$13,239	\$10,412
Cost . . . . .	1,075	5,104	4,794
	-----	-----	-----
	11,254	8,135	5,618
Less deferred income taxes . . . . .	4,783	3,457	2,388
	-----	-----	-----
Net unrealized gains . . . . .	\$ 6,471	\$ 4,678	\$ 3,230
	=====	=====	=====

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	OCTOBER 31,		FEBRUARY 2,
	-----	-----	-----
	1995	1996	1997
	-----	-----	-----
			(UNAUDITED)
Land . . . . .	\$ 2,200	\$ 2,735	2,735
Buildings and improvements . . . . .	13,305	20,665	20,665
Machinery and equipment . . . . .	89,269	141,430	156,124
Leasehold improvements . . . . .	7,213	9,703	10,450
Furniture, fixtures and office equipment . . . . .	993	1,873	1,906
	-----	-----	-----
	112,980	176,406	191,880
Less accumulated depreciation and amortization . . . . .	40,917	52,740	56,637
	-----	-----	-----
Property, plant and equipment . . . . .	\$ 72,063	\$123,666	\$135,243
	=====	=====	=====



PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 4 - LONG-TERM DEBT

Long-term debt consists of the following:

	OCTOBER 31,		FEBRUARY 2,
	----- 1995	1996 -----	1997 -----
			(UNAUDITED)
Acquisition indebtedness payable December 1, 1998, net of interest of \$450 at October 31, 1995, \$234 at October 31, 1996, and \$206 at February 2, 1997 (unaudited) imputed at 7.45% per annum . . . . .	\$1,350	\$1,566	\$1,594
Industrial development mortgage note, secured by building, with interest at 6.58% per annum, payable through November 2005 . .	495	459	450
	----- 1,845	2,025	2,044
Less current portion . . . . .	36	38	39
	-----	-----	-----
Long-term debt . . . . .	\$1,809	\$1,987	\$2,005
	=====	=====	=====

Long-term debt as of October 31, 1996 matures as follows: 1998-\$41; 1999-\$1,610; 2000-\$46; 2001-\$50; years after 2001-\$240. The fair value of long-term debt not yet substantively extinguished is estimated based on the current rates offered to the Company and is not significantly different from carrying value.

In March 1995, the Company entered into an unsecured revolving credit facility that provides for borrowings of up to \$10 million per year in each of the following three years, subject to a carryover in the second and third year of up to the lesser of \$3 million and the amount of borrowing capacity not used in the prior years. The Company is charged a commitment fee on the average unused amount of the available credit and is subject to compliance with and maintenance of certain financial covenants and ratios. At February 2, 1997, the Company had not borrowed any amounts under this agreement; however, the Company borrowed \$15.0 million subsequent to February 2, 1997.

Cash paid for interest was \$75, \$38 and \$48 in 1994, 1995 and 1996, respectively, and \$8 and \$7 for the three months ended January 31, 1996 and February 2, 1997, respectively.

NOTE 5 - SHAREHOLDERS' EQUITY

In January 1995, the Company's Board of Directors authorized a three-for-two stock split effected in the form of a stock dividend payable to shareholders of record as of March 20, 1995. The stock split resulted in the issuance of 3.3 million additional shares of common stock. All applicable share and per share amounts included in the financial statements reflect the stock split. On March 16, 1995, the shareholders approved an amendment to the Company's Certificate of Incorporation increasing the number of common shares, \$0.01 par value, which the Company is authorized to issue from 10 million to 20 million shares.

PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

In connection with a public offering, in April and May 1995, the Company issued 1,500,000 new shares of common stock at a price of \$21.00 per share (\$19.85 per share after underwriting discounts), 40,000 shares of common stock due to the exercise of stock options at prices ranging from \$1.83 to \$3.17 per share and 7,500 additional shares of common stock resulting from the exercise of a warrant at \$5.24 per share. The proceeds, net of costs of the issue, amounted to \$29.6 million.

In June 1995, the Company issued 98,559 shares of common stock in connection with the acquisition of Microphase Laboratories, Inc. (see Note 6).

NOTE 6 - ACQUISITIONS

EUROPEAN PHOTOMASK OPERATIONS

In January 1996, the Company acquired the photomask manufacturing operations and assets of Plessey Semiconductors Limited ("Plessey") located in Oldham, United Kingdom, for \$4.9 million in cash. In connection with the transaction, the Company leased the facilities from Plessey previously utilized by them for the manufacture of photomasks. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property and equipment based on relative fair value.

In April 1996, the Company, through its majority-owned subsidiary, acquired the photomask manufacturing operations and assets of the Litomask Division ("Litomask") of Centre Suisse d'Electronique et de Microtechnique S.A. ("CSEM") located in Neuchatel, Switzerland for \$3.4 million in cash. CSEM holds the remaining interest in this subsidiary and the Company has an option to acquire CSEM's interest within a two-year period. In connection with the transaction, the Company leased the facilities and retained certain services from CSEM previously utilized by Litomask. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property and equipment based on relative fair value.

The consolidated statement of earnings includes the results of European photomask operations beginning on the effective date of the respective acquisition. Such results were not material to the Company.

HOYA MICRO MASK, INC.

In December 1994, the Company acquired certain assets held by Hoya Micro Mask, Inc. ("Micro Mask"), an independent photomask manufacturer with manufacturing operations located in Sunnyvale, California. The transaction included the purchase of the land, buildings, inventory and certain assets other than cash and receivables. In addition, significant manufacturing systems owned by Micro Mask were leased by the Company from Micro Mask. The acquisition was financed through the payment of approximately \$10.2 million in cash and the obligation to pay \$1.8 million, without interest, four years after the closing. The operating lease of the significant manufacturing systems has a term ranging from 44 to 62 months and includes the right to purchase the systems at fair market value at the end of the lease. The acquisition was accounted for as a purchase and, accordingly, the acquisition price was allocated to property, plant and equipment as well as certain intangible assets based on relative fair value. The excess of purchase price over the fair value of assets acquired is being amortized over 20 years. The consolidated statement of earnings includes the results of Micro Mask's operations from December 1, 1994, the effective date of the acquisition. The consolidated results of the Company's operations on a proforma basis (unaudited) for the year ended October 31, 1994, as though the purchase had been made as of the beginning of the year, would have reflected sales of approximately \$106 million and net income of approximately \$11 million, or \$1.10 per common share. The proforma results of operations are not necessarily indicative of the actual operating results that would have occurred had the transactions been consummated at the beginning of the year, or of the future combined operating results.



PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

MICROPHASE LABORATORIES, INC.

In June 1995, the Company acquired the manufacturing operations and assets, exclusive of cash and accounts receivable, of Microphase Laboratories, Inc. ("Microphase"), an independent photomask manufacturer located in Colorado Springs, Colorado, in exchange for 98,559 shares of common stock of the Company valued at \$2.4 million. The acquisition was accounted for as a purchase. Of the total purchase price, \$1.5 million was allocated to Microphase's research and development projects and, accordingly, was charged to research and development expenses. The consolidated statement of earnings includes the results of the Microphase operations beginning June 20, 1995, the effective date of the acquisition. Such results were not material to the Company.

NOTE 7 - INCOME TAXES

The provision for income taxes consists of the following:

	YEAR ENDED OCTOBER 31,		
	1994	1995	1996
Current:			
Federal . . . . .	\$3,722	\$10,234	\$9,905
State . . . . .	633	1,818	1,908
Foreign . . . . .	--	--	87
	4,355	12,052	11,900
Deferred:			
Federal . . . . .	832	(617)	918
State . . . . .	15	(225)	82
	847	(842)	1,000
	\$5,202	\$11,210	\$12,900

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

	YEAR ENDED OCTOBER 31,		
	1994	1995	1996
U.S. Federal income tax at statutory rate . . . . .	\$5,255	\$10,445	\$11,866
State income taxes, net of Federal benefit . . . . .	428	1,035	1,294
Tax benefits of tax exempt income . . .	(168)	(389)	(302)
Foreign tax rate differential . . . . .	--	--	(291)
Other, net . . . . .	(313)	119	333
	\$5,202	\$11,210	\$12,900

The Company's net deferred tax liability consists of the following:

PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	OCTOBER 31,	
	----- 1995 -----	1996 -----
Deferred income tax liabilities:		
Property, plant and equipment . . .	\$3,761	\$3,876
Investments . . . . .	4,783	3,457
Other . . . . .	31	454
	-----	-----
Total deferred tax liability . .	8,575	7,787
	-----	-----
Deferred income tax assets:		
Reserves not currently deductible .	1,528	1,226
Other . . . . .	643	483
	-----	-----
Total deferred tax asset . . . .	2,171	1,709
	-----	-----
Net deferred tax liability . . . .	\$6,404	\$6,078
	=====	=====

Cash paid for income taxes was \$3.7 million, \$11.6 million and \$13.0 million in 1994, 1995 and 1996, respectively, and \$0.7 million and \$0.2 million for the three months ended January 31, 1996 and February 2, 1997, respectively.

NOTE 8 - EMPLOYEE STOCK OPTION AND PURCHASE PLANS

In March 1996, the shareholders approved the adoption of the 1996 Stock Option Plan which includes provisions allowing for the award of qualified and non-qualified stock options and the granting of restricted stock awards. A total of 600,000 shares of common stock may be issued pursuant to options or restricted stock awards granted under the Plan. Restricted stock awards do not require the payment of any cash consideration by the recipient, but shares subject to an award may be forfeited unless conditions specified in the grant are satisfied.

The Company has adopted a series of other stock option plans under which incentive and non-qualified stock options and restricted stock awards for a total of 1,800,000 shares of the Company's common stock may be granted to employees and directors. All plans provide that the exercise price may not be less than the fair market value of the common stock at the date the options are granted and limit the maximum term of options granted to a range of from five to ten years.

The following table summarizes stock option activity under the plans:

	STOCK OPTIONS -----	EXERCISE PRICES -----
Balance at November 1, 1993 . . .	964,242	\$1.83-\$8.67
Granted . . . . .	249,150	10.17-14.83
Exercised . . . . .	(166,017)	1.83- 8.67
Canceled . . . . .	(124,613)	6.17-13.42
	-----	
Balance at October 31, 1994 . . .	922,762	1.83-14.83
Granted . . . . .	241,640	18.67-27.38
Exercised . . . . .	(145,273)	1.83-13.42
Canceled . . . . .	(39,189)	6.17-24.00
	-----	
Balance at October 31, 1995 . . .	979,940	1.83-27.38



PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Granted . . . . .	482,050	21.50-25.00
Exercised . . . . .	(184,431)	1.83-27.38
Canceled . . . . .	(85,796)	6.17-27.38
	-----	
Balance at October 31, 1996 . . .	1,191,763	\$ 3.17-27.38

At October 31, 1996, 270,657 shares were available for grant and 471,296 shares were exercisable.

In 1994, restricted stock awards representing a total of 78,750 shares were awarded to certain key employees. The market value of the grant amounted to \$1.1 million at the date of grant and was charged to "Deferred Compensation on Restricted Stock", a component of shareholders' equity. Such amount was amortized as compensation expense over the three-year period during which the shares under these awards were subject to forfeiture.

In 1992, the shareholders approved the Company's adoption of an Employee Stock Purchase Plan (the "Purchase Plan"), under which 300,000 shares of common stock are reserved for issuance. The Purchase Plan enables eligible employees to subscribe, through payroll deductions, to purchase shares of the Company's common stock at a purchase price equal to 85% of the lower of the fair market value on the commencement date of the offering and the last day of the payroll payment period. At October 31, 1996, 92,801 shares had been issued and 32,968 shares were subject to outstanding subscriptions under the Purchase Plan.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) Savings and Profit-Sharing Plan (the "Plan") which covers all domestic employees who have completed six months of service and are eighteen years of age or older. Under the terms of the Plan, an employee may contribute up to 15% of their compensation which will be matched by the Company at 50% of the employee's contributions which are not in excess of 4% of the employee's compensation. Employee and employer contributions vest fully upon contribution. Employer contributions amounted to \$0.3 million in 1994 and \$0.5 million in 1995 and 1996.

The Company maintains a cafeteria plan to provide eligible domestic employees with the option to receive non-taxable medical, dental, disability and life insurance benefits. The cafeteria plan is offered to all active full-time employees and their qualifying dependents. The Company's contribution amounted to \$1.2 million in 1994, \$1.4 million in 1995 and \$1.8 million in 1996.

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

NOTE 10 - LEASES

The Company leases various real estate and equipment under non-cancelable operating leases. Rental expense under such leases amounted to \$2.0 million in 1994, \$4.9 million in 1995 and \$5.6 million in 1996. Included in such amounts were \$0.1 million in each year to affiliated entities, which are owned, in part, by a significant shareholder of the Company.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year amounted to \$11.4 million at October 31, 1996, as follows:

PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1997 . . . . .	\$3,979	2000 . . . . .	\$980
1998 . . . . .	3,611	2001 . . . . .	350
1999 . . . . .	2,167	Thereafter . . . . .	312

Included in such future lease payments are amounts to affiliated entities of \$0.1 million in each year from 1997 to 2000, and \$0.3 million in years thereafter.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company and a significant shareholder have jointly guaranteed a loan totaling approximately \$0.5 million as of October 31, 1996, on certain real estate which is being leased by the Company. The Company is subject to certain financial covenants in connection with the guarantee.

As of October 31, 1996 and February 2, 1997, the Company had capital expenditure purchase commitments outstanding of approximately \$54 million and \$62 million, respectively.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions, including collectibility of accounts receivable, and depreciable lives and recoverability of property, plant, equipment and intangible assets. Actual results may differ from such estimates.

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



PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 12 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth certain unaudited quarterly financial data:

	FIRST -----	SECOND -----	THIRD -----
1995:			
Net sales . . . . .	\$26,176	\$30,037	\$32,854
Gross profit . . . . .	9,759	11,615	12,839
Net income . . . . .	\$ 3,267	\$ 3,820	\$ 6,460(b)
Net income per share(a) . . . . .	\$ 0.32	\$ 0.36	\$ 0.54(b)
1996:			
Net sales . . . . .	\$34,668	\$40,514	\$42,677
Gross profit . . . . .	13,416	15,703	16,428
Net income . . . . .	\$ 4,651	\$ 5,267	\$ 5,513
Net income per share (a) . . . . .	\$ 0.39	\$ 0.44	\$ 0.46
		FOURTH -----	YEAR -----
1995:			
Net sales . . . . .		\$36,232	\$125,299
Gross profit . . . . .		14,403	48,616
Net income . . . . .		\$ 5,085	\$ 18,632
Net income per share(a) . . . . .		\$ 0.42	\$ 1.66
1996:			
Net sales . . . . .		\$42,212	\$160,071
Gross profit . . . . .		16,257	61,804
Net income . . . . .		\$ 5,572	\$ 21,003
Net income per share (a) . . . . .		\$ 0.46	\$ 1.74

- 
- (a) Quarterly per share data may not equal the annual amounts due to changes in weighted average shares and share equivalents outstanding.
  - (b) Includes a net gain from the sale of equity investments of \$2.9 million, or \$0.24 per share, after tax, and a non-recurring charge related to the acquisition of Microphase Laboratories, Inc. of \$0.9 million, or \$0.08 per share, after tax.

PHOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 13 - SEGMENT INFORMATION

The Company operates in a single industry segment as a manufacturer of photomasks, which are high precision quartz plates containing microscopic images of electronic circuits for use in the fabrication of semiconductors. In addition to its manufacturing facilities in the United States, the Company has operations in the United Kingdom, Switzerland and Singapore. Prior to 1996, the Company had no operations outside of the United States. The Company's net sales and operating profit for the year ended October 31, 1996 and identifiable assets at October 31, 1996, by geographic area were as follows:

	NET SALES -----	OPERATING INCOME (LOSS) -----	IDENTIFIABLE ASSETS -----
United States . . . . .	\$153,227	\$32,660	\$181,255
Europe and Asia . . . . .	6,844	(395)	30,648
	-----	-----	-----
	\$160,071	\$32,265	\$211,903
	=====	=====	=====

Approximately 14% of net domestic sales in 1996 were for delivery outside of the United States (11% in 1995 and 13% in 1994).

The Company's largest single customer represented approximately 36% of total net sales in 1994, 32% in 1995, 26% in 1996 and 23% in the three months ended February 2, 1997.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement, the Company has agreed to sell to each of the Underwriters named below, and each of such Underwriters has severally agreed to purchase, the entire principal amounts of the Notes set forth opposite its name below:

Underwriter	Principal Amount of Notes
Goldman, Sachs & Co. . . . .	\$ .
Robertson, Stephens & Company LLC . . . . .	\$ .
Smith Barney Inc. . . . .	\$ .
Total . . . . .	\$75,000,000
	=====

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the Notes, if any are taken.

The Underwriters propose to offer the Notes in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus and in part to certain securities dealers at such price less a concession of . % of the principal amount of the Notes. The Underwriters may allow, and such dealers may reallow, a concession not to exceed . % of the principal amount of the Notes to certain brokers and dealers. After the Notes are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

The Company has granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of \$11,250,000 additional principal amount of Notes solely to cover over-allotments, if any. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the principal amount of the Notes to be purchased by each of them, as shown in the foregoing table, bears to the aggregate principal amount of the Notes offered hereby.

The Notes are a new issue of securities with no established trading market. The Company has been advised by the Underwriters that they intend to make a market in the Notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes.

The Company has also agreed that it will not offer to sell, contract to sell or otherwise dispose of any Common Stock (other than upon conversion of the Notes), any securities substantially similar to the Notes or the Common Stock or any security exchangeable or exercisable for or convertible into Common Stock or substantially similar securities (any such security, a "Covered Security"), without the prior consent of Goldman, Sachs & Co., for a period of 90 days after the date of this Prospectus, except pursuant to the Company's stock option or purchase plans existing as of the date of this Prospectus or other options granted by the Company to employees. Certain directors and executive officers of the Company have also agreed, subject to certain exceptions, that they will not offer to sell, sell or otherwise dispose of shares of Common Stock beneficially owned by them without the prior written consent of Goldman, Sachs & Co. until the earlier of the 90th day after the date of this Prospectus.

The Underwriters may engage in transactions that stabilize, maintain, or otherwise affect the price of the Notes, including (i) syndicate covering transactions, which consist of the placing of any bid or the effecting of any purchase on behalf of the Underwriters to reduce a short position created in connection with the Offering; (ii) penalty bids, which permit the



Representative to reclaim a selling concession otherwise accruing from an Underwriter in connection with the Offering when securities originally sold by an Underwriter are purchased in syndicate covering transactions; and (iii) short sales, by which the Underwriters sell securities which they do not own at the time that the sale transaction becomes a binding obligation and (iv) "passive" market making (see below). These activities may stabilize, maintain or otherwise affect the market price of the Notes and Common Stock which may be higher than the price that might otherwise prevail in the open market.

As permitted by Rule 103 under the Securities Exchange Act of 1934, as amended, Underwriters or prospective Underwriters that are market makers ("passive market makers") in the Common Stock may make bids for or purchases of shares of Common Stock in The Nasdaq National Market until such time, if any, when a stabilizing bid for such securities has been made. Rule 103 generally provides that (1) a passive market maker's net daily purchases of the Common Stock may not exceed 30% of its average daily trading volume in such securities for the two full consecutive calendar months (or any 60 consecutive days ending within the 10 days) immediately preceding the filing date of the registration statement of which this Prospectus forms a part, (2) a passive market maker may not effect transactions or display bids for the Common Stock at a price that exceeds the highest independent bid for shares of Common Stock by persons who are not passive market makers and (3) bids made by passive market makers must be identified as such.

The Company has agreed to indemnify the several Underwriters against certain liabilities under the Securities Act.

