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 February 1, 2004

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	**06-0854886**
(State or other jurisdiction of incorporation of organization)	*(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 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 an accelerated filer (as defined in Rule 126-2 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 March 1, 2004
Common Stock, $0.01 par value	**32,520,286 Shares**

Forward Looking Information

Certain statements in this report are considered "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forward looking statements involve risks and uncertainties. For a description of the factors that could cause the actual results of the Company to be materially different from those projected, please review the Company's SEC reports that detail these risks and uncertainties and the section captioned "Forward Looking Information" contained in the Company's Annual Report on Form 10-K for the year ended November 2, 2003. Any forward looking statements should be considered in light of these factors.

PHOTRONICS, INC.
AND SUBSIDIARIES

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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)

	February 1, 2004	November 2, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$127,702	$214,777
Short-term investments	108,256	17,036
Accounts receivable, net	59,888	59,579
Inventories	13,377	14,329
Deferred income taxes and other current assets	37,167	34,161
Total current assets	346,390	339,882
Property, plant and equipment, net	386,272	387,977
Goodwill and other intangibles, net	118,412	118,892
Other assets	18,566	18,789
	$869,640	$865,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,931	$ 5,505
Accounts payable	36,927	43,997
Other accrued liabilities	28,410	31,871
Total current liabilities	70,268	81,373
Long-term debt	367,838	368,307
Deferred income taxes and other liabilities	56,611	54,723
Minority interest	55,320	52,808
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, 32,520 shares issued and outstanding at February 1, 2004 and 32,487 shares issued and outstanding at November 2, 2003	325	325
Additional paid-in capital	199,992	199,535
Retained earnings	112,343	110,201
Accumulated other comprehensive income (loss)	7,170	(1,732)
Deferred compensation on restricted stock	(227)	-
Total shareholders' equity	319,603	308,329
	$869,640	$865,540

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	February 1, 2004	**February 2, 2003**
Net sales	$90,489	$81,393
Costs and expenses:		
Cost of sales	61,851	63,758
Selling, general and administrative	13,534	14,373
Research and development	7,441	7,619
Operating income (loss)	7,663	(4,357)
Other expenses, net	(2,713)	(3,030)
Income (loss) before income taxes and minority interest	4,950	(7,387)
Income tax provision (benefit)	1,293	(497)
Income (loss) before minority interest	3,657	(6,890)
Minority interest in income of consolidated subsidiaries	(1,515)	(1,597)
Net income (loss)	$ 2,142	$(8,487)
Earnings (loss) per share:		
Basic	$ 0.07	$ (0.26)
Diluted	$ 0.07	$ (0.26)
Weighted average number of common shares outstanding:		
Basic	32,493	32,037
Diluted	32,790	32,037

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended	
	February 1, 2004	**February 2, 2003**
Cash flows from operating activities:		
Net income (loss)	$ 2,142	$(8,487)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,115	22,570
Changes in assets and liabilities:		
Accounts receivable	751	4,083
Inventories	1,206	1,525
Other current assets	(2,820)	(3,365)
Accounts payable and other	(7,096)	(23,108)
Net cash provided by (used in) operating activities	15,298	(6,782)
Cash flows from investing activities:		
Deposits on and purchases of property, plant and equipment	(10,740)	(9,342)
Purchases of investments, net	(91,221)	(497)
Other	638	437
Net cash used in investing activities	(101,323)	(9,402)
Cash flows from financing activities:		
Repayments of long-term debt	(2,082)	(7,533)
Proceeds from issuance of common stock	154	77
Net cash used in financing activities	(1,928)	(7,456)
Effect of exchange rate changes on cash flows	878	1,336
Net decrease in cash	(87,075)	(22,304)
Cash and cash equivalents at beginning of period	214,777	113,944
Cash and cash equivalents at end of period	$127,702	$91,640

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three Months Ended February 1, 2004 and February 2, 2003
(unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

Photronics, Inc. and its subsidiaries (the "Company" or "Photronics") manufacture 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 are used as masters to transfer circuit patterns onto semiconductor wafers during the fabrication of integrated circuits and, to a lesser extent, other types of electrical components. The Company operates principally from nine facilities, three of which are located in the United States, three in Europe and one each in Korea, Singapore and Taiwan.

