PHOTRONICS INC
Form 424B5
September 11, 2009
Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-160235

PROSPECTUS SUPPLEMENT

(To Prospectus dated June 25, 2009)

9,638,554 Shares

COMMON STOCK

Photronics, Inc. is offering 9,638,554 shares of its common stock.

Our common stock is quoted on The Nasdaq Global Select Market under the symbol PLAB . The last reported sale price of our common stock on The Nasdaq Global Select Market on September 10, 2009 was $4.17 per share.

Concurrently with this offering, we are also conducting an offering of $50 million aggregate principal amount of our 5.50% Convertible Senior Notes due 2014, $57.5 million aggregate principal amount if the underwriters exercise their option to purchase additional notes in full. The notes will be offered by a separate prospectus supplement. Neither this offering nor the note offering is conditional upon the successful completion of the other offering.

Intel Capital Corporation has indicated to us that they currently intend to purchase from the underwriters up to $5 million aggregate principal amount of our 5.50% Convertible Senior Notes due 2014 being offered in our concurrent offering of convertible senior notes at the initial price to the public. Intel Capital Corporation is under no obligation to purchase any of the convertible senior notes and their interest in purchasing the convertible senior notes is not a commitment to do so.

Investing in the common stock involves risks. See "Risk Factors" beginning on page S-7.

PRICE $4.15 A SHARE

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to Company***
Per share	*$4.15*	*$0.22306*	*$3.92694*
Total	*$39,999,999*	*$2,149,976*	*$37,850,023*

We have granted the underwriters the right to purchase an additional 1,445,783 shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus supplement and accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on September 16, 2009.

MORGAN STANLEY

Needham & Company, LLC *D.A. Davidson & Co.* *Stifel Nicolaus*

September 10, 2009

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus or any incorporated documents is accurate only as of the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

Neither we nor the underwriters are making an offer to sell or seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

In this prospectus supplement, Photronics, our company, we, us, and our refer to Photronics, Inc. and its consolidated subsidiaries, unless otherwise noted.

Table of Contents

SUMMARY

This summary highlights selected information contained elsewhere in, or incorporated by reference into, this prospectus supplement or the accompanying prospectus. You should read the entire prospectus supplement and the accompanying prospectus carefully, including Risk Factors and the information in the documents incorporated by reference, including the consolidated financial statements and related notes, before making an investment decision. The information in this prospectus supplement, unless otherwise indicated, assumes no exercise by the underwriters of their overallotment option.

Photronics

Overview

We are 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, or FPDs, and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits, or ICs, and a variety of FPDs and, to a lesser extent, other types of electrical and optical components. Integrated circuits are manufactured in layers, each having a distinct pattern which is etched onto a different photomask. The resulting series of photomasks is then used to image the circuit patterns onto each successive layer of a semiconductor wafer. We believe that demand for photomasks depends primarily on design activity, rather than sales volumes from products produced using photomask technologies. As the complexity of integrated circuits has increased, so have the number, complexity and price per mask set of photomasks used in the manufacture of each semiconductor design.

The vast majority of IC photomask units produced for the semiconductor industry employ geometries of 90 nanometers or larger. At these geometries, we can produce full lines of photomasks and there is no significant technology employed by our competitors that is not also available to us. Semiconductor fabrication also occurs below the 90 nanometer range. We are capable of, and have been producing most of the photomasks required at these smaller geometries.

In the FPD market, size and technology are defined as a generation . Currently, FPD manufacturers are producing panels with physical dimensions up to and including Generation 8. We are capable and have been producing photomasks up to and including Generation 8.

We currently operate principally from nine manufacturing facilities; three of which are located in the United States, two in Taiwan and two in Europe, plus one each in Korea and Singapore. During the three months ended August 2, 2009, we ceased the manufacture of photomasks at our Shanghai, China facility. We currently support customers across the full spectrum of IC production and FPD technologies by manufacturing photomasks using electron beam or optical-based technologies. Electron beam and laser-based systems are the predominant technologies used for photomask manufacturing, and we currently own a number of high-end and mature electron beam and laser-based systems. The ability to manufacture and deliver high quality photomasks within short time periods is dependent upon robust processes, geographic location, efficient manufacturing methods, high yield and high equipment reliability. We work to meet these requirements by making significant investments in research and development, manufacturing and data processing systems and utilizing statistical process control methods to optimize the manufacturing process and reduce cycle times. We continue to make substantial investments in equipment to inspect and repair photomasks to ensure that customer specifications are met.

