SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2005

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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

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

Class	Outstanding at September 1, 2005
Common Stock, $0.01 par value	**41,269,072 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 October 31, 2004. Any forward looking statements should be considered in light of these factors.

PHOTRONICS, INC.
AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except per share amounts)

	July 31, 2005	October 31, 2004
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 233,391	$142,300
Short-term investments	82,420	84,628
Accounts receivable, net	70,641	68,737
Inventories	16,843	16,066
Deferred income taxes and other current assets	39,879	33,995
Total current assets	443,174	345,726
Property, plant and equipment, net	416,729	396,461
Goodwill	136,396	115,906
Other assets	8,231	14,778
	$1,004,530	$872,871
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 12,668	$ 3,018
Accounts payable	50,046	57,746
Other accrued liabilities	29,796	29,900
Total current liabilities	92,510	90,664
Long-term debt	249,410	315,888
Deferred income taxes and other liabilities	50,175	52,122
Minority interest	55,547	64,724
Shareholders' equity:		
Preferred stock, $0.01 par value, 2,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.01 par value, 150,000 shares authorized, 41,213 shares issued and outstanding at July 31, 2005 and 32,690 shares issued and outstanding at October 31, 2004	412	327
Additional paid-in capital	373,067	202,313
Retained earnings	164,580	134,667
Accumulated other comprehensive income	18,862	12,166
Deferred compensation on restricted stock	(33)	-
Total shareholders' equity	556,888	349,473
	$1,004,530	$872,871

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Income

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Nine Months Ended	
	July 31, 2005	**August 1, 2004**	**July 31, 2005**	**August 1, 2004**
Net sales	$114,901	$103,728	$328,977	$291,384
Costs and expenses:				
Cost of sales	75,350	66,485	218,990	192,469
Selling, general and administrative	13,762	13,519	40,001	40,350
Research and development	7,908	7,619	23,803	22,553
Operating income	17,881	16,105	46,183	36,012
Other income (expense), net				
Interest expense	(2,820)	(3,422)	(8,307)	(11,336)
Investment and other income, net	4,773	822	5,179	3,352
Income before income taxes and minority interest	19,834	13,505	43,055	28,028
Income tax provision	3,596	1,494	8,048	4,018
Income before minority interest	16,238	12,011	35,007	24,010
Minority interest	(1,443)	(3,571)	(5,093)	(7,443)
Net income	$ 14,795	$ 8,440	$ 29,914	$ 16,567
Earnings per share:				
Basic	$0.42	$0.26	$0.89	$0.51
Diluted	$0.35	$0.23	$0.77	$0.47
Weighted average number of common shares outstanding:				
Basic	35,295	32,579	33,605	32,533
Diluted	45,269	42,188	43,320	42,360

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended	
	July 31, 2005	**August 1, 2004**
Cash flows from operating activities:		
Net income	$ 29,914	$ 16,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,406	64,027
Changes in assets and liabilities:		
Accounts receivable	(389)	(7,919)
Inventories	(46)	1,455
Other current assets	(5,455)	(654)
Accounts payable and other	16,231	(3,864)
Net cash provided by operating activities	104,661	69,612
Cash flows from investing activities:		
Purchases of property, plant and equipment	(89,122)	(40,997)
Acquisition of additional interest in PK Ltd.	(40,350)	-
Sales (purchases) of short-term investments, net	2,895	(91,409)
Other	-	608
Net cash used in investing activities	(126,577)	(131,798)
Cash flows from financing activities:		
Repayments of long-term debt	(56,200)	(14,408)
Net proceeds from issuance of common stock	162,905	-
Proceeds from exercised stock options	6,651	1,414
Net cash provided by (used in) financing activities	113,356	(12,994)
Effect of exchange rate changes on cash flows	(349)	2,283
Net increase (decrease) in cash and cash equivalents	91,091	(72,897)
Cash and cash equivalents at beginning of period	142,300	214,777
Cash and cash equivalents at end of period	$233,391	$141,880
Supplemental disclosure of cash flow information:		
Interest payments	$ 6,725	$10,168
Income tax payments	$ 5,958	$ 4,048
Change in accrual for purchases of property, plant and equipment	$(14,049)	$11,839

See accompanying notes to condensed consolidated financial statements.

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

Photronics, Inc. and its subsidiaries (the "Company" or "Photronics") is one of the world's leading manufacturers of photomasks, which are high precision photographic quartz plates containing microscopic images of electronic circuits. Photomasks are a key element in the manufacture of semiconductors and flat panel displays (FPD), and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits (IC) and a variety of FPD and, to a lesser extent, other types of electrical and optical components. The Company operates principally from nine manufacturing facilities, three of which are located in the United States, three in Europe, and one each in Korea, Singapore and Taiwan.