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 year ending October 31, 2004. Certain amounts in the condensed consolidated financial statements for prior periods have been reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended November 2, 2003.

NOTE 2 - STOCK-BASED COMPENSATION

The Company has several stock option plans under which incentive and non-qualified stock options may be granted. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under this method, stock-based employee compensation cost is reflected in net income (loss) only if options granted under those plans had an exercise price less than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation (in thousands, except per share amounts).

	Three Months Ended	
	February 1, 2004	**February 2, 2003**
Reported net income (loss)	$2,142	$(8,487)
Effect of total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(984)	(1,398)
Pro forma net income (loss)	$1,158	$(9,885)
Earnings (loss) per share:		
Basic and diluted - as reported	$ 0.07	$ (0.26)
Basic and diluted - pro forma	$ 0.04	$ (0.31)

NOTE 3 - COMPREHENSIVE INCOME

The following table summarizes comprehensive income for the three months ended February 1, 2004 and February 2, 2003 (in thousands):

	Three Months Ended	
	February 1, 2004	**February 2, 2003**
Net income (loss)	$ 2,142	$(8,487)
Other comprehensive income:		
Unrealized losses on investments	(9)	(22)
Foreign currency translation adjustments	8,911	9,638
	8,902	9,616
Total comprehensive income	$11,044	$ 1,129

NOTE 4 - EARNINGS (LOSS) PER SHARE

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

A reconciliation of basic and diluted EPS for the three months ended February 1, 2004 and February 2, 2003, respectively, follows (in thousands, except per share amounts):

	Net Income (Loss)	**Average Shares Outstanding**	**Earnings (Loss) Per Share**
2004:			
Basic	$ 2,142	32,493	$ 0.07
Effect of potential dilution from exercise of stock options	-	297	-
Diluted (a)	2,142	32,790	$ 0.07
2003:			
Basic and diluted (b)	$(8,487)	32,037	$(0.26)

(a) The effect of the conversion of the Company's convertible subordinated notes was anti-dilutive for the three months ended February 1, 2004. If the assumed conversion of convertible subordinated notes had been dilutive, the average shares outstanding would have been increased by 16,127 for the three months ended February 1, 2004.

(b) The effect of stock options and the conversion of the Company's convertible notes for the three months ended February 2, 2003 is anti-dilutive. If the assumed exercise of stock options and conversion of convertible subordinated notes had been dilutive, the average shares outstanding would have been increased by 9,794 for the three months ended February 2, 2003.

NOTE 5 - CONSOLIDATION, RESTRUCTURING AND RELATED CHARGES

Since 2001, the Company has closed four manufacturing facilities in North America and one in Europe due in part to the migration of semiconductor manufacturing to Asia, excess capacity, competitive pricing pressures and weakened demand. Decisions regarding which facilities to close were based on sales volume projections, customer base and production qualifications.

In March 2003, the Company implemented a plan to close its Phoenix, Arizona manufacturing facility and further consolidate its North American manufacturing network in order to increase capacity utilization and manufacturing efficiencies. Total consolidation and related charges of $42.0 million were recorded during the second quarter of fiscal 2003. Components of the charge include $3.4 million for workforce reductions of approximately 170 employees in the United States, $4.4 million for facility lease payments, and $34.2 million of non-cash charges for the impairment of the carrying value of fixed assets.

In August 2002, the Company implemented a consolidation plan that included the discontinuation of photomask manufacturing at its Milpitas, California site and a reduction of its workforce of approximately 135 employees in the United States. The total charge associated with this plan was $14.5 million, which included $2.5 million for workforce reductions, $1.5 million for facility lease payments, and $10.5 million of non-cash charges for the impairment of the carrying value of fixed assets.