The market for photomasks primarily consists of domestic and international semiconductor and FPD manufacturers and designers, including a limited number of manufacturers who have the capability to manufacture photomasks. Photomasks are manufactured by independent manufacturers like us, and by captive manufacturers, which are semiconductor manufacturers that produce photomasks exclusively for their own use. Since the mid-1980s, there has been a strong trend in Asia, Europe and North America toward the divestiture or closing of captive photomask operations by semiconductor manufacturers and an increase in the share of the market served by independent manufacturers. This trend has been driven by the increasing complexity involved in manufacturing plus the high cost of the necessary capital equipment. We estimate that for the types of photomasks we manufacture (IC and FPD) the size of the total market (captive and merchant) for 2009 is approximately $3.2 billion.

We conduct our sales and marketing activities primarily through a staff of sales personnel and customer service representatives who work closely with our management and technical personnel. In addition to sales personnel at our manufacturing facilities, we have sales offices throughout the United States, Europe and Asia. During fiscal year 2008, we sold our products and services to approximately 600 customers. However, historically a significant proportion of our sales of photomasks is concentrated to a limited number of IC and FPD manufacturers. One customer, Samsung Electronics Co., Ltd., accounted for approximately 19% and 25% of our net sales in the nine month period ended August 2, 2009 and in fiscal 2008, respectively. Our five largest customers, in the aggregate, accounted for 42% and 44% of net sales in the nine month period ended August 2, 2009 and in fiscal 2008, respectively.

Our primary research and development activities are conducted at the MP Mask Technology Center, LLC, or MP Mask, joint venture operation and in site-specific research and development programs to support strategic customers in Asia and Europe. The MP Mask research and development programs, coupled with site specific research and development initiatives, are designed to advance our leadership in technology and manufacturing efficiency. We also conduct research and development activities to support advanced product integration including, but not limited to, numerical modeling and simulation of photomask processes, fabrication and delivery of product prototypes for next generation customer needs, and development of software tools and workflows necessary for the effective integration of the most advanced mask-based optical lithography solutions. Currently, research and development photomask activities are focused on 65, 45 and 32 nanometer node IC technologies and Generation 8 and higher FPD technologies. We believe these core competencies will continue to be a critical part of semiconductor manufacturing as optical lithography continues to scale device capabilities at and below 90 nanometers.

The semiconductor industry is currently experiencing a severe downturn due to a significant oversupply of products, which has been further negatively impacted by worsening global economic conditions. These conditions have resulted in reduced demand, average selling prices (ASPs) and gross margins for us and others in the semiconductor industry. In response to these market conditions we ceased production of photomasks at our Manchester, U.K. facility in January 2009, and at our Shanghai, China facility in July 2009. We have also undertaken additional cost saving measures to increase our competitiveness, including continued hiring freezes, and reductions of other discretionary costs such as outside services, travel and overtime. Continued unfavorable changes in global economic conditions, including those in Asia, the U.S. or other geographic areas in which we do business, may have the effect of reducing the demand for photomasks and further reducing our ASPs and gross margin. For example, continued unfavorable changes in global economic conditions may lead to a decrease in demand for end products whose manufacturing processes involve the use of photomasks. This may result in a reduction in new product design and development by semiconductor manufacturers, which could adversely affect our operations and cash flows.

Table of Contents

Recent Developments

We and Intel Corporation have agreed to enter into an agreement upon the pricing of this offering to work together to share technical and operations information regarding the development status of our products, the capabilities of our mask manufacturing lines, and the alignment of our mask making toolsets. The agreement will also address the potential for a future relationship relating to business continuity planning for Intel and its affiliates. The agreement has a 10-year term.

There will not be any obligation under the agreement for either party to collaborate with the other on the development of technology and Intel is not committing to buy any products from us under the agreement.

In consideration for the agreement, we intend to issue to Intel Capital Corporation, an affiliate of Intel Corporation, a warrant to purchase up to 500,000 shares of our common stock with an exercise price to be equal to the initial price to the public for our common stock in the offering and a warrant to purchase up to 250,000 shares with an exercise price to be equal to the conversion price of the convertible senior notes offered in our concurrent convertible senior notes offering.

Concurrent Convertible Senior Notes Offering

Concurrently with this offering, we are also offering $50 million aggregate principal amount of our 5.50% Convertible Senior Notes due 2014, which we refer to as the convertible senior notes, ($57.5 million aggregate principal amount if the underwriters exercise their option to purchase additional convertible senior notes in full). The convertible senior notes are being offered by a separate prospectus supplement. The convertible senior notes will bear interest at a rate of 5.50% per year, payable semiannually in arrears on April 1 and October 1 of each year, beginning on April 1, 2010. The convertible senior notes will mature on October 1, 2014. The conversion rate will initially be 196.7052 shares of common stock per $1,000 principal amount of convertible senior notes (equivalent to an initial conversion price of approximately $5.08 per share of common stock).