During the period ended July 31, 2005, the Company determined that acquisitions of property, plant and equipment on account, which were previously reported as a component of changes in operating assets and liabilities and purchases of property, plant and equipment, should not have been reported in the statements of cash flows. The Company's financial statements for the nine months ended August 1, 2004 have been revised to reflect a decrease in cash flows provided by operating activities with a corresponding decrease in cash flows used in investing activities of $11.8 million. Purchases of property, plant and equipment acquired on account have now been presented as supplemental disclosure of non-cash items. This revision has no effect on net income or the amount of cash and cash equivalents reported.

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 30, 2005. Certain amounts in the condensed consolidated financial statements for prior periods have been reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2004.

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 (APB) 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 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 Company uses the Black-Scholes-Merton model to calculate the fair value of stock-based compensation for pro forma disclosure purposes. The following table illustrates the effect on net income and earnings 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		**Nine Months Ended**	
	July 31, 2005	**August 1, 2004**	**July 31, 2005**	**August 1, 2004**
Reported net income	$14,795	$8,440	$29,914	$16,567
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(2,691)	(496)	(5,712)	(1,788)
Pro forma net income	$12,104	$7,944	$24,202	$14,779
Earnings per share:				
Basic earnings per share:				
As reported	$0.42	$0.26	$0.89	$0.51
Pro forma	$0.34	$0.24	$0.72	$0.45
Diluted earnings per share:				
As reported	$0.35	$0.23	$0.77	$0.47
Pro forma	$0.29	$0.21	$0.63	$0.43

In December 2004, the FASB issued SFAS No. 123, "Share-Based Payments (revised 2004)," (SFAS No. 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of APB Opinion No. 25 to stock compensation awards issued to employees. Rather this statement requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). SFAS No. 123R will also require companies to measure the cost of employee services received in exchange for Employee Stock Purchase Plan (ESPP) awards and the Company will be required to expense the grant date fair value of the Company's ESPP awards. On April 14, 2005, the Securities and Exchange Commission deferred the effective date of SFAS No. 123R for certain companies, thereby deferring the effective date for the Company from its quarter beginning August 1, 2005 to its quarter beginning October 31, 2005. Based on the number of stock options outstanding as of July 31, 2005, the effect of the adoption of SFAS No. 123R would be to increase compensation expense by approximately $0.3 million in the Company’s fiscal quarter beginning October 31, 2005.

NOTE 3 - COMPREHENSIVE INCOME

The following table summarizes comprehensive income for the three and nine months ended July 31, 2005 and August 1, 2004 (in thousands):

	Three Months Ended		Nine Months Ended	
	July 31, 2005	August 1, 2004	July 31, 2005	August 1, 2004
Net income	$14,795	$8,440	$29,914	$16,567
Other comprehensive income:				
Change in unrealized net gains (losses) on investments, net of tax	556	(869)	174	(1,365)
Foreign currency translation adjustments	(4,010)	(1,143)	6,522	5,608
	(3,454)	(2,012)	6,696	4,243
Total comprehensive income	$11,341	$6,428	$36,610	$20,810

NOTE 4 - EARNINGS PER SHARE

The calculation of basic earnings per common share and diluted earnings per common share is presented below (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	July 31, 2005	August 1, 2004	July 31, 2005	August 1, 2004
Net income	$14,795	$8,440	$29,914	$16,567
Effect of dilutive securities:				
Interest expense on convertible notes, net of related tax effect	1,086	1,086	3,257	3,257
Earnings for diluted earnings per share	$15,881	$9,526	$33,171	$19,824
Weighted average common shares computations:				
Weighted average common shares used for basic earnings per share	35,295	32,579	33,605	32,533
Effect of dilutive securities:				
Convertible notes	9,441	9,441	9,441	9,441
Employee stock options	533	168	274	386
Dilutive potential common shares	9,974	9,609	9,715	9,827
Weighted average common shares used for diluted earnings per share	45,269	42,188	43,320	42,360
Basic earnings per share	$0.42	$0.26	$0.89	$0.51
Diluted earnings per share	$0.35	$0.23	$0.77	$0.47

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

	Three Months Ended		Nine Months Ended	
	July 31, 2005	**August 1, 2004**	**July 31, 2005**	**August 1, 2004**
Convertible notes	2,705	5,304	2,904	5,372
Employee stock options	609	1,203	839	841
Total potentially dilutive shares excluded	3,314	6,507	3,743	6,213

NOTE 5 - INVESTMENTS

Investments, comprised of fixed income bonds and marketable equity securities, are classified as available-for-sale, and are carried at fair value based on quoted market prices. Investments available for current operations are classified in the condensed consolidated balance sheets as current assets, investments held for long-term purposes are included in "Other Assets." Unrealized gains (losses) on investments are as follows (in thousands):

