

PHOTRONICS INC
Form 10-Q
September 08, 2017

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

FORM 10-Q

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

For the quarterly period ended July 30, 2017

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 or organization) (IRS Employer Identification No.)

15 Secor Road, Brookfield, Connecticut 06804
(Address of principal executive offices) (Zip Code)

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 28, 2017
Common Stock, \$0.01 par value	68,938,776 Shares

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements made by or on behalf of Photronics, Inc. (“Photronics”, the “Company”, “we”, “our”, or “us”). These statements are based on management’s beliefs, as well as assumptions made by, and information currently available to, management.

Forward-looking statements may be identified by words like “expect,” “anticipate,” “believe,” “plan,” “project,” “could,” “should,” “would,” “estimate,” “intend,” “may,” “will” and similar expressions, or the negative of such terms, or other comparable terminology. All forward-looking statements involve risks and uncertainties that are difficult to predict. In particular, any statement contained in this quarterly report on Form 10-Q or in other documents filed with the Securities and Exchange Commission in press releases or in the Company’s communications and discussions with investors and analysts in the normal course of business through meetings, phone calls, or conference calls regarding, among other things, the consummation and benefits of transactions, joint ventures, business combinations, divestitures and acquisitions, expectations with respect to future sales, financial performance, operating efficiencies, or product expansion, are subject to known and unknown risks, uncertainties, and contingencies, many of which are beyond the control of the Company. Various factors may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements expressed or implied by forward-looking statements. Factors that might affect forward-looking statements include, but are not limited to, overall economic and business conditions economic and political conditions in international markets the demand for the Company’s products competitive factors in the industries and geographic markets in which the Company competes the timing of orders received from customers the gain or loss of significant customers competition from other manufacturers changes in accounting standards federal, state and international tax requirements (including tax rate changes, new tax laws and revised tax law interpretations) changes in the jurisdictional mix of our earnings and changes in tax laws and rates interest rate and other capital market conditions, including changes in the market price of the Company’s securities foreign currency exchange rate fluctuations changes in technology technology or intellectual property infringement, including cyber-security breaches, and other innovation risks unsuccessful or unproductive research and development or capital expenditures the timing, impact, and other uncertainties related to transactions and acquisitions, divestitures, business combinations, and joint ventures as well as decisions the Company may make in the future regarding the Company’s business, capital and organizational structures and other matters the seasonal and cyclical nature of the semiconductor and flat panel display industries management changes changes in laws and government regulation impacting our operations or our products the occurrence of arbitration, regulatory proceedings, claims or litigation damage or destruction to the Company’s facilities, or the facilities of its customers or suppliers, by natural disasters, labor strikes, political unrest, or terrorist activity the ability of the Company to (i) place new equipment in service on a timely basis (ii) obtain additional financing (iii) achieve anticipated synergies and cost savings (iv) fully utilize its tools (v) achieve desired yields, pricing, product mix, and market acceptance of its products or (vi) obtain necessary export licenses. Any forward-looking statements should be considered in light of these factors. Accordingly, there is no assurance that the Company’s expectations will be realized. The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not assume an obligation to provide revisions to any forward-looking statements, except as otherwise required by securities and other applicable laws.

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)

	July 30, 2017	October 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$340,572	\$ 314,074
Accounts receivable, net of allowance of \$3,215 in 2017 and \$3,901 in 2016	91,812	92,636
Inventories	25,668	22,081
Other current assets	10,558	12,795
Total current assets	468,610	441,586
Property, plant and equipment, net	501,720	506,434
Intangible assets, net	18,320	19,854
Deferred income taxes	16,128	16,322
Other assets	3,820	3,792
Total assets	\$1,008,598	\$ 987,988
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term borrowings	\$5,541	\$ 5,428
Accounts payable	54,126	51,649
Accrued liabilities	19,643	24,240
Total current liabilities	79,310	81,317
Long-term borrowings	57,776	61,860
Other liabilities	16,384	19,337
Total liabilities	153,470	162,514
Commitments and contingencies		
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, 68,547 shares issued and outstanding at July 30, 2017 and 68,080 shares issued and outstanding at October 30, 2016	685	681
Additional paid-in capital	545,743	541,093

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Retained earnings	184,005	176,260
Accumulated other comprehensive income (loss)	8,849	(7,671)
Total Photronics, Inc. shareholders' equity	739,282	710,363
Noncontrolling interests	115,846	115,111
Total equity	855,128	825,474
Total liabilities and equity	\$1,008,598	\$ 987,988

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
Net sales	\$ 111,579	\$ 123,209	\$ 329,707	\$ 376,088
Costs and expenses:				
Cost of sales	(89,862)	(91,759)	(264,835)	(277,915)
Gross profit	21,717	31,450	64,872	98,173
Selling, general and administrative	(11,639)	(11,163)	(33,403)	(34,386)
Research and development	(4,812)	(5,466)	(12,023)	(16,613)
Operating income	5,266	14,821	19,446	47,174
Other income (expense):				
Interest and other income (expense), net	415	1,849	(4,182)	1,878
Interest expense	(549)	(612)	(1,657)	(2,750)
Gain on sale of investment	-	157	-	8,940
Income before income tax provision	5,132	16,215	13,607	55,242
Income tax provision	(333)	(4,762)	(2,814)	(6,136)
Net income	4,799	11,453	10,793	49,106
Net income attributable to noncontrolling interests	(798)	(3,365)	(3,048)	(8,162)
Net income attributable to Photronics, Inc. shareholders	\$ 4,001	\$ 8,088	\$ 7,745	\$ 40,944
Earnings per share:				
Basic	\$ 0.06	\$ 0.12	\$ 0.11	\$ 0.61
Diluted	\$ 0.06	\$ 0.12	\$ 0.11	\$ 0.56
Weighted-average number of common shares outstanding:				
Basic	68,525	67,953	68,376	67,377
Diluted	69,380	74,317	69,311	76,990