Intel Capital Corporation has indicated to us that they currently intend to purchase from the underwriters up to $5 million aggregate principal amount of our 5.50% Convertible Senior Notes due 2014 being offered in our concurrent offering of convertible senior notes at the initial price to the public. Intel Capital Corporation is under no obligation to purchase any of the convertible senior notes and their interest in purchasing the convertible senior notes is not a commitment to do so.

We estimate that the net proceeds from our concurrent convertible senior notes offering will be approximately $47.7 million ($54.9 million if the underwriters exercise their overallotment option with respect to that offering in full), after deducting the underwriting discount and estimated expenses payable by us. We plan to use the net proceeds of the concurrent convertible senior notes offering, along with the net proceeds of this offering, to repay a portion of our outstanding bank borrowings. See Use of Proceeds.

Neither this offering nor the convertible senior notes offering is conditional upon the successful completion of the other offering. We cannot assure you that we will complete the concurrent convertible senior notes offering.

Nothing in this prospectus supplement should be construed as an offer to sell, or the solicitation of an offer to buy, any convertible senior notes in the concurrent offering.

Additional Information

Photronics, Inc. is a Connecticut corporation organized in 1969. Our principal executive offices are located at 15 Secor Road, Brookfield, Connecticut, 06804 and our telephone number is (203) 775-9000. Our website can be found at http://www.photronics.com. Information contained in our website does not constitute part of this prospectus supplement or the accompanying prospectus.

Table of Contents

The Offering

Common Stock Offered by Us	9,638,554 shares
Common Stock to be Outstanding after this Offering	51,516,755 shares[(1)]
Use of Proceeds	The net proceeds from this offering will be approximately \$37.5 million (or \$43.2 million if the underwriters exercise their overallotment option in full), after deducting the underwriting discount and estimated expenses payable by us. We intend to use the net proceeds from this offering, along with the net proceeds from our concurrent convertible senior notes offering, to repay outstanding bank borrowings.
Risk Factors	Investing in our common stock involves risks. You should carefully consider the information in the section titled Risk Factors in this prospectus supplement and all other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus before investing in our common stock.
The Nasdaq Global Select Market symbol	PLAB

(1) The number of shares of common stock outstanding after this offering is based on the 41,878,201 shares outstanding as of August 2, 2009, and excludes:

- an aggregate of 5,518,755 shares of our common stock reserved for issuance under our stock-based compensation plans, 3,357,522 shares of which were issuable upon exercise of options outstanding;
- 2,021,041 shares issuable upon exercise of outstanding warrants to purchase our common stock;
- 191,535 shares of nonvested restricted stock outstanding as of August 2, 2009; and
- 750,000 shares issuable upon exercise of warrants that we intend to issue to Intel Capital Corporation.

See Capitalization on page S-19 of this prospectus supplement.

The underwriters have a 30-day option to purchase up to 1,445,783 additional shares from us to cover overallotments. Unless otherwise indicated, the information in this prospectus supplement assumes no exercise by the underwriters of their overallotment option.

Table of Contents

Summary Financial Data

The following table sets forth summary historical financial data for each of the three years ended November 2, 2008, October 28, 2007 and October 29, 2006 and for each of the nine-month periods ended August 2, 2009 and July 27, 2008, and as of August 2, 2009. The summary historical financial data presented below for each of the years ended November 2, 2008, October 28, 2007 and October 29, 2006 were derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended November 2, 2008. The summary historical financial data presented below as of August 2, 2009 and for each of the nine-month periods ended August 2, 2009 and July 27, 2008 have been derived from our unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the period ended August 2, 2009. The results of operations for the nine-months ended August 2, 2009 are not necessarily indicative of operating results for the full year. The financial data below should be read in conjunction with the financial statements and notes incorporated by reference in this prospectus supplement.