	July 31, 2005	**October 31, 2004**
Fair value		
Short-term debt investments	$75,980	$78,764
Short-term equity fund	6,440	5,864
Long-term equity investments	2,251	2,910
Total fair value	84,671	87,538
Cost		
Short-term debt investments	76,248	78,966
Short-term equity fund	5,000	5,000
Long-term equity investments	135	667
Total cost	81,383	84,633
Unrealized gain (loss)		
Short-term debt investments	(268)	(202)
Short-term equity fund	1,440	864
Long-term equity investments	2,116	2,243
Total unrealized gain, net	3,288	2,905
Less deferred income taxes	1,314	1,105
Net unrealized gains	$ 1,974	$ 1,800

NOTE 6 - 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 and competitive pricing pressures. 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 $0.5 million and $1.8 million for the three and nine months ended July 31, 2005 respectively, and $0.5 million and $1.9 million for the three and nine months ended August 1, 2004, respectively. These payments relate to severance and benefits for terminated employees, and non-cancelable facility leases and other payments. From April 2001 through July 31, 2005, the Company had expended, including non-cash charges, approximately $91.6 million.

The following tables set forth the Company's restructuring reserve as of July 31, 2005 and reflects the activity affecting the reserve for the three and nine months then ended (in thousands):

	Three Months Ended July 31, 2005		
	May 1, 2005	**Costs Paid**	**July 31, 2005**
Manufacturing capacity reduction and other	$3,482	$(518)	$2,964

	Nine Months Ended July 31, 2005		
	October 31, 2004	**Costs Paid**	**July 31, 2005**
Manufacturing capacity reduction and other	$4,717	$(1,753)	$2,964

As of July 31, 2005, "manufacturing capacity reduction and other" of $3.0 million primarily represents non-cancelable lease obligations that will be paid over the respective lease terms through 2009.

The following table sets forth the Company's restructuring reserve as of August 1, 2004 and reflects the activity affecting the reserve for the three and nine months ended August 1, 2004 (in thousands):

	Three Months Ended August 1, 2004		
	May 2, 2004	**Costs Paid**	**August 1, 2004**
Manufacturing capacity reduction and other	$5,646	$(195)	$5,451
Workforce reductions	333	(333)	-
Total	$5,979	$(528)	$5,451

	Nine Months Ended August 1, 2004		
	November 2, 2003	**Costs Paid**	**August 1, 2004**
Manufacturing capacity reduction and other	$5,855	$ (404)	$5,451
Workforce reductions	1,499	(1,499)	-
Total	$7,354	$(1,903)	$5,451

NOTE 7 - SEGMENT INFORMATION

The Company operates in a single industry segment as a manufacturer of photomasks, which are high precision photographic quartz plates containing microscopic images of electronic circuits for use in the fabrication of semiconductors and FPD. The Company's net sales, operating income (loss) and identifiable assets by geographic area as of and for the three and nine months ended July 31, 2005 and August 1, 2004 were as follows (in thousands):

	Three Months		Nine Months		As of July 31, 2005
	Net Sales	Operating Income	Net Sales	Operating Income (Loss)	Total Assets
July 31, 2005:					
North America	$ 36,155	$ 1,498	$103,518	$ (447)	$ 542,121
Europe	18,584	2,335	56,445	7,231	109,256
Asia	60,162	14,048	169,014	39,399	353,153
	$114,901	$17,881	$328,977	$46,183	$1,004,530

	Three Months		Nine Months		As of August 1, 2004
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)	Total Assets
August 1, 2004:					
North America	$ 34,857	$ (714)	$106,210	$(1,488)	$484,558
Europe	18,019	1,836	51,237	4,196	113,423
Asia	50,852	14,983	133,937	33,304	284,117
	$103,728	$16,105	$291,384	$36,012	$882,098

NOTE 8 - INCOME TAXES

The income tax provision differs from the amount computed by applying the United States statutory rate of 35% to income 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 carry forwards.

The American Jobs Creation Act (AJCA) was signed into law on October 22, 2004. The AJCA includes a provision for an 85% deduction for the repatriation of certain foreign earnings. The Company may elect to apply this provision to qualifying earnings repatriations in fiscal 2005. Currently, the Company is reviewing the published guidance and expects to complete its evaluation within a reasonable period of time following the issuance of final guidance. The range of possible amounts that the Company is considering for repatriation is between zero and $134 million. The related potential range of income tax effects is estimated to be between zero and $24 million taking into account the Company’s tax attributes.

NOTE 9 - ACQUISITION OF ADDITIONAL SHARES OF PK LTD.