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES
 Condensed Consolidated Statements of Comprehensive Income
 (in thousands)
 (unaudited)

	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
Net income	\$ 4,799	\$ 11,453	\$ 10,793	\$ 49,106
Other comprehensive income, net of tax of \$0:				
Foreign currency translation adjustments	4,442	5,051	22,116	7,787
Amortization of cash flow hedge	32	32	96	96
Net other comprehensive income	4,474	5,083	22,212	7,883
Comprehensive income	9,273	16,536	33,005	56,989
Less: comprehensive income attributable to noncontrolling interests	594	4,538	8,740	10,408
Comprehensive income attributable to Photronics, Inc. shareholders	\$ 8,679	\$ 11,998	\$ 24,265	\$ 46,581

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	July 30, 2017	July 31, 2016
Cash flows from operating activities:		
Net income	\$ 10,793	\$ 49,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,081	60,102
Gain on sale of investment	-	(8,940)
Changes in assets and liabilities:		
Accounts receivable	4,031	3,936
Inventories	(2,475)	(204)
Other current assets	2,650	9,177
Accounts payable, accrued liabilities, and other	(5,291)	(21,790)
Net cash provided by operating activities	73,789	91,387
Cash flows from investing activities:		
Purchases of property, plant and equipment	(38,759)	(44,828)
Acquisition of business	(5,400)	-
Proceeds from sale of investment	167	101,853
Other	(458)	584
Net cash (used in) provided by investing activities	(44,450)	57,609
Cash flows from financing activities:		
Dividends paid to noncontrolling interests	(8,298)	(11,890)
Repayments of long-term borrowings	(4,057)	(56,276)
Proceeds from share-based arrangements	2,529	3,172
Other	(33)	(19)
Net cash used in financing activities	(9,859)	(65,013)
Effect of exchange rate changes on cash and cash equivalents	7,018	1,819
Net increase in cash and cash equivalents	26,498	85,802
Cash and cash equivalents at beginning of period	314,074	205,867
Cash and cash equivalents at end of period	\$ 340,572	\$ 291,669
Supplemental disclosure of non-cash information:		
Accrual for property, plant and equipment purchased during the period	\$ 2,572	\$ 7,169

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Three Months and Nine Months Ended July 30, 2017 and July 31, 2016

(unaudited)

(in thousands, except share amounts and per share data)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

Photronics, Inc. and its subsidiaries (“Photronics”, “the Company”, “we”, “our”, or “us”) 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 integrated circuits (“ICs”) and flat panel displays (“FPDs”), and are used as masters to transfer circuit patterns onto IC wafers and flat panel substrates during the fabrication of ICs and a variety of FPDs and, to a lesser extent, other types of electrical and optical components. We currently operate principally from nine manufacturing facilities, two of which are located in Europe, three in Taiwan, one in Korea, and three in the United States. We have announced our plans to construct two manufacturing facilities in China as we expand our global manufacturing footprint. Please refer to Note 15 for additional information.

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. All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, adjustments, all of which are of a normal recurring nature, considered necessary for a fair presentation have been included. We are typically impacted during our first fiscal quarter by the North American and European holiday periods, as some customers reduce their effective workdays and orders during these periods. Additionally, we can be impacted during its first or second quarter by the Asian New Year holiday period, which may also reduce customer orders. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending October 29, 2017. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended October 30, 2016.

NOTE 2 - CHANGES IN EQUITY

The following tables set forth our consolidated changes in equity for the three and nine month periods ended July 30, 2017 and July 31, 2016:

	Three Months Ended July 30, 2017						
	Photronics, Inc. Shareholders						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- controlling Interests	Total Equity
	Shares	Amount					
Balance at May 1, 2017	68,496	\$ 685	\$ 545,019	\$ 180,004	\$ 4,171	\$ 114,875	\$ 844,754
Net income	-	-	-	4,001	-	798	4,799
Other comprehensive income	-	-	-	-	4,678	(204)	4,474
Sale of common stock through employee stock option and purchase plans	32	-	118	-	-	-	118

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Restricted stock awards vesting and expense	19	-	409	-	-	-	409
Share-based compensation expense	-	-	574	-	-	-	574
Other	-	-	(377)	-	-	377	-
Balance at July 30, 2017	68,547	\$ 685	\$545,743	\$184,005	\$ 8,849	\$115,846	\$855,128

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Three Months Ended July 31, 2016

Photronics, Inc. Shareholders

Common Stock

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Equity
Balance at May 2, 2016	67,943	\$ 679	\$ 538,535	\$ 162,916	\$ (8,846) \$ 109,488	\$ 802,772
Net income	-	-	-				