	Year Ended			Nine Months Ended	
	November 2, 2008	October 28, 2007	October 29, 2006	August 2, 2009	July 27, 2008
				(unaudited)	
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net sales	$ 422,548	$ 421,479	$ 454,875	$ 266,676	$ 319,242
Cost and expenses:					
Cost of sales	(349,841)	(321,958)	(307,851)	(226,622)	(264,487)
Selling, general and administrative	(55,167)	(61,507)	(62,215)	(30,995)	(43,620)
Research and development	(17,475)	(17,300)	(27,337)	(11,655)	(13,148)
Impairment of goodwill and long-lived assets	(205,408)[a]			(1,458)[d]	(205,408)[a]
Consolidation, restructuring and related charges	(510)[b]		(15,639)[c]	(12,746)[e]	
Gain on sale of facility		2,254			
Operating income (loss)	(205,853)	22,968	41,833	(16,800)	(207,421)
Other income (expense):					
Interest expense	(11,878)	(5,928)	(11,916)	(14,427)	(8,278)
Investment and other income (expense), net	5,562	6,844	15,469	(8,418)[f]	1,938
Income (loss) before income tax benefit (provision) and minority interest	(212,169)	23,884	45,386	(39,645)	(213,761)
Income tax benefit (provision)	2,778	3,178	(10,462)	(2,927)	4,216
Minority interest in income of consolidated subsidiaries	(1,374)	(2,539)	(5,592)	(580)	(1,456)
Net income (loss)	$ (210,765)[a][b]	$ 24,523	$ 29,332[c]	$ (43,152)[d][e][f]	$ (211,001)[a]
Income (loss) per share					
Basic	$ (5.06)[a][b]	$ 0.59	$ 0.71[c]	$ (1.03)[d][e][f]	$ (5.07)[a]
Diluted	$ (5.06)[a][b]	$ 0.56	$ 0.66[c]	$ (1.03)[d][e][f]	$ (5.07)[a]
Weighted average number of common shares outstanding:					
Basic	41,658	41,539	41,369	41,772	41,642

Diluted	41,658	51,282	51,072	41,772	41,642

S-5

Table of Contents

	As of August 2, 2009		
	Actual	As Adjusted[(g)] (unaudited) (in thousands)	As Further Adjusted[(h)]
Balance Sheet Data:			
Cash and cash equivalents	$ 85,531	$ 85,531	$ 85,531
Working capital	77,472	77,472	77,472
Total assets	672,011	670,105	669,968
Short-term debt	31,424	31,424	31,424
Long-term debt	155,922	118,422	120,709
Total shareholders equity	346,009	384,167	385,004

(a) Includes impairment of goodwill charge of $138.5 million ($137.3 million net of tax) and impairment charge of $66.9 million for certain long-lived assets in Asia and Europe ($60.9 million net of tax).

(b) Includes consolidation and restructuring charges of $0.5 million ($0.4 million net of tax) in connection with the closure of our Manchester, U.K. manufacturing facility.

(c) Includes consolidation and restructuring charges of $15.6 million net of tax in connection with the closure of our Austin, Texas manufacturing and research and development facility.

(d) Includes impairment charge of $1.5 million ($1.1 million net of tax) relating to our Manchester, U.K. manufacturing facility.

(e) Includes consolidation and restructuring charges of $12.7 million ($12.3 million net of tax) in connection with the closures of our Shanghai, China and Manchester, U.K. manufacturing facilities.

(f) Includes non-cash mark-to-market charge of $6.8 million net of tax in connection with issued warrants to purchase our common stock.

(g) As adjusted to reflect the application of the net proceeds of this offering.

(h) As further adjusted to reflect the application of the net proceeds from our concurrent convertible senior notes offering.

Table of Contents

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with the other information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus before buying shares of our common stock.

Our business, financial condition, results of operations, or cash flows could be materially adversely affected by any of these risks. The market price of our common stock could decline if one or more of these risks and uncertainties develop into actual events, which could adversely affect your investment in our common stock, and you may lose all or part of your investment. Some of the statements in Risk Factors are forward-looking statements. See Forward-Looking Statements .

Risks Relating to Our Business

We are dependent on the semiconductor industry which as a whole is volatile and could have a negative material impact on our business.

We sell substantially all of our photomasks to semiconductor designers, manufacturers and foundries, as well as to other high performance electronics manufacturers. We believe that the demand for photomasks depends primarily on design activity rather than sales volume from products using photomask technology. Consequently, an increase in semiconductor sales does not necessarily result in a corresponding increase in photomask sales. In addition, the reduced use of customized ICs, a reduction in design complexity, other changes in the technology or methods of manufacturing or designing semiconductors or a slowdown in the introduction of new semiconductor designs could reduce demand for photomasks even if there is increased demand for semiconductors. 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. The semiconductor industry began to experience a downturn in fiscal 2008, which has continued through fiscal 2009. The downturn in the semiconductor industry had an adverse impact on our operating results in fiscal 2008 and the nine-month period ended August 2, 2009.