In April 2001, as part of the Company's final phase of its merger with Align-Rite, the Company initiated a consolidation plan to consolidate its global photomask manufacturing network and reduce its global workforce by approximately 120 employees. The total charge of $38.1 million consisted of non-cash charges of $29.6 million for the impairment of fixed assets and intangible assets, $4.0 million for severance and benefits and $4.5 million for facility closing costs and lease payments.

For these previously announced actions, the Company's restructuring expenditures were $0.7 million and $1.9 million for the three months ended February 1, 2004 and February 2, 2003, respectively. These charges relate to severance and benefits for terminated employees, and non-cancelable facility leases and other payments. From April 2001 through February 1, 2004, the Company had expended, including non-cash charges, approximately $88.0 million.

The following tables sets forth the Company's restructuring reserves as of February 1, 2004 and February 2, 2003 respectively and reflects the activity affecting the reserves for the three months then ended (in thousands):

	Three Months Ended February 1, 2004			
	November 2, 2003 Balance	Charges	Credits	February 1, 2004 Balance
Manufacturing capacity reduction and other	$5,855	-	$(108)	$5,747
Workforce reductions	1,499	-	(628)	871
Total	$7,354	-	$(736)	$6,618

	Three Months Ended February 2, 2003			
	November 3, 2002 Balance	Charges	Credits	February 2, 2003 Balance
Manufacturing capacity reduction and other	$4,268	-	$ (649)	$3,619
Workforce reductions	1,691	-	(1,237)	454
Total	$5,959	-	$(1,886)	$4,073

The Company anticipates that substantially all of the $0.9 million relating to workforce reductions will be paid by the end of the second quarter of fiscal 2004. Non-cancelable lease obligations and other charges of $5.7 million will be paid over the respective lease terms through 2009.

Effective November 4, 2002, the Company adopted SFAS No.'s 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" and 146 "Accounting for Costs Associated with Exit or Disposal Activities." The March 2003 restructuring was accounted for in accordance with SFAS No. 144 and No. 146.

NOTE 6 - INCOME TAXES

The income tax provision (benefit) differs from the amount computed by applying the United States statutory rate of 35 percent to income (loss) before income taxes due to the Company's reduced tax rates in certain Asian jurisdictions and valuation allowances placed on certain deferred tax assets generated by net operating loss carryforwards.

NOTE 7 - RECENT ACCOUNTING PRONOUNCEMENT

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement requires that an issuer classify financial instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. On November 5, 2003, the FASB issued FASB Staff Position (FSP) No. 150-3 which deferred the effective date of SFAS No. 150 indefinitely for certain mandatory redeemable non controlling interests. In addition, on November 7, 2003 the FASB issued FSP No. FAS 150-4, which states that employee stock ownership plan shares (ESOP) which are mandatorily redeemable or free-standing agreements to repurchase ESOP shares are not within the scope of Statement 150. Management has evaluated the provisions of this statement, and does not believe it has an impact on the Company's consolidated financial statements.

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

Overview

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, 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 which has had a significant impact on its net sales and operating results. The Company cannot predict as to when the current downturn will end or that it will not continue to worsen or materially adversely affect its business, financial condition and operating results in the near term.

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, it 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, the Company's business and results of operations would be materially adversely affected. If the Company is unable to anticipate, respond to or utilize these or other changing technologies, due to resource, technological or other constraints, its business and results of operations could be materially adversely affected.

Both revenues and costs have been affected by the increased demand for high-end technology photomasks that require more advanced manufacturing capabilities but generally command higher average selling prices. To meet the technological demands of its customers and position the Company for future growth, the Company continues to make substantial investments in high-end manufacturing capability both at existing and new facilities.

The manufacture of photomasks for use in fabricating integrated circuits and other related products built using comparable photomask-based process technologies has been, and continues to be, capital intensive based upon the need to maintain a technology-based infrastructure. The Company's integrated global manufacturing network and employees, which consists of nine sites, represent a significant portion of its fixed operating cost base. Should sales volumes decrease based upon the flow of design releases from the Company's customers, the Company may have excess and underutilized production capacity that could significantly impact operating margins.

