

PHOTRONICS INC
Form 10-Q
September 06, 2007

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

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
For the quarterly period ended July 29, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
For the transition period from ___ to ___

Commission file number 0-15451

PHOTRONICS, INC.

(Exact name of registrant as specified in its charter)

Connecticut
*(State or other jurisdiction
of incorporation or organization)*

06-0854886
*(IRS Employer
Identification Number)*

15 Secor Road, Brookfield, Connecticut 06804
(Address of principal executive offices and zip code)

(203) 775-9000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding at September 3, 2007
Common Stock, \$0.01 par value	41,844,069 Shares

-1-

Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of Photronics, Inc. (the "Company"). These statements are based on management's beliefs, as well as assumptions made by and information currently available to management. Forward-looking statements may be identified by words like "expect", "anticipate", "believe", "plan", "projects", and similar expressions. All forward-looking statements involve risks and uncertainties that are difficult to predict. In particular, any statement contained in this quarterly report on Form 10-Q, in press releases, written statements or other documents filed with the Securities and Exchange Commission, or in the Company's communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, regarding the consummation and benefits of future acquisitions, expectations with respect to future sales, financial performance, operating efficiencies and product expansion, are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond the control of the Company. These factors may cause actual results, performance or achievements to differ materially from anticipated results, performances or achievements. Factors that might affect such forward-looking statements include, but are not limited to, overall economic and business conditions; the demand and receipt of orders for the Company's products; competitive factors in the industries and geographic markets in which the Company competes; changes in federal, state and international tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); the Company's ability to place new equipment in service on a timely basis; interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; economic and political conditions in international markets; the ability to obtain additional financings; the ability to achieve anticipated synergies and other cost savings in connection with acquisitions and productivity programs; uncertainties with respect to the integration and management of MP Mask Technology Center, LLC (MP Mask); delays in the construction and equipping of the planned nanofab fabrication facilities; the timing, impact and other uncertainties of future acquisitions; the seasonal and cyclical nature of the semiconductor and flat panel display industries; the availability of capital; management changes; damage or destruction to the Company's facilities by natural disasters, labor strikes, political unrest or terrorist activity; the ability to fully utilize its tools; the ability of the Company to receive desired yields, pricing, product mix, and market acceptance of its products; changes

in technology; and the ability of the Company to obtain necessary export licenses. Any forward-looking statements should be considered in light of these factors. Accordingly, there is no assurance that the Company's expectations will be realized. The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not assume an obligation to provide revisions to any forward-looking statements.

-2-

**PHOTRONICS, INC.
AND SUBSIDIARIES**

INDEX

PART I.	FINANCIAL INFORMATION	<u>Page</u>
Item 1.	Condensed Consolidated Financial Statements	
	<u>Condensed Consolidated Balance Sheets at July 29, 2007 and October 29, 2006</u>	4
	<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended July 29, 2007 and July 30, 2006</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended July 29, 2007 and July 30, 2006</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	15
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
Item 4.	<u>Controls and Procedures</u>	24
PART II.	OTHER INFORMATION	
Item 1A.	<u>Risks Relating to the Company's Business</u>	24
Item 5.	<u>Other Information</u>	24
Item 6.	<u>Exhibits</u>	25

-3-

PART I. FINANCIAL INFORMATION**Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****PHOTRONICS, INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets

*(in thousands, except per share amounts)**(unaudited)*

	July 29, 2007	October 29, 2006
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$120,056	\$ 129,425
Short-term investments	25,182	69,899
Accounts receivable, net of allowance of \$4,740 in 2007 and \$4,471 in 2006	72,527	84,299
Inventories	16,630	19,209
Other current assets	11,790	16,055
	<u> </u>	<u> </u>
Total current assets	246,185	318,887
Property, plant and equipment, net	460,116	443,637
Goodwill	138,534	138,534
Investment in joint venture	65,646	64,365
Other intangibles, net	70,004	71,763
Other assets	6,857	8,497
	<u> </u>	<u> </u>
	\$987,342	\$1,045,683
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term borrowings	\$ 25,000	\$ 86,903
Accounts payable	65,962	53,907
Accrued liabilities	31,123	50,386
	<u> </u>	<u> </u>
Total current liabilities	122,085	191,196
Long-term borrowings	149,608	170,288
Deferred income taxes and other liabilities	16,509	23,920
	<u> </u>	<u> </u>
Total liabilities	288,202	385,404

Minority interest	48,914	45,997
Shareholders' equity:		
Preferred stock, \$0.01 par value, 2,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value, 150,000 shares authorized, 41,572 shares issued and outstanding at July 29, 2007 and 41,485 shares issued and outstanding at October 29, 2006	416	415
Additional paid-in capital	380,896	378,143
Retained earnings	226,813	202,652
Accumulated other comprehensive income	42,101	33,072
	<hr/>	<hr/>
Total shareholders' equity	650,226	614,282
	<hr/>	<hr/>
	\$987,342	\$1,045,683
	<hr/>	<hr/>

See accompanying notes to condensed consolidated financial statements.

