

PHOTRONICS INC
Form S-3/A
October 08, 2003
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As filed with the Securities and Exchange Commission on October 8, 2003

Registration No. 333-105918

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 4

TO

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 No.)

15 Secor Road,

Brookfield, Connecticut 06804

(203) 775-9000

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(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

Edwin L. Lewis

Vice President, Secretary and General Counsel

15 Secor Road

Brookfield, Connecticut 06804

(203) 775-9000

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copy to:

Jonathan Jewett

Shearman & Sterling LLP

599 Lexington Avenue

New York, New York 10022

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

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, other than securities being offered only in connection with dividend or interest reinvestment plans, check the following box. p

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

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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 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 under the Securities Act, please check the following box. "

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 in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

Subject to Completion Dated October 8, 2003

\$150,000,000

Photronics, Inc.

2¹/₄% Convertible Subordinated Notes due 2008

and

Common Stock Issuable Upon Conversion of the Notes

We issued the notes in a private placement on April 15, 2003. This prospectus will be used by selling security holders to resell their notes and the common stock issuable upon conversion of their notes.

The notes bear interest at an annual rate of 2¹/₄% from April 15, 2003. We will pay interest on April 15 and October 15 of each year, beginning October 15, 2003, to record holders at the close of business of the preceding April 1 and October 1, as the case may be.

We may not redeem the notes prior to maturity.

The notes are subordinated to all of our existing and future senior indebtedness and are effectively subordinated to all debt and other liabilities of our subsidiaries. As of August 3, 2003, we had \$12.9 million principal amount of senior indebtedness outstanding and, as of that date, we estimate that our subsidiaries had approximately \$118.2 million of liabilities outstanding, excluding liabilities owed to us, and there were \$51.5 million of minority interests held by third parties in the equity of our two non-wholly owned subsidiaries.

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The registration statement of which this prospectus forms a part covers resales of up to 9,440,640 shares of our common stock, which is the total number of shares issuable upon conversion of \$150,000,000 aggregate principal amount of the notes based on the initial conversion rate of 62.9376 shares per \$1,000 principal amount of the notes. The initial conversion rate is subject to adjustment in connection with stock splits and other corporate events and transactions under the anti-dilution provisions described in this prospectus. Holders may convert the notes until April 15, 2008, subject to prior redemption of the notes upon a fundamental change.

Our common stock is quoted on the Nasdaq National Market under the symbol PLAB. On October 7, 2003, the last reported sale price of the common stock on the Nasdaq National Market was \$22.97 per share. The notes are not listed on any national securities exchange or quoted on any automated quotation system.

Investing in the notes involves risks. See Risk Factors beginning on page 8.

We will not receive any of the proceeds from the sale of the notes or shares of common stock by any of the selling security holders. The notes and the shares of common stock may be offered and sold from time to time directly by the selling security holders or alternatively through broker dealers or agents. The notes and the shares of common stock may be sold in one or more transactions at fixed prices, at market prices prevailing at the time of sale or at negotiated prices. In addition, our shares of common stock may be offered from time to time through ordinary brokerage transactions on the Nasdaq National Market. See Plan of Distribution. Under some circumstances, the selling security holders may be deemed to be underwriters as defined in the Securities Act of 1933 and any profits realized by such selling security holders may be deemed to be underwriting commissions. If the selling security holders use any broker-dealers, any commissions paid to broker-dealers and, if broker-dealers purchase any notes or common stock as principals, any profits received by such broker-dealers on the resale of the notes or common stock, may be deemed to be underwriting discounts or commissions under the Securities Act.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is _____, 2003.

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SUMMARY

This summary contains basic information about us and the notes. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and all the information that it incorporates by reference before making an investment decision.

Photronics

We are 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.

We have nine manufacturing facilities, three of which are located in the United States, three in Europe and one in each of Korea, Singapore and Taiwan. Based upon available market information, we believe that we have a larger share of the U.S. market for photomasks than any other photomask manufacturer and are one of the largest photomask manufacturers in the world.

Photomasks are a key element in the manufacture of semiconductors. They 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. Both semiconductor design activity and increases in the complexity of integrated circuits are driving the demand for photomasks. As the complexity of integrated circuits has increased, so has the number and complexity of photomasks used in the manufacture of a single circuit.

Photomasks are manufactured by independent manufacturers like us, and by captive manufacturers, 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.

In 2000, we completed a merger with Align-Rite International, Inc., an independent publicly traded manufacturer of photomasks in the United States and Europe, and we acquired a majority share of Precision Semiconductor Mask Corporation, or PSMC, a photomask manufacturer based in Taiwan. In August 2001, we completed the acquisition of a majority equity interest in PKL LTD, a leading photomask supplier in Korea, for \$56 million. In April 2002, we acquired an additional 28% of PKL in exchange for 1,212,218 shares of our common stock, and our total majority equity interest is approximately 78%. The acquisition was accounted for as a purchase and accordingly goodwill in the aggregate of \$69.4 million was recorded. The operating results of PKL have been included in our consolidated statements of operations since August 27, 2001.