The vast majority of photomasks produced for the semiconductor industry employ geometries of 130 nanometers or larger. At these geometries, the Company can produce full lines of photomasks and there is no significant technology employed by the Company's competitors that is not available to the Company. Very recently, a limited amount of semiconductor fabrication has begun in the 90 nanometer range. The Company is currently capable of producing a broad range of photomasks at these smaller geometries. However, as is typical of industries in the midst of technological change, some of the Company's competitors may be able to achieve higher manufacturing yields than the Company when producing these smaller geometry photomasks, in part because these competitors may have completed more cycles of learning than the Company in this area and in part because of the Company's need to replicate production of these complex photomasks at its four advanced technology locations world-wide. The Company believes that these cases are not material to its business.

Material Changes in Results of Operations
Three Months ended February 1, 2004 versus February 2, 2003

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

	Three Months Ended	
	February 1, 2004	**February 2, 2003**
Net sales	100.0%	100.0%
Cost of sales	68.4	78.3
Gross margin	31.6	21.7
Selling, general and administrative expenses	15.0	17.7
Research and development expenses	8.2	9.4
Operating income (loss)	8.4	(5.4)
Other expense, net	(2.9)	(3.7)
Income (loss) before income tax provision (benefit) and minority interest	5.5	(9.1)
Income tax provision (benefit)	1.4	(0.6)
Minority interest	(1.7)	(1.9)
Net income (loss)	2.4%	(10.4)%

Net sales for the quarter ended February 1, 2004 increased 11.2% to $90.5 million compared with $81.4 million for the corresponding prior year period primarily as a result of increased new design releases, due in part, to improved end user demand, both consumer and corporate, for devices utilizing semiconductors. The increase is also partially attributable to reduced fab closures during the North American, European and Asian holiday periods in 2004 as compared to 2003. By geographic area, net sales in Asia increased $6.9 million or 20.8%, North American sales increased $1.6 million or 4.8% and European sales increased $0.6 million or 4.0%.

Gross margin for the quarter ended February 1, 2004 increased to 31.6% of net sales as compared to 21.7% during the corresponding period last year as a result of the increased revenues coupled with improved utilization of the Company's manufacturing network during the first quarter of 2004. During March 2003, the Company reduced its North American manufacturing capacity with the closure of its Phoenix, Arizona manufacturing facility and additional consolidation of its North American manufacturing network.

Selling, general and administrative expenses decreased $0.9 million to $13.5 million for the quarter ended February 1, 2004, compared with $14.4 million for the same period in the prior fiscal year. As a percentage of net sales, selling, general and administrative expenses decreased to 15.0% as compared to 17.7% for the same period in the prior fiscal year. The decreased selling, general and administrative expenses were primarily attributable to reduced salaries and wages and facility costs associated with the Company's March 2003 consolidation initiatives.

Research and development expenses for the quarter ended February 1, 2004 decreased 2.3% to $7.4 million compared with $7.6 million for the same period in the prior fiscal year. Research and development expenditures include costs associated with the development of 90 and 65 nanometer process technologies. Research and development was 8.2% of net sales for the quarter ended February 1, 2004, compared to 9.4% in the corresponding prior year period.

Operating income (loss) for North America, Europe and Asia was $(742), $111 and $8,294, respectively, for the quarter ended February 1, 2004, and $(11,147), $1,019 and $5,771, respectively, for the quarter ended February 2, 2003.

Net other expense was $2.7 million for the quarter ended February 1, 2004, as compared to $3.0 million for the quarter ended February 2, 2003. The decrease is primarily associated with decreased borrowing costs and increased investment income. Net other expense is primarily comprised of interest expense, interest income and foreign currency gains or losses.