## Map of Locations Across Globe

Demand for photomasks is driven both by semiconductor design activity and the increase in complexity of integrated circuits. As the complexity of integrated circuits has increased, the number and complexity of photomasks used in the manufacture of a single circuit also has increased.

## Chart of Number of Photomasks for Device Generation

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No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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\$75,000,000

[LOGO]  
PHOTRONICS, INC.

. % CONVERTIBLE  
SUBORDINATED NOTES  
DUE MAY 15, 2004

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PROSPECTUS

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GOLDMAN, SACHS & CO.  
ROBERTSON, STEPHENS &  
COMPANY

SMITH BARNEY INC.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The expenses in connection with the issuance and distribution of the securities being registered, other than underwriting discounts and commissions, are estimated to be:

Securities and Exchange Commission registration fee . . . . .	\$26,136
NASD filing fee . . . . .	9,125
NASD listing fee . . . . .	17,500
Rating agency fees . . . . .	88,750
Legal fees and expenses . . . . .	85,000
Accounting fees and expenses . . . . .	75,000
Blue Sky fees and expenses (including fees of counsel) . . . . .	5,000
Trustee's fees . . . . .	15,000
Printing and engraving fees . . . . .	40,000
Miscellaneous . . . . .	13,489
	-----
Total . . . . .	\$375,000
	=====

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Connecticut Stock Corporation Act (the "Act") provides for indemnification of directors, officers, shareholders, employees and agents of a corporation. Under the Act, a corporation is required to indemnify a director against judgments and other expenses of litigation when he is sued by reason of his being a director in any proceeding brought, other than on behalf of the corporation, if a director is successful on the merits in defense, or acted in good faith and in a manner reasonably believed to be in the best interests of the corporation, or in a criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. In a proceeding brought on behalf of a corporation (a derivative action), a director is entitled to be indemnified by the corporation for reasonable expenses of litigation, if the director is finally adjudged not to have breached his duty to the corporation. In addition, a director is entitled to indemnification for both derivative and non-derivative actions, if a court determines, upon application, that the director is fairly and reasonably entitled to be indemnified.

Article Ninth of the Company's Certificate of Incorporation limits directors' monetary liability for actions or omissions made in good faith, which are later determined to be a breach of their duty as directors of the Company. Article Ninth does not eliminate or limit a director's liability for breaches of fiduciary duty for actions or omissions which (i) involved a knowing and culpable violation of law; (ii) enabled a director or an associate (as defined in the Act) to receive an improper personal economic gain; (iii) showed a lack of good faith and conscious disregard for his duty as a director under circumstances where the director was aware that his actions created an unjustifiable risk of serious injury to the Company; (iv) constituted a sustained and unexcused pattern of inattention that amounted to an abdication of his duty; or (v) involved the improper distribution of Company assets to its shareholders or an improper loan to an officer, director or 5% shareholder. Article Ninth also does not preclude suits for equitable relief, such as an injunction, nor would it shield directors from liability for violations of the federal securities laws. Moreover, Article Ninth does not limit the liability of directors for any act or omission that occurred prior to the date the Article became effective and does not limit the potential liability of officer-directors in their capacity as officers.



The Company has purchased directors' and officers' liability insurance covering certain liabilities incurred by its directors in connection with the performance of their duties.

The Underwriting Agreement filed herewith as Exhibit 1.1 contains provisions by which the Underwriters agree to indemnify the Company, each person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the 1934 Act, each director of the Company, and each officer of the Company who signs this Registration Statement with respect to information furnished in writing by the Underwriters for use in the Registration Statement.

ITEM 16. EXHIBITS.

- 1.1 - Proposed form of Underwriting Agreement.
- 4.1 - Form of Indenture.
- 4.2 - Form of Convertible Subordinated Note (included in Exhibit 4.1).
- 4.3 - Form of Stock Certificate.(1)
- 5.1 - Opinion of Reid & Priest LLP.(2)
- 12.1 - Statement re Computation of Ratio of Earnings to Fixed Charges.
- 23.1 - Consent of Deloitte & Touche LLP.
- 23.2 - Consent of Reid & Priest LLP (To be included in Exhibit 5.1).
- 24.1 - Power of Attorney. (Included at page II-4).
- 25.1 - T-1 Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of The Chase Manhattan Bank.

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(1) Filed as an exhibit to the Company's Registration Statement on Form S-1, File Number 33-11694, which was declared effective by the Commission on March 10, 1987, and incorporated herein by reference.

(2) To be filed by amendment.

ITEM 17. UNDERTAKINGS.

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned Registrant hereby undertakes:

(1) That for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.



(2) That for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Brookfield, State of Connecticut, on the 25th day of April 1997.

PHOTRONICS, INC.

By /s/ Constantine S. Macricostas

-----  
Constantine S. Macricostas,  
Chairman of the Board and Chief  
Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Michael J. Yomazzo and Jeffrey P. Moonan, and each of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, to act, without the other, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to this Registration Statement, including any subsequent registration statement for the same offering that may be filed under Rule 462(b), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ Constantine S. Macriostas ----- Constantine S. Macriostas	Chairman of the Board of Directors, Chief Executive Officer and Director (Principal Executive Officer)	April 25, 1997
/s/ Michael J. Yomazzo ----- Michael J. Yomazzo	President and Director	April 25, 1997

/s/ Robert J. Bollo  
-----  
Robert J. Bollo

Vice President/Finance  
Chief Financial  
Officer  
(Principal  
Financial and  
Accounting  
Officer)

April 25, 1997

/s/ Walter M. Fiederowicz  
-----  
Walter M. Fiederowicz

Director

April 25, 1997

/s/ Joseph A. Fiorita, Jr.  
-----  
Joseph A. Fiorita, Jr.

Director

April 25, 1997

/s/ Yukio Tagawa  
-----  
Yukio Tagawa

Director

April 25, 1997

INDEX TO EXHIBITS

Exhibit Number	Exhibit
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12.1	- Statement Regarding Computation of Ratio of Earnings to Fixed Charges
23.1	- Consent of Deloitte & Touche LLP
23.2	- Consent of Reid & Priest LLP (To be included in Exhibit 5.1)
24.1	- Power of Attorney (Included at page II-4)
25.1	- T-1 Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of The Chase Manhattan Bank

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- (1) Filed as an exhibit to the Company's Registration Statement on Form S-1, File Number 33-11694, which was declared effective by the Commission on March 10, 1987, and incorporated herein by reference.
- (2) To be filed by amendment.



## PHOTRONICS, INC

\$75,000,000

\_\_\_% Convertible Subordinated Notes due 2004

## Underwriting Agreement

-----

May \_\_, 1997

Goldman, Sachs & Co.,  
Robertson, Stephens & Company LLC,  
Smith Barney Inc.

As representatives of the several Underwriters  
named in Schedule I hereto,  
c/o Goldman, Sachs & Co.  
85 Broad Street,  
New York, New York 10004

Ladies and Gentlemen:

Photronics, Inc., a Connecticut corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (the "Underwriters") an aggregate of \$75,000,000 principal amount of the Convertible Subordinated Notes, convertible into Common Stock, par value \$.01 per share ("Stock") of the Company, specified above (the "Firm Securities") and, at the election of the Underwriters, up to an aggregate of \$11,250,000 additional aggregate principal amount (the "Optional Securities") (the Firm Securities and the Optional Securities which the Underwriters elect to purchase pursuant to Section 2 hereof are herein collectively called the "Securities").

1. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) A registration statement on Form S-3 (File No. 333-....) (the "Initial Registration Statement") in respect of the Securities and shares of the Stock issuable upon conversion thereof has been filed with the Securities and Exchange Commission (the "Commission"); the Initial Registration Statement (including any pre-effective amendment) and any post-effective amendment thereto, each in the form heretofore delivered to you, and, excluding exhibits thereto but including all documents incorporated by reference in the prospectus contained therein, to you for each of the other Underwriters, have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "Rule 462(b) Registration Statement"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Act"), which became effective upon filing, no other document with respect to the Initial Registration Statement, or document incorporated by reference therein has heretofore been filed with the Commission; and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act, is hereinafter called a "Preliminary Prospectus"; the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto but excluding Form T-1 and including (i) the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective and (ii) the documents incorporated by reference in the prospectus contained in the registration statement at the time such part of the registration statement became effective or such part of the Rule 462(b) Registration

Statement, if any, became or hereafter becomes effective, each as amended at the time such part of the registration statement became effective, are hereinafter collectively called the "Registration Statement"; such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "Prospectus"; any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act, as of the date of such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and incorporated by reference in such Preliminary Prospectus or Prospectus, as the case may be; and any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the Exchange Act after the effective date of the Initial Registration Statement that is incorporated by reference in the Registration Statement;

(b) No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(c) The documents incorporated by reference in the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(d) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will conform, in all material respects to the requirements of the Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in

reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(e) Neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any change in the capital stock other items or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development that is reasonably likely to result in a material adverse change, in or affecting the general affairs, management, financial position, shareholders' equity or results of operations of the Company and its subsidiaries taken as a whole, otherwise than as set forth or contemplated in the Prospectus;

(f) The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries;

(g) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of Connecticut, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, or is subject to no material liability or disability by reason of the failure to be so qualified in any such jurisdiction; and each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation;

(h) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable; the shares of Stock initially issuable upon conversion of the Securities have been duly and validly authorized and reserved for issuance and, when issued and delivered in accordance with the provisions of the Securities and the Indenture referred to below, will be duly and validly issued, fully paid and non-assessable and will conform in all material respects to the description of the Stock contained in the Prospectus; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and (except for directors' qualifying shares and except as described or incorporated by reference in the Prospectus) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims;

(i) The Securities have been duly authorized and, when issued and delivered pursuant to this Agreement, will have been duly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company entitled to the benefits provided by the indenture to be dated as of March \_\_, 1997 (the "Indenture") between

the Company and The Chase Manhattan Bank, as Trustee (the "Trustee"), under which they are to be issued, which will be substantially in the form filed as an exhibit to the Registration Statement; the Indenture has been duly authorized and duly qualified under the Trust Indenture Act and, when executed and delivered by the Company and the Trustee, will constitute a valid and legally binding instrument, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; and the Securities and the Indenture will conform in all material respects to the descriptions thereof in the Prospectus;

(j) The issue and sale of the Securities and the compliance by the Company with all of the provisions of the Securities, the Indenture and this Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Securities or the consummation by the Company of the transactions contemplated by this Agreement or the Indenture, except the registration under the Act of the Securities and the shares of Stock issuable upon conversion thereof, the qualification of the Indenture under the Trust Indenture Act and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities and the Stock by the Underwriters;

(k) Neither the Company nor any of its subsidiaries is in violation of its Certificate of Incorporation or By-laws or in default in the performance or observance of any material obligation, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound;

(l) The statements set forth in the Prospectus under the caption "Description of Notes" and "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Securities and the Stock, under the caption "Certain Federal Income Tax Considerations", and under the caption "Underwriting", insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair in all material respects;

(m) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the current or future financial position, shareholders' equity or results of operations of the Company and its subsidiaries taken as a whole; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(n) The Company is not and, after giving effect to the offering and sale of the Securities, will not be an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the

Investment Company Act of 1940, as amended (the Investment Company Act");

(o) Neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliate located in Cuba within the meaning of Section 517.075, Florida Statutes;

(p) To the Company's knowledge, Deloitte & Touche LLP, who have certified certain financial statements of the Company and its subsidiaries, are independent public accountants as required by the Act and the rules and regulations of the Commission thereunder; and

(q) The Company and its subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, individually or in the aggregate, have a material adverse effect on the current or future consolidated financial position, shareholders' equity or results of operations of the Company and its subsidiaries taken as a whole.

2. Subject to the terms and conditions herein set forth, (a) the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price of .....% of the principal amount thereof, plus accrued interest, if any, from May \_\_, 1997 to the Time of Delivery hereunder, the principal amount of Securities set forth opposite the name of such Underwriter in Schedule I hereto, and (b) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Securities as provided below, the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at the same purchase price set forth in clause (a) of this Section 2, that portion of the aggregate principal amount of the Optional Securities as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractions of \$1,000,) determined by multiplying such aggregate principal amount of Optional Securities by a fraction, the numerator of which is the maximum aggregate principal amount of Optional Securities which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the maximum aggregate principal amount of Optional Securities which all of the Underwriters are entitled to purchase hereunder.

The Company hereby grants to the Underwriters the right to purchase at their election up to ..... aggregate principal amount of Optional Securities, at the purchase price set forth in clause (a) of the first paragraph of this Section 2, for the sole purpose of covering overallotments in the sale of Firm Securities. Any such election to purchase Optional Securities may be exercised by written notice from you to the Company, given within a period of 30 calendar days after the date of this Agreement, setting forth the aggregate principal amount of Optional Securities to be purchased and the date on which such Optional Securities are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as defined in Section (4) hereof) or, unless you and the Company otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

3. Upon the authorization by you of the release of the Firm Securities, the several Underwriters propose to offer the Firm Securities for sale upon the terms and conditions set forth in the Prospectus.

4. (a) The Securities to be purchased by each Underwriter hereunder will be represented by one or more definitive global

Securities in book-entry form which will be deposited by or on behalf of the Company with The Depository Trust Company ("DTC") or its designated custodian. The Company will deliver the Securities to Goldman, Sachs & Co., for the account of each Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer to the order of the Company in Federal (same day) funds, by causing DTC to credit the Securities to the account of Goldman, Sachs & Co. at DTC. The Company will cause the certificates representing the Securities to be made available to Goldman, Sachs & Co. for checking at least twenty-four hours prior to the Time of Delivery (as defined below) at the office of DTC or its designated custodian (the "Designated Office"). The time and date of such delivery and payment shall be, with respect to the Firm Securities, 9:30 a.m., New York City time, on May \_\_, 1997 or such other time and date as Goldman, Sachs & Co. and the Company may agree upon in writing, and, with respect to the Optional Securities, 9:30 a.m., New York City time, on the date specified by Goldman, Sachs & Co. in the written notice given by Goldman, Sachs & Co. of the Underwriters' election to purchase such Optional Securities, or such other time and date as Goldman, Sachs & Co. and the Company may agree upon in writing. Such time and date for delivery of the Firm Securities is herein called the "First Time of Delivery", such time and date for delivery of the Optional Securities, if not the First Time of Delivery, is herein called the "Second Time of Delivery", and each such time and date for delivery is herein called a "Time of Delivery".

(b) The documents to be delivered at the Time of Delivery by or on behalf of the parties hereto pursuant to Section 7 hereof, including the cross-receipt for the Securities and any additional documents requested by the Underwriters pursuant to Section 7(k) hereof, will be delivered at the offices of Ropes & Gray, 885 Third Avenue, New York, New York 10022-4834 (the "Closing Location"), and the Securities will be delivered at the Designated Office, all at the Time of Delivery. A meeting will be held at the Closing Location at ..... p.m., New York City time, on the New York Business Day next preceding the Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Section 4, "New York Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York City are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by you and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Act; to make no further amendment or any supplement to the Registration Statement or Prospectus prior to such Time of Delivery which shall be disapproved by you promptly after reasonable notice thereof; to advise you, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish you with copies thereof; to file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus is required in connection with the offering or sale of the Securities; to advise you, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus, of the suspension of the qualification of the Securities or the shares of Stock issuable upon conversion of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus or suspending any such qualification, to promptly use its best efforts to obtain the withdrawal of such order;

(b) Promptly from time to time to take such action as you may reasonably request to qualify the Securities and the shares of Stock issuable upon conversion of the Securities for offering and sale under the securities laws of such jurisdictions as you may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 a.m., New York City time, on the New York Business Day next succeeding the date of this Agreement and from time to time, furnish the Underwriters with copies of the Prospectus in New York City in such quantities as you may reasonably request, and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Securities and the shares of Stock issuable upon conversion of the Securities and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Act, the Exchange Act or the Trust Indenture Act, to notify you and upon your request to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as you may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance; and in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Securities and the shares of Stock issuable upon conversion of the Securities at any time nine months or more after the time of issue of the Prospectus, upon your request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c)), an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations of the Commission thereunder (including, at the option of the Company, Rule 158);

(e) During the period beginning from the date hereof and continuing to and including the date 90 days after the date of the Prospectus, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder any securities of the Company that are substantially similar to the Securities or the Stock, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than (i) pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement and (ii) as consideration for acquisitions of businesses, property or assets, provided that the recipient of any shares of Stock so issued shall agree in writing for the benefit of the Underwriters that such shares shall remain subject to the restrictions of this Section 5(e), which agreement the Company agrees not to waive), without your prior written consent;

(f) To furnish to the holders of the Securities, at the time the Company distributes such reports to its shareholders, an annual report (including a balance sheet and statements of income, shareholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants) and (beginning with the fiscal quarter ending after the effective date of the Registration

Statement) consolidated summary financial information in reasonable detail of the Company and its subsidiaries for each of the first three quarters of each period year;

(g) During a period of five years from the effective date of the Registration Statement, upon your written request, to furnish to you copies of all reports or other communications (financial or other) furnished to shareholders, and to deliver to you (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which the Securities or any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as you may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and its subsidiaries are consolidated in reports furnished to its shareholders generally or to the Commission);

(h) To use the net proceeds received by it from the sale of the Securities pursuant to this Agreement in the manner specified in the Prospectus under the caption "Use of Proceeds";

(i) To reserve and keep available at all times, free of preemptive rights, shares of Stock for the purpose of enabling the Company to satisfy any obligations to issue shares of its Stock upon conversion of the Securities;

(j) To use its best efforts to list, subject to notice of issuance, the shares of Stock issuable upon conversion of the Securities on the Nasdaq National Market ("NASDAQ"); and

(k) If the Company elects to rely upon Rule 462(b), the Company shall file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) by 10:00 p.m., Washington, D.C. time, on the date of this Agreement, and the Company shall at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act.

6. The Company covenants and agrees with the several Underwriters that the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Securities and the shares of Stock issuable upon conversion of the Securities under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any Agreement among Underwriters, this Agreement, the Indenture, the Blue Sky and Legal Investment Memoranda, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Securities; (iii) all expenses in connection with the qualification of the Securities and the shares of Stock issuable upon conversion of the Securities for offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky and legal investment surveys not to exceed \$5,000; (iv) any fees charged by securities rating services for rating the Securities; (v) the filing fees incident to any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Securities; (vi) the cost of preparing the Securities; (vii) the fees and expenses of the Trustee and any agent of the Trustee and the fees and disbursements of counsel for the Trustee in connection with the Indenture and the Securities; and (viii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section. It is understood, however, that, except as provided in this Section, and Sections 8 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, transfer taxes on resale of any of the Securities by them, and any advertising expenses connected with any offers they may make.