-4-

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

	Three Months Ended		Nine Months Ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
	<hr/>	<hr/>	<hr/>	<hr/>
Net sales	\$104,301	\$108,160	\$319,908	\$339,579
Costs and expenses:				
Cost of sales	(80,595)	(75,256)	(240,344)	(228,685)
Selling, general and administrative	(16,039)	(15,524)	(46,922)	(46,438)
Research and development	(4,241)	(6,741)	(13,285)	(22,985)
Consolidation, restructuring and related charges	-	(1,790)	-	(13,216)

Gain on sale of facility	-	-	2,254	-
Operating income	3,426	8,849	21,611	28,255
Other income (expense), net				
Interest expense	(1,477)	(2,989)	(4,509)	(9,002)
Investment and other income, net	2,344	1,715	5,521	13,294
Income before income taxes and minority interest	4,293	7,575	22,623	32,547
Income tax (provision) benefit	(1,126)	(1,692)	3,962	(9,324)
Income before minority interest	3,167	5,883	26,585	23,223
Minority interest	(929)	(1,328)	(2,424)	(3,710)
Net income	\$2,238	\$ 4,555	\$24,161	\$ 19,513
Earnings per share:				
Basic	\$0.05	\$0.11	\$0.58	\$0.47
Diluted	\$0.05	\$0.11	\$0.53	\$0.45
Weighted average number of common shares outstanding:				
Basic	41,558	41,383	41,515	41,344
Diluted	41,864	41,735	51,355	51,036

See accompanying notes to condensed consolidated financial statements.

	Nine Months Ended	
	July 29, 2007	July 30, 2006
Cash flows from operating activities:		
Net income	\$24,161	\$19,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,234	67,594
Gain on sale of facility and other	(3,027)	-
Gain on sale of investments	(257)	-
Minority interest in income of consolidated subsidiaries	2,424	3,710
Consolidation, restructuring and related charges	-	13,216
Changes in assets and liabilities:		
Accounts receivable	15,330	(5,078)
Inventories	4,124	(597)
Other current assets	4,231	(4,514)
Accounts payable and other	(25,146)	(13,946)
Net cash provided by operating activities	<u>94,074</u>	<u>79,898</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(56,951)	(83,441)
Acquisition of additional interest in PK Ltd.	-	(8,432)
Proceeds from the sale of short-term investments and other	48,253	78,697
Investment in joint venture, technology and supply agreements	(1,000)	(120,505)
Purchases of short-term investments	(5,465)	(64,983)
Proceeds from sale of facility and other	5,783	-
Net cash used in investing activities	<u>(9,380)</u>	<u>(198,664)</u>
Cash flows from financing activities:		
Repayments of long-term borrowings	(87,087)	(4,725)
Payment to Micron Technology, Inc.	(7,500)	-
Proceeds from long-term borrowings	3,369	12,218
Proceeds from issuance of common stock	631	1,172
Other	(1,485)	-
Net cash (used in) provided by financing activities	<u>(92,072)</u>	<u>8,665</u>
Effect of exchange rate changes on cash flows	<u>(1,991)</u>	<u>(709)</u>
Net decrease in cash and cash equivalents	(9,369)	(110,810)
Cash and cash equivalents at beginning of period	<u>129,425</u>	<u>196,049</u>
Cash and cash equivalents at end of period	<u>\$ 120,056</u>	<u>\$85,239</u>
Supplemental cash flow information:		
Change in accrual for purchases of property, plant and equipment	\$ 16,480	\$12,585

See accompanying notes to condensed consolidated financial statements.

-6-

PHOTRONICS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
Three and Nine Months Ended July 29, 2007 and July 30, 2006
(in thousands, except per share amounts)
(unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

Photronics, Inc. and its subsidiaries (the "Company" or "Photronics") is one of the world's leading manufacturers of photomasks, which are high precision photographic quartz plates containing microscopic images of electronic circuits. Photomasks are a key element in the manufacture of semiconductors and flat panel displays (FPD), and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits (IC) and a variety of FPD and, to a lesser extent, other types of electrical and optical components. The Company currently operates principally from ten manufacturing facilities, two of which are located in the United States, three in Europe, two in Taiwan, and one each in Korea, Singapore and China, which began production in the second quarter of the Company's fiscal 2007 year. The Company is also constructing an independent state-of-the-art nanofab facility (the "New NanoFab") in Boise, Idaho, under a build-to-suit lease agreement with Micron Technology, Inc. which is expected to be completed by the end of calendar year 2007.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending October 28, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended October 29, 2006.