During the first quarter of fiscal 2005, Photronics invested $40.4 million to purchase 5.4 million additional shares of PK Ltd. (PKL), its non-wholly owned subsidiary in Korea. This transaction increased the Company's ownership in PKL by 15%, resulting in a total ownership of 90%. As the Company previously consolidated PKL, the additional incremental ownership has been initially allocated to goodwill with a reduction in minority interests. The Company is in the process of analyzing fair value attributes of the additional ownership.

On August 5, 2005, Photronics announced a tender offer to acquire all the remaining shares of PKL which the Company did not previously own. On September 6, 2005, additional shares acquired under this tender offer increased the Company's ownership in PKL to 96.5%, for approximately 18.1 billion Korean won (approximately US $17.4 million).

NOTE 10 - REDEMPTIONS OF SUBORDINATED CONVERTIBLE NOTES AND EXPIRATION OF CREDIT FACILITY

On April 14, 2005 and November 10, 2004, the Company redeemed $10.0 million and $41.4 million, respectively, of its outstanding 4.75% subordinated convertible notes, resulting in an early extinguishment charge recorded in other income (expense), net, in the condensed consolidated statement of operations of $1.6 million for the nine month period ended July 31, 2005. These redemptions resulted in a total principal balance outstanding of its 4.75% subordinated convertible notes after the redemptions of $100.1 million as of July 31, 2005.

On August 23, 2005, the Company redeemed an additional $13.0 million of its outstanding 4.75% subordinated convertible notes and incurred an early extinguishment charge of $0.3 million (recorded in the fourth quarter of fiscal year 2005), resulting in a total principal balance outstanding of $87.1 million after the redemption.

The Company's $100 million revolving credit facility expired in July 2005 and was not renewed.

NOTE 11 - COMMON STOCK OFFERING

In July 2005, the Company issued 8,050,000 shares of its common stock in a public offering at a price of $21.25 per share. Net of underwriting fees and other offering costs, the Company's net proceeds under the offering were approximately $162.9 million.

NOTE 12 - OTHER RECENT ACCOUNTING PRONOUNCEMENTS

In November of 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4." The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated as current period costs, regardless if they meet the criteria of "so abnormal." In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provision of this statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The early adoption of SFAS 151 did not have a material impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier application permitted. The Company is evaluating SFAS No. 153, and does not believe it will have a material impact on its 2005 consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143." FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company is currently analyzing FIN 47 and does not believe the adoption of FIN 47 will have a material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154) which supersedes APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It established, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retroactively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154, which is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on its consolidated financial statements.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Overview

Management's discussion and analysis of the Company's financial condition, business results and outlook should be read in conjunction with its condensed consolidated financial statements and related notes. Various segments of this MD&A do contain forward looking statements, all of which are presented based on current expectations and may be adversely affected by uncertainties and risk factors presented throughout this filing and the Company's Annual Report on Form 10-K for the 2004 fiscal year, leading actual results to materially differ from these expectations.

The Company sells the majority of its photomasks to semiconductor designers and manufacturers. Further, photomask technology is also used in the fabrication of higher performance electronic products such as flat panel displays (FPD), micro-electronic mechanical systems and certain nanotechnology applications. Thus, the Company's selling cycle is tightly interwoven with the development and release of new semiconductor designs and flat panel applications, particularly as it relates to these customers' migration to more advanced design methodologies and fabrication processes. The Company believes that the demand for photomasks primarily depends on design activity rather than sales volumes from products produced using photomask technologies. 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 (IC), 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 design and production methods for semiconductors and other high performance electronics 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.

At this time, state-of-the-art for IC and FPD masks are considered to be 65 nanometer and G6 - G7 process technology, respectively, while 90 nanometer is in the early stages of being moved into volume production; currently 130 and 180 nanometer and G3 through G5 process technology for FPD constitute the majority of designs being fabricated in volume. The Company expects there to be a steady increase in 130 nanometer designs moving to wafer fabrication into fiscal 2006 and believes it is well positioned to service an increasing volume of this business through investments in manufacturing processes and technology in the global regions where its customers are located. Recently, the Company has experienced growth in demand for FPD photomasks, which it currently supplies to customers from its existing facility in Korea. The Company is commencing construction on two new photomask facilities, one in Taichung, Taiwan and one in Shanghai, China. The Company's new facility in Taiwan will be able to serve the demand for large area mask solutions to support Taiwan's expanding FPD fabrication industry. Completion of these facilities is expected in 2006.