7. The obligations of the Underwriters hereunder shall be subject, in their discretion, to the condition that all



representations and warranties and other statements of the Company herein are, at and as of such Time of Delivery, true and correct, the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have become effective by 10:00 p.m., Washington D.C. time, on the date of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction;

(b) Ropes & Gray, counsel for the Underwriters, shall have furnished to you such opinion or opinions (a draft of each such opinion is attached as Annex II(a) hereto), dated such Time of Delivery, with respect to the matters covered in paragraphs (i), (ii) (with respect to the shares of Stock initially issuable upon conversion of the Securities), (vi), (vii), (viii), (xi) and (xvi) of subsection (c) below as well as such other related matters as you may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Reid & Priest LLP, counsel for the Company, shall have furnished to you their written opinion (a draft of such opinion is attached as Annex II(b) hereto) dated such Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of Connecticut, with corporate power and authority to own its properties and conduct its business as described in the Prospectus;

(ii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable; and the shares of Stock initially issuable upon conversion of the Securities have been duly and validly authorized and reserved for issuance and, when issued and delivered in accordance with the provisions of the Securities and the Indenture, will be duly and validly issued and fully paid and non-assessable, and will conform in all material respects to the description of the Stock contained in the Prospectus;

(iii) The Company has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which, to such counsel's knowledge, it owns or leases properties or conducts any business so as to require such qualification except where the failure to so qualify would not have a material adverse effect on the Company and its subsidiaries taken as a whole (such counsel being entitled to rely in respect of the opinion in this clause upon opinions of local counsel and in respect of matters of fact upon certificates of officers of the Company, provided that such counsel shall state that they believe that both you and they are justified in relying upon such opinions and certificates);

(iv) Each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation; and all of the issued shares of capital stock of each such subsidiary have been duly and validly authorized and issued, are fully paid and non-assessable, and (except for directors' qualifying shares) are owned directly or indirectly by the Company, to such counsel's knowledge, free and clear of all liens, encumbrances, equities or claims (such counsel being entitled to rely in

respect of the opinion in this clause upon opinions of local counsel and in respect of matters of fact upon certificates of officers of the Company or its subsidiaries, provided that such counsel shall state that they believe that both you and they are justified in relying upon such opinions and certificates);

(v) To such counsel's knowledge and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the current or future consolidated financial position, shareholders' equity or results of operations of the Company and its subsidiaries taken as a whole; and, to such counsel's knowledge, no such proceedings are threatened by governmental authorities or by others;

(vi) This Agreement has been duly authorized, executed and delivered by the Company;

(vii) The Securities have been duly authorized, executed, issued and delivered and, when duly authenticated in accordance with the terms of the Indenture, constitute valid and legally binding obligations of the Company entitled to the benefits provided by the Indenture; and the Securities and the Indenture conform in all material respects to the descriptions thereof in the Prospectus;

(viii) The Indenture has been duly authorized, executed and delivered by the Company and constitutes a valid and legally binding instrument of the Company, enforceable in accordance with its terms (provided that such counsel need not express any opinion regarding the enforceability or effect of Section 515 of the Indenture), subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether such validity and binding effect are considered in a proceeding in equity or at law; and the Indenture has been duly qualified under the Trust Indenture Act;

(ix) The issue and sale of the Securities being issued at such Time of Delivery and the compliance by the Company with all of the provisions of the Securities, the Indenture and this Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a material breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject nor will such actions result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties;

(x) No consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Securities being issued at such Time of Delivery or the consummation by the Company of the transactions contemplated by this Agreement or the Indenture, except such as have been obtained under the Act and the Trust Indenture Act, such as may be required under the Act in connection with the shares of Stock issuable upon conversion of the Securities and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws (as to which such counsel

need not express any opinion) in connection with the purchase and distribution of the Securities by the Underwriters;

(xi) The statements set forth in the Prospectus under the caption "Description of Notes" and "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Securities and the Stock, under the caption "Certain Federal Income Tax Considerations", and under the caption "Underwriting", insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair in all material respects;

(xii) The Company is not an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act;

(xiii) The documents incorporated by reference in the Prospectus or any further amendment or supplement thereto made by the Company prior to the Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion), when they became effective or were filed with the Commission, as the case may be, complied as to form in all material respects with the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder; and no fact came to such counsel's attention which causes them to believe that any of such documents, when such documents became effective or were so filed, as the case may be, contained, in the case of a registration statement which became effective under the Act, an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or, in the case of other documents which were filed with the Commission under the Act or the Exchange Act, an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such documents were so filed, not misleading; and

(xiv) The Registration Statement and the Prospectus and any further amendments and supplements thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act and the Trust Indenture Act and the rules and regulations thereunder; although they do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus, except for those referred to in the opinion in subsection (xi) of this Section 7(c), no fact came to such counsel's attention which causes them to believe that, as of its effective date, the Registration Statement or any further amendment thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that, as of its date, the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or that, as of such Time of Delivery, either the Registration Statement or the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and they do not know of any amendment to the

Registration Statement required to be filed or of any contracts or other documents of a character required to be filed as an exhibit to the Registration Statement or required to be incorporated by reference into the Prospectus or required to be described in the Registration Statement or the Prospectus which are not filed or incorporated by reference or described as required;

(d) On the date of the Prospectus at a time prior to the execution of this Agreement, at 9:30 a.m., New York City time, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and also at each Time of Delivery, Deloitte & Touche LLP shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to you, to the effect set forth in Annex I hereto (the executed copy of the letter delivered prior to the execution of this Agreement is attached as Annex I(a) hereto and a draft of the form of letter to be delivered on the effective date of any post-effective amendment to the Registration Statement and as of each Time of Delivery is attached as Annex I(b) hereto);

(e) (i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and (ii) since the respective dates as of which information is given in the Prospectus there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, shareholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in Clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities being issued at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(f) On or after the date hereof (i) no downgrading shall have occurred in the rating accorded the Company's debt securities by any "nationally recognized statistical rating organization", as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities;

(g) On or after the date hereof there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange or on NASDAQ; (ii) a suspension or material limitation in trading in the Company's securities on NASDAQ; (iii) a general moratorium on commercial banking activities declared by either Federal or New York State authorities; or (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, if the effect of any such event specified in this Clause (iv) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities being issued at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(h) The shares of Stock issuable upon conversion of the Securities shall have been duly listed, subject to notice of issuance, on NASDAQ;

(i) The Company shall have obtained and delivered to you an agreement in writing prior to the date hereof from each executive officer, director and each beneficial owner of shares of Common Stock as you shall have requested that such person will not during the period beginning from the date hereof and continuing to and including the date 90 days after the date of the Prospectus offer, sell, contract to sell or otherwise dispose

of, except as provided hereunder, any securities of the Company that are substantially similar to the Securities or the Stock, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement), without your prior written consent;

(j) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses on the New York Business Day next succeeding the date of this Agreement; and

(k) The Company shall have furnished or caused to be furnished to you at such Time of Delivery certificates of officers of the Company satisfactory to you as to the accuracy of the representations and warranties of the Company herein at and as of such Time of Delivery, as to the performance by the Company of all of its obligations hereunder to be performed at or prior to such Time of Delivery, as to the matters set forth in subsections (a) and (e) of this Section and as to such other matters as you may reasonably request.

8. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman, Sachs & Co. expressly for use therein.

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Goldman, Sachs & Co. expressly for use therein; and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such

subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue

statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section 8 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 8 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company within the meaning of the Act.

9. (a) If any Underwriter shall default in its obligation to purchase the Securities which it has agreed to purchase hereunder, you may in your discretion arrange for you or another party or other parties to purchase such Securities on the terms contained herein at a Time of Delivery. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Securities, then the Company shall be entitled to a further period of thirty-six hours within which to procure another party or other parties reasonably satisfactory to you to purchase such Securities on such terms. In the event that, within the respective prescribed periods, you notify the Company that you have so arranged for the purchase of such Securities, or the Company notifies you that it has so arranged for the purchase of such Securities, you or the Company shall have the right to postpone such Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Securities.

(b) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by you and the Company as provided in subsection (a) above, the aggregate principal amount of such Securities which remains unpurchased does not exceed one-eleventh of the aggregate principal amount of all the Securities to be purchased at such Time of Delivery, then the Company shall have the right to require each non-defaulting Underwriter to purchase the principal amount of Securities which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the principal amount of Securities which such Underwriter agreed to purchase hereunder) of the Securities of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by you and the Company as provided in subsection (a) above, the aggregate principal amount of Securities which remains unpurchased exceeds one-eleventh of the aggregate principal amount of all the Securities to be purchased at such Time of Delivery, or if the Company shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Securities of a defaulting Underwriter or Underwriters, then this Agreement (or, with respect to the Second Time of Delivery, the obligation of the Underwriters to purchase and of the Company to sell the Optional Securities) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 8 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. The respective indemnities, agreements,

representations, warranties and other statements of the Company and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Securities.

11. If this Agreement shall be terminated pursuant to Section 9 hereof, the Company shall not then be under any liability to any Underwriter except as provided in Sections 6 and 8 hereof; but, if for any other reason, any Securities are not delivered by or on behalf of the Company as provided herein, the Company will reimburse the Underwriters through you for all out-of-pocket expenses approved in writing by you, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Securities, but the Company shall then be under no further liability to any Underwriter except as provided in Sections 6 and 8 hereof.

12. In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by you jointly or by Goldman, Sachs & Co. on behalf of you as the representatives.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to you as the representatives in care of Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, Attention: Registration Department; and if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 8(c) hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire, or telex constituting such Questionnaire, which address will be supplied to the Company by you upon request. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

13. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and, to the extent provided in Sections 8 and 10 hereof, the officers and directors of the Company and each person who controls the Company or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Securities from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

14. Time shall be of the essence of this Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

15. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

16. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement between each of the Underwriters and the Company. It is understood that your acceptance of this letter on behalf of



each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company for examination upon request, but without warranty on your part as to the authority of the signers thereof.

Very truly yours,

Photronics, Inc.

By: \_\_\_\_\_  
Name:  
Title:

Accepted as of the date hereof:

Goldman, Sachs & Co.  
Robertson, Stephens & Company LLC  
Smith Barney Inc.

By: \_\_\_\_\_  
(Goldman, Sachs & Co.)

On behalf of each of the Underwriters

SCHEDULE 1

Underwriter -----	Principal Amount of Firm Securities to be Purchased -----	Principal Amount of Optional Securities to be Purchased if Maximum Option Exercised -----
Goldman, Sachs & Co . . .	\$	\$
Robertson, Stephens & Company LLC . . . . .		
Smith Barney Inc. . . . .		
Total . . . . .	----- \$75,000,000 =====	----- \$11,250,000 =====

Pursuant to Section 7(d) of the Underwriting Agreement, the accountants shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to the Company and its subsidiaries within the meaning of the Act and the applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules (and, if applicable, prospective financial statements and/or pro forma financial information) examined by them and included or incorporated by reference in the Registration Statement or the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act or the Exchange Act, as applicable, and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the consolidated interim financial statements, selected financial data, pro forma financial information, prospective financial statements and/or condensed financial statements derived from audited financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been furnished to the representatives of the Underwriters (the "Representatives");

(iii) They have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited condensed consolidated statement of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus and/or included in the Company's quarterly report on Form 10-Q incorporated by reference into the Prospectus as indicated in their reports thereon copies of which have been separately furnished to the Representatives; and on the basis of specified procedures including inquiries of officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited condensed consolidated financial statements referred to in paragraph (vi)(A)(i) below comply as to form in the related in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations, nothing came to their attention that caused them to believe that the unaudited condensed consolidated financial statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations;

(iv) The unaudited selected financial information with respect to the consolidated results of operations and financial position of the Company for the five most recent fiscal years included in the Prospectus and included or incorporated by reference in Item 6 of the Company's Annual Report on Form 10-K for the most recent fiscal year agrees with the corresponding amounts (after restatement where applicable) in the audited consolidated financial statements for such five fiscal years which were included or incorporated by reference in the Company's Annual Reports on Form 10-K for such fiscal years;

(v) They have compared the information in the Prospectus under selected captions with the disclosure requirements of Regulation S-K and on the basis of limited procedures specified in such letter nothing came to their attention as a result of the foregoing procedures that caused them to believe that this information does not conform in all material respects with the disclosure requirements of Items 301, 302, 402 and 503(d), respectively, of Regulation S-K;

(vi) On the basis of limited procedures, not constituting an examination in accordance with generally

accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included or incorporated by reference in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) (i) the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus and/or included or incorporated by reference in the Company's Quarterly Reports on Form 10-Q incorporated by reference in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Exchange Act and the related published rules and regulations, or (ii) any material modifications should be made to the unaudited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included or incorporated by reference in the Company's Quarterly Reports on Form 10-Q incorporated by reference in the Prospectus, for them to be in conformity with generally accepted accounting principles;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included or incorporated by reference in the Company's Annual Report on Form 10-K for the most recent fiscal year;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived the unaudited condensed financial statements referred to in Clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in Clause (B) were not determined on a basis substantially consistent with the basis for the audited financial statements included or incorporated by reference in the Company's Annual Report on Form 10-K for the most recent fiscal year;

(D) any unaudited pro forma consolidated condensed financial statements included or incorporated by reference in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock (other than issuances of capital stock upon exercise of options and stock appreciation rights, upon earn-outs of performance shares and upon conversions of convertible securities, in each case which were outstanding on the date of the latest balance sheet included or incorporated by reference in the Prospectus) or any increase in the consolidated long-term debt of the Company and its subsidiaries, or any decreases in consolidated net current assets or stockholders' equity or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with amounts shown in the latest balance sheet included or incorporated by reference in the Prospectus, except in each case for changes, increases

or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included or incorporated by reference in the Prospectus to the specified date referred to in Clause (E) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(vii) In addition to the examination referred to in their report(s) included or incorporated by reference in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (iii) and (vi) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives which are derived from the general accounting records of the Company and its subsidiaries, which appear in the Prospectus (excluding documents incorporated by reference) or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Representatives or in documents incorporated by reference in the Prospectus specified by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries and have found them to be in agreement.

PHOTRONICS, INC.

TO

THE CHASE MANHATTAN BANK

TRUSTEE

INDENTURE

Dated as of May 0, 1997

\$75,000,000

0% CONVERTIBLE SUBORDINATED NOTES  
DUE MAY 15, 2004

CERTAIN SECTIONS OF THIS INDENTURE RELATING TO  
SECTIONS 310 THROUGH 318 OF THE  
TRUST INDENTURE ACT OF 1939:

Trust Indenture Act Section -----	Indenture Section -----
Section 310(a)(1) . . . . .	609
(a)(2) . . . . .	609
(a)(3) . . . . .	Not Applicable
(a)(4) . . . . .	Not Applicable
(b) . . . . .	608
	610
Section 311(a) . . . . .	613
(b) . . . . .	613
Section 312(a) . . . . .	701
(b) . . . . .	702(a)
(c) . . . . .	702(b)
Section 313(a) . . . . .	702(c)
. . . . .	703(a)
(c) . . . . .	(b)703(a)
(d) . . . . .	703(a)
Section 314(a) . . . . .	703(b)
(b) . . . . .	704
(c)(1) . . . . .	Not Applicable
(c)(2) . . . . .	102
(c)(3) . . . . .	102
(d) . . . . .	Not Applicable
(e) . . . . .	Not Applicable
Section 315(a) . . . . .	102
(b) . . . . .	601
(c) . . . . .	603(a)
(d) . . . . .	602
(e) . . . . .	601
Section 316(a)(1)(A) . . . . .	601
(a)(1)(B) . . . . .	601
(a)(2) . . . . .	514
(b) . . . . .	512
(c) . . . . .	513
Section 317(a)(1) . . . . .	Not Applicable
(a)(2) . . . . .	508
(b) . . . . .	104
Section 318(a) . . . . .	503
(a)(2) . . . . .	504
(b) . . . . .	1003
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Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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Note: This table of contents shall not, for any purpose, be deemed to be a part of the Indenture.

INDENTURE, dated as of May 0, 1997, between Photronics, Inc., a corporation duly organized and existing under the laws of the State of Connecticut (herein called the "Company"), having its principal office at 1061 East Indiantown Road, Jupiter, Florida 33477, and The Chase Manhattan Bank, a New York banking corporation, as Trustee (herein called the "Trustee").

#### RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of its 0% Convertible Subordinated Notes Due May 15, 2004 (herein called the "Securities") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Securities, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and its terms, have been done. Further, all things necessary to duly authorize the issuance of the Common Stock of the Company issuable upon the conversion of the Securities, and to duly reserve for issuance the number of shares of Common Stock issuable upon such conversion, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Securities, as follows:

#### ARTICLE ONE

##### Definitions and Other Provisions of General Application

#### SECTION 101. Definitions. -----

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article One have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of such computation; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent Member" means any member of, or participant in, the

Depository.

"Applicable Procedures" means, with respect to any transfer or transaction involving a Global Security or beneficial interest therein, the rules and procedures of the Depository for such Global Security to the extent applicable to such transaction and as in effect from time to time.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board.

"Board Resolution" means a resolution duly adopted by the Board of Directors, a copy of which, certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, shall have been delivered to the Trustee.

"Business Day" means, with respect to any Place of Payment, Place of Conversion or any other place, as the case may be, each Monday, Tuesday, Wednesday, Thursday and Friday, other than any such day on which banking institutions in The City of New York, New York or in such particular place are authorized or obligated by law or executive order to close.

"Change of Control" has the meaning specified in Section 1404(b).

"Closing Price Per Share" means, with respect to the Common Stock of the Company, for any day, the reported last sales price regular way per share or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case (i) on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or (ii) if not listed on or admitted to trading on any national securities exchange then on the Nasdaq National Market or (iii) if the Common Stock is not listed or admitted to trading on any national securities exchange or on such National Market, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Company for that purpose.

"Code" has the meaning specified in Section 201.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Stock" means the Common Stock, par value \$0.01 per share, of the Company authorized at the date of this instrument as originally executed. Subject to the provisions of Section 1311, shares issuable on conversion or repurchase of Securities shall include only shares of Common Stock or shares of any class or classes of common stock resulting from any reclassification or reclassifications thereof; provided, however, that if at any time there shall be more than one such resulting class, the shares so issuable on conversion of Securities shall include shares of all such classes, and the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Common stock" includes any stock of any class of capital stock which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the issuer thereof and which is not subject to redemption by the issuer thereof.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall

have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Notice" has the meaning specified in Section 1403.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Constituent Person" has the meaning specified in Section 1311.

"Conversion Agent" means any Person authorized by the Company to convert Securities in accordance with Article Thirteen. The Company has initially appointed the Trustee as its Conversion Agent.

"Conversion Price" has the meaning specified in Section 1404.

"Conversion Rate" has the meaning specified in Section 1301.

"Corporate Trust Office" means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered, which office on the date hereof is located at Global Trust Services, 450 West 33rd Street, 15th Floor, New York, NY 10001-2697.

"Corporation" means a corporation, association, company, joint-stock company or business trust.

"Custodian" means The Chase Manhattan Bank, as custodian with respect to any Global Security, or any successor entity thereto.

"Defaulted Interest" has the meaning specified in Section 307.

"Depository" means, with respect to any Global Securities, a clearing agency that is registered as such under the Exchange Act and is designated by the Company to act as Depository for such Global Securities (or any successor securities clearing agency so registered).

"DTC" means The Depository Trust Company, a New York corporation.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the United States Securities Exchange Act of 1934 (or any successor statute), as amended from time to time.

"Expiration Date" has the meaning specified in Section 104.

"Expiration Time" has the meaning specified in Section 1304.

"Global Security" means a Security that is registered in the Security Register in the name of a Depository or a nominee thereof.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively.

"Interest Payment Date" means the Stated Maturity of an installment of interest on the Securities.

"Maturity", when used with respect to any Security, means

the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption, submission for repurchase or otherwise.

"Non-electing Share" has the meaning specified in Section 1311.

"Notice of Default" means a written notice of the kind specified in Section 501(4) or 501(5).

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 1004 shall be the principal executive, financial or accounting officer of the Company.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company, and who shall be reasonably acceptable to the Trustee.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

- (i) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (ii) Securities for payment or redemption of which money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;
- (iii) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company; and
- (iv) Securities converted into Common Stock pursuant to Article Thirteen.

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Conversion" has the meaning specified in Section 1302.

"Place of Payment" means any city in which a Paying Agent is located.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Record Date" means any Regular Record Date or Special Record Date.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Reference Date" has the meaning specified in Section 1304.

"Regular Record Date" for the interest payable on any Interest Payment Date means the May 1 or November 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"Repurchase Date" has the meaning specified in Section 1401.