The provision for income taxes for the quarter ended February 1, 2004 was $1.3 million as compared to a benefit of $0.5 million for the quarter ended February 2, 2003. The effective income tax rate of 37% resulted from taxes incurred on income generated in taxable jurisdictions that were partially offset by the Company's inability to record additional deferred tax benefits for net operating losses in the United States. The Company's operations have followed the recent migration of semiconductor industry fabrication to Asia, where the Company operates in countries where it is accorded favorable tax jurisdictions. The Company is accorded tax holidays in Taiwan and Singapore, which expire in 2006 and 2005, respectively. In Korea, various investment tax credits have been utilized to reduce the Company's effective income tax rate.

Minority interest of $1.5 million for the three months ended February 1, 2004 and $1.6 million for February 2, 2003, reflects the minority interest in earnings of the Company's non-wholly owned subsidiaries in Taiwan and Korea.

Liquidity and Capital Resources

The Company's working capital at February 1, 2004 was $276.1 million compared with $258.5 million at November 2, 2003. Cash, cash equivalents and short-term investments at February 1, 2004 were $236.0 million compared to $231.8 million at November 2, 2003. Cash provided by operating activities was $15.3 million for the quarter ended February 1, 2004 as compared to $6.8 million used in operating activities for the same period last year. This increase was primarily due to the net income generated during the first quarter of 2004 as compared to an incurred net loss during the first quarter of 2003 coupled with decreased progress payments to vendors, primarily for equipment purchased in 2002. Cash used in investing activities was $101.3 million, which includes increased short-term investments of $91.2 million and capital expenditures of $10.7 million, for the quarter ended February 1, 2004.

The Company has a credit agreement, that expires in July 2005, with a group of financial institutions that provides for a revolving credit facility with an aggregate commitment of $100 million. The credit facility allows for borrowings in various currencies with an interest rate that is based on the terms of the agreement and will vary based on currencies borrowed and market conditions. The facility fee is 0.4% of the total aggregate commitment. The credit facility agreement contains various financial and other covenants, including, but not limited to: Defined maximum ratio of senior funded debt to EBITDA, Minimum EBITDA to interest expense, Minimum consolidated net worth and cash balances, Limitation on cash dividends available for payment to shareholders and Annual capital expenditures. As of February 1, 2004, approximately $82 million was available under the facility.

The Company's commitments represent investments in additional manufacturing capacity as well as advanced equipment for the production of high-end photomasks. At February 1, 2004, Photronics had commitments outstanding for capital expenditures of approximately $35.0 million. Additional commitments for capital expenditures are expected to be incurred during the remainder of fiscal 2004. The Company expects capital expenditures for fiscal 2004 to be approximately $75.0 to $85.0 million. The Company will continue to use its working capital to finance its capital expenditures. Photronics believes that its currently available resources, together with its capacity for growth and its access to other debt and equity financing sources, are sufficient to satisfy its currently planned capital expenditures, as well as its anticipated working capital requirements for the foreseeable future.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

The following table quantifies the Company's future contractual obligations and commercial commitments as of February 1, 2004 (in millions):

Contractual Obligations

	Payments Due in Fiscal				
	Total	**2004**	**2005 & 2006**	**2007 & 2008**	**Thereafter**
Long-term debt	$372.8	$ 4.9	$15.3	$352.6	$ -
Operating leases	6.6	1.5	3.7	1.0	0.4
Unconditional purchase obligations	46.3	39.4	6.9	-	-
Total	$425.7	$45.8	$25.9	$353.6	$0.4

Application of Critical Accounting Procedures

The Company's consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. The Company believes that the following are some of the more critical judgment areas in the application of the Company's accounting policies that affect its financial condition and results of operations.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in them. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The Company's estimates are based on the facts and circumstances available at the time; different reasonable estimates could have been used in the current period, and changes in the accounting estimates used are likely to occur from period to period, which may have a material impact on the presentation of the Company's financial condition and results of operations. Actual results reported by the Company may differ from such estimates. The Company reviews these estimates periodically and reflects the effect of revisions in the period that they are determined.