In addition to its cyclical nature, the global semiconductor industry experienced tremendous technology-based difficulties in transitioning from the 180 nanometer process node to the 130 nanometer process node. The Company believes that these technological issues have been addressed, as seen by improving yields and utilization rates in the Company's mask fabrication facilities and its customers' wafer fabrication facilities. End markets leading the global semiconductor industry out of a downturn in 2004 have been closely tied to consumer driven applications for high performance semiconductor devices, including, but not limited to, communications and mobile computing solutions. The Company cannot predict the degree of difficulty in future process node transitions; the timing of the industry's transition to volume production of next generation technology nodes; or the timing of up and down cycles with precise accuracy, but believes that such transitions and cycles will continue into the future, which could affect its business, financial condition and operating results in the near term. The Company's ability to remain successful in these environments is based upon achieving its goals of being a service and technology leader, an efficient solutions supplier, and a company able to continually reinvest in its global infrastructure.

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 and FPD sizes larger and resolution improved, it will be required to manufacture increasingly 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 manufacturing (which could affect the type or quantity of photomasks utilized), such as changes in semiconductor and FPD demand that favor field programmable gate arrays and other semiconductor designs that replace application-specific IC. Through the first nine months of fiscal 2005, 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 certain types or all photomasks entirely. Through the first nine months of fiscal 2005, 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 other alternative methods of transferring IC 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. Property, plant and equipment capitalized for new facilities and equipment to support its customers' requirements for high technology products was an aggregate of approximately $254 million for the three fiscal years ended October 31, 2004, plus $75.1 million during the first nine months of fiscal 2005. Based on the anticipated technological changes in the industry, the Company expects these trends to continue. The Company anticipates capital expenditures to be in the range of $110 million to $125 million for the fiscal year ending October 30, 2005.

The manufacture of photomasks for use in fabricating IC 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 consist 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.

Currently, the vast majority of photomasks produced for the semiconductor industry employ geometries of 130 nanometers or larger. In the FPD market, the majority of photomasks produced are to support Generation 3 to Generation 5 processes. At these technologies, 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. Recently, a limited amount of semiconductor fabrication has begun utilizing 90 nanometer and Generation 6 and Generation 7 processes. The Company is currently capable of producing a broad range of photomasks at still smaller geometries, and has begun accelerating its efforts to support the development and production of photomasks for both the 65 nanometer and 45 nanometer technology nodes in semiconductors and Generation 8 in FPD. 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 more complex 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 and Nine Months ended July 31, 2005 versus August 1, 2004

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

	Three Months Ended		Nine Months Ended	
	July 31, 2005	August 1, 2004	July 31, 2005	August 1, 2004
Net sales	100%	100%	100%	100%
Cost of sales	65.6	64.1	66.6	66.1
Gross margin	34.4	35.9	33.4	33.9
Selling, general and administrative expenses	12.0	13.0	12.2	13.8
Research and development expenses	6.9	7.3	7.2	7.7
Operating income	15.5	15.6	14.0	12.4
Other income (expense), net	1.7	(2.5)	(1.0)	(2.7)
Income before income taxes and minority interest	17.2	13.0	13.0	9.7
Income tax provision	3.1	1.5	2.4	1.4
Minority interest	(1.2)	(3.4)	(1.5)	(2.6)
Net income	12.9%	8.1%	9.1%	5.7%

Note: All of the following tabular comparisons, unless otherwise indicated, are for the quarters ended July 31, 2005 (Q3 2005) and August 1, 2004 (Q3 2004) and for the nine months ended July 31, 2005 (YTD 2005) and August 1, 2004 (YTD 2004) in millions:

Net Sales

	Three Months Ended			Nine Months Ended		
	Q3 2005	Q3 2004	Percent Change	YTD 2005	YTD 2004	Percent Change
Net sales	$114.9	$103.7	10.8%	$329.0	$291.4	12.9%

Net sales for the three months ended July 31, 2005 increased 10.8% to $114.9 million as compared to $103.7 million for the three months ended August 1, 2004. Sales increased for photomasks used for both IC and FPD (which typically have higher average selling prices than IC photomasks) as a result of increased design releases for IC photomasks and improved FPD revenue associated with increased demand for FPD. The increase in sales is also related to an improved high-end mix which is defined as mask sets for semiconductor designs at and below 130 nanometer, and for FPD sets utilizing G6 and G7 technology. By geographic area, net sales in Asia increased $9.3 million or 18.3%, North American sales increased $1.3 million or 3.7% and European sales increased $0.6 million or 3.1%.

Net sales for the nine months ended July 31, 2005 increased 12.9% to $329.0 million as compared to $291.4 million for the nine months ended August 1, 2004. The increase is a result of increased sales of FPD photomasks and improved design releases for IC photomasks associated with the improved semiconductor market during fiscal 2005.