In 1996 and 1997, we significantly expanded our operations in international markets by acquiring existing businesses in Europe and by establishing manufacturing facilities in Singapore. Since April 2001, we have closed or announced the closing of four manufacturing facilities in North America and one in Europe. In 2001 and 2002, we acquired majority equity interests in photomask manufacturing operations in Taiwan and Korea. During the fiscal years ended November 3, 2002 and October 1, 2001, sales in North America have decreased, in part because certain

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North American customers have moved their semiconductor manufacturing to foundries located in Asia. As a result, we expect to continue to increase our focus on Asian markets. In the first nine months of

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fiscal 2003, net sales, excluding export sales, in Asia represented approximately 41% of our net sales, compared to 32% in the first nine months of last year.

We sell our products primarily through a direct sales force. We presently conduct our sales activities from six sales locations in the United States, five in Europe, and one in each of China, Japan, Korea, Singapore and Taiwan. Our customers include Agere Systems, ASML Holding, Atmel Corp., Conexant, Hynix Semiconductor, Intersil, LSI Logic Corp., Macronix International Co., Maxim Integrated Products, Motorola Inc., National Semiconductor, Philips Semiconductors, Samsung Electronics Corporation, Seagate Technology, Silicon Integrated System Corp., ST Microelectronics, System Silicon Manufacturing, Texas Instruments, United Microelectronics Corp. and Winbond Electronics Corp.

We are a Connecticut corporation, organized in 1969. Our principal executive offices are located at 15 Secor Road, Brookfield, CT 06804, telephone (203) 775-9000.

Recent Developments

In August 2002, we implemented a plan to reduce our operating cost structure by reducing our work force in the United States by approximately 135 employees and by ceasing manufacturing operations at our Milpitas, California facility. As a result, we recorded total consolidation, restructuring and related charges of \$14.5 million in the fourth quarter of fiscal 2002, consisting of \$10.5 million of non-cash charges for the impairment in the carrying value of fixed assets, \$2.5 million of cash charges for severance and benefits for terminated employees and \$1.5 million of cash charges for facilities closing costs as well as lease termination costs.

On March 25, 2003, we announced plans to further streamline our operating infrastructure in North America by ceasing the manufacture of photomasks at our Phoenix, Arizona facility and to reduce our global work force by approximately 10% to 12%, with the majority of eliminated positions resulting from our decision to cease operations at our Arizona facility. We recorded an after tax charge of \$39.9 million or \$1.24 per diluted share, in the fiscal quarter ended May 4, 2003, in connection with these plans. Approximately 81% of the charge is attributed to non-cash items.

On April 9, 2003, we amended our \$100.0 million three-year multi-currency revolving credit facility to:

permit our private placement of the notes;

relax our financial covenants to accommodate the \$39.9 million after-tax consolidation charge that we announced on March 25, 2003;
and

relax the limitations on the total amount available for borrowing under the facility.

As of August 3, 2003, we had aggregate borrowings of \$11.0 million outstanding under the facility.

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On April 9, 2003, Moody's Investors Service, Inc. assigned a rating of B3 to the notes, lowered the rating on our other convertible subordinated notes from B2 to B3 and lowered our senior implied rating from Ba3 to B1. Moody's assigned a stable outlook as part of this rating action. On the same date, Standard & Poor's Ratings Service assigned a rating of B to the notes, reaffirmed its B rating on our other convertible subordinated notes and reaffirmed our BB- corporate credit rating. Standard & Poor's continued to assign a negative outlook as part of this rating action.

On June 2, 2003, we redeemed our 6% convertible subordinated notes due 2004, \$62.1 million principal amount of which had been outstanding prior to the redemption.

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On August 19, 2003, we announced our financial results for the third quarter ended August 3, 2003. Sales for the third quarter of fiscal 2003 were \$90.5 million, down 7.8%, compared to \$98.1 million for the third quarter of fiscal 2002. Sequentially, sales for the third quarter of fiscal 2003 were 5.7% higher than the \$85.5 million reported in the second quarter of fiscal 2003. Net income for the third quarter of fiscal 2003 amounted to \$1.3 million, or \$0.04 per diluted share compared to net income of \$1.2 million or \$0.04 per diluted share for the third quarter of fiscal 2002. Net income for the third quarter of fiscal 2003 includes the impact of an early extinguishment charge of \$900,000, or \$0.03 per diluted share associated with the redemption of our 6% convertible subordinated notes due 2004.

Our third quarter of fiscal 2003 marked a return to profitability and compared favorably to the net loss of \$44.1 million, or \$1.37 per diluted share reported in the second quarter of fiscal 2003. The net loss for the second quarter of fiscal 2003 includes the impact of after tax restructuring charges totaling \$39.9 million, or \$1.24 per diluted share, recorded in the consolidation of our North American operating infrastructure that included, the closure of our Phoenix, Arizona facility and a global reduction in our work force.