Our sales of photomasks for use in fabricating high performance electronic products such as FPDs increased in fiscal 2008 as compared to fiscal 2007, however, decreased in the nine-month period ended August 2, 2009 as compared to the same nine-month period in the prior year. Our results may be negatively impacted if the FPD photomask market does not grow or if we are unable to serve this market successfully. As is the case with semiconductor photomask demand, we believe that demand for photomasks for FPDs depends primarily on design activity and, to a lesser extent upon an increase in the number of production facilities used to manufacture FPDs. As a result, an increase in FPD sales will not necessarily lead to a corresponding increase in photomask sales. The technology for fabricating FPDs continues to develop in order to increase the size and improve the resolution of FPDs. A slowdown in the development of new technologies for fabricating FPDs could reduce the demand for related photomasks even if demand for FPDs increases.

We incurred net losses in the nine-month period ended August 2, 2009 and fiscal 2008, and we may incur future net losses.

We incurred net losses of $43.2 million in the nine-month period ended August 2, 2009 and $210.8 million in fiscal 2008. These net losses were incurred due to the global recession and related severe downturn experienced by the semiconductor industry beginning in 2008. Net losses incurred in both the first nine months of fiscal 2009 and in 2008 include significant non-cash charges for restructurings, impairments of goodwill, impairments of long-lived assets and a liability for warrants issued outstanding during the period. We cannot provide assurance of when we will return to profitability.

Table of Contents

Our quarterly operating results fluctuate significantly and may continue to do so in the future, which could adversely impact our business.

We have experienced fluctuations in our quarterly operating results and anticipate that such fluctuations will continue and could intensify in the future. Fluctuations in operating results may result in volatility in the prices of our securities, particularly our common stock and securities linked to the value of our common stock. Operating results may fluctuate as a result of many factors, including size and timing of orders and shipments, loss of significant customers, product mix, technological change, fluctuations in manufacturing yields, competition and general economic conditions. We operate in a high fixed cost environment and, to the extent our revenues and asset utilization increase or decrease, operating margins will be positively or negatively impacted. Our customers generally order photomasks on an as-needed basis, and substantially all of our net sales in any quarter are dependent on orders received during that quarter. Since we operate with little backlog and the rate of new orders may vary significantly from month-to-month, our capital expenditures and expense levels are based primarily on sales forecasts. Consequently, if anticipated sales in any quarter do not occur when expected, capital expenditures and expense levels could be disproportionately high, and our operating results would be adversely affected. Due to the foregoing factors, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. In addition, in future quarters our operating results could be below the expectations of public market analysts and investors, which, in turn, could materially adversely affect the market price of our common stock.

Our industry is subject to rapid technological change and we might fail to remain competitive, which could have a material adverse effect on our business and results of operations.

The photomask industry has been, and is expected to continue to be, characterized by technological change and evolving industry standards. In order to remain competitive, we will be required to continually anticipate, respond to and utilize changing technologies of increasing complexity in both traditional and emerging markets that we serve. In particular, we believe that, as semiconductor geometries continue to become smaller and FPDs become larger with improved performance, it will be required to manufacture increasingly complex photomasks. Additionally, demand for photomasks has been, and could in the future be, adversely affected by changes in methods of fabricating semiconductors and high performance electronics (that 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 ICs. Additionally, increased market acceptance of alternative methods of IC designs onto semiconductor wafers, such as direct-write lithography, could reduce or eliminate the need for photomasks entirely in the production of semiconductors. Through the third quarter of fiscal 2009, 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 IC designs to semiconductor wafers without the use of photomasks achieve market acceptance, our business and results of operations would be materially adversely affected. If we are unable to anticipate, respond to or utilize these or other changing technologies, due to resource, technological or other constraints, our business and results of operations could be materially adversely affected.

Further, should sales volumes decrease based upon the flow of design releases from our customers, we may have excess or underutilized production capacity that could significantly impact operating margins, or result in write-offs from asset impairments.

Our operations will continue to require substantial capital, which we may be unable to obtain.

The manufacture of photomasks requires substantial investments in high-end manufacturing capability at existing and new facilities. We expect that we will be required to continue to make substantial capital expenditures to meet the technological demands of our customers and to position us for future growth. Our capital expenditure payments for fiscal 2009 are expected to be in the range of $40 million to $50 million, of which $5 million was accrued as of August 2, 2009. Further, our credit facility has a limitation on capital expenditure payments. We cannot provide assurance that we will be able to obtain the additional capital required

in connection with our operations on reasonable terms, if at all, or that any such expenditure will not have a material adverse effect on our business and results of operations.

Our agreements with Micron have several risks; should either we or Micron not comply or execute under these agreements it could significantly disrupt our business and technology activities which could have a material effect on our operations or cash flows.