Gross Margin

	Three Months Ended			Nine Months Ended		
	Q3 2005	**Q3 2004**	**Percent Change**	**YTD 2005**	**YTD 2004**	**Percent Change**
Gross margin	$39.6	$37.2	6.2%	$110.0	$98.9	11.2%
Percentage to sales	34.4%	35.9%		33.4%	33.9%	

Gross margin was 34.4% and 33.4% of net sales for the three and nine months ended July 31, 2005 and 35.9% and 33.9% for the three and nine months ended August 1, 2004. The gross margin did not experience an increase in fiscal 2005 that would typically result from increase revenue as compared to the respective prior year periods as a result of increased infrastructure costs associated with expansion of the Company's manufacturing base, primarily related to additional costs of equipment and production capability in Asia. To a lesser extent, gross margin was impacted in 2005 by increased material costs associated with increased FPD sales and increased equipment and infrastructure costs in Asia. The Company operates in a high fixed cost environment and to the extent that the Company's revenues and capacity utilization increases or decreases, gross margin will be positively or negatively impacted.

The gross margin percentage throughout the remainder of fiscal 2005 could be negatively impacted by increased depreciation expense associated with the Company's capital expenditures for additional tool sets and corresponding infrastructure for FPD and advanced photomask technologies.

Selling, General and Administrative Expenses

	Three Months Ended			Nine Months Ended		
	Q3 2005	**Q3 2004**	**Percent Change**	**YTD 2005**	**YTD 2004**	**Percent Change**
Selling, general and administrative expenses	$13.8	$13.5	1.8%	$40.0	$40.4	(0.9%)
Percentage to sales	12.0%	13.0%		12.2%	13.8%	

Selling, general and administrative expenses increased 1.8% for the three months ended July 31, 2005, as compared to the same period in the prior fiscal year. The increase in expenses is a result of additional costs associated with the Company's expansion in Asia, primarily related to the Company's Taiwan FPD and China facilities and costs associated with Sarbanes-Oxley compliance.

For the nine months ended July 31, 2005, selling, general and administrative expenses decreased $0.4 million to $40.0 million, compared to the same period in the prior year.

Research and Development

	Three Months Ended			Nine Months Ended		
	Q3 2005	Q3 2004	Percent Change	YTD 2005	YTD 2004	Percent Change
Research & development	$7.9	$7.6	3.8%	$23.8	$22.6	5.5%
Percentage to sales	6.9%	7.3%		7.2%	7.7%	

Research and development expenses increased $0.3 million to $7.9 million for the three months ended July 31, 2005, compared with $7.6 million for the same period in the prior fiscal year. Research and development expenses for the nine months ended July 31, 2005 increased $1.2 million to $23.8 million compared to the same period in the prior fiscal year. Research and development expenditures are for continued development for advanced process technologies, consisting of global development efforts for high-end process technologies for advanced sub wavelength reticle solutions at and below 65 nanometers and next generation FPD technologies.

Operating Income (Loss)

The following table sets forth the operating income (loss) by geographic area for the three and nine months ended July 31, 2005 and August 1, 2004:

	Three Months Ended			Nine Months Ended		
	Q3 2005	Q3 2004	Percent Change	YTD 2005	YTD 2004	Percent Change
North America	$ 1.5	$(0.7)	-	$(0.4)	$(1.5)	-
Europe	2.3	1.8	27%	7.2	4.2	72%
Asia	14.1	15.0	(6%)	39.4	33.3	18%
Total	$17.9	$16.1	11%	$46.2	$36.0	28%

Other Income (Expense), Net

	Three Months Ended		Nine Months Ended	
	Q3 2005	Q3 2004	YTD 2005	YTD 2004
Interest expense	$(2.8)	$(3.4)	$(8.3)	$(11.3)
Investment and other income, net	4.8	0.8	5.2	3.3
Other income (expense), net	$ 2.0	$(2.6)	$(3.1)	$ (8.0)

Interest expense decreased $0.6 million and $3.0 million, respectively, for the three and nine months ended July 31, 2005 as compared to the three and nine months ended August 1, 2004. The decrease was primarily a result of reduced debt associated with the Company's aggregate redemption, from June 2004 through April 2005, of $100 million principal of its 4.75% convertible subordinated notes. Investment and other income, net, increased $4.0 million and $1.8 million respectively for the three and nine months ended July 31, 2005 as compared to the three and nine months ended August 1, 2004. The increase is a result of a favorable settlement of an existing grant obligation, foreign currency gains and increased investment income from proceeds received by the Company under its stock offering in early July 2005.

Provision for Income Taxes

The provision for income taxes for the quarter ended July 31, 2005 was $3.6 million as compared to $1.5 million for the quarter ended August 1, 2004. For the nine months ended July 31, 2005 the provision for income taxes was $8.0 million compared to a provision of $4.0 million for the nine months ended August 1, 2004. The effective income tax rate for the nine months ended July 31, 2005 was 19% compared with 14% for the comparable 2004 period. The effective tax rate is impacted by tax holidays, credits and the Company's inability to record tax benefits on the net operating losses generated in the U.S. The Company’s operations have followed the recent migration of the semiconductor industry to Asia, where the Company operates in countries where it is accorded favorable tax treatment. The Company has a tax holiday in Taiwan which expires in December 2006. The Company's tax holiday in Singapore expired in June 2005. In Korea, various investment tax credits have been utilized to further reduce the Company’s overall effective income tax rate.