Sales for the first nine months of fiscal 2003 were \$257.4 million, down 13.3% from \$296.8 million for the first nine months of fiscal 2002. The net loss for the first nine months of fiscal 2003 totaled \$51.3 million or \$1.60 per diluted share compared to net income of \$5.5 million, or \$0.17 per diluted share for the first nine months of fiscal 2002. The results for the first nine months of fiscal 2003 included consolidation and early extinguishment charges totaling \$40.8 million after tax, or \$1.27 per diluted share. There were no comparable charges in the same period of fiscal 2002.

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The Offering

Securities Offered	\$150,000,000 principal amount of 2 1/4% Convertible Subordinated Notes due 2008.
Maturity Date	April 15, 2008.
Interest	2 1/4% per annum on the principal amount from April 15, 2003, payable semi-annually in arrears in cash on April 15 and October 15 of each year, beginning October 15, 2003.
Conversion	You may convert the notes into shares of our common stock at a conversion rate of 62.9376 shares per \$1,000 principal amount of notes, subject to adjustment, prior to the final maturity date.
Subordination	<p>The notes are subordinated to all of our existing and future senior indebtedness and are effectively subordinated to all debt and other liabilities of our subsidiaries. As of August 3, 2003, we had \$12.9 million principal amount of senior indebtedness outstanding and, as of that date, we estimate that our subsidiaries had approximately \$118.2 million of liabilities outstanding, excluding liabilities owed to us, and there were \$51.5 million of minority interests held by third parties in the equity of our two non-wholly owned subsidiaries. The foregoing amount of subsidiary liabilities excludes \$11.0 million of bank revolving credit debt borrowed by one of our subsidiaries, which is guaranteed by us and included in our outstanding senior indebtedness. In the event of the liquidation of one of our subsidiaries, the creditors of that subsidiary would have claims against the subsidiary's assets that ranked ahead of the claims of the subsidiary's equity holders, including us and any minority shareholders. In the event of the liquidation of one of our non-wholly owned subsidiaries, we and the minority shareholders would be entitled to share, pro rata based on our respective equity interests, in the net assets of the subsidiary remaining after payment of all of the subsidiary's liabilities. The holders of the notes have no direct claim on the assets of any of our subsidiaries.</p> <p>The notes rank equally with our existing 4 3/4% convertible subordinated notes due 2006. As of May 4, 2003, we had \$62.1 million of 6% convertible subordinated notes due 2004 outstanding and \$200.0 million of 4 3/4% convertible subordinated notes outstanding. On June 2, 2003, we redeemed our 6% convertible subordinated notes. Neither we nor any of our subsidiaries are prohibited from incurring debt, including senior indebtedness, under the indentures governing the notes and our other convertible subordinated notes.</p>
Redemption	We may not redeem the notes prior to maturity.
Fundamental Change	If a fundamental change (as described under "Description of Notes - Redemption at Option of the Holder") occurs prior to maturity, you may require us to purchase all or part of your notes at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest.

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Use of Proceeds

We will not receive any of the proceeds from the sale by any selling security holder of the notes or of the shares of common stock issuable upon conversion of the notes. See Use of Proceeds.

Trading

The notes issued in the initial private placement are eligible for trading in the PORTAL system. However, notes sold pursuant to this prospectus will no longer be eligible for trading in the PORTAL system. The notes are not listed on any national securities exchange or quoted on any automated quotation system. Our common stock is quoted on the Nasdaq National Market under the symbol PLAB.

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RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of the notes and our common stock could decline due to any of these risks, and you may lose all or part of your investment.

This prospectus, including the documents it incorporates by reference, also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of risks, uncertainties and other factors, including the risks faced by us described below and elsewhere in this prospectus.

Risks Relating to Our Business

We are dependent on the semiconductor industry, which, as a whole, is volatile and is currently experiencing a significant downturn.

We sell substantially all of our photomasks to semiconductor designers and manufacturers. We believe 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, a reduction in design complexity or other changes in the technology or methods of manufacturing semiconductors or a slowdown in the introduction of new semiconductor designs could reduce demand for photomasks even if demand for semiconductors increases. Further, advances in semiconductor and photomask design and semiconductor production methods could reduce the demand for photomasks. Historically, the semiconductor industry has been volatile, with sharp periodic downturns and slowdowns. These downturns have been characterized by, among other things, diminished product demand, excess production capacity and accelerated erosion of selling prices. The semiconductor industry has been in a downturn since 2001, and we expect conditions to remain weak until at least the end of fiscal 2003. This downturn is among the worst we have experienced and has had a significant impact on our net sales and operating results. We cannot assure you as to when the current downturn will end or that it will not continue to worsen or materially adversely affect our business, financial condition and operating results in the near term.

We have recently incurred net losses and we may incur additional future net losses.