On May 5, 2006, Photronics and Micron Technology, Inc. (Micron) entered into a joint venture known as MP Mask. The joint venture develops and produces photomasks for leading-edge and advanced next generation semiconductors. As part of the formation of the joint venture, Micron contributed its existing photomask technology center located at its Boise, Idaho, headquarters to MP Mask, LLC (MP Mask) and we invested $135.0 million in exchange for a 49.99% interest in MP Mask (to which $64.2 million of the original investment was allocated), a license for photomask technology of Micron and certain supply agreements. We invested an additional $2.6 million in 2008 and $3.5 million in 2007 in MP Mask for capital expenditure and working capital purposes, and we received two distributions from MP Mask of $5.0 million each in the nine month period ended August 2, 2009 and in fiscal year 2008.

MP Mask is governed by a Board of Managers, appointed by Micron and Photronics. Since MP Mask s inception, Micron, as a result of its majority ownership, has appointed the majority of the managers. The number of managers appointed by each party is subject to change as ownership interests change. Under the operating agreement relating to the MP Mask joint venture, through May 5, 2010, we may be required to make additional contributions to the joint venture up to the maximum amount defined in the operating agreement. However, should the Board of Managers determine that additional funding is required, the joint venture shall pursue its own financing. If the joint venture is unable to obtain its own financing it may request additional capital contributions from us. Should we choose not to make a requested contribution to the joint venture, our ownership interest may be reduced.

On May 19, 2009, our capital lease agreement with Micron for the U.S. Nanofab was canceled, at which time Photronics and Micron agreed to enter into a new lease agreement for the U.S. Nanofab building. Under provisions of the new lease agreement, quarterly lease payments were reduced, the lease term was extended, and ownership of the property will not transfer to us at the end of the lease term. As a result of the new lease agreement, we reduced our lease obligations and the carrying value of our assets under capital leases by approximately $28 million. Including the $28 million reduction in carrying value of assets under capital leases, our total investment to date in the purchase and equipping of our U.S. Nanofab is approximately $156 million. The U.S. Nanofab began production in our second fiscal quarter of 2008.

Failure by us or Micron to comply or execute under any of these agreements, to capitalize on the use of existing technology or to further develop technology could result in a significant disruption to our business and technology activities, and could adversely affect our operations and cash flows.

We have been dependent on sales to a limited number of large customers; the loss of any of these customers or any reduction in orders from these customers could have a material adverse effect on our sales and results of operations.

Historically, we have sold a significant proportion of photomasks to a limited number of IC and FPD manufacturers. One customer, Samsung Electronics Co., Ltd., accounted for approximately 19% and 25% of our net sales in the nine month period ended August 2, 2009 and in fiscal year 2008, respectively. Our five largest customers, in the aggregate, accounted for 42% and 44% of net sales in the nine month period ended August 2, 2009 and in fiscal 2008, respectively. The loss of a significant customer or any reduction or delay in orders from any significant customer, including reductions or delays due to customer departures from recent buying patterns, or market, economic, or competitive conditions in the semiconductor or FPD industries, could have a material adverse effect on our financial performance and business prospects. The continuing consolidation of semiconductor manufacturers and economic downturn in the semiconductor industry may increase the likelihood of losing a significant customer and have an adverse effect on our financial performance and business prospects.

Table of Contents

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

We rely on a limited number of photomask equipment manufacturers to develop and supply the equipment we use. These equipment manufacturers currently require lead times of up to 12 months between the order and the delivery of certain photomask imaging and inspection equipment. The failure of such manufacturers to develop or deliver such equipment on a timely basis could have a material adverse effect on our business and results of operations. Further, we rely on equipment manufacturers to develop future generations of manufacturing equipment to meet our requirements. In addition, the manufacturing equipment necessary to produce advanced photomasks could become prohibitively expensive.

We use high precision quartz photomask blanks, pellicles, and electronic grade chemicals in our manufacturing processes. There are a limited number of suppliers of these raw materials, and for production of certain high-end photomasks there is only one available supplier, and we have no long-term contract for the supply of these raw materials. Any delays or quality problems in connection with significant raw materials, particularly photomask blanks, could cause delays in shipments of photomasks, which could have a material adverse effect on our business and results of operations. The fluctuation of foreign currency exchange rates with respect to prices of equipment and raw materials used in manufacturing could also have a material adverse effect on our business and results of operations.

We face risks associated with complex manufacturing processes, including the use of sophisticated equipment and manufacturing processes with complex technologies; should we be unable to effectively utilize such processes and technologies it could have a material adverse effect on our business and results of operations.

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

Our debt agreements limit our ability to obtain financing and obligate us to repay debt.