The American Jobs Creation Act (AJCA) was signed into law on October 22, 2004. The AJCA includes a provision for an 85% deduction for the repatriation of certain foreign earnings. The Company may elect to apply this provision to qualifying earnings repatriations in fiscal 2005. Currently, the Company is reviewing the published guidance and expects to complete its evaluation within a reasonable period of time following the issuance of final guidance. The range of possible amounts that the Company is considering for repatriation is between zero and $134 million. The related potential range of income tax effects is estimated to be between zero and $24 million taking into account the Company’s tax attributes.

Minority Interest

Minority interest, which represents the minority interest in earnings of the Company's non-wholly owned subsidiaries in Taiwan and Korea, was $1.4 million and $3.6 million for the three months ended July 31, 2005 and August 1, 2004, respectively, and $5.1 million and $7.4 million for the nine months ended July 31, 2005 and August 1, 2004, respectively. The Company’s ownership in its subsidiary in Taiwan was approximately 58% at July 31, 2005 and October 31, 2004. The Company’s ownership in its subsidiary in Korea was 90% at July 31, 2005 and 75% at October 31, 2004. The increased ownership was a result of an additional investment of $40.4 million made by the Company during 2005. The decrease in minority interest during the three and nine month periods ended July 31, 2005 as compared to the same periods in the prior year was due to the increased ownership of the Company’s subsidiary in Korea, which was offset in part by increased earnings of these subsidiaries in 2005.

On August 5, 2005, Photronics announced a tender offer to acquire all the remaining shares of PKL which the Company did not previously own. On September 6, 2005, additional shares acquired under this tender offer increased the Company's ownership in PKL to 96.5%, for approximately 18.1 billion Korean won (approximately US $17.4 million).

Liquidity and Capital Resources

The Company's working capital at July 31, 2005 increased $95.6 million to $350.7 million as compared with $255.1 million at October 31, 2004. Cash, cash equivalents and short-term investments at July 31, 2005 were $315.8 million compared to $226.9 million at October 31, 2004. Working capital, cash, cash equivalents and short-term investments increased during the nine months ended July 31, 2005 due to net proceeds of $162.9 million received by the Company under its public stock offering in July 2005 and cash generated from operations, less the redemption of $51.4 million of its 4.75% convertible subordinated notes and $40.4 million additional investment in PKL and capital expenditures. Cash provided by operating activities was $104.7 million for the nine months ended July 31, 2005, as compared to $69.6 million for the same period last year. This increase was primarily due to increased net income generated during the first nine months of 2005. Cash used in investing activities for the nine months ended July 31, 2005 was $126.6 million, which is primarily comprised of the $40.4 million additional investment in PKL and capital expenditures of $89.1 million. Cash provided by financing activities was $113.4 million, which was primarily comprised of the redemption of $51.4 million of the Company's 4.75% convertible subordinated notes and net proceeds of $163 million from the Company's public stock offering.

The Company's $100 million revolving credit facility expired in July 2005 and was not renewed.

On August 5, 2005, Photronics announced a tender offer to acquire all the remaining shares of PKL which the Company did not previously own. On September 6, 2005, additional shares acquired under this tender offer increased the Company's ownership in PKL to 96.5%, for approximately 18.1 billion Korean won (approximately US $17.4 million).

The Company's commitments represent investments in additional manufacturing capacity as well as advanced equipment for the production of high-end, more complex photomasks. As of July 31, 2005, Photronics had commitments outstanding for capital expenditures of approximately $63 million. Additional commitments for capital expenditures are expected to be incurred during the remainder of fiscal 2005. The Company expects capital expenditures for fiscal 2005 to be approximately $110 to $125 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.

Business Outlook

The Company expects revenue growth for the fourth quarter of fiscal 2005 in both IC and FPD photomasks. A majority of the revenue growth in 2005 has come from, and is expected to continue to come from, the Asian region as customers increase their use of manufacturing foundries located outside of North America and Europe. The Company's Korean and Taiwanese operations are non-wholly owned subsidiaries; therefore a portion of earnings generated at each location is allocated to the minority shareholders.

For the fourth quarter of fiscal 2005, the Company expects diluted earnings per share to decrease compared to the third quarter of fiscal 2005 primarily due to other income gains recognized in the third quarter which were not expected to repeat in the fourth quarter of fiscal 2005. The Company is projecting an effective tax rate of 17% to 20% for fiscal 2005, dependent upon the country in which the pre-tax income is generated.