Derivative Instruments and Hedging Activities

The Company records derivatives on the condensed consolidated balance sheets as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives are reported in the condensed consolidated statements of operations or as accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge. The Company uses judgment in assessing the fair value of derivatives and related financial instruments including assumptions utilized in derivative fair value models in such areas as projected interest rates and changes in the Company's stock price during the contract term.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and amortization. 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 removed from the accounts, and any resulting gain or loss is reflected in operations.

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. Judgment and assumptions are used in establishing estimated useful lives and depreciation periods. The Company also uses judgment and assumptions as it periodically reviews property, plant and equipment for any potential impairment in carrying values whenever events such as a significant industry downturn, plant closures, technological obsolescence or other changes in circumstances indicate that their carrying amount may not be recoverable. Actual fair values may differ from estimated fair values.

Intangible Assets

Intangible assets consist primarily of goodwill and other acquisition-related intangibles, and software development costs. These assets are stated at fair value as of the date acquired less accumulated amortization. Amortization is calculated on a straight-line basis over an estimated useful life of 5 years for software development costs and, prior to November 1, 2001, 3 to 15 years for goodwill and acquisition-related assets. As a result of the adoption of SFAS No. 142, goodwill is no longer amortized, but the future economic benefit of the carrying value of all intangible assets is reviewed annually and whenever events or changes in circumstances indicate the carrying value of an intangible asset may not be recoverable based on discounted cash flows or market factors, an impairment loss would be recorded in the period so determined.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on the Company's estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Income Taxes

The income tax provision (benefit) is computed on the basis of consolidated financial statement income or loss before income taxes. Deferred income taxes reflect the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In the event the Company determines that future taxable income is not expected to be sufficient, the Company uses judgment and assumptions to determine if valuation allowances for deferred income tax assets are required by considering future market growth, forecasted operations, future taxable income, and the mix of earnings in the tax jurisdictions in which it operates in order to determine the need for a valuation allowance.

The Company considers income taxes in each of the tax jurisdictions in which it operates in order to determine its effective income tax rate. Current income tax exposure is identified along with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. The actual annual amount of taxable income in each tax jurisdiction may differ from the estimates used to compute the effective income tax rate during the first, second and third quarters. Additionally, the Company evaluates the recoverability of deferred income tax assets from future taxable income and establishes valuation allowances if recovery is deemed not likely. Accordingly, the income tax provision in the consolidated statements of operations is impacted by changes in the valuation allowance. Significant management estimates and judgment are required in determining any valuation allowance recorded against net deferred tax assets.

Revenue Recognition

The Company recognizes revenue upon shipment of goods to customers. The Company makes estimates and assumptions and uses judgment relating to discounts and estimates for product return and warranties, which are accrued and recognized at the time of sale.

Discounts - Sales discounts are negotiated with customers prior to billing and at the time of billing, sales invoices are prepared net of negotiated sales discounts.

Product Returns - Customer returns have historically been insignificant. However, the Company does record a liability for the insignificant amount of estimated sales returns based upon historical experience.

Warranties and Other Post Shipment Obligations - For a 30-day period, the Company warrants that items sold will conform to customer specification. However, the Company's liability is limited to repair or replacement of the photomasks at its sole option. The Company inspects photomasks for conformity to customer specifications prior to shipment. Accordingly, customer returns of items under warranty have historically been insignificant. However, the Company records a liability for the insignificant amount of estimated warranty returns based on historical experience. The Company's specific return policies include accepting returns for products with defects, or products that have not been produced to precise customer specifications. At the time of shipment, a liability is established for these items.

Customer Acceptance - As title and risk of loss pass upon delivery to common carriers or hand delivery to the customer, customer acceptance occurs concurrently with delivery.

Arrangements with Distributors - The Company does not sell to distributors.

Allowance for Doubtful Accounts - The Company is required to use considerable judgment in estimating the collectibility of its accounts receivable. This estimate is based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, significant one-time events, and historical experience.