We incurred net losses of \$4.0 million in fiscal 2001, \$4.9 million in fiscal 2002 and \$51.3 million in the first nine months of 2003. These net losses were incurred primarily due to the severe downturn experienced by the semiconductor industry since 2001 and also reflect the consolidation, restructuring and related charges we have taken in response thereto. Although we have implemented a program of cost controls and asset management in order to more closely align our cost structure with the current business environment, we expect that reduced customer demand and other factors may continue to adversely affect our operating results in the near term. We currently face an environment of uncertain demand in the markets our products address. Although we returned to profitability in the quarter ended August 3, 2003, we cannot assure you as to whether we will be able to sustain such profitability.

Our quarterly operating results fluctuate significantly and may continue to do so in the future.

We have experienced fluctuations in our quarterly operating results and we anticipate that such fluctuations will continue and could intensify in the future. Fluctuations in operating results may result in volatility in the prices of our common stock and the notes. Operating results may fluctuate as a result of many factors, including

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size and timing of orders and shipments, loss of significant customers, product mix, technological change, fluctuations in manufacturing yields, competition and general economic conditions. Our customers generally order our products on an as-needed basis, and substantially all of our net sales in any quarter are dependent on orders received during that quarter. Since we operate with little backlog and the rate of new orders may vary significantly from month to month, our 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 our operating results would be adversely affected. Due to the foregoing factors, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. In addition, in future quarters our operating results could be below the expectations of public market analysts and investors, which, in turn, could materially adversely affect the market prices of our common stock and of the notes.

Our industry is subject to rapid technological change and we might fail to remain competitive.

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, we will be required to continually anticipate, respond to and utilize changing technologies. In particular, we believe that, as semiconductor geometries continue to become smaller, we will be required to manufacture complex optically enhanced reticles, including optical proximity correction and phase-shift photomasks. Additionally, demand for photomasks has been, and could in the future be adversely affected by changes in methods of semiconductor manufacturing (which could affect the type or quantity of photomasks utilized), such as changes in semiconductor demand that favor field programmable gate arrays and other semiconductor designs that replace application specific integrated circuits. To date, the Company has not experienced a significant loss of revenue as a result of alternative semiconductor design methodologies. Additionally, increased market acceptance of alternative methods of transferring circuit designs onto semiconductor wafers, such as direct-write lithography, could reduce or eliminate the need for photomasks. Presently, direct-write lithography has not been proven to be a commercially viable alternative to photomasks, as it is considered too slow for high volume semiconductor wafer production. However, should direct-write or any other alternative methods of transferring integrated circuit designs to semiconductor wafers be done without the use of photomasks, our business and results of operations would be materially adversely affected. If we are unable to anticipate, respond to or utilize these or other changing technologies, due to resource, technological or other constraints, our business and results of operations could be materially adversely affected.

Our operations will continue to require significant capital, which we may not be able to obtain.

The manufacture of photomasks requires a significant investment in fixed assets. We expect that we will be required to continue to make significant capital expenditures in connection with our operations. We also must make capital expenditures in order to maintain technological leadership. Our planned capital expenditures for fiscal 2003 are \$60 million. For the first nine months ended August 3, 2003, our capital expenditures were \$34.7 million. There can be no assurance that we will be able to obtain the additional capital required in connection with our operations on reasonable terms, if at all, or that any such expenditures will not have a material adverse effect on our business and results of operations.

We have been dependent on sales to a limited number of large customers; the loss of any of these customers or any reduction in orders from these customers could materially affect our sales.

Historically, we have sold a significant proportion of our products and services to a limited number of semiconductor manufacturers. During fiscal 2002, one customer, Samsung Electronics Corporation, accounted for 10.4% of our net sales and our five largest customers, in the aggregate, accounted for 36% of our net sales. During the nine month period ended August 3, 2003, Samsung accounted for 15% of our net sales and our five largest customers, in aggregate, accounted for 36% of our net sales. None of our customers has entered into a long-term agreement requiring it to purchase our products. The loss of a significant customer or any reduction or delays in orders from any significant customer,

including reductions or delays due to customer departures from

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recent buying patterns, or market, economic or competitive conditions in the semiconductor industry, could have a material adverse effect on our financial performance and business prospects. The continuing consolidation of semiconductor manufacturers may increase the likelihood and adverse effect of losing a significant customer.

We depend on a small number of suppliers for equipment and raw materials and, if our suppliers do not deliver their products to us, we may be unable to deliver our products to our customers.

We rely on a limited number of photomask equipment manufacturers to develop and supply the equipment we use. These equipment manufacturers currently require lead times of approximately 10 to 14 months between the order and the delivery of certain photomask imaging and inspection equipment. The failure of such manufacturers to develop or deliver such equipment on a timely basis could have a material adverse effect on our business and results of operations. Further, we rely on equipment manufacturers to develop future generations of manufacturing equipment to meet our requirements. In addition, the manufacturing equipment necessary to produce advanced photomasks could become prohibitively expensive.

We use high precision quartz photomask blanks, pellicles (which are protective transparent cellulose membranes) and electronic grade chemicals in our manufacturing processes. There are a limited number of suppliers of these raw materials, and we have no long-term contracts for the supply of these raw materials. 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 our 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 our business and results of operations, although they have not been material to date.