As of August 2, 2009, we had $122.7 million outstanding under our revolving credit facility and $27.2 million outstanding under our term loan agreement. On May 15, 2009, the revolving credit facility was amended to, among other provisions, reduce the overall availability, extend the maturity date, reduce the required pay down amount in fiscal 2010, change the interest rate and change the financial covenants. Further, on June 8, 2009, we entered into the above mentioned term loan agreement in the U.S. for $27.2 million, which was used to repay outstanding foreign loans on June 12, 2009. The financial covenants include, among others, a Senior Leverage Ratio, Total Leverage Ratio, Minimum Fixed Charge Ratio and a six-month minimum EBITDA covenant. Existing covenant restrictions limit our ability to obtain additional debt financing and should we be unable to meet one or more of these covenants the lender may require us to repay the outstanding balances prior to the expiration date of the agreements.

Our ability to comply with the financial and other covenants in our debt agreements may be affected by worsening economic or business conditions, or other events. Should we be unable to meet one or more of these covenants, our lenders may require us to repay our outstanding balances prior to the expiration date of the agreements. We cannot assure that additional sources of financing will be available to us to pay off our long-term borrowings to avoid default. Should we default on any of our long-term borrowings, a cross default would occur on our other long-term borrowings, unless amended or waived.

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

We have made significant acquisitions throughout our history. Acquisitions have focused on increasing our manufacturing presence in Asia, including our acquisition of Photronics Semiconductor Mask Corporation (PSMC), a Taiwanese photomask manufacturer, in 2000 and PKL, a Korean photomask manufacturer, in 2001 and increasing the technology base through the MP Mask joint venture with Micron in 2006. We may make additional acquisitions in the future. Acquisitions place significant demands on our administrative, operational, and financial personnel and systems. Managing acquired operations entails numerous operational and financial risks, including difficulties in the assimilation of acquired operations, diversion of management s attention from other business concerns, managing assets in multiple geographic regions, amortization of acquired intangible assets and potential loss of key employees of acquired operations. Sales of acquired operations also may decline following an acquisition, particularly if there is an overlap of customers served by us and the acquired operation, and these customers transition to another vendor in order to ensure a second source of supply. Furthermore, we may be required to utilize our cash reserves and/or issue new securities for future acquisitions, which could have a dilutive effect on our earnings per share.

Our cash flow from operations and current holdings of cash and investments may not be adequate for our current and long term needs.

Our liquidity is highly dependent on our ability to receive orders, as we operate in a high fixed cost environment and the timing of capital expenditures, both of which can vary significantly from period to period. Depending on conditions in the IC semiconductor and FPD market, our cash flows from operations and current holdings of cash and investments may not be adequate to meet our current and long-term needs for capital expenditures, operations and debt repayments. Historically, in certain years we have used external financing to fund these needs. Due to conditions in the credit markets, some financing instruments used by us in the past may not be currently available to us. We are evaluating alternatives to increase our capital, delaying capital expenditures and evaluating further cost reduction initiatives. However, we cannot assure that additional sources of financing would be available to us on commercially favorable terms should our capital requirements exceed cash available from operations and existing cash, short-term investments and cash available under our credit facilities.

We may incur unforeseen charges related to our 2009 restructurings in China and the U.K. or, we may fail to realize projected benefits related to these or any other possible future facility closures or restructures.

In order to lower our operating costs and increase our manufacturing efficiencies, we ceased the manufacture of photomasks at our facility in Manchester, U.K., in January 2009 and at our facility in Shanghai, China, in July 2009. However, we cannot assure that these actions will not result in unforeseen costs, disruptions in our operations, or other negative events that could result in our failing to realize the projected benefits of these restructures.

We also cannot assure that there will not be additional facility closures or other restructurings in the near or long term, nor can we assure that we will not incur significant charges should there be any additional future facility closures or restructures.

We operate in a highly competitive industry; should we be unable to meet our customers requirements for product quality, timeliness of delivery or technical capabilities, it could adversely affect our sales.

The photomask industry is highly competitive, and most of our customers utilize more than one photomask supplier. Our competitors include Compugraphics, Inc., Dai Nippon Printing Co., Ltd., Hoya Corporation,

Table of Contents

Taiwan Mask Corporation, Toppan Printing Co., Ltd. and Toppan Chungwha Electronics. We also compete with semiconductor manufacturers captive photomask manufacturing operations. We expect to face continued competition from these and other suppliers in the future. Many of our competitors have substantially greater financial, technical, sales, marketing and other resources than we do. Also, when producing smaller geometry photomasks, some of our competitors may be able to more rapidly develop, produce, and achieve higher manufacturing yields than us. We believe that consistency of product quality and timeliness of delivery, as well as price, technical capability, and service, are the principal factors considered by customers in selecting their photomask suppliers. Our inability to meet these requirements could adversely affect our sales which could have a material adverse effect on our business and results of operations. In the past, competition led to pressure to reduce prices which, we believe, contributed to the decrease in the number of independent manufacturers. This pressure to reduce prices may continue in the future. In addition, certain semiconductor manufacturers possess their own captive facilities for manufacturing photomasks, some of which market their photomask manufacturing services to outside customers as well as to their internal organizations.