"Repurchase Price" has the meaning specified in Section 1401.

"Responsible Officer", when used with respect to the Trustee, means any vice president, assistant vice president, assistant treasurer, assistant secretary or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and having direct responsibility for the administration of this Indenture, and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"Securities" has the meaning ascribed to it in the first paragraph under the caption "Recitals of the Company".

"Securities Act" means the United States Securities Act of 1933 (or any successor statute), as amended from time to time.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Indebtedness" means the principal of (and premium, if any) and interest (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding) on, and all fees and other amounts payable in connection with, the following, whether absolute or contingent, secured or unsecured, due or to become due, outstanding on the date of the Indenture or thereafter created, incurred or assumed: (a) indebtedness of the Company to banks, insurance companies and other financial institutions evidenced by credit or loan agreements, notes or other written obligations, (b) all other indebtedness of the Company (including indebtedness of others guaranteed by the Company) other than the Securities, whether outstanding on the date of this Indenture or thereafter created, incurred or assumed, which is (i) for money borrowed or (ii) evidenced by a note, security, debenture, bond or similar instrument, (c) obligations of the Company as lessee under leases required to be capitalized on the balance sheet of the lessee under generally accepted accounting principles, (d) obligations of the Company under interest rate and currency swaps, caps, floors, collars or similar agreements or arrangements intended to protect the Company against fluctuations in interest or currency exchange rates, (e) all obligations of the Company issued or assumed as the deferred purchase price of property, (f) all obligations of the Company for the reimbursement of letters of credit to the extent such obligations

are Senior Indebtedness under clauses (a) through (c) above, and (g) renewals, extensions, modifications, restatements and refundings of, or any indebtedness or obligation issued in exchange for, any such indebtedness or obligation described in clauses (a) through (f) of this paragraph; provided, however, that Senior Indebtedness shall not include any such indebtedness or obligation if the terms of such indebtedness or obligation (or the terms of the instrument under which, or pursuant to which, it is issued) expressly provide that such indebtedness or obligation is not superior in right of payment to the Securities, or expressly provide that such indebtedness or obligation is pari passu with or junior to the Securities.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any installment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of interest is due and payable.

"Subsidiary" means a Corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, managers or other voting members of the governing body of such Corporation, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trading Days" means (i) if the Common Stock is listed or admitted for trading on any national securities exchange, days on which such national securities exchange is open for business or (ii) if the Common Stock is not listed or admitted for trading on any national securities exchange, days on which trades may be made on the Nasdaq National Market or any similar system of automated dissemination of quotations of securities prices on which the Common Stock is quoted or (iii) if the Common Stock is not listed or admitted for trading on any national securities exchange or the Nasdaq National Market or quoted on any other system of automated dissemination of quotation of securities prices, days on which the Common Stock is traded regular way in the over-the-counter market and for which a closing bid and a closing asked price for the Common Stock are available.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Underwriting Agreement" has the meaning specified in Section 301.

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

#### SECTION 102. Compliance Certificates and Opinions

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Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is



specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate (including certificates provided pursuant to Section 1004) or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include, without limitation:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. Form of Documents Delivered to Trustee.  
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In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which such certificate or opinion is based are erroneous.

Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 104. Acts of Holders; Record Dates.  
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(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company,

if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Securities shall be proved by the Security Register.

(d) The Company may set any day as a record date for the purpose of determining the Holders entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders, provided that the Company may not set a record date for, and the provisions of this Section 104(d) shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in Section 104(e). If any record date is set pursuant to this Section 104(d), the Holders on such record date, and only such Holders, shall be entitled to take the relevant action, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Securities on such record date. Nothing in this Section 104(d) shall be construed to prevent the Company from setting a new record date for any action for which a record date has previously been set pursuant to this Section 104(d) (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect). Nothing in this Section 104(d) shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Securities on the date such action is taken without the setting of a record date. Promptly after any record date is set pursuant to this Section 104(d), the Company, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Trustee in writing and to each Holder in the manner set forth in Section 106.

(e) The Trustee may set any day as a record date for the purpose of determining the Holders entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 502, (iii) any request to institute proceedings referred to in Section 507(2), or (iv) any direction referred to in Section 512. If any record date is set pursuant to this Section 104(e), the Holders on such record date, and only such Holders, shall be entitled to join in such notice, declaration, request or direction, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Securities on such record date. Nothing in this Section 104(e) shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this Section 104(e) (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect). Nothing in this Section 104(e) shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Securities on the date such action is taken without the setting of a record date. Promptly after any record date is set pursuant to this Section 104(e), the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities in the manner set forth in Section 106.

(f) With respect to any record date set pursuant to Sections 104(d) or 104(e), the party hereto which sets such record date may designate any day as the "Expiration Date" and from time to time may change the Expiration Date to any earlier or later day; provided that no such change shall be effective

unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder in the manner set forth in Section 106, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to Sections 104(d) or 104(e), the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto, subject to its right to change the Expiration Date as provided in this Section 104(f). Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

(g) Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

(h) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

SECTION 105. Notices, Etc., to Trustee and Company.  
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Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Global Trust Services, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company to the attention of the Secretary at the address of the Company's principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 106. Notice to Holders; Waiver.  
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Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 107. Conflict with Trust Indenture Act.  
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If any provision hereof limits, qualifies or conflicts with

a provision of the Trust Indenture Act that is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

SECTION 108. Effect of Headings and Table of Contents.  
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The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. Successors and Assigns.  
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All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 110. Separability Clause.  
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In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 111. Benefits of Indenture.  
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Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, the holders of Senior Indebtedness and the Holders of Securities, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. Governing Law.  
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THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 113. Legal Holidays.  
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In any case where any Interest Payment Date, Redemption Date, Repurchase Date or Stated Maturity of any Security or the last date on which a Holder has the right to convert his Securities shall not be a Business Day at a Place of Payment or Place of Conversion, as the case may be, then (notwithstanding any other provision of this Indenture or of the Securities) payment of interest or principal (and premium, if any) or delivery for conversion of such Security need not be made on such date, but may be made on the next succeeding Business Day at such Place of Payment or Place of Conversion, as the case may be, with the same force and effect as if made on the Interest Payment Date, Redemption Date, Repurchase Date or at the Stated Maturity, or on such last day for conversion, provided that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date, Repurchase Date, Stated Maturity or the last day for conversion, as the case may be, so long as payment is made on such succeeding Business Day.

SECTION 114. Incorporators, Stockholders, Officers and Directors  
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of the Company Exempt from Individual Liability.  
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No recourse under or upon any obligation, covenant or agreement in this Indenture or any indenture supplemental hereto or in any of the Securities, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor Person, either directly or through the Company or any successor Person, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and

the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, stockholders, officers or directors, as such, of the Company or of any successor Person, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, stockholder, officer or director, as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of such Securities.

ARTICLE TWO

Security Forms

SECTION 201. Forms Generally.

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The Securities and the Trustee's certificates of authentication shall be in substantially the forms set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange, the Internal Revenue Code of 1986, as amended, and the regulations thereunder (the "Code"), or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities.

Any definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods or may be produced in any other manner permitted by the rules of any automated quotation system or securities exchange on which the Securities may be quoted or listed, as the case may be, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

SECTION 202. Form of Face of Security.

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[The following legend shall appear on the face of each Global Security:

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITARY OR A NOMINEE OF THE DEPOSITARY, WHICH MAY BE TREATED BY THE COMPANY, THE TRUSTEE AND ANY AGENT THEREOF AS OWNER AND HOLDER OF THIS SECURITY FOR ALL PURPOSES.]

[The following legend shall appear on the face of each Global Security for which The Depository Trust Company is to be the Depository:

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR REGISTERED SECURITIES IN DEFINITIVE REGISTERED FORM IN THE LIMITED CIRCUMSTANCES REFERRED TO IN THE INDENTURE, THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY

PHOTRONICS, INC.

0% CONVERTIBLE SUBORDINATED NOTE

DUE MAY 15, 2004

No. \_\_\_\_\_ \$ \_\_\_\_\_

Photronics, Inc., a corporation duly organized and existing under the laws of Connecticut (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) on May 15, 2004, and to pay interest thereon from \_\_\_\_\_, 1997 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually in arrears on May 15 and November 15 in each year (each, an "Interest Payment Date"), commencing November 15, 1997 at the rate of 0% per annum, until the principal hereof is due, and at the rate of 0% per annum on any overdue principal and premium, if any, and, to the extent permitted by law, on any overdue interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the May 1 or November 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Except as otherwise provided in the Indenture, any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Company, notice whereof shall be given to Holders of Securities not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any automated quotation system or securities exchange on which the Securities may be listed, and upon such notice as may be required by such quotation system or exchange, as the case may be, all as more fully provided in the Indenture. Payments of principal shall be made upon the surrender of this Security at the option of the Holder at the Corporate Trust Office of the Trustee, or at such other office or agency of the Company as may be designated by it for such purpose in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check, mailed to the address of the Person entitled thereto as such address shall appear in the Security Register, or, upon written application by the Holder to the Security Registrar.

Except as specifically provided in the Indenture, the Company shall not be required to make any payment with respect to any tax, assessment or other governmental charge imposed by any governmental or any political subdivision or taxing authority thereof or therein.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

PHOTRONICS, INC.

By \_\_\_\_\_  
Title:  
Name:

Attest:

\_\_\_\_\_  
Title:

SECTION 203. Form of Reverse of Security.  
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This Security is one of a duly authorized issue of Securities of the Company designated as its 0% Convertible Subordinated Notes due May 15, 2004 (herein called the "Securities"), limited in aggregate principal amount to \$75,000,000, as such amount may be increased, but not by an amount in excess of \$11,250,000, solely as a result of the exercise of the underwriters' over-allotment option granted by the Company under the underwriting agreement, dated May 0, 1997, among the Company, Goldman, Sachs & Co., Robertson, Stephens & Company and Smith Barney Inc., issued and to be issued under an Indenture, dated as of May 0, 1997 (herein called the "Indenture"), between the Company and The Chase Manhattan Bank, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, the holders of Senior Indebtedness and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. The Securities are issuable in registered form only without coupons in denominations of \$1,000 and any integral multiple thereof.

Subject to and upon compliance with the provisions of the Indenture, the Holder of this Security is entitled, at his option, at any time before the close of business on May 15, 2004, or in case this Security or a portion hereof is called for redemption or the Holder hereof has exercised his right to require the Company to repurchase this Security or a portion hereof, then in respect of this Security until and including, but (unless the Company defaults in making the payment due upon redemption or repurchase, as the case may be) not after, the close of business on the Redemption Date or Repurchase Date, as the case may be, to convert this Security (or any portion of the principal amount hereof that is an integral multiple of \$1,000, provided that the unconverted portion of such principal amount is \$1,000 or any integral multiple of \$1,000 in excess thereof) into fully paid and nonassessable shares of Common Stock of the Company at an initial Conversion Rate of 0 shares of Common Stock for each \$1,000 principal amount of Securities (or at the then current adjusted Conversion Rate if an adjustment has been made as provided in the Indenture) by surrender of this Security, duly endorsed or assigned to the Company or in blank and, in case such surrender shall be made during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date (except if this Security has been called for redemption on a Redemption Date or is repurchasable on a Repurchase Date occurring, in either case, during such period and is surrendered for such conversion during such period (including any Securities or portions thereof called for redemption on a Redemption Date that is a Regular Record Date or an Interest Payment Date, as the case may be)), also accompanied by payment in New York Clearing House or other funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of this Security then being converted, and also the conversion notice hereon duly executed, to the Company at the Corporate Trust Office of the Trustee, or at such other office or agency of the Company, subject to any laws or regulations applicable thereto and subject to the right of the Company to terminate the appointment of any Conversion Agent (as defined below) as may be designated by it for such purpose in the Borough of Manhattan, The City of New York, or at such other offices or agencies as the Company may designate (each a "Conversion Agent"), provided further, that if this Security or portion

hereof has been called for redemption on a Redemption Date or is repurchasable on a Repurchase Date occurring, in either case, during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such succeeding Interest Payment Date and is surrendered for conversion during such period, then the Holder of this Security who converts this Security or a portion hereof during such period will be entitled to receive the interest accruing hereon from the Interest Payment Date next preceding the date of such conversion to such succeeding Interest Payment Date and shall not be required to pay such interest upon surrender of this Security for conversion. Subject to the provisions of the preceding sentence and, in the case of a conversion after the close of business on the Regular Record Date next preceding any Interest Payment Date and on or before the close of business on such Interest Payment Date, to the right of the Holder of this Security (or any Predecessor Security of record as of such Regular Record Date) to receive the related installment of interest to the extent and under the circumstances provided in the Indenture, no cash payment or adjustment is to be made on conversion for interest accrued hereon from the Interest Payment Date next preceding the day of conversion, or for dividends on the Common Stock issued on conversion hereof. The Company shall thereafter deliver to the Holder the fixed number of shares of Common Stock (together with any cash adjustment, as provided in the Indenture) into which this Security is convertible and such delivery will be deemed to satisfy the Company's obligation to pay the principal amount of this Security. No fractions of shares or scrip representing fractions of shares will be issued on conversion, but instead of any fractional interest (calculated to the nearest 1/100th of a share) the Company shall pay a cash adjustment as provided in the Indenture. The Conversion Rate is subject to adjustment as provided in the Indenture. In addition, the Indenture provides that in the case of certain consolidations or mergers to which the Company is a party or the conveyance, transfer, sale or lease of all or substantially all of the property and assets of the Company, the Indenture shall be amended, without the consent of any Holders of Securities, so that this Security, if then Outstanding, will be convertible thereafter, during the period this Security shall be convertible as specified above, only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, transfer, sale or lease by a holder of the number of shares of Common Stock of the Company into which this Security could have been converted immediately prior to such consolidation, merger, conveyance, transfer, sale or lease (assuming such holder of Common Stock is not a Constituent Person, failed to exercise any rights of election and received per share the kind and amount received per share by a plurality of Non-electing Shares). No adjustment in the Conversion Rate will be made until such adjustment would require an increase or decrease of at least one percent of such Conversion Rate, provided that any adjustment that would otherwise be made will be carried forward and taken into account in the computation of any subsequent adjustment.

The Securities are subject to redemption upon not less than 20 nor more than 60 days' notice by mail, at any time on or after May 16, 2000, as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed during the 12-month period beginning May 16 of the years indicated,

Year	Redemption Price
2000	0%
2001	0%
2002	0%
2003	0%

and thereafter at a Redemption Price equal to 100% of the principal amount, in each case together with accrued interest to the Redemption Date; provided, however, that interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.

In the event of redemption, repurchase or conversion of this



Security in part only, a new Security or Securities for the unredeemed, unreurchased or unconverted portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

In any case where the due date for the payment of the principal of, premium, if any, or interest on any Security or the last day on which a Holder of a Security has a right to convert his Security shall be, at any Place of Payment or Place of Conversion, as the case may be, a day on which banking institutions at such Place of Payment or Place of Conversion are authorized or obligated by law or executive order to close, then payment of principal, premium, if any, or interest, or delivery for conversion of such Security need not be made on or by such date at such place but may be made on or by the next succeeding day at such place which is not a day on which banking institutions are authorized or obligated by law or executive order to close, with the same force and effect as if made on the date for such payment or the date fixed for redemption or repurchase, or by such last day for conversion, and no interest shall accrue on the amount so payable for the period after such date so long as payment is made on the next succeeding day at such place which is not a day on which banking institutions are authorized or obligated by law or executive order to close.

If a Change of Control occurs, the Holder of this Security, at the Holder's option, shall have the right, in accordance with the provisions of the Indenture, to require the Company to repurchase this Security (or any portion of the principal amount hereof that is equal to \$1,000 or any integral multiple of \$1,000 in excess thereof) for cash at a Repurchase Price equal to 100% of the principal amount thereof plus interest accrued to the Repurchase Date. At the option of the Company, the Repurchase Price may be paid in cash or, subject to the conditions provided in the Indenture, by delivery of shares of Common Stock having a fair market value equal to the Repurchase Price. For purposes of this paragraph, the fair market value of shares of Common Stock shall be determined by the Company and shall be equal to 95% of the average of the Closing Prices Per Share for the five consecutive Trading Days ending on and including the third Trading Day immediately preceding the Repurchase Date. Whenever in this Security there is a reference, in any context, to the principal of any Security as of any time, such reference shall be deemed to include reference to the Repurchase Price payable in respect of such Security to the extent that such Repurchase Price is, was or would be so payable at such time, and express mention of the Repurchase Price in any provision of this Security shall not be construed as excluding the Repurchase Price so payable in those provisions of this Security when such express mention is not made; provided, however, that, for the purposes of the next paragraph, such reference shall be deemed to include reference to the Repurchase Price only to the extent the Repurchase Price is payable in cash.

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided and (c) appoints the Trustee his attorney-in-fact for any and all such purposes.

If an Event of Default shall occur and be continuing, the principal of all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the

Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest on this Security on the respective Stated Maturities expressed herein (or in the case of redemption or repurchase, on the Redemption Date or Repurchase Date, as the case may be) or to convert this Security as provided in the Indenture.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default, the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee indemnity satisfactory to it and the Trustee shall not have received from the Holders of a majority in principal amount of the Securities Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof, premium, if any, or interest hereon on or after the respective due dates expressed herein or for the enforcement of the right to convert this Security as provided in the Indenture.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company maintained for that purpose pursuant to Section 1002, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee, and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

#### ABBREVIATIONS

The following abbreviations, when used in the inscription of the face of this Security, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common UNIF GIFT MIN ACT-- \_\_\_\_\_  
TEN ENT - as tenants by the entireties (Cust)  
JT TEN - as joint tenants with right Custodian \_\_\_\_\_  
under Uniform  
of survivorship and not as (Minor)  
tenants in common Gifts to Minors Act \_\_\_\_\_  
(State)

Additional abbreviations may also be used though not in the above list.

ELECTION OF HOLDER TO REQUIRE REPURCHASE

1. Pursuant to Section 1401 of the Indenture, the undersigned hereby elects to have this Security repurchased by the Company.

2. The undersigned hereby directs the Trustee or the Company to pay it or \_\_\_\_\_ an amount in cash or, at the Company's election, Common Stock valued as set forth in the Indenture, equal to 100% of the principal amount to be repurchased (as set forth below), plus interest accrued to the Repurchase Date, as provided in the Indenture.

Dated:

\_\_\_\_\_  
\_\_\_\_\_  
Signature(s)

Signature(s) must be guaranteed by an Eligible Guarantor Institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934.

\_\_\_\_\_  
Signature Guaranteed

Principal amount to be repurchased  
(an integral multiple of \$1,000): \_\_\_\_\_

Remaining principal amount following such repurchase:

\_\_\_\_\_

NOTICE: The signature to the foregoing Election must correspond to the Name as written upon the face of this Security in every particular, without alteration or any change whatsoever.

SECTION 204. Form of Trustee's Certificate of Authentication.  
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This is one of the Securities referred to in the within-mentioned Indenture.

[NAME OF TRUSTEE],  
as Trustee

By \_\_\_\_\_  
Authorized Signatory

SECTION 205. Form of Conversion Notice.  
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The undersigned Holder of this Security hereby irrevocably exercises the option to convert this Security, or any portion of the principal amount hereof (which is an integral multiple of \$1,000, provided that the unconverted portion of such principal amount is \$1,000 or any integral multiple of \$1,000 in excess thereof) below designated, into shares of Common Stock in accordance with the terms of the Indenture referred to in this Security, and directs that such shares, together with a check in payment for any fractional share and any Securities representing any unconverted principal amount hereof, be delivered to and be registered in the name of the undersigned unless a different name has been indicated below. If shares of Common Stock or Securities are to be registered in the name of a Person other than the undersigned, (a) the undersigned will pay all transfer taxes payable with respect thereto and (b) signature(s) must be guaranteed by an Eligible Guarantor Institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934. Any amount required to be paid by the undersigned on account of interest accompanies this Security.