We face risks associated with manufacturing difficulties.

Our complex manufacturing processes require the use of expensive and technologically sophisticated equipment and materials and are continuously modified in an effort to improve manufacturing yields and product quality. Minute impurities or other difficulties in the manufacturing process can lower manufacturing yields and make products unmarketable. Moreover, manufacturing leading-edge photomasks is more complex and time-consuming than manufacturing less advanced photomasks, and may lead to general delays in the manufacturing of all levels of photomasks. We have, on occasion, experienced manufacturing difficulties and capacity limitations that have delayed our ability to deliver products within the time frames contracted for by our customers. In addition, we have experienced in the past, and could experience in the future, difficulties and delays in ramping up new production facilities. We cannot assure you that we will not experience these or other manufacturing difficulties, or be subject to increased costs or production capacity constraints in the future, any of which could result in a loss of customers or could otherwise have a material adverse effect on our business and results of operations.

Our prior and future acquisitions may entail certain operational and financial risks.

In 2000, we completed our merger with Align-Rite International, Inc. and acquired a majority share of PSMC, a photomask manufacturer based in Taiwan. In August 2001, we acquired a controlling equity interest (which was further increased in 2002) in PKL LTD, a leading supplier of photomasks in Korea. We may make additional acquisitions in the future.

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Acquisitions place significant demands on our administrative, operational and financial 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 us and the acquired operation, and these customers transition to another vendor in order to ensure a second source of supply. Furthermore, we may be required to utilize our cash reserves and/or issue new securities

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for future acquisitions, which could have a dilutive effect on our earnings per share. Any of these risks could have a material adverse effect on our business and results of operations.

We operate in a highly competitive industry.

The photomask industry is highly competitive, and most of our customers utilize more than one photomask supplier. In the United States, we compete primarily with DuPont Photomasks, Inc. and, to a lesser extent, with other independent photomask suppliers. Internationally, our competitors include Compugraphics, Dai Nippon Printing, DuPont Photomasks, Hoya, Taiwan Mask Corp., Toppan and Toppan Chungwha Electronics. We also compete with semiconductor manufacturers' captive photomask manufacturing operations. We expect 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 we do. We believe that consistency of product quality and timeliness of delivery are the principal factors considered by customers in selecting their photomask suppliers. Our inability to meet these requirements could adversely affect our sales. In the past, competition led to pressure to reduce prices which, we believe, contributed to the decrease in the number of independent manufacturers. This pressure to reduce prices may continue in the future.

Our substantial international operations are subject to additional risks.

International sales, which exclude export sales, accounted for approximately 59% of our net sales in the first nine months of fiscal 2003, 50% in fiscal 2002 and 36% in fiscal 2001. We believe that maintaining significant international operations requires us to have, among other things, a local presence in the markets in which we operate. This requires a significant investment of financial, management, operational and other resources. Since 1996, we have significantly expanded our operations in international markets by acquiring existing businesses in Europe, establishing manufacturing operations in Singapore and acquiring majority equity interests in photomask manufacturing operations in Korea and Taiwan.

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. These factors may have a material adverse effect on our ability to generate sales outside the United States and, consequently, on our business and results of operations.

Our operating results are influenced by the performance of Asian economies.

In the first nine months of fiscal 2003, we derived approximately 41% of our net sales, excluding export sales, from Asia, compared to 33.5% in fiscal 2002, 18.9% in fiscal 2001 and 9.7% in fiscal 2000. We expect sales in Asia will continue to represent a significant portion of our overall revenue mix. As a result, our business is exposed to risks presented by Asian economies. In recent years, Asian economies have been highly volatile and recessionary, resulting in significant fluctuations in local currencies, declining asset values and other instabilities. These instabilities may continue for some time or worsen, which could have a material adverse impact on our financial position and results of operations. Asian economies may also be adversely affected by any recurring outbreak of severe acute respiratory syndrome (SARS) in the region and by rising tensions with North Korea or other geopolitical issues.

Our business depends on management and technical personnel, who are in great demand.

Our success, in part, depends upon key managerial, engineering and technical personnel, as well as our ability to continue to attract and retain additional personnel. The loss of certain key personnel could have a material adverse effect upon our business and results of operations. There can be no assurance that we can retain our key managerial, engineering and technical employees or that we can attract similar additional employees in the future. We believe that we provide competitive compensation and incentive packages to our employees.

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We may be unable to enforce or defend our ownership and use of proprietary technology.

We believe that the success of our business depends more on our proprietary technology, information and processes and know-how than on patents or trademarks. Much of our proprietary information and technology relating to manufacturing processes is not patented and may not be patentable. We cannot assure you that:

we will be able to adequately protect our technology;

competitors will not independently develop similar technology; or

foreign intellectual property laws will adequately protect our intellectual property rights.