Our substantial international operations are subject to additional risks.

International sales accounted for approximately 73% of our net sales for the nine-month period ended August 2, 2009, 77% in fiscal 2008, and 75% in fiscal 2007. We believe that maintaining significant international operations requires us to have, among other things, a local presence in the markets in which we operate. This requires a significant investment of financial, managerial, operational, and other resources. Since 1996, we have significantly expanded our operations in international markets by acquiring existing businesses in Europe, establishing manufacturing operations in Singapore, acquiring majority equity interests in photomask manufacturing operations in Korea and Taiwan and building a new manufacturing facility for FPD photomasks in Taiwan, as well as a photomask manufacturing facility in Shanghai, China, which ceased production in July 2009. As the served market continues to shift to Asia, we will continue to assess our manufacturing base and may close or open new facilities to adapt to these market conditions.

Operations outside the United States are subject to inherent risks, including fluctuations in exchange rates, political and economic conditions in various countries including the outbreak of war, unexpected changes in regulatory requirements, tariffs and other trade barriers, difficulties in staffing and managing international operations, longer accounts receivable payment cycles and potentially adverse tax consequences. These factors may have a material adverse effect on our ability to generate sales outside the United States and, consequently, on our business and results of operations.

Changes in foreign currency exchange rates could materially adversely affect our business, results of operations, or financial condition.

Our financial statements are prepared in accordance with U.S. GAAP and are reported in U.S. dollars. Our international operations have transactions and balances denominated in currencies other than the U.S. dollar, primarily the Korean won, New Taiwan dollar, Chinese renminbi, Japanese yen, Singapore dollar, euro and British pound. As a result of changes in foreign currency rates, we recorded an expense of $2.4 million in the nine-month period ended August 2, 2009 and a gain of $3.8 million in fiscal 2008. Further, as a result of the translation of foreign currency financial statements to U.S. dollars, our net assets were increased by $3.8 million during the nine-month period ended August 2, 2009, after having been reduced by $62.2 million during fiscal 2008. In the event of significant foreign currency fluctuations, our results of operations, financial condition or cash flows may be adversely affected.

Our business depends on management and technical personnel, who are in great demand, and our inability to attract and retain qualified employees could adversely affect our business and results of operations.

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

We may be unable to enforce or defend our ownership and use of proprietary technology, and the utilization of our unprotected developed technology by our competitors could adversely affect our business, results of operations and financial position.

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

- we will be able to adequately protect our technology;
- our competitors will not independently develop similar technology; or
- international intellectual property laws will adequately protect our intellectual property rights.

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

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

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

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

Our production facilities could be damaged or disrupted by a natural disaster or labor strike, either of which could adversely affect our financial position, results of operations and cash flows.

Our facilities in Taiwan are located in a seismically active area. In addition, a major catastrophe such as an earthquake or other natural disaster, labor strikes, or work stoppage at any of our manufacturing facilities could result in a prolonged interruption of our business. Any disruption resulting from these events could cause significant delays in shipments of our products and the loss of sales and customers, which could have a material adverse affect on our financial position, results of operations and cash flows.

Our sales continue to be impacted by the global recession, and the health and stability of the general economy, which could adversely affect our operations and cash flows.

The global recession and other unfavorable changes in general economic conditions in the U.S. or international locations in which we do business, may reduce the demand for photomasks. For example, an economic downturn may lead to a decrease in demand for end products whose manufacturing process involves

Table of Contents

the use of photomasks. This may result in a reduction in new product design and development by semiconductor manufacturers, which could adversely affect our operations and cash flows.

Additional taxes could adversely affect our financial results.

Our tax filings are subjected to audit by tax authorities in the various jurisdictions in which we do business. These audits may result in assessments of additional taxes that are subsequently resolved with the authorities or through the courts. Currently, we believe there are no outstanding assessments whose resolution would result in a material adverse financial result. However, we cannot offer assurances that unasserted or potential future assessments would not have a material adverse effect on our financial condition or results of operations.

Our business could be adversely impacted by global or regional catastrophic events.

Our business could be adversely affected by terrorist acts, major natural disasters; or widespread outbreaks of infectious diseases, the outbreak or escalation of wars, especially in the Asian region where we generate a significant portion of our international sales. Such events in the geographic regions in which we do business, including political tensions within the