NOTE 2 - COMPREHENSIVE INCOME

The following table summarizes comprehensive income for the three and nine months ended July 29, 2007 and July 30, 2006:

Three Months Ended		Nine Months Ended	
July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006

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Net income	\$2,238	\$4,555	\$24,161	\$19,513
Other comprehensive income:				
Change in unrealized net gains on investments, net of tax	13	522	(108)	(762)
Change in fair value of cash flow hedges	(330)	28	(1,703)	84
Foreign currency translation adjustments	4,281	(1,237)	10,840	19,437
	<u>3,964</u>	<u>(687)</u>	<u>9,029</u>	<u>18,759</u>
Total comprehensive income	<u>\$6,202</u>	<u>\$3,868</u>	<u>\$33,190</u>	<u>\$38,272</u>

-7-

NOTE 3 - EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is presented below:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>July 29, 2007</u>	<u>July 30, 2006</u>	<u>July 29, 2007</u>	<u>July 30, 2006</u>
Net income	\$2,238	\$4,555	\$24,161	\$19,513
Effect of dilutive securities:				
Interest expense on convertible notes, net of related tax effect	-	-	3,301	3,301
Earnings for diluted earnings per share	<u>\$2,238</u>	<u>\$4,555</u>	<u>\$27,462</u>	<u>\$22,814</u>
Weighted average common shares computations:				
Weighted average common shares used for basic earnings per share	41,558	41,383	41,515	41,344
Effect of dilutive securities:				
Convertible notes	-	-	9,441	9,441
Employee stock options	306	352	399	251
Dilutive potential common shares	<u>306</u>	<u>352</u>	<u>9,840</u>	<u>9,692</u>

Weighted average common shares used for diluted earnings per share	41,864	41,735	51,355	51,036
Basic earnings per share	\$0.05	\$0.11	\$0.58	\$0.47
Diluted earnings per share	\$0.05	\$0.11	\$0.53	\$0.45

The effect of the potential conversion of some of the Company's convertible subordinated notes and the exercise of certain stock options has been antidilutive. The following table shows the amount of incremental shares outstanding that would have been added if the assumed conversion of convertible subordinated notes and stock options had been dilutive.

	Three Months Ended		Nine Months Ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Convertible notes	9,441	11,795	405	2,354
Employee stock options	2,034	1,472	1,870	1,166
Total potentially dilutive shares excluded	11,475	13,267	2,275	3,520

NOTE 4 - INVESTMENTS

Short-term investments at July 29, 2007 and October 29, 2006 consist of available-for-sale fixed income and marketable equity securities. Long-term investments of \$392 at July 29, 2007 and \$706 at October 29, 2006 included in "Other Assets" primarily consist of available-for-sale equity securities, where fair values were determined based upon quoted market prices.

-8-

Available-for-sale investments at July 29, 2007 were as follows:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term debt investments:				
Auction rate securities	\$12,000	\$ -	\$ -	\$12,000
Foreign bond funds and other	12,915	267	-	13,182
Total short-term investments	24,915	267	-	25,182

Long-term equity investments	30	362	-	392
	<u>\$24,945</u>	<u>\$629</u>	<u>\$ -</u>	<u>\$25,574</u>

Available-for-sale investments at October 29, 2006 were as follows:

	<u>Cost Basis</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Short-term debt investments:				
Auction rate securities	\$50,400	\$ -	\$ -	\$50,400
Foreign bond funds and other	19,479	125	(105)	19,499
Total short-term investments	<u>69,879</u>	<u>125</u>	<u>(105)</u>	<u>69,899</u>
Long-term equity investments	51	655	-	706
	<u>\$69,930</u>	<u>\$780</u>	<u>\$(105)</u>	<u>\$70,605</u>

In determining whether investment holdings are other than temporarily impaired, the Company considers the nature, cause, severity and duration of the impairment. The Company and its investment advisors used analyst reports, credit ratings or other items as part of its review. No investments were considered to be other than temporarily impaired as of July 29, 2007.

The maturities of available-for-sale short-term debt investments at July 29, 2007 were as follows:

	<u>Cost Basis</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$12,915	\$13,182
Due after ten years	12,000	12,000
	<u>\$24,915</u>	<u>\$25,182</u>

In the nine month periods ended July 29, 2007 and July 30, 2006, the Company sold \$48.3 million and \$77.0 million, respectively, of short-term debt investments.

Gross realized gains and losses related to the Company's investments are as follows:

	Nine Months Ended	
	July 29, 2007	July 30, 2006
Gross realized gains	\$435	&nb