We may become the subject of infringement claims or legal proceedings by third parties with respect to current or future products or processes. Any such claims or litigation, with or without merit, to enforce or protect our intellectual property rights or to defend our company against claimed infringement of the rights of others could result in substantial costs, diversion of resources and product shipment delays or could force us to enter into royalty or license agreements rather than dispute the merits of these claims. Any of the foregoing could have a material adverse effect on our business, results of operations and financial position.

We may be unprepared for changes to environmental laws and regulations and we may have liabilities arising from environmental matters.

We are subject to numerous environmental laws and regulations that impose various environmental controls on, among other things, the discharge of pollutants into the air and water and the handling, use, storage, disposal and clean-up of solid and hazardous wastes. Changes in these laws and regulations may have a material adverse effect on our financial position and results of operations. Any failure by us to adequately comply with these laws and regulations could subject us to significant future liabilities.

In addition, these laws and regulations may impose clean-up liabilities on current and former owners and operators of real property without regard to fault and these liabilities may be joint and several with other parties. In the past, we have been involved in remediation activities relating to our properties. We believe, based upon current information, that environmental liabilities relating to these activities or other matters will not be material to our financial position or results of operations. However, there can be no assurances that we will not incur any material environmental liabilities in the future.

Our production facilities could be damaged or disrupted by a natural disaster or labor strike.

Our facilities in Taiwan are in a seismically active area. In addition, a major catastrophe such as an earthquake or other natural disaster or labor strikes or work stoppages at any of our manufacturing facilities could result in a prolonged interruption of our business. Any disruption resulting from these events could cause significant delays in shipments of our products and the loss of sales and customers.

Our financial condition and ability to access capital may be adversely affected by further ratings downgrades.

On April 9, 2003, Moody's Investors Service, Inc. and Standard & Poor's Ratings Service assigned a rating of B3 and B to the notes, respectively. At the same time, Moody's lowered the rating on our other convertible subordinated notes from B2 to B3 and our senior implied rating from Ba3 to B, with a stable outlook. Standard & Poor's continued to assign a negative outlook as part of its rating action. We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. Although Moody's downgrade has not triggered, and a further ratings downgrade by any of the ratings agencies will not trigger, an acceleration of any of our existing indebtedness, these events may adversely affect our ability to access capital and may increase our financing costs, which may decrease our earnings. Our future debt agreements may also specify that a ratings downgrade will automatically

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trigger acceleration of our debt or constitute an event of default. We cannot assure you that we will be able to repay or refinance such debt as required if this occurs. If we are unable to repay, renegotiate or refinance any of our debt as required in the future, we could become in default of such debt, which may also cause a default under our other debt existing at that time. We will also incur higher interest expense if we replace maturing debt with new debt bearing higher interest rates due to our lower ratings. Any further downgrade could also negatively impact the market value of the notes and the price of our common stock.

Risks of Investing in These Notes

The notes are subordinated in right of payment to our senior indebtedness and structurally subordinated to the indebtedness and other liabilities of our subsidiaries. We depend, in part, on distributions from our subsidiaries to make payments on the notes and our other debt.

The notes are unsecured and subordinated in right of payment in full to all our existing and future senior indebtedness. As a result of this subordination, in the event of our 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, our assets 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 indenture under which the notes have been issued will not restrict our ability to incur indebtedness constituting senior indebtedness.

We conduct most of our operations through our subsidiaries. Accordingly, our ability to meet our cash obligations depends, in part, upon the ability of our subsidiaries to make distributions to us in the form of dividends, loans or advances. The ability of our subsidiaries to make distributions to us will depend upon their financial results and condition, covenants under their debt instruments and agreements and other business considerations, as well as limitations imposed by the various laws under which our subsidiaries are organized. While none of our domestic subsidiaries is presently subject to contractual restrictions on its ability to make distributions to us, the indenture does not restrict the ability of our subsidiaries to enter into these contractual restrictions. Our right to participate in the assets of any subsidiary (and thus the ability of holders of the notes to benefit indirectly from these assets) is generally subject to the prior claims of creditors, including trade creditors, of that subsidiary. The notes, therefore, are structurally subordinated to the claims of creditors, including trade creditors, of our subsidiaries. As of August 3, 2003, we had \$12.9 million principal amount of senior indebtedness outstanding and, as of that date, we estimate that our subsidiaries had approximately \$118.2 million of liabilities outstanding, excluding liabilities owed to us, and there were \$51.5 million of minority interests held by third parties in the equity of our two non-wholly owned subsidiaries. The foregoing amount of subsidiary liabilities excludes \$11.0 million of bank revolving credit debt borrowed by one of our subsidiaries, which is guaranteed by us and included in our outstanding senior indebtedness. In the event of the liquidation of one of our subsidiaries, the creditors of that subsidiary would have claims against the subsidiary's assets that ranked ahead of the claims of the subsidiary's equity holders, including us and any minority shareholders. In the event of the liquidation of one of our non-wholly owned subsidiaries, we and the minority shareholders would be entitled to share, pro rata based on our respective equity interests, in the net assets of the subsidiary remaining after payment of all of the subsidiary's liabilities. The holders of the notes have no direct claim on the assets of any of our subsidiaries.