Dated: \_\_\_\_\_

Fill in for registration of shares

of Common Stock if to be issued,  
and Securities if to be delivered,  
other than to and in the name of  
the registered holder:

Signature(s)

(Name)

ARTICLE THREE

The Securities

SECTION 301. Title and Terms.

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The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is limited to \$75,000,000, as such amount may be increased, but not by an amount in excess of \$11,250,000, solely as a result of the purchase of additional Securities (referred to in the Underwriting Agreement as "Additional Securities") pursuant to the exercise of the underwriters' over-allotment option granted by the Company under the underwriting agreement, dated May 0, 1997 (the "Underwriting Agreement"), among the Company, Goldman, Sachs & Co., Robertson, Stephens & Company and Smith Barney Inc. (collectively, the "Underwriters"), except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 304, 305, 306, 906, 1108, 1302 or 1403(e).

The Securities shall be known and designated as the "0% Convertible Subordinated Notes due May 15, 2004" of the Company. Their Stated Maturity shall be May 15, 2004, and they shall bear interest at the rate of 0% per annum, from \_\_\_\_\_, 1997 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually in arrears on May 15 and November 15 in each year, commencing November 15, 1997, until the principal thereof is paid or made available for payment, and, to the fullest extent permitted by law, at the rate of 0% per annum on any overdue principal and on any overdue installment of interest.

Upon receipt by the Trustee of an Officers' Certificate stating that the Underwriters have elected to purchase from the Company a specified aggregate principal amount of Additional Securities not to exceed a total of \$11,250,000 for all such elections in accordance with this paragraph pursuant to the Underwriting Agreement, the Trustee shall authenticate and make available for delivery such specified aggregate principal amount of such Additional Securities to or upon a Company Request, and such specified aggregate principal amount of such Additional Securities shall be considered part of the original aggregate principal amount of the Securities.

The principal of (and premium, if any) and interest on the Securities shall be payable at the office or agency of the Company maintained for such purpose pursuant to Section 1002; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

The Securities shall be redeemable as provided in Article Eleven.

The Securities are not entitled to the benefit of any sinking fund.

The Securities shall be subordinated in right of payment to Senior Indebtedness as provided in Article Twelve.

The Securities shall be convertible as provided in Article Thirteen.

The Securities shall be subject to repurchase at the option of the Holders upon a Change of Control as provided in Article Fourteen.

SECTION 302. Denominations.

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The Securities shall be issuable only in registered form without coupons and only in denominations of \$1,000 and any integral multiple thereof.

SECTION 303. Execution, Authentication, Delivery and Dating.

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The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President, or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities; and the Trustee in accordance with such Company Order shall authenticate and deliver such Securities as in this Indenture provided and not otherwise.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

SECTION 304. Temporary Securities.

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Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to Section 1002, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

For purposes of this Section 304, each Global Security shall be considered a definitive Security.

SECTION 305. Registration, Registration of Transfer and

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Exchange.

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The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such

office and in any other office or agency designated pursuant to Section 1002 being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security at an office or agency of the Company designated pursuant to Section 1002 for such purpose, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denominations and of a like aggregate principal amount.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denominations and of a like aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906, 1108, 1302 or 1403(e) not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange any Security during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities selected for redemption under Section 1104 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

The provisions of Clauses (1), (2), (3), (4) and (5) below shall apply only to Global Securities:

(1) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or a nominee thereof or Custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(2) Notwithstanding any other provision in this Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) such Depositary (i) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act, or (B) there shall have occurred and be continuing an Event of Default with respect to such Global Security.

(3) Subject to Clause (2) above, any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or

any portion thereof shall be registered in such names as the Depository for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Article Three or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the name of a Person other than the Depository for such Global Security or a nominee thereof.

(5) The Depository or its nominee, as registered owner of a Global Security, shall be the Holder of such Global Security for all purposes under the Indenture and the Securities, and owners of beneficial interests in a Global Security shall hold such interests pursuant to the Applicable Procedures. Accordingly, any such owner's beneficial interest in a Global Security will be shown only on, and the transfer of such interest shall be effected only through, records maintained by the Depository or its nominee or its Agent Members and such owners of beneficial interests in a Global Security will not be considered the owners or holders thereof.

SECTION 306. Mutilated, Destroyed, Lost and Stolen Securities.  
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If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be satisfactory to them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee and its agents and counsel) connected therewith.

Every new Security issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 307. Payment of Interest; Interest Rights Preserved.  
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Interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease

to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

In the case of any Security which is converted in accordance with Section 1302 after any Regular Record Date and on or prior to the next succeeding Interest Payment Date (other than a Security whose Maturity is prior to such Interest Payment Date), interest whose Stated Maturity is on such Interest Payment Date shall be payable on such Interest Payment Date notwithstanding such conversion, and such interest (whether or not punctually paid or duly provided for) shall be paid to the Person in whose name such Security (or one or more Predecessor Securities) is registered at the close of business on such Regular Record Date. Except as otherwise expressly provided in the immediately preceding sentence or in Section 1302, in the case of any Security which is converted, interest whose Stated Maturity is after the date of conversion of such Security shall not be payable.

SECTION 308. Persons Deemed Owners.

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Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of (and premium, if any) and (subject to Section 307) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.



SECTION 309. Cancellation.

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All Securities surrendered for payment, redemption, repurchase, registration of transfer or exchange or conversion shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be disposed of in accordance with the Trustee's normal procedures.

SECTION 310. Computation of Interest.

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Interest on the Securities shall be computed on the basis of a 360-day year of twelve 30-day months.

ARTICLE FOUR

Satisfaction and Discharge

SECTION 401. Satisfaction and Discharge of Indenture.

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This Indenture shall cease to be of further effect (except as to any surviving rights of conversion, or registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than

(i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and

(ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers'

Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Trustee to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

SECTION 402. Application of Trust Money.  
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Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee. All moneys deposited with the Trustee pursuant to Section 401 (and held by it or any Paying Agent) for the payment of Securities subsequently converted shall be returned to the Company upon Company Request.

ARTICLE FIVE

Remedies

SECTION 501. Events of Default.  
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"Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be occasioned by the provisions of Article Twelve or be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of the principal or Redemption Price of any Security at its Maturity whether or not such payment is prohibited pursuant to Article Twelve; or

(2) default in the payment of any interest upon any Security when it becomes due and payable whether or not such payment is prohibited pursuant to Article Twelve, and continuance of such default for a period of 30 days; or

(3) failure by the Company to give the Company Notice in accordance with Section 1403; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Outstanding Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) a default under any indebtedness of the Company for money borrowed or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company in an aggregate outstanding principal amount then outstanding in excess of \$15,000,000, whether such indebtedness now exists or shall hereafter be created, such indebtedness is not paid at final maturity (either upon its stated maturity or acceleration thereof) and such default in payment or acceleration has not been cured or rescinded, within a period of 30 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Outstanding

Securities, a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged or cause such default to be cured or waived or such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; or

(6) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or

(7) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, or the consent by the Company to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action.

SECTION 502. Acceleration of Maturity; Rescission and  
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Annulment.  
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If an Event of Default (other than an Event of Default specified in Section 501(6) or 501(7)) occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities may declare the principal of all the Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal and all accrued interest thereon shall become immediately due and payable. If an Event of Default specified in Section 501(6) or 501(7) occurs and is continuing, the principal of and any accrued interest thereon, all Outstanding Securities shall ipso facto become due and payable immediately without any declaration or other Act on the part of the Trustee or any Holder.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article Five provided, the Holders of a majority in principal amount of the Outstanding Securities, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities,

(B) the principal of (and premium, if any, on) any Securities which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at a rate of 0% per annum, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default, other than the nonpayment of the principal of Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission or annulment referred to above shall affect any subsequent default or Event of Default or impair any right consequent thereon.

SECTION 503. Collection of Indebtedness and Suits for  
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Enforcement by Trustee.  
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The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal (and premium, if any) and interest, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal (and premium, if any) and on any overdue interest, at a rate of 0% per annum, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Securities, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. Trustee May File Proofs of Claim.  
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In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or the creditors of either, the Trustee (irrespective of whether the principal of, and any interest on, the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(1) to file and prove a claim for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Securities and take such other actions, including participating as a member, voting or otherwise, of any official

committee of creditors appointed in such matter, and to file such other papers or documents, in each of the foregoing cases, as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders of Securities allowed in such judicial proceeding, and

(2) to collect and receive any moneys or other property payable or deliverable on any such claim and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any other amounts due the Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Security any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder of a Security in any such proceeding; provided, however, that the Trustee may, on

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behalf of such Holders, vote for the election of a trustee in bankruptcy or similar official.

SECTION 505. Trustee May Enforce Claims Without Possession of  
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Securities.  
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All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 506. Application of Money Collected.  
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Subject to Article Twelve, any money collected by the Trustee pursuant to this Article Five shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607;

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any) and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively; and

THIRD: Any remaining amounts shall be repaid to the Company.

SECTION 507. Limitation on Suits.  
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No Holder of any Security shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 508. Unconditional Right of Holders to Receive  
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Principal, Premium and Interest and to Convert.  
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Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption or repurchase, on the Redemption Date or Repurchase Date, as the case may be) and to convert such Security in accordance with Article Thirteen and to institute suit for the enforcement of any such payment and right to convert, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. Restoration of Rights and Remedies.  
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If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. Rights and Remedies Cumulative.  
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Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. Delay or Omission Not Waiver.  
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Nodelay or omission of the Trustee or of any Holder of any

Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article Five or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. Control by Holders.  
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The Holders of a majority in principal amount of the Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 513. Waiver of Past Defaults.  
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The Holders of not less than a majority in principal amount of the Outstanding Securities may on behalf of the Holders of all the Securities waive any past default hereunder and its consequences, except a default

(1) in the payment of the principal of (or premium, if any) or interest on any Security, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. Undertaking for Costs.  
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In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; provided that the provisions of this Section 514 (to the extent permitted by law) shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than ten (10) percent in principal amount of Outstanding Securities, or to any suit instituted by any Holder of any Security for the enforcement of the payment of the principal of, premium, if any, or interest on any Security or to any suit for the enforcement of the right to convert any Security in accordance with the provisions of Article Thirteen or to require the Company to repurchase any Security in accordance with the provisions of Article Fourteen.

SECTION 515. Waiver of Stay or Extension Laws.  
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The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, usury or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

The Trustee

SECTION 601. Certain Duties and Responsibilities.

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(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default,

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they substantially conform to the requirements of this Indenture.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own wilful misconduct, except that

(1) this paragraph (c) shall not be construed to limit the effect of paragraph (b) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 602. Notice of Defaults.

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Within 90 days after the occurrence of any default hereunder as to which the Trustee has received written notice, the Trustee shall give to all Holders of Securities, in the manner provided in Section 106, notice of such default, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 501(4), no such notice to Holders of Securities shall be given until at least 30 days after the occurrence of such default. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

SECTION 603. Certain Rights of Trustee.



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Subject to the provisions of Section 601:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, Officers' Certificate, other certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on their part, conclusively rely upon an Officers' Certificate or an opinion of counsel;

(d) the Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney during reasonable business hours and after reasonable notice;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) the Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

SECTION 604. Not Responsible for Recitals or Issuance of  
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Securities.  
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The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 605. May Hold Securities.  
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The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its

individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 606. Money Held in Trust.  
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Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company in writing.

SECTION 607. Compensation and Reimbursement.  
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The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its gross negligence or bad faith; and

(3) to indemnify the Trustee and its directors, officers, employees and agents for, and to hold them harmless against, any loss, liability or expense incurred without negligence or bad faith on their part, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

To secure the Company's payment obligations under this Section, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee including, without limitation, all money or property held or collected by the Trustee in trust to pay the principal of, or interest on, or any other amounts on any Securities, and such lien shall survive the satisfaction and discharge of the Indenture and any other termination of the Indenture including any termination under any bankruptcy law. When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Sections 501(6) or (7), the Holders by their acceptance of the Securities hereby agree that such expenses (including the fees and expenses of its counsel) and the compensation for such services are intended to constitute expenses of administration under Title 11 of the United States Code or any other applicable Federal or state bankruptcy, insolvency or similar law. "Trustee" for purposes of this Section 607 shall include any predecessor Trustee, but the negligence or bad faith of any Trustee shall not affect the indemnification of any other Trustee.

The provisions of this Section shall survive the termination of this Indenture or the resignation or removal of the Trustee.

SECTION 608. Disqualification; Conflicting Interests.  
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If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

SECTION 609. Corporate Trustee Required; Eligibility.  
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There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such, having a combined capital and surplus of at least \$50,000,000 subject to supervision or examination by federal or

state authority, in good standing and having an established place of business in the Borough of Manhattan, The City of New York. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 609, it shall resign promptly in the manner and with the effect hereinafter specified in this Article and a successor shall be appointed pursuant to Section 610.

SECTION 610. Resignation and Removal; Appointment of Successor.  
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(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 611.

(b) The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by Act of the Holders of a majority in principal amount of the Outstanding Securities, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee, or (ii) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company, by a Board Resolution, shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders in the manner provided in Section 106. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

(g) No retiring Trustee shall be liable for the acts or omissions of any successor Trustee hereunder.

(h) All fees, charges and expenses of the retiring Trustee shall become immediately due and payable upon the appointment of a successor Trustee hereunder.

SECTION 611. Acceptance of Appointment by Successor.  
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Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 612. Merger, Conversion, Consolidation or Succession to  
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Business.  
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Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee (including the trust created by this Indenture), shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 613. Preferential Collection of Claims Against Company.  
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If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

SECTION 614. Appointment of Authenticating Agent.  
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The Trustee may appoint an Authenticating Agent or Agents reasonably acceptable to the Company which shall be authorized to act on behalf of the Trustee to authenticate Securities issued upon original issue and upon exchange, registration of transfer, partial conversion or partial redemption or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be

acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by federal or state authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be reasonably acceptable to the Company and shall mail, at the Company's expense, written notice of such appointment by first-class mail, postage prepaid, to all Holders as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 607.

An Authenticating Agent hereunder shall be entitled to all of the rights, protections and immunities of the Trustee hereunder.

If an appointment is made pursuant to this Section, the Securities may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities described in the within-mentioned Indenture.

[NAME OF TRUSTEE],  
As Trustee

By: \_\_\_\_\_  
as Authenticating Agent

By: \_\_\_\_\_  
Authorized Signatory

#### ARTICLE SEVEN

SECTION 701. Company to Furnish Trustee Names and Addresses of  
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Holders.  
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The Company will furnish or cause to be furnished to the Trustee

(a) semi-annually, not more than 15 days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of such Regular Record Date, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

provided that such list need not be furnished by the Company so long as the Trustee is acting as Security Registrar.

SECTION 702. Preservation of Information; Communications to  
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Holders.  
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(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

(b) The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder, by receiving and holding the Securities, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

SECTION 703. Reports by Trustee.  
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(a) The Trustee shall transmit to Holders, at the Company's expense, such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto.

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which the Securities are listed, with the Commission and with the Company. The Company will notify the Trustee, in writing, if and when the Securities are listed on any stock exchange.

SECTION 704. Reports by Company.  
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The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

ARTICLE EIGHT

Consolidation, Merger, Conveyance, Transfer or Lease

SECTION 801. Company May Consolidate, Etc., Only on Certain  
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Terms.  
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The Company (a) shall not consolidate with or merge into any other Person or, directly or indirectly, convey, transfer, sell, lease or otherwise dispose of its properties and assets substantially as an entirety to any Person, and (b) shall not permit any Person to consolidate or merge with or into the Company or convey, transfer, sell, lease or otherwise dispose of such Person's properties and assets substantially as an entirety to the Company, unless:

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer, sell, lease or otherwise dispose of its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into or with which the Company is merged or the Person which acquires by conveyance, transfer or sale, or which leases or otherwise acquires, the properties and assets of the Company substantially as an entirety shall be a corporation, limited liability company, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed and shall have provided for conversion rights in accordance with Article Thirteen;

(2) immediately after giving effect to such transaction and treating any indebtedness which becomes due an obligation of the Company at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. Successor Substituted.  
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Upon any consolidation or merger of the Company with or into any other Person, or any conveyance, transfer, sale or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor Person formed by such consolidation or merger or into or with which the Company is merged or to which such conveyance, transfer, sale or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE

Supplemental Indentures

SECTION 901. Supplemental Indentures Without Consent of  
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Holders.  
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Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants and obligations of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders, or to surrender any right or power herein conferred upon the Company; or

(3) to secure the Securities; or

(4) to make provision with respect to the conversion rights of Holders pursuant to the requirements of Section 1311 or the repurchase obligations of the Company pursuant to the requirements of Section 1405; or

(5) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture, provided

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that such action pursuant to this Clause (5) shall not adversely affect the interests of the Holders in any material respect.

SECTION 902. Supplemental Indentures with Consent of Holders.  
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With the written consent of the Holders of not less than a majority in principal amount of the Outstanding Securities, by the Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture; provided, however, that no such supplemental

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indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or the amounts payable upon the redemption or repurchase thereof, or change the place of payment where, or the place or currency in which, any Security or any premium or interest thereon or any other amount in respect thereof is payable, or impair the right to institute suit for the enforcement of any payment in respect of any Security on or after the Stated Maturity thereof (or, in the case of redemption or any repurchase, on or after the Redemption Date or Repurchase Date, as the case may be), or, except as provided by Section 1311, adversely affect the right to convert any Security as provided in Article Thirteen, or modify the provisions of this Indenture with respect to the subordination of the Securities in a manner adverse to the Holders, or

(2) reduce the percentage in principal amount of the Outstanding Securities the consent of whose Holders is required for any such supplemental indenture or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify the obligation of the Company to maintain an office or agency in the Borough of Manhattan, The City of New York pursuant to Section 1002, or

(4) modify any of the provisions of this Section, Section 513 or Section 1009, except to increase any percentage contained herein or therein or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; or

(5) modify the provisions of Article Twelve, Article Thirteen or Article Fourteen in a manner adverse to the Holders.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.



SECTION 903. Execution of Supplemental Indentures.  
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In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Nine or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and an Officers' Certificate stating that all conditions precedent to the execution of such supplemental indenture have been fulfilled. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. Effect of Supplemental Indentures.  
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Upon the execution of any supplemental indenture under this Article Nine, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. Conformity with Trust Indenture Act.  
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Every supplemental indenture executed pursuant to this Article Nine shall conform to the requirements of the Trust Indenture Act, as then in effect.

SECTION 906. Reference in Securities to Supplemental Indentures.  
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Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Nine may, and shall if required by the Company, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

SECTION 907. Notice of Supplemental Indentures.  
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Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of Section 902, the Company shall give notice to all Holders of Securities of such fact, setting forth in general terms the substance of such supplemental indenture, in the manner provided in Section 106. Any failure of the Company to give such notice, or any defect therein, shall not in any way impair or affect the validity of any such supplemental indenture.

ARTICLE TEN

Covenants

SECTION 1001. Payment of Principal, Premium and Interest.  
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The Company will duly and punctually pay the principal of (and premium, if any) and interest on the Securities in accordance with the terms of the Securities and this Indenture.

SECTION 1002. Maintenance of Office or Agency.  
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The Company hereby appoints The Chase Manhattan Bank as its agent in The City of New York where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange, where conversion notices,

certificates and other items required to be delivered to effect conversion may be delivered and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served.