Property, plant and equipment which was capitalized during the first nine months of 2005 was $75.1 million, which includes accrued capital expenditures of $14.0 million. The Company is planning on capital spending of $110 million to $125 million to be capitalized for the full year of fiscal 2005. This spending includes the installation of a 65 nanometer production line, additional large area mask production capacity, and a facility and equipment costs for the China and Taiwan FPD sites.

The Company’s future results of operations and the other forward looking statements contained in this filing involve a number of risks and uncertainties, including the projected fourth quarter results of 2005. Various factors that have been discussed and a number of other factors could cause actual results to differ materially from the Company’s expectations.

Application of Critical Accounting Policies

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 in the consolidated balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives are reported in the consolidated statements of operations or as accumulated other comprehensive income (loss), a separate component of shareholders' equity, 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 areas such as projected interest rates and changes in the Company's stock price during the contract term.

Property, Plant and Equipment

Property, plant and equipment are 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 Statement of Financial Accounting Standards (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 the Company uses judgment 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 and 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 judgment and 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 when both title and risk of loss transfer to the customer. 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.

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

<u>Product Returns</u> - 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.

<u>Warranties and Other Post Shipment Obligations</u> - 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.

<u>Customer Acceptance</u> - Customer acceptance occurs concurrently with the transfer of title and risk of loss based upon the applicable shipping and delivery terms.

<u>Allowance for Doubtful Accounts</u> - 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 December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123, "Share-Based Payments (revised 2004)," (SFAS No. 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," to stock compensation awards issued to employees. Rather this statement requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). SFAS No. 123R will also require companies to measure the cost of employee services received in exchange for Employee Stock Purchase Plan (ESPP) awards and the Company will be required to expense the grant date fair value of the Company's ESPP awards. On April 14, 2005, the Securities and Exchange Commission deferred the effective date of SFAS No. 123R for certain companies, thereby deferring the effective date for the Company from its quarter beginning August 1, 2005 to its quarter beginning October 31, 2005. Based on the number of stock options outstanding as of July 31, 2005, the effect of the adoption of SFAS No. 123R would be to increase compensation expense by approximately $0.3 million in the Company's fiscal quarter beginning October 31, 2005.

In November of 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated as current period costs regardless if they meet the criteria of "so abnormal." In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provision of this statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The early adoption of SFAS 151 did not have a material impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier application permitted. The Company is evaluating SFAS No. 153, and does not believe it will have a material impact on its 2005 consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143." FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company is currently analyzing FIN 47 and does not believe the adoption of FIN 47 will have a material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154) which supersedes APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It established, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retroactively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154, which is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on its 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 those derivatives are reported in the statement of operations or as accumulated other comprehensive income (loss), a separate component of shareholders' equity, 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.

During fiscal 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 (5.01% at July 31, 2005) 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 principal functional currencies of the Company's Asian subsidiaries are the Korean won, New Taiwan dollar and Singapore dollar. The principal 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. In some instances, the Company may sell products in a currency other than the functional currency of the country where it was produced. To date, the Company has not experienced a significant foreign exchange loss on these sales. 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 July 31, 2005 included the Korean won, Singapore dollar, New Taiwan dollar, euro and the British pound. As of July 31, 2005, 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 $4.3 million. The Company does not believe that a 10% change in the exchange rates of other non-U.S. dollar foreign currency balances 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 unsecured notes payable which bear interest at rates between 5.39% and 5.49%. 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 July 31, 2005, the Company had approximately $113 million in variable rate financial instruments which were sensitive to interest rate risk. A 10% change in interest rates would not have a material net effect on the Company's 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 third quarter of fiscal 2005, 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 2. Purchases of Equity Securities by the Issuer and Affiliated Purchasers During the Nine Months Ended July 31, 2005

	Total Principal Amount of Convertible Notes Purchased	Average Price Paid Per $1,000 Principal Amount of Convertible Notes	Total Number of Principal Amount of Convertible Notes Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value of Principal Amount of Convertible Notes) that May Yet to be Purchased Under the Plans or Programs	
November	$41,413,000	$1,015	$ -	$ -	(1)
December					
January					
February					
March					
April	10,000,000	1,010	-	-	(1)
May					
June					
July					
	$51,413,000	$1,014	$ -	$ -	

(1) The Company does not have a specific bond repurchase program established and all of the repurchases were made in open market transactions.

Note: In August 2005, the Company purchased $13,000,000 principal amount of its 4.75% convertible subordinated notes at an Average Price Paid per $1,000 Principal Amount of $1,010.

Item 6. Exhibits

(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.

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
Senior Vice President
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

Date: September 7, 2005