We may be unable to redeem the notes if we experience a fundamental change.

If we experience a fundamental change, you are entitled to require us to redeem all or a portion of your notes, but we may not have enough funds to pay the redemption price for all tendered notes. Our credit agreement prohibits redemption of the notes upon a fundamental change. Any future credit agreements or other agreements relating to our indebtedness may:

contain provisions requiring payment of indebtedness after a fundamental change; or

expressly prohibit our repurchase of the notes after a fundamental change.

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If we experience a fundamental change at a time when we are prohibited from purchasing or redeeming notes, we could seek the consent of our lenders to redeem the notes or could attempt to refinance such debt. If we should fail to obtain our lenders' consent or refinance such debt, we could not purchase or redeem the notes. Our failure to redeem tendered notes would constitute an event of default under the indenture which, in turn, might constitute a default under the terms of other indebtedness. If this were to occur, or if a fundamental change were to constitute an event of default under any senior indebtedness, the indenture's subordination provisions would restrict us from paying you.

The definition of fundamental change in the indenture governing the notes may not include all corporate transactions or events that you may consider to be a substantial change of our company, business or operations.

Your right to require us to redeem the notes will only arise upon the occurrence of a fundamental change as defined in the indenture governing the notes. The indenture defines a fundamental change as any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in connection with which all or substantially all of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration which is not all or substantially all common stock that:

is listed on, or immediately after the transaction or event will be listed on, a United States national securities exchange, or

is approved, or immediately after the transaction or event will be approved, for quotation on the Nasdaq National Market or any similar United States system of automated dissemination of quotations of securities prices.

The above definition of fundamental change is generally limited to transactions in which our common stock will be exchanged for or otherwise substituted by securities that are not or, following such transaction or event, will not be listed on a United States national securities exchange or quoted on the Nasdaq National Market or other similar automated quotation system. This definition may vary from the definitions used in other transactions involving convertible securities similar to the notes that are issued by different issuers. We cannot assure you that the above definition of fundamental change will cover all corporate events or transactions that you may consider to be a substantial change in the nature of our company, business or operations. For example, if we were to merge or consolidate with another entity (to the extent permitted under the indenture governing the notes), you will not have a redemption right if all or substantially all of the consideration offered for our common stock consists of common stock that is listed on a United States national securities exchange or quoted on the Nasdaq National Market.

You may have difficulty selling the notes because no trading market exists for the notes.

Currently, there is no existing trading market for the notes, and we cannot assure you that a trading market will develop or that any trading market that develops will continue or allow you to sell your notes quickly. We also cannot assure you of the price at which you will be able to sell your notes if you are able to sell them at all. The initial purchasers of the notes have advised us that they intend to make a market in the notes, but they are not obligated to do so, and their market making may be interrupted or discontinued without notice.

Our stock price may continue to experience large short-term fluctuations that may significantly affect the trading price of the notes.

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In recent years, the price of our common stock has fluctuated greatly and has declined sharply since April 30, 2002. Fluctuations in the trading price of our common stock will affect the trading price of the notes. These price fluctuations have been rapid and severe and have left investors little time to react. The price of our common stock may continue to fluctuate greatly in the future due to a variety of factors many of which are beyond our control, including:

quarter to quarter variations in our operating results;

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shortfalls in our sales or earnings from levels expected by securities analysts;

announcements of technological innovations or new products by us or other companies;

slowdowns or downturns in the semiconductor industry;

changes in our relationships with our customers;

general stock market trends; and

any adverse geopolitical events.

Future public sales of our common stock may decrease the market price of our common stock.

In 2002, we issued an additional 1,212,218 shares of our common stock in connection with an increase in our equity interest in PKL. In 2002, we registered the shares with the SEC for resale in the public market. Sales of these shares, or the perception that sales will occur, may decrease the market price of our common stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in the sections entitled Summary, Risk Factors, and elsewhere in this prospectus, including the documents that are incorporated by reference as set forth in Where You Can Find More Information, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Forward-looking statements are based on management's beliefs, as well as assumptions made by and information currently available to management. These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, should, intend, expect, plan, anticipate, believe, estimate, predict, potential, or continue terms or other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. The forward looking statements appearing in this prospectus and any documents incorporated by reference are made only as of the date on the front cover of the applicable document. We do not intend to update any of the forward-looking statements after the date of this prospectus or the applicable document to conform them to actual results.

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We will not receive any proceeds from the sale by the selling security holders of the notes and the common stock into which the notes are convertible.

RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended					9 Months
	November 1, 1998	October 31, 1999	October 31, 2000	October 31, 2001	November 3, 2002	Ended August 3, 2003
	Dollars in thousands					
Ratio	7.4	4.0	2.2			
Deficiency of earnings available to cover fixed charges				\$ (3,027)	\$ (5,409)	\$ (47,408)

For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of our pretax income from continuing operations and fixed charges less capitalized interest. Fixed charges consist of interest expense, amortization of debt discount, premium and expense, capitalized interest and a portion of lease payments considered to represent an interest factor.