The Company hereby also appoints the Corporate Trust Office of the Trustee as Paying Agent for the payment of principal of and interest on the Securities and as Conversion Agent for the Conversion of any of the Securities in accordance with Article Thirteen, and appoints the Corporate Trust Office of the Trustee as transfer agent where Securities may be surrendered for registration of transfer or exchange.

The Company may at any time and from time to time vary or terminate the appointment of any such agent or appoint any additional agents with or without cause for any or all of such purposes; provided, however, that until all of the Securities have been delivered to the Trustee for cancellation, or moneys sufficient to pay the principal of and interest on the Securities have been made available for payment and either paid or returned to the Company pursuant to the provisions of Section 1003, the Company will maintain in the Borough of Manhattan, The City of New York, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange, where Securities may be surrendered for conversion and where notices and demands to or upon the Company, in respect of the Securities and this Indenture may be served. The Company will give prompt written notice to the Trustee, and the Company will, or will cause the Trustee to, give notice to Holders of Securities in the manner specified in Section 106, of the appointment or termination of any such agents and of the location and any change in the location of any such office or agency.

If at any time the Company shall fail to maintain any such required office or agency, or shall fail to furnish the Trustee with the address thereof, presentations and surrenders may be made and notices and demands may be served on and Securities may be surrendered for conversion to the Corporate Trust Office of the Trustee, and the Company hereby appoints the same as its agent to receive such respective presentations, surrenders, notices and demands.

SECTION 1003. Money for Security Payments to Be Held in Trust.  
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If the Company shall act as its own Paying Agent, it will, on or before each due date of the principal of, premium, if any, or interest on any of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal, premium, if any, or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and the Company will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents, it will, on or prior to 10:00 a.m. on each due date of the principal of, premium, if any, or interest on any Securities (including any Repurchase Date), deposit with such Paying Agent(s) a sum in immediately available funds on the payment date sufficient to pay the principal, premium, if any, or interest so becoming due, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of any failure so to act.

The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

- (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent;
- (2) give the Trustee written notice of any default by the Company (or any other obligor upon the Securities) in the making of any payment of principal, premium, if any, or interest; and
- (3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, premium, if any, or interest on any Security and remaining unclaimed for two years after such principal, premium, if any, or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 1004. Statement by Officers as to Default.  
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The Company shall deliver to the Trustee, within 120 days after the end of each fiscal year of the Company, an Officers' Certificate stating whether or not to the best knowledge of the signers thereof the Company is in compliance on such date with all conditions and covenants under the Indenture (without regard to any period of grace or requirement of notice provided hereunder).

The Company will deliver to the Trustee, forthwith upon becoming aware of any default or Event of Default under this Indenture, an Officers' Certificate specifying with particularity such default or Event of Default and further stating what action the Company has taken, is taking or proposes to take with respect thereto. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Any notice required to be given under this Section 1004 shall be delivered to the Trustee at its Corporate Trust Office.

SECTION 1005. Existence.  
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Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any such right or franchise if the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

SECTION 1006. Maintenance of Properties.  
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The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all

times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to the Holders.

SECTION 1007. Payment of Taxes and Other Claims.  
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The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

SECTION 1008. Book-Entry System.  
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If the Securities cease to trade in DTC's book-entry settlement system, the Company covenants and agrees that it shall use reasonable efforts to make such other book-entry arrangements that it determines are reasonable for the Securities.

SECTION 1009. Waiver of Certain Covenants.  
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The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 1006 and 1007, inclusive, if before the time for such compliance the Holders of not less than a majority in principal amount of the Outstanding Securities shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE ELEVEN

Redemption of Securities

SECTION 1101. Right of Redemption.  
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The Securities may be redeemed at the election of the Company, as a whole or from time to time in part, at any time on or after May 16, 2000, at the Redemption Prices specified in the form of Security hereinbefore set forth, together with accrued interest to the Redemption Date.

SECTION 1102. Applicability of Article.  
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Redemption of Securities at the election of the Company, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article Eleven.

SECTION 1103. Election to Redeem; Notice to Trustee.  
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The election of the Company to redeem any Securities pursuant to Section 1101 shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company, the Company shall, at least 30 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee, in writing, of such Redemption Date and of the principal amount of Securities to be redeemed.

SECTION 1104. Selection by Trustee of Securities to Be Redeemed.

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If less than all the Securities are to be redeemed, the particular Securities to be redeemed shall be selected not more than 30 days prior to the Redemption Date by the Trustee, from the Outstanding Securities not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to \$1,000 or any integral multiple thereof) of the principal amount of Securities of a denomination larger than \$1,000.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion selected for redemption. Securities which have been converted during a selection of Securities to be redeemed shall be treated by the Trustee as Outstanding for the purpose of such selection.

The Trustee shall promptly notify the Company and each Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 1105. Notice of Redemption.

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Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 20 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at such Holder's address appearing in the Security Register.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price,
- (3) if less than all the Outstanding Securities are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed,
- (4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and that interest thereon will cease to accrue on and after said date,
- (5) the conversion price, the date on which the right to convert the principal of the Securities to be redeemed will terminate and the place or places where such Securities may be surrendered for conversion, and
- (6) the place or places where such Securities are to be surrendered for payment of the Redemption Price.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company, and such notice, when given to the Holders, shall be irrevocable.

SECTION 1106. Deposit of Redemption Price.

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Not less than one Business Day prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money (which shall be in immediately available funds on such Redemption

Date) sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date other than any Securities called for redemption on that date which have been converted prior to the date of such deposit.

If any Security called for redemption is converted, any money deposited with the Trustee or with any Paying Agent or so segregated and held in trust for the redemption of such Security shall (subject to any right of the Holder of such Security or any Predecessor Security to receive interest as provided in the last paragraph of Section 307) be paid to the Company upon Company Request or, if then held by the Company, shall be discharged from such trust.

SECTION 1107. Securities Payable on Redemption Date.  
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Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price, including accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that installments of interest whose

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Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at a rate of   % per annum.

SECTION 1108. Securities Redeemed in Part.  
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Any Security which is to be redeemed only in part shall be surrendered at an office or agency of the Company designated for that purpose pursuant to Section 1002 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE TWELVE

Subordination of Securities

SECTION 1201. Securities Subordinate to Senior Indebtedness.  
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The Company covenants and agrees, and each Holder of a Security, by his acceptance thereof, likewise covenants and agrees, that, to the extent and in the manner hereinafter set forth in this Article Twelve (subject to the provisions of Article Four), the indebtedness represented by the Securities and the payment of the principal of (and premium, if any) and interest on each and all of the Securities are hereby expressly made subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness. Whenever in this Article Twelve there is a reference, in any context, to the principal of any Security as of any time, such reference shall be deemed to include reference to the Repurchase Price payable in cash or Redemption Price in respect of such Security to the extent that such Repurchase Price payable in cash or Redemption

Price is, was or would be so payable at such time, and express mention of the Repurchase Price and the Redemption Price in any provision of this Article Twelve shall not be construed as excluding the Repurchase Price payable in cash or Redemption Price in those provisions of this Article Twelve when such express mention is not made.

SECTION 1202. Payment Over of Proceeds Upon Dissolution, Etc.  
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In the event of (a) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to the Company or to its creditors, as such, or to its assets, or (b) any liquidation, dissolution or other winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Company, then and in any such event the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness in cash or other immediately available funds, or provision shall be made for such payment in cash or other immediately available funds or otherwise in a manner satisfactory to each holder of Senior Indebtedness with respect to its indebtedness, before the Holders of the Securities are entitled to receive any payment on account of principal of (or premium, if any) or interest on the Securities, and to that end the holders of Senior Indebtedness shall be entitled to receive, for application to the payment thereof, any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in respect of the Securities in any such case, proceeding, dissolution, liquidation or other winding up or event.

In the event that, notwithstanding the foregoing provisions of this Section, the Trustee or the Holder of any Security shall have received any payment or distribution of assets of the Company of any kind or character, whether in cash, securities or other property, before all Senior Indebtedness is paid in full or payment thereof provided for, and if such fact shall, at or prior to the time of such payment or distribution, have been made actually known to a Responsible Officer of the Trustee or, as the case may be, such Holder, then and in such event such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other Person making payment or distribution of assets of the Company for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Senior Indebtedness in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness.

For purposes of this Article only, the words "cash, securities or other property" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment which shares of stock are subordinated in right of payment to all then outstanding Senior Indebtedness to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article Twelve. The consolidation of the Company with, or the merger of the Company into, another Person or the liquidation or dissolution of the Company following the conveyance or transfer of its properties and assets substantially as an entirety to another Person upon the terms and conditions set forth in Article Eight shall not be deemed a dissolution, winding up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of assets and liabilities of the Company for the purposes of this Section if the Person formed by such consolidation or into which the Company is merged or which acquires by conveyance or transfer such properties and assets substantially as an entirety, as the case may be, shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions set forth in Article Eight.

SECTION 1203. Prior Payment to Senior Indebtedness Upon  
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Acceleration of Securities.  
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In the event that any Securities are declared due and payable before their Stated Maturity, then and in such event the holders of the Senior Indebtedness outstanding at the time such Securities so become due and payable shall be entitled to receive payment in full of all amounts due or to become due on or in respect of such Senior Indebtedness, or provision shall be made for such payment in money or money's worth, before the Holders of the Securities are entitled to receive any payment by the Company on account of the principal of (or premium, if any) or interest on the Securities or on account of the purchase or other acquisition of Securities.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Security prohibited by the foregoing provisions of this Section, and if such fact shall, at or prior to the time of such payment, have been made actually known to a Responsible Officer of the Trustee or, as the case may be, such Holder, then and in such event such payment shall be paid over and delivered forthwith to the Company.

The provisions of this Section shall not apply to any payment with respect to which Section 1202 would be applicable.

SECTION 1204. No Payment When Senior Indebtedness in Default.  
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(a) In the event and during the continuation of any default in the payment of principal of (or premium, if any) or interest on (including a default under any redemption or repurchase obligation with respect to) any Senior Indebtedness beyond any applicable grace period with respect thereto or in the event that any other event of default with respect to any Senior Indebtedness shall have occurred and be continuing which would then permit the holders of such Senior Indebtedness to declare such Senior Indebtedness due and payable prior to the date on which it would otherwise have become due and payable, unless and until such event of default shall have been cured or waived or shall have ceased to exist after written notice to the Company and the Trustee by any holder of such Senior Indebtedness, or (b) in the event any judicial proceeding shall be pending with respect to any such default in payment or event of default, then no payment shall be made by the Company on account of principal of (or premium, if any) or interest on the Securities or on account of the purchase, redemption or other acquisition of Securities.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Security prohibited by the foregoing provisions of this Section, and if such fact shall, at or prior to the time of such payment, have been made known to the Trustee or, as the case may be, such Holder, then and in such event such payment shall be paid over and delivered forthwith to the Company, in the case of the Trustee, or the Trustee, in the case of such Holder.

The provisions of this Section shall not apply to any payment with respect to which Section 1202 would be applicable.

SECTION 1205. Payment Permitted If No Default.  
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Nothing contained in this Article or elsewhere in this Indenture or in any of the Securities shall prevent (a) the Company, at any time except during the pendency of any case, proceeding, dissolution, liquidation or other winding up, assignment for the benefit of creditors or other marshalling of assets and liabilities of the Company referred to in Section 1202, or under the conditions described in Sections 1203 and 1204, from making payments at any time of principal of (and premium, if any) or interest on the Securities, or (b) the application by the Trustee of any money deposited with it hereunder to the payment of or on account of the principal of (and premium, if any) or interest on the Securities or the retention of such payment by the Holders, if, at the time of such application by the Trustee, a Responsible Officer of the Trustee did not have knowledge that such payment would have been prohibited by the provisions of this Article.

SECTION 1206. Subrogation to Rights of Holders of Senior



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Indebtedness.  
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Subject to the payment in full of all Senior Indebtedness, the Holders of the Securities shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Indebtedness pursuant to the provisions of this Article to the rights of the holders of such Senior Indebtedness to receive payments and distributions of cash, property and securities applicable to the Senior Indebtedness until the principal of (and premium, if any) and interest on the Securities shall be paid in full. For purposes of such subrogation, no payments or distributions to the holders of the Senior Indebtedness of any cash, property or securities to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article, and no payments over pursuant to the provisions of this Article to the holders of Senior Indebtedness by Holders of the Securities or the Trustee, shall, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, be deemed to be a payment or distribution by the Company to or on account of the Senior Indebtedness.

SECTION 1207. Provisions Solely to Define Relative Rights.  
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The provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders of the Securities on the one hand and the holders of Senior Indebtedness on the other hand. Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall (a) impair, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, the obligation of the Company, which is absolute and unconditional, to pay to the Holders of the Securities the principal of (and premium, if any) and interest on the Securities as and when the same shall become due and payable in accordance with their terms; or (b) affect the relative rights against the Company of the Holders of the Securities and creditors of the Company other than the holders of Senior Indebtedness; or (c) prevent the Trustee or the Holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of the holders of Senior Indebtedness to receive cash, property and securities otherwise payable or deliverable to the Trustee or such Holder.

SECTION 1208. Trustee to Effectuate Subordination.  
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Each holder of a Security by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 1209. No Waiver of Subordination Provisions.  
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No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder of any Senior Indebtedness, or by any non-compliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Trustee or the Holders of the Securities, without incurring responsibility to the Holders of the Securities and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the Holders of the Securities to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew, increase or alter, Senior Indebtedness, or otherwise amend or supplement in any

manner Senior Indebtedness or any instrument evidencing the same or any agreement under which Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Indebtedness; (iii) release any Person liable in any manner for the collection of Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

SECTION 1210. Notice to Trustee.  
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The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Securities. Notwithstanding the provisions of this Article or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee in respect of the Securities, unless and until the Trustee shall have received written notice thereof from the Company or a holder of Senior Indebtedness or from any trustee therefor; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Section 601, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the

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Trustee shall not have received the notice provided for in this Section at least two Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (and premium, if any) or interest on any Security), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purpose for which such money was received and shall not be affected by any notice to the contrary which may be received by it within two Business Days prior to such date.

Notwithstanding anything in this Article Twelve to the contrary, nothing shall prevent any payment by the Trustee to the Holders of monies deposited with it pursuant to Section 401, and any such payment shall not be subject to the provisions of Sections 1202, 1203 or 1204.

Subject to the provisions of Article Six, the Trustee shall be entitled to conclusively rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a trustee therefor) to establish that such notice has been given by a holder of Senior Indebtedness (or a trustee therefor). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

SECTION 1211. Reliance on Judicial Order or Certificate of  
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Liquidating Agent.  
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Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Section 601, and the Holders of the Securities shall be entitled to conclusively rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the Trustee or to the Holders of Securities, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of the Senior Indebtedness and other indebtedness of

the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article.

SECTION 1212. Trustee Not Fiduciary for Holders of Senior  
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Indebtedness.  
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The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and shall not be liable to any such holders if it shall in good faith mistakenly pay over or distribute to Holders of Securities or to the Company or to any other Person cash, property or securities to which any holders of Senior Indebtedness shall be entitled by virtue of this Article or otherwise.

SECTION 1213. Rights of Trustee as Holder of Senior  
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Indebtedness; Preservation of Trustee's Rights.  
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The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article with respect to any Senior Indebtedness which may at any time be held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

SECTION 1214. Article Applicable to Paying Agents.  
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In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall in such case (unless the context otherwise requires) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of the Trustee; provided, however, that Section 1213 shall not apply to the Company or any Affiliate of the Company if it or such Affiliate acts as Paying Agent.

SECTION 1215. Certain Conversions Deemed Payment.  
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For the purposes of this Article only, (1) the issuance and delivery of junior securities upon conversion of Securities in accordance with Article Thirteen or upon the repurchase of Securities in accordance with Article Fourteen shall not be deemed to constitute a payment or distribution on account of the principal of or premium or interest on Securities or on account of the purchase or other acquisition of Securities, and (2) the payment, issuance or delivery of cash, property or securities (other than junior securities) upon conversion of a Security shall be deemed to constitute payment on account of the principal of such Security. For the purposes of this Section, the term "junior securities" means (a) shares of any stock of any class of the Company and any cash, securities or other property into which the Securities are convertible pursuant to Article Thirteen and (b) securities of the Company which are subordinated in right of payment to all Senior Indebtedness which may be outstanding at the time of issuance or delivery of such securities to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article. Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall impair, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, the right, which is absolute and unconditional, of the Holder of any Security to convert such Security in accordance with Article Thirteen or to exchange such Security for Common Stock in accordance with Article Fourteen if the Company elects to satisfy its obligation under Article Fourteen by the delivery of Common Stock.

## Conversion of Securities

### SECTION 1301. Conversion Privilege and Conversion Rate.

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Subject to and upon compliance with the provisions of this Article Thirteen, at the option of the Holder thereof, any Security may be converted at any time into fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100th of a share) of Common Stock of the Company at the Conversion Rate, determined as hereinafter provided, in effect at the time of conversion. Such conversion right shall expire at the close of business on May 15, 2004, subject, in the case of conversion of any Global Security, to any Applicable Procedures. In case a Security or portion thereof is called for redemption at the election of the Company or the Holder thereof exercises his right to require the Company to repurchase a Security or portion thereof, such conversion right in respect of such Security, shall expire (a) at the close of business on the Redemption Date, in the case of a Security called for redemption, and (b) at the close of business on the Repurchase Date, in the case of a Security tendered for repurchase, in each case unless the Company defaults in making the payment due upon redemption or repurchase, as the case may be, and in each case subject as aforesaid to any Applicable Procedures with respect to any Global Security.

The rate at which shares of Common Stock shall be delivered upon conversion (herein called the "Conversion Rate") shall be initially 0 shares of Common Stock for each \$1,000 principal amount of Securities. The Conversion Rate shall be adjusted in certain instances as provided in this Article Thirteen.

### SECTION 1302. Exercise of Conversion Privilege.

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In order to exercise the conversion privilege, the Holder of any Security to be converted shall surrender such Security, duly endorsed or assigned to the Company or in blank, at any office or agency of the Company maintained for that purpose pursuant to Section 1002 (any city in which any Conversion Agent is located being called herein a "Place of Conversion"), accompanied by a duly signed conversion notice substantially in the form set forth in Section 205 stating that the Holder elects to convert such Security or, if less than the entire principal amount thereof is to be converted, the portion thereof to be converted. Each Security surrendered for conversion (in whole or in part) during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date shall (except in the case of any Security or portion thereof which has been called for redemption on a Redemption Date, or which is repurchasable on a Repurchase Date, occurring, in either case, within such period) be accompanied by payment in New York Clearing House funds or other funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of such Security (or part thereof, as the case may be) being surrendered for conversion. The interest so payable on such Interest Payment Date with respect to any Security (or portion thereof, if applicable) which has been called for redemption on a Redemption Date, or is repurchasable on a Repurchase Date, occurring, in either case, during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date, which Security (or portion thereof, if applicable) is surrendered for conversion during such period, shall be paid to the Holder of such Security on the preceding Regular Record Date, notwithstanding the exercise of the right of conversion. Except as provided in this paragraph and subject to the last paragraph of Section 307, no cash payment or adjustment shall be made upon any conversion on account of any interest accrued from the Interest Payment Date next preceding the conversion date, in respect of any Security (or part thereof, as the case may be) surrendered for conversion, or on account of any dividends on the Common Stock issued upon conversion. The Company's delivery to the Holder of the number of shares of Common Stock (and cash in lieu of fractions thereof, as provided in this Indenture) into which a Security is convertible will be deemed to satisfy the Company's obligation to pay the principal amount of the Security.

Securities shall be deemed to have been converted immediately prior to the close of business on the day of surrender of such Securities for conversion in accordance with the foregoing provisions, and at such time the rights of the Holders of such Securities as Holders shall cease, and the Person or Persons entitled to receive the Common Stock issuable upon conversion shall be treated for all purposes as the record holder or holders of such Common Stock at such time. As promptly as practicable on or after the conversion date, the Company shall issue and deliver to the Trustee, for delivery to the Holder, a certificate or certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 1303.

In the case of any Security which is converted in part only, upon such conversion the Company shall execute and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Company, a new Security or Securities of authorized denominations in an aggregate principal amount equal to the unconverted portion of the principal amount of such Security. A Security may be converted in part, but only if the principal amount of such Security to be converted is any integral multiple of \$1,000 and the principal amount of such security to remain Outstanding after such conversion is equal to \$1,000 or any integral multiple of \$1,000 in excess thereof.

SECTION 1303. Fractions of Shares.  
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No fractional shares of Common Stock shall be issued upon conversion of any Security or Securities. If more than one Security shall be surrendered for conversion at one time by the same Holder, the number of full shares which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof) so surrendered. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Security or Securities (or specified portions thereof), the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) in an amount equal to the same fraction of the Closing Price Per Share at the close of business on the day of conversion.

SECTION 1304. Adjustment of Conversion Rate.  
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The Conversion Rate shall be subject to adjustments from time to time as follows:

(1) In case the Company shall pay or make a dividend or other distribution on any class of capital stock of the Company payable in shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such dividend or other distribution shall be increased by dividing such Conversion Rate by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this paragraph (1), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(2) In case the Company shall issue rights, options or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share (determined as provided in paragraph (8) of this Section 1304) of the Common Stock on the date fixed for the determination of stockholders entitled to receive such rights, options or warrants, the Conversion Rate in effect at the opening of business on the day following the date fixed for such determination shall be

increased by dividing such Conversion Rate by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such current market price and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this paragraph (2), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not issue any rights, options or warrants in respect of shares of Common Stock held in the treasury of the Company. Notwithstanding the foregoing, (i) if the options, rights or warrants described in this Section 1304(2) are exercisable only upon the occurrence of certain triggering events, then the Conversion Rate will not be adjusted until such triggering events occur and (ii) if such options, rights or warrants expire unexercised, the Conversion Rate will be readjusted to take into account only the actual number of such options, rights or warrants which were exercised.

(3) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately reduced, such increase or reduction, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(4) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness, shares of any class of capital stock, or other property (including securities, but excluding (i) any rights, options or warrants referred to in paragraph (2) of this Section, (ii) any dividend or distribution paid exclusively in cash, (iii) any dividend or distribution referred to in paragraph (1) of this Section and (iv) any merger or consolidation to which Section 1311 applies), the Conversion Rate shall be adjusted so that the same shall equal the rate determined by dividing the Conversion Rate in effect immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution by a fraction of which the numerator shall be the current market price per share (determined as provided in paragraph (8) of this Section) of the Common Stock on the date fixed for such determination (the "Reference Date") less the then fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution filed with the Trustee) on the Reference Date of the portion of the assets, shares or evidences of indebtedness so distributed applicable to one share of Common Stock and the denominator shall be the current market price per share of the Common Stock on the Reference Date, such adjustment to become effective immediately prior to the opening of business on the day following the Reference Date.

(5) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock cash (excluding any cash that is distributed as part of a distribution referred to in paragraph (4) of this Section) in an aggregate amount that, combined together with (I) the aggregate amount of any other cash distributions to all holders of its Common Stock made exclusively in cash within the 12 months preceding the date of payment of such distribution and in respect of which no adjustment pursuant to this paragraph (5) has been made and (II) the aggregate of any cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) of consideration paid or payable in respect of any tender offer by the Company or any of its

Subsidiaries for all or any portion of the Common Stock concluded within the 12 months preceding the date of payment of such distribution and in respect of which no adjustment pursuant to paragraph (6) of this Section 1304 has been made (the "combined cash and tender amount"), exceeds 10% of the product of the current market price per share (determined as provided in paragraph (8) of this Section 1304) of the Common Stock on the date for the determination of holders of shares of Common Stock entitled to receive such distribution times the number of shares of Common Stock outstanding on such date (the "aggregate current market price"), then, and in each such case, immediately after the close of business on such date for determination, the Conversion Rate shall be adjusted so that the same shall equal the rate determined by dividing the Conversion Rate in effect immediately prior to the close of business on the date fixed for determination of the stockholders entitled to receive such distribution by a fraction (i) the numerator of which shall be equal to the current market price per share (determined as provided in paragraph (8) of this Section) of the Common Stock on the date fixed for such determination less an amount equal to the quotient of (x) the excess of such combined cash and tender amount over 10% of such aggregate current market price divided by (y) the number of shares of Common Stock outstanding on such date for determination and (ii) the denominator of which shall be equal to the current market price per share (determined as provided in paragraph (8) of this Section 1304) of the Common Stock on such date for determination.

(6) In case a tender offer made by the Company or any Subsidiary for all or any portion of the Common Stock shall expire and such tender offer or exchange (as amended upon the expiration thereof) shall require the payment to stockholders (based on the acceptance (up to any maximum specified in the terms of the tender offer) of Purchased Shares (as defined below)) of an aggregate consideration having a fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) that combined together with (I) the aggregate of the cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution), as of the expiration of such tender or exchange offer, of consideration payable in respect of any other tender or exchange offer by the Company or any Subsidiary for all or any portion of the Common Stock expiring within the 12 months preceding the expiration of such tender or exchange offer and in respect of which no adjustment pursuant to paragraph (6) has been made and (II) the aggregate amount of any cash dividends or distributions to all holders of the Company's Common Stock within 12 months preceding the expiration of such tender or exchange offer and in respect of which no adjustment pursuant to paragraph (5) of this Section has been made (the "combined tender and cash amount") exceeds 10% of the product of the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section 1304) as of the last time (the "Expiration Time") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it may be amended) times the number of shares of Common Stock outstanding (including any tendered or exchanged shares) as of the Expiration Time, then, and in each such case, immediately prior to the opening of business on the day after the date of the Expiration Time, the Conversion Rate shall be adjusted so that the same shall equal the rate determined by dividing the Conversion Rate immediately prior to close of business on the date of the Expiration Time by a fraction (i) the numerator of which shall be equal to (A) the product of (I) the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section 1304) on the date of the Expiration Time multiplied by (II) the number of shares of Common Stock outstanding (including any tendered or exchanged shares) on the date of the Expiration Time less (B) the combined tender and cash amount, and (ii) the denominator of which shall be equal to the product of (A) the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section 1304) as of the Expiration Time multiplied by (B) the number of shares of Common Stock outstanding (including any tendered or exchanged shares) as of the Expiration Time less the number of all shares validly tendered or exchanged and not withdrawn as of the Expiration Time (the shares deemed so accepted up to any such maximum, being referred to as the "Purchased Shares").

(7) The reclassification of Common Stock into securities

other than Common Stock (other than any reclassification upon a consolidation or merger to which Section 1311 applies) shall be deemed to involve (a) a distribution of such securities other than Common Stock to all holders of Common Stock (and the effective date of such reclassification shall be deemed to be "the date fixed for the determination of stockholders entitled to receive such distribution" and "the date fixed for such determination" within the meaning of paragraph (4) of this Section), and (b) a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number of shares of Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective", as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of paragraph (3) of this Section 1304).

(8) For the purpose of any computation under paragraphs (2), (4), (5) or (6) of this Section 1304, the current market price per share of Common Stock on any date shall be calculated by the Company and be deemed to be the average of the daily Closing Prices Per Share for the five consecutive Trading Days selected by the Company commencing not more than 10 Trading Days before, and ending not later than, the earlier of the day in question and the day before the "ex" date with respect to the issuance or distribution requiring such computation. For purposes of this paragraph, the term "ex" date, when used with respect to any issuance or distribution, means the first date on which the Common Stock trades regular way in the applicable securities market or on the applicable securities exchange without the right to receive such issuance or distribution.

(9) No adjustment in the Conversion Rate shall be required unless such adjustment (plus any adjustments not previously made by reason of this paragraph (9)) would require an increase or decrease of at least one percent in such rate; provided, however, -----  
that any adjustments which by reason of this paragraph (9) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(10) The Company may make such increases in the Conversion Rate, for the remaining term of the Securities or any shorter term, in addition to those required by paragraphs (1), (2), (3), (4), (5) and (6) of this Section 1304, as it considers to be advisable in order to avoid or diminish any income tax to any holders of shares of Common Stock resulting from any dividend or distribution of stock or issuance of rights or warrants to purchase or subscribe for stock or from any event treated as such for income tax purposes. The Company shall have the power to resolve any ambiguity or correct any error in this paragraph (10) and its actions in so doing shall, absent manifest error, be final and conclusive.

(11) To the extent permitted by applicable law, the Company from time to time may increase the Conversion Rate by any amount for any period of time if the period is at least twenty (20) days, the increase is irrevocable during such period, and the Board of Directors shall have made a determination that such increase would be in the best interests of the Company, which determination shall be conclusive; provided, however, that no such -----  
increase shall be taken into account for purposes of determining whether the Closing Price Per Share of the Common Stock equals or exceeds 105% of the Conversion Price in connection with an event which would otherwise be a Change of Control pursuant to Section 1404. Whenever the Conversion Rate is increased pursuant to the preceding sentence, the Company shall give notice of the increase to the Holders in the manner provided in Section 106 at least fifteen (15) days prior to the date the increased Conversion Rate takes effect, and such notice shall state the increased Conversion Rate and the period during which it will be in effect.

SECTION 1305. Notice of Adjustments of Conversion Rate.  
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Whenever the Conversion Rate is adjusted as herein provided:



(1) the Company shall compute the adjusted Conversion Rate in accordance with Section 1304 and shall prepare a certificate signed by the principal accounting or financial officer of the Company setting forth the adjusted Conversion Rate and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall promptly be filed with the Trustee and with each Conversion Agent; and

(2) a notice stating that the Conversion Rate has been adjusted and setting forth the adjusted Conversion Rate shall forthwith be prepared, and as soon as practicable after it is prepared, such notice shall be provided by the Company, or the Company shall cause such notice to be provided by the Trustee to, all Holders in accordance with Section 106.

Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such certificate or the information and calculations contained therein, except to exhibit the same to any Holder of Securities desiring inspection thereof at its office during normal business hours.

SECTION 1306. Notice of Certain Corporate Action.  
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In case:

(a) the Company shall declare a dividend (or any other distribution) on its Common Stock payable (i) otherwise than exclusively in cash or (ii) exclusively in cash in an amount that would require any adjustment pursuant to Section 1304; or

(b) the Company shall authorize the granting to the holders of its Common Stock generally of rights, options or warrants to subscribe for or purchase any shares of capital stock of any class or of any other rights; or

(c) of any reclassification of the Common Stock of the Company, or of any consolidation, merger or share exchange to which the Company is a party and for which approval of any stockholders of the Company is required, or of the conveyance, sale, transfer or lease of all or substantially all of the assets of the Company; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company; or

(e) the Company or any Subsidiary shall commence a tender offer for all or a portion of the Company's outstanding shares of Common Stock (or shall amend any such tender offer);

then the Company shall cause to be filed, or the Company shall cause the Trustee to cause to be filed, at each office or agency maintained for the purpose of conversion of Securities pursuant to Section 1002, and the Company shall cause to be provided, or the Company shall cause the Trustee to cause to be provided, to all Holders in accordance with Section 106, at least 20 days (or 10 days in any case specified in clause (a) or (b) above) prior to the applicable record, expiration or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, rights, options or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, rights, options or warrants are to be determined, (y) the date on which the right to make tenders under such tender offer expires or (z) the date on which such reclassification, consolidation, merger, conveyance, transfer, sale, lease, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, conveyance, transfer, sale, lease, dissolution, liquidation or winding up. Neither the failure to give such notice or the notice referred to in the following paragraph nor any defect therein shall affect the legality or validity of the proceedings described in clauses (a) through (e) of this Section 1306. If at the time the Trustee shall not be a Conversion Agent, a copy of such notice shall also forthwith be filed by the Company with the Trustee.

The preceding paragraph to the contrary notwithstanding, the Company shall cause to be filed, or the Company shall cause the Trustee to cause to be filed, at each office or agency maintained for the purpose of conversion of Securities pursuant to Section 1002, and the Company shall cause to be provided, or the Company shall cause the Trustee to cause to be provided, to all Holders in accordance with Section 106, notice of any tender offer by the Company or any Subsidiary for all or any portion of the Common Stock on or after the time that such notice of tender offer is provided to the public generally.

SECTION 1307. Company to Reserve Common Stock.  
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The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of Securities, the full number of shares of Common Stock then issuable upon the conversion of all Outstanding Securities.

SECTION 1308. Taxes on Conversions.  
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Except as provided in the next sentence, the Company will pay any and all taxes and duties that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Securities pursuant hereto. The Company shall not, however, be required to pay any tax or duty which may be payable in respect of (i) income of the holder or (ii) any transfer involved in the issue and delivery of shares of Common Stock in a name other than that of the Holder of the Security or Securities to be converted, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax or duty, or has established to the satisfaction of the Company that such tax or duty has been paid.

SECTION 1309. Covenant as to Common Stock.  
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The Company agrees that all shares of Common Stock which may be delivered upon conversion of Securities will, upon such delivery, have been duly authorized and validly issued and will be fully paid and nonassessable and, except as provided in Section 1308, the Company will pay all taxes, liens and charges with respect to the issue thereof.

SECTION 1310. Cancellation of Converted Securities.  
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All Securities delivered for conversion shall be delivered to the Trustee to be canceled by or at the direction of the Trustee, which shall dispose of the same as provided in Section 309.

SECTION 1311. Provision in Case of Consolidation, Merger or Sale  
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of Assets.  
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In case of any consolidation or merger of the Company with or into any other Person, any merger of another Person with or into the Company (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock of the Company) or any conveyance, sale, transfer or lease of all or substantially all of the assets of the Company, the Person formed by such consolidation or resulting from such merger or which acquires such assets, as the case may be, shall execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then Outstanding shall have the right thereafter, during the period such Security shall be convertible as specified in Section 1301, to convert such Security only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer or lease by a holder of the number of shares of Common Stock of the Company into which such Security might have been converted immediately prior to such consolidation, merger, conveyance, sale, transfer or lease, assuming such holder of Common Stock of the Company (i) is not a Person with which the Company consolidated or merged with or into or which merged into or with the Company or to which such conveyance, sale, transfer or lease

was made, as the case may be ("Constituent Person"), or an Affiliate of a Constituent Person and (ii) failed to exercise his rights of election, if any, as to the kind or amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer or lease (provided that if the kind or amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer, or lease is not the same for each share of Common Stock of the Company held immediately prior to such consolidation, merger, conveyance, sale, transfer or lease by others than a Constituent Person or an Affiliate thereof and in respect of which such rights of election shall not have been exercised ("Non-electing Share"), then for the purpose of this Section 1311 the kind and amount of securities, cash and other property receivable upon such consolidation, merger, conveyance, sale, transfer or lease by the holders of each Non-electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-electing Shares). Such supplemental indenture shall provide for adjustments which, for events subsequent to the effective date of such supplemental indenture, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article. The above provisions of this Section 1311 shall similarly apply to successive consolidations, mergers, conveyances, sales, transfers or leases. Notice of the execution of such a supplemental indenture shall be given by the Company, or the Company shall cause the Trustee to give such notice, to the Holder of each Security as provided in Section 106 promptly upon such execution.

Neither the Trustee, any Paying Agent nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any such supplemental indenture relating either to the kind or amount of shares of stock or other securities or property or cash receivable by Holders of Securities upon the conversion of their Securities after any such consolidation, merger, conveyance, transfer, sale or lease or to any such adjustment, but may accept as conclusive evidence of the correctness of any such provisions, and shall be fully protected in relying upon, an Opinion of Counsel and an Officers' Certificate with respect thereto, which the Company shall cause to be furnished to the Trustee upon request.

SECTION 1312. Responsibility of Trustee for Conversion  
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Provisions.  
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The Trustee, subject to the provisions of Article Six, and any Conversion Agent shall not at any time be under any duty or responsibility to any Holder of Securities to determine whether any facts exist which may require any adjustment of the Conversion Rate, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same, or whether a supplemental indenture need be entered into. Neither the Trustee, subject to the provisions of Article Six, nor any Conversion Agent shall be accountable with respect to the validity or value (or the kind or amount) of any Common Stock, or of any other securities or property or cash, which may at any time be issued or delivered upon the conversion of any Security; and it or they do not make any representation with respect thereto. Neither the Trustee, subject to the provisions of Article Six, nor any Conversion Agent shall be responsible for any failure of the Company to make or calculate any cash payment or to issue, transfer or deliver any shares of Common Stock or share certificates or other securities or property or cash upon the surrender of any Security for the purpose of conversion; and the Trustee, subject to the provisions of Article Six, and any Conversion Agent shall not be responsible for any failure of the Company to comply with any of the covenants of the Company contained in this Article.

ARTICLE FOURTEEN

Repurchase of Securities at the Option of the  
Holder Upon a Change of Control

SECTION 1401. Right to Require Repurchase.  
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In the event that a Change of Control (as hereinafter defined) shall occur, then each Holder shall have the right, at the Holder's option, but subject to the provisions of Section 1402, to require the Company to repurchase, and upon the exercise of such right the Company shall repurchase, all of such Holder's Securities, or any portion of the principal amount thereof that is equal to \$1,000 or any integral multiple of \$1,000 in excess thereof, on the date (the "Repurchase Date") that is 45 days after the date of the Company Notice (as defined in Section 1403) at a purchase price equal to 100% of the principal amount of the Securities to be repurchased plus interest accrued to the Repurchase Date (the "Repurchase Price"); provided, however, that installments of interest on Securities whose Stated Maturity is on or prior to the Repurchase Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Date according to their terms and the provisions of Section 307. Such right to require the repurchase of the Securities shall not continue after a discharge of the Company from its obligations with respect to the Securities in accordance with Article Four, unless a Change of Control shall have occurred prior to such discharge. At the option of the Company, the Repurchase Price may be paid (i) in cash, or (ii) subject to the fulfillment by the Company of the conditions set forth in Section 1402, by delivery of shares of Common Stock having a fair market value equal to the Repurchase Price; provided, however, that failure of the Company to pay the Repurchase Price on the Repurchase Date either in cash or by delivery of shares of Common Stock shall constitute an Event of Default for purposes of Section 501(1) hereof notwithstanding the Company's inability to comply with the provisions of or satisfy any conditions set forth in Section 1402. Whenever in this Indenture (including Sections 202, 301, 501(1) and 508) there is a reference, in any context, to the principal of any Security as of any time, such reference shall be deemed to include reference to the Repurchase Price payable in respect of such Security to the extent that such Repurchase Price is, was or would be so payable at such time, and express mention of the Repurchase Price in any provision of this Indenture shall not be construed as excluding the Repurchase Price in those provisions of this Indenture when such express mention is not made; provided, however, that for the purposes of

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Article Twelve such reference shall be deemed to include reference to the Repurchase Price only to the extent the Repurchase Price is payable in cash.

SECTION 1402. Conditions to the Company's Election to Pay the  
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Repurchase Price in Common Stock.  
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The Company may elect to pay the Repurchase Price by delivery of shares of Common Stock pursuant to Section 1401 if and only if the following conditions shall have been satisfied:

(i) The shares of Common Stock deliverable in payment of the Repurchase Price shall have an aggregate fair market value as of the Repurchase Date of not less than the Repurchase Price. For purposes of this Section 1402, the fair market value of shares of Common Stock shall be determined by the Company and shall be calculated using a price per share of Common Stock equal to 95% of the average of the Closing Prices Per Share for the five consecutive Trading Days ending on and including the third Trading Day immediately preceding the Repurchase Date;

(ii) The shares of Common Stock deliverable in payment of the Repurchase Price are, or shall have been, approved for listing on the Nasdaq National Market or are, or shall have been, listed on a national securities exchange, in either case, prior to the Repurchase Date; and

(iii) All shares of Common Stock deliverable in payment of the Repurchase Price shall be issued out of the Company's authorized but unissued Common Stock and, will upon issue, be duly and validly issued and fully paid and nonassessable and free of any preemptive rights.

If all of the conditions set forth in this Section 1402 are not satisfied in accordance with the terms thereof, the

Repurchase Price shall be paid by the Company only in cash.

SECTION 1403. Notices; Method of Exercising Repurchase Right,

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Etc.  
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(a) Unless the Company shall have theretofore called for redemption all of the Outstanding Securities or unless all of the Outstanding Securities shall have theretofore been converted in accordance with Article Thirteen, on or before the 30th day after the occurrence of a Change of Control, the Company or, at the expense and the request of the Company given to the Trustee on or before the 15th day after such occurrence, the Trustee, shall give to all Holders, in the manner provided in Section 106, notice (the "Company Notice") of the occurrence of the Change of Control and of the repurchase right set forth herein arising as a result thereof. The Company shall also deliver a copy of such notice of a repurchase right to the Trustee.

Each notice of a repurchase right shall state:

- (1) the Repurchase Date,
- (2) the date by which the repurchase right must be exercised,
- (3) the Repurchase Price, and whether the Repurchase Price shall be paid by the Company in cash or by delivery of shares of Common Stock,
- (4) a description of the procedure which a Holder must follow to exercise a repurchase right, and the place or places where such Securities are to be surrendered for payment of the Repurchase Price and accrued interest, if any,
- (5) that on the Repurchase Date the Repurchase Price, including accrued interest, if any, will become due and payable upon each such Security designated by the Holder to be repurchased, and that interest thereon shall cease to accrue on and after said date,
- (6) the Conversion Rate then in effect, the date on which the right to convert the principal amount of the Securities to be repurchased will terminate and the place or places where such Securities may be surrendered for conversion, and
- (7) the place or places that the form of certificate required by Section 203 shall be delivered, and the form of such certificate.

No failure of the Company to give the foregoing notices or defect therein shall limit any Holder's right to exercise a repurchase right or affect the validity of the proceedings for the repurchase of Securities.

If any of the foregoing provisions or other provisions of this Article Fourteen are inconsistent with applicable law, such law shall govern.

(b) To exercise a repurchase right, a Holder shall deliver to the Trustee or any Paying Agent on or before the 30th day after the date of the Company Notice (i) written notice of the Holder's exercise of such right, which notice shall set forth the name of the Holder, the principal amount of the Securities to be repurchased (and, if any Security is to be repurchased in part, the portion of the principal amount thereof to be repurchased and the name of the Person in which the portion thereof to remain Outstanding after such repurchase is to be registered) and a statement that an election to exercise the repurchase right is being made thereby, and, in the event that the Repurchase Price shall be paid in shares of Common Stock, the name or names (with addresses) in which the certificate or certificates for shares of Common Stock shall be issued, and (ii) the Securities with respect to which the repurchase right is being exercised. Such written notice shall be irrevocable, except that the right of the Holder to convert the Securities with respect to which the repurchase right is being exercised shall continue until the close of business on the Repurchase Date.

(c) In the event a repurchase right shall be exercised in accordance with the terms hereof, the Company shall pay or cause to be paid to the Trustee or the Paying Agent the Repurchase Price in cash or shares of Common Stock, as provided above, for payment to the Holder on the Repurchase Date or, if shares of Common Stock are to be paid, as promptly after the Repurchase Date as practicable, together with accrued and unpaid interest to the Repurchase Date payable with respect to the Securities as to which the purchase right has been exercised; provided, however,

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that installments of interest that mature on or prior to the Repurchase Date shall be payable in cash to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Regular Record Date according to the terms and provisions of Section 307.

(d) If any Security (or portion thereof) surrendered for repurchase shall not be so paid on the Repurchase Date, the principal amount of such Security (or portion thereof, as the case may be) shall, until paid, bear interest to the extent permitted by applicable law from the Repurchase Date at the rate of 0% per annum, and each Security shall remain convertible into Common Stock until the principal of such Security (or portion thereof, as the case may be) shall have been paid or duly provided for.

(e) Any Security which is to be repurchased only in part shall be surrendered to the Trustee (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and make available for delivery to the Holder of such Security without service charge, a new Security or Securities, containing identical terms and conditions, each in an authorized denomination in aggregate principal amount equal to and in exchange for the unreurchased portion of the principal of the Security so surrendered.

(f) Any issuance of shares of Common Stock in respect of the Repurchase Price shall be deemed to have been effected immediately prior to the close of business on the Repurchase Date and the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such repurchase shall be deemed to have become on the Repurchase Date the holder or holders of record of the shares represented thereby; provided, however, that any surrender for repurchase on a date when the stock transfer books of the Company shall be closed shall constitute the Person or Persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the opening of business on the next succeeding day on which such stock transfer books are open. No payment or adjustment shall be made for dividends or distributions on any Common Stock issued upon repurchase of any Security declared prior to the Repurchase Date.

(g) No fractions of shares shall be issued upon repurchase of Securities. If more than one Security shall be repurchased from the same Holder and the Repurchase Price shall be payable in shares of Common Stock, the number of full shares which shall be issuable upon such repurchase shall be computed on the basis of the aggregate principal amount of the Securities so repurchased. Instead of any fractional share of Common Stock which would otherwise be issuable on the repurchase of any Security or Securities, the Company will deliver to the applicable Holder its check for the current market value of such fractional share. The current market value of a fraction of a share is determined by multiplying the current market price of a full share by the fraction, and rounding the result to the nearest cent. For purposes of this Section, the current market price of a share of Common Stock is the Closing Price Per Share of the Common Stock on the Trading Day immediately preceding the Repurchase Date.

(h) Any issuance and delivery of certificates for shares of Common Stock on repurchase of Securities shall be made without charge to the Holder of Securities being repurchased for such certificates or for any tax or duty in respect of the issuance or delivery of such certificates or the securities represented thereby; provided, however, that the Company shall not be required

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to pay any tax or duty which may be payable in respect of  
(i) income of the Holder or (ii) any transfer involved in the  
issuance or delivery of certificates for shares of Common Stock  
in a name other than that of the Holder of the Securities being  
repurchased, and no such issuance or delivery shall be made unless  
and until the Person requesting such issuance or delivery has paid  
to the Company the amount of any such tax or duty or has established,  
to the satisfaction of the Company, that such tax or duty has been  
paid.

(i) All Securities delivered for repurchase shall be  
delivered to the Trustee, the Paying Agent or any other agents  
(as shall be set forth in the Company Notice) to be canceled by  
or at the direction of the Trustee, which shall dispose of the  
same as provided in Section 309.

SECTION 1404. Certain Definitions.  
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For purposes of this Article Fourteen,

(a) the term "beneficial owner" shall be determined in  
accordance with Rule 13d-3, as in effect on the date of the  
original execution of this Indenture, promulgated by the  
Commission pursuant to the Exchange Act;

(b) a "Change of Control" shall be deemed to have occurred  
at the time, after the original issuance of the Securities, of:

(i) the acquisition by any Person of beneficial  
ownership, directly or indirectly, through a purchase,  
merger or other acquisition transaction or series of  
transactions, of shares of capital stock of the Company  
entitling such person to exercise 50% or more of the total  
voting power of all shares of capital stock of the Company  
entitled to vote generally in the elections of directors  
(any shares of voting stock of which such person or group is  
the beneficial owner that are not then outstanding being  
deemed outstanding for purposes of calculating such  
percentage), other than any such acquisition by the Company,  
any Subsidiary of the Company or any employee benefit plan  
of the Company existing on the date of this Indenture; or

(ii) any consolidation or merger of the Company with or  
into any other Person, any merger of another Person into the  
Company, or any conveyance, sale, transfer, or lease of all  
or substantially all of the assets of the Company (other  
than (a) any consolidation or merger (x) which does not  
result in any reclassification, conversion, exchange or  
cancellation of outstanding shares of Common Stock, and (y)  
pursuant to which the holders of 50% or more of the total  
voting power of all shares of capital stock of the Company  
entitled to vote generally in elections of directors  
immediately prior to such transaction have the entitlement  
to exercise, directly or indirectly, 50% or more of the  
total voting power of all shares of capital stock of the  
continuing or surviving corporation entitled to vote  
generally in elections of directors of the continuing or  
surviving corporation immediately after such transaction and  
(b) a merger which is effected solely to change the  
jurisdiction of incorporation of the Company and results in  
a reclassification, conversion or exchange of outstanding  
shares of Common Stock into solely shares of common stock);

provided, however, that a Change of Control shall not be deemed  
to have occurred if (i) the Closing Price Per Share on any five  
Trading Days within the period of 10 consecutive Trading Days  
ending immediately after the later of the date of the Change of  
Control or the date of the public announcement of the Change of  
Control (in the case of a Change of Control under Clause (i)  
above) or the period of 10 consecutive Trading Days ending  
immediately prior to the date of the Change of Control (in the  
case of a Change of Control under Clause (ii) above) shall equal  
or exceed 105% of the Conversion Price in effect on each such  
Trading Day or (ii) all of the consideration (excluding cash  
payments for fractional shares or cash payments for appraisal  
rights) in the transaction or transactions constituting the  
Change of Control consists of shares of common stock or  
securities convertible into common stock that are, or upon  
issuance will be, traded on a national securities exchange or

through The Nasdaq National Market and as a result of such transaction or transactions the Notes become convertible solely into such common stock or securities.

(c) the term "Conversion Price" shall equal \$1,000 divided by the Conversion Rate; and

(d) for the purposes of Section 1404(b)(i), the term "Person" shall include any syndicate or group which would be deemed to be a "person" under Section 13(d)(3) of the Exchange Act, as in effect on the date of the original execution of this Indenture.

SECTION 1405. Consolidation, Merger, Etc.  
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In the case of any conveyance, sale, transfer, lease, or merger, to which Section 1311 applies, in which the Common Stock of the Company is changed or exchanged as a result into the right to receive shares of stock and other securities or property or assets (including cash) which includes shares of Common Stock of the Company or common stock of another person that are, or upon issuance will be, traded on a United States national securities exchange or approved for trading on an established automated over-the-counter trading market in the United States and such shares constitute at the time such change or exchange becomes effective in excess of 50% of the aggregate fair market value of such shares of stock and other securities, property and assets (including cash) (as determined by the Company, which determination shall be conclusive and binding), then the person formed by such consolidation or resulting from such merger or combination or which acquires the properties or assets (including cash) of the Company, as the case may be, shall execute and deliver to the Trustee a supplemental indenture (which shall comply with the Trust Indenture Act as in force at the date of execution of such supplemental indenture) modifying the provisions of this Indenture relating to the right of Holders to cause the Company to repurchase the Securities following a Change of Control, including without limitation the applicable provisions of this Article Fourteen and the definitions of the Common Stock and Change of Control, as appropriate, and such other related definitions set forth herein as determined in good faith by the Company (which determination shall be conclusive and binding), to make such provisions apply to the common stock and the issuer thereof if different from the Company and Common Stock of the Company (in lieu of the Company and the Common Stock of the Company).

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



IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

PHOTRONICS, INC.

[SEAL]

By: \_\_\_\_\_  
Name:  
Title:

Attest:

\_\_\_\_\_  
Name:  
Title:

THE CHASE MANHATTAN BANK,  
Trustee:

[SEAL]

By: \_\_\_\_\_  
Name:  
Title:

Attest:

\_\_\_\_\_  
Name:  
Title:

STATE OF ) ss.:  
COUNTY OF )

On the o day of May, 1997, before me personally came o, to me known, who, being by me duly sworn, did depose and say that he/she is o of PHOTRONICS, INC., one of the corporations described in and which executed the foregoing instrument; that he/she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he/she signed his/her name thereto by like authority.

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Notary Public

STATE OF ) ss.:  
COUNTY OF )

On the o day of May, 1997, before me personally came o to me known, who, being by me duly sworn, did depose and say that he/she is o of THE CHASE MANHATTAN BANK, one of the corporations described in and which executed the foregoing instrument; that he/she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he/she signed his/her name thereto by like authority.

---

Notary Public



Independent Auditors' Consent

We consent to the use in this Registration Statement of Photronics, Inc. on Form S-3 of our report dated December 9, 1996 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the 1994 change in accounting for investments and income taxes) included in the Annual Report on Form 10-K of Photronics, Inc. for the year ended October 31, 1996, and to the use of our report dated December 9, 1996, appearing in the Prospectus, which is part of this Registration Statement. We also consent to the reference to us under the headings "Selected Financial Data" and "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

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Deloitte & Touche LLP  
Hartford, Connecticut  
April 28, 1997

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY  
UNDER THE TRUST INDENTURE ACT OF 1939 OF  
A CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE ELIGIBILITY OF  
A TRUSTEE PURSUANT TO SECTION 305(b)(2)

THE CHASE MANHATTAN BANK  
(Exact name of trustee as specified in its charter)

NEW YORK  
(State of incorporation  
if not a national bank)

13-4994650  
(I.R.S. employer  
identification No.)

270 PARK AVENUE  
NEW YORK, NEW YORK  
(Address of principal executive offices)

10017  
(Zip Code)

William H. McDavid  
General Counsel  
270 Park Avenue  
New York, New York 10017  
Tel: (212) 270-2611  
(Name, address and telephone number of agent for service)

PHOTRONICS, INC.  
(Exact name of obligor 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, FLORIDA  
(Address of principal executive offices)

33477  
(Zip Code)

DEBT SECURITIES  
(Title of the indenture securities)

GENERAL

Item 1. General Information.

Furnish the following information as to the trustee:

- (a) Name and address of each examining or supervising authority to which it is subject.

New York State Banking Department, State House, Albany,  
New York 12110.

Board of Governors of the Federal Reserve System,  
Washington, D.C., 20551

Federal Reserve Bank of New York, District No. 2,  
33 Liberty Street, New York, N.Y.

Federal Deposit Insurance Corporation, Washington, D.C.,  
20429.

(b) Whether it is authorized to exercise corporate trust powers.

Yes.

Item 2. Affiliations with the Obligor.

If the obligor is an affiliate of the trustee, describe each such affiliation.

None.

Item 16. List of Exhibits

List below all exhibits filed as a part of this Statement of Eligibility.

1. A copy of the Articles of Association of the Trustee as now in effect, including the Organization Certificate and the Certificates of Amendment dated February 17, 1969, August 31, 1977, December 31, 1980, September 9, 1982, February 28, 1985, December 2, 1991 and July 10, 1996 (see Exhibit 1 to Form T-1 filed in connection with Registration Statement No. 333-06249, which is incorporated by reference).

2. A copy of the Certificate of Authority of the Trustee to Commence Business (see Exhibit 2 to Form T-1 filed in connection with Registration Statement No. 33-50010, which is incorporated by reference. On July 14, 1996, in connection with the merger of Chemical Bank and The Chase Manhattan Bank (National Association), Chemical Bank, the surviving corporation, was renamed The Chase Manhattan Bank).

3. None, authorization to exercise corporate trust powers being contained in the documents identified above as Exhibits 1 and 2.

4. A copy of the existing By-Laws of the Trustee (see Exhibit 4 to Form T-1 filed in connection with Registration Statement No. 333-06249, which is incorporated by reference).

5. Not applicable.

6. The consent of the Trustee required by Section 321(b) of the Act (see Exhibit 6 to Form T-1 filed in connection with Registration Statement No. 33-50010, which is incorporated by reference. On July 14, 1996, in connection with the merger of Chemical Bank and The Chase Manhattan Bank (National Association), Chemical Bank, the surviving corporation, was renamed The Chase Manhattan Bank).

7. A copy of the latest report of condition of the Trustee, published pursuant to law or the requirements of its supervising or examining authority.

8. Not applicable.

9. Not applicable.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939 the Trustee, The Chase Manhattan Bank, a corporation organized and existing under the laws of the State of New York, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of New York and State of New York, on the 28th day of April, 1997.

THE CHASE MANHATTAN BANK

By: /s/ Kathleen Perry  
-----  
Kathleen Perry  
Second Vice President

Exhibit 7 to Form T-1

Bank Call Notice

RESERVE DISTRICT NO. 2  
CONSOLIDATED REPORT OF CONDITION OF

The Chase Manhattan Bank  
of 270 Park Avenue, New York, New York 10017  
and Foreign and Domestic Subsidiaries,  
a member of the Federal Reserve System,

at the close of business December 31, 1996, in accordance with  
a call made by the Federal Reserve Bank of this District pursuant  
to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts in Millions
Cash and balances due from depository institutions:	
Noninterest-bearing balances and	
currency and coin .....	\$ 11,509
Interest-bearing balances .....	8,457
Securities: .....	
Held to maturity securities.....	3,128
Available for sale securities.....	40,534
Federal Funds sold and securities purchased under	
agreements to resell in domestic offices of the	
bank and of its Edge and Agreement subsidiaries,	
and in IBF's:	
Federal funds sold .....	9,222
Securities purchased under agreements to resell	422
Loans and lease financibles:	
Loans and leases, net of unearned income \$133,935	
Less: Allowance for loan and lease losses 2,789	
Less: Allocated transfer risk reserve .... 16	
-----	
Loans and leases, net of unearned income,	
allowance, and reserve .....	131,130
Trading Assets .....	49,876
Premises and fixed assets (including capitalized	
leases) .....	2,877
Other real estate owned .....	290
Investments in unconsolidated subsidiaries and	
associated companies.....	124
Customer's liability to this bank on acceptances	
outstanding .....	2,313
Intangible assets .....	1,316
Other assets .....	11,231
-----	
TOTAL ASSETS .....	\$272,429
	=====



LIABILITIES

Deposits		
In domestic offices .....	\$87,006	
Noninterest-bearing .....	\$35,783	
Interest-bearing .....	51,223	
	-----	
In foreign offices, Edge and Agreement subsidiaries, and IBF's .....	73,206	
Noninterest-bearing .....	\$ 4,347	
Interest-bearing .....	68,859	
Federal funds purchased and securities sold under agree- ments to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBF's		
Federal funds purchased .....	14,980	
Securities sold under agreements to repurchase .....	10,125	
Demand notes issued to the U.S. Treasury .....	1,867	
Trading liabilities .....	34,783	
Other Borrowed money:		
With a remaining maturity of one year or less .....	14,639	
With a remaining maturity of more than one year ....	425	
Mortgage indebtedness and obligations under capitalized leases .....	40	
Bank's liability on acceptances executed and outstanding..	2,267	
Subordinated notes and debentures .....	5,471	
Other liabilities .....	11,343	
TOTAL LIABILITIES .....	256,152	
	-----	
Limited-Life Preferred stock and related surplus	550	

EQUITY CAPITAL

Common stock .....	1,251
Surplus .....	10,243
Undivided profits and capital reserves .....	4,526
Net unrealized holding gains (Losses) on available-for-sale securities .....	(309)
Cumulative foreign currency translation adjustments .....	16
TOTAL EQUITY CAPITAL .....	15,727
	-----
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK AND EQUITY CAPITAL .....	\$272,429
	=====

I, Joseph L. Sclafani, S.V.P. & Controller of the above-named bank, do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and is true to the best of my knowledge and belief.

JOSEPH L. SCLAFANI

We, the undersigned directors, attest to the correctness of this Report of Condition and declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and is true and correct.

WALTER V. SHIPLEY	)	
EDWARD D. MILLER	)	
THOMAS G. LABRECQUE	)	DIRECTORS