Effect of New Accounting Standards

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement requires that an issuer classify financial instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. On November 5, 2003, the FASB issued FAS 150-3 which deferred the effective date of SFAS No. 150 indefinitely for certain mandatory redeemable non-controlling interests. In addition, on November 7, 2003 the FASB issued FSP No. FAS 150-4, which states that employee stock ownership plan shares (ESOP) which are mandatorily redeemable or free-standing agreements to repurchase ESOP shares are not within the scope of Statement 150. Management has evaluated the provisions of this statement, and does not believe it has an impact on the Company's condensed consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company records derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of these derivatives are reported in the statement of operations or as accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge. In general, the types of risks hedged are those relating to the variability of future cash flows caused by movements in foreign currency exchange rates. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge.

In the fourth quarter of fiscal year 2002, the Company entered into an interest rate swap contract, which effectively converted $100 million of its 4.75% fixed rate convertible subordinated notes to a variable rate. Contract payments are made on a LIBOR based variable rate (2.45% at February 1, 2004) and are received at the 4.75% fixed rate.

The interest rate swap contract is used to adjust the proportion of total debt that is subject to fixed interest rates. This contract is considered to be a hedge against interest rate risk of the Company's fixed rate debt obligation. Accordingly, the contract has been reflected at fair value in the Company's consolidated balance sheets and the related portion of fixed rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligation attributable to the interest rate risk being hedged. In addition, changes during any accounting period in the fair value of the contract, as well as offsetting changes in the adjusted carrying value of the related portion of fixed rate debt being hedged, are recognized as adjustments to interest expense in the Company's consolidated statements of operations. The net effect of this accounting on the Company's operations results is that the interest expense portion of fixed rate debt being hedged is generally recorded based on variable rates. At this time, the Company does not have plans to enter into additional interest rate swap contracts, however, at a future point the Company may decide to do so.

Foreign Currency Exchange Rate Risk

The Company conducts business in several major international currencies through its worldwide operations and is subject to changes in foreign exchange rates of such currencies. Changes in exchange rates can positively or negatively affect the Company's sales, operating margins and retained earnings. The functional currencies of the Company's Asian subsidiaries are the Korean won, New Taiwan dollar and Singapore dollar. The functional currencies of the Company's European subsidiaries are the British pound and euro.

The Company attempts to minimize its risk to foreign currency transaction losses by producing its products in the same country in which the products are sold and thereby generating revenues and incurring expenses in the same currency and by managing its working capital. However, there can be no assurance that this approach will be successful, especially in the event of a significant adverse movement in the value of any foreign currencies against the United States dollar. The Company does not engage in purchasing forward exchange contracts for speculative purposes.

The Company's primary net foreign currency exposures as of February 1, 2004 included the Korean won, Singapore dollar and the British pound. As of February 1, 2004, a 10% adverse movement in the value of these currencies against the United States dollar would have resulted in a net unrealized pre-tax loss of $3.9 million. The Company's exposure to other foreign currency risks include the Japanese yen and the euro. The Company does not believe that a 10% change in the exchange rates of these currencies would have a material effect on its consolidated financial position, results of operations or cash flows.

Interest Rate Risk

The majority of the Company's borrowings are in the form of its convertible subordinated notes, which bear interest at rates of 2.25% and 4.75% and certain foreign secured and unsecured notes payable which bear interest at rates between 1.7% and 6.5%. In addition, the interest rate swap contract discussed above subjects the Company to market risk as interest rates fluctuate and impacts the interest payments due on the $100 million notional amount of the contract. At February 1, 2004, the Company had approximately $120 million in variable rate financial instruments which were sensitive to interest rate risk. The Company does not believe a 10% change in interest rates would have a material effect on its consolidated financial position, results of operations or cash flows.

Item 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer have concluded that, as of the end of the first fiscal quarter of 2004, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Securities Exchange Act of 1934, as amended.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	**Description**
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

(i) Form 8-K filed November 13, 2003.
Form 8-K filed December 10, 2003.

SIGNATURES

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

Photronics, Inc.
(Registrant)

By: /s/ SEAN T. SMITH

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

Date: March 15, 2004