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DESCRIPTION OF NOTES

The notes were issued under an indenture dated as of April 15, 2003 between Photronics and The Bank of New York, trustee. The notes are covered by a registration rights agreement dated as of April 15, 2003 among us and the initial purchasers listed in that agreement.

The following description is a summary of the material provisions of the notes and the indenture. It does not purport to be complete. This summary is subject to and is qualified by reference to all the provisions of the indenture, including the definitions of certain terms used in the indenture. Wherever particular provisions or defined terms of the indenture or form of note are referred to, these provisions or defined terms are incorporated in this prospectus by reference.

As used in this Description of Notes section, references to Photronics, we, our or us refer solely to Photronics and not to our subsidiaries.

General

On April 15, 2003, we issued \$150,000,000 aggregate principal amount of the notes in a private placement. The notes were issued only in denominations of \$1,000 and multiples of \$1,000. The notes will mature on April 15, 2008 unless earlier converted or redeemed at your option upon a fundamental change.

The notes are general unsecured obligations of Photronics. Our payment obligations under the notes are subordinated to our senior indebtedness as described under Subordination of Notes. The notes are convertible into our common stock as described under Conversion of Notes. We may not redeem the notes prior to maturity.

Neither we nor any of our subsidiaries are subject to any financial covenants under the indenture. In addition, neither we nor any of our subsidiaries are restricted under the indenture from paying dividends, incurring debt or issuing or repurchasing our securities.

You are not afforded protection under the indenture in the event of a highly leveraged transaction or a change in control of us, except to the extent described below under Redemption at Option of the Holder.

The notes bear interest at an annual rate of 2¹/₄% from April 15, 2003. We will pay interest on April 15 and October 15 of each year, beginning October 15, 2003, to record holders at the close of business on the preceding April 1 and October 1, as the case may be.

We pay interest either:

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by check mailed to your address as it appears in the note register, provided that if you are a holder with an aggregate principal amount in excess of \$2.0 million, we will pay you, at your written election, by wire transfer in immediately available funds; or

by transfer to an account maintained by you in the United States.

However, payments to The Depository Trust Company, New York, New York, which we refer to as DTC, will be made by wire transfer of immediately available funds to the account of DTC or its nominee. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

We will maintain an office in the Borough of Manhattan, The City of New York, where we will pay the principal and premium, if any, on the notes and you may present the notes for conversion, registration of transfer and exchange for other denominations. This office will initially be an office or agency of the trustee.

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Conversion of Notes

You may convert your notes, in whole or in part, into shares of our common stock prior to the close of business on the final maturity date of the notes, subject to prior redemption of the notes upon a fundamental change. The initial conversion rate for the notes is equal to 62.9376 shares of common stock per \$1,000 principal amount of notes, subject to adjustment as described below, which represents an initial conversion price of approximately \$15.89 per share.

If you have submitted your notes for redemption upon a fundamental change, you may convert your notes only if you withdraw your redemption election. You may convert your notes in part so long as the part is \$1,000 principal amount or an integral multiple of \$1,000. If any notes are converted during the period after a record date for an interest payment date to, but excluding, the corresponding interest payment date, then the notes must be accompanied by funds equal to the interest payable on that interest payment date on the converted principal amount, unless (1) we have specified a redemption date following a fundamental change during that period or (2) any overdue interest exists at the time of conversion with respect to such notes.

We will not issue fractional shares of common stock upon conversion of notes. Instead, we will pay cash equal to the last reported sale price of the common stock on the Nasdaq National Market on the business day prior to the conversion date. You will not receive any cash payments representing accrued interest upon conversion unless you convert on an interest payment date.

To convert your note into common stock you must do the following (or comply with DTC procedures for doing so in respect of your beneficial interest in notes evidenced by a global note held by DTC) and the date you comply with these requirements is the conversion date under the indenture:

complete and manually sign the conversion notice on the back of the note or facsimile of the conversion notice and deliver this notice to the conversion agent;

surrender the note to the conversion agent;

if required, furnish appropriate endorsements and transfer documents;

if required, pay all transfer or similar taxes; and

if required, pay funds equal to interest payable on the next interest payment date.

We will adjust the conversion rate if any of the following events occurs:

(1) we issue common stock as a dividend or distribution on our common stock;

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(2) we issue to all holders of common stock certain rights or warrants to purchase our common stock at a price per share that is less than the current market price of our common stock, as defined in the indenture;

(3) we subdivide or combine our common stock;

(4) we distribute to all holders of our common stock, shares of our capital stock, evidences of indebtedness or assets, including securities but excluding:

rights or warrants listed in (2) above;

dividends or distributions listed in (1) above; and

cash distributions.

If we distribute capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case, based on the average closing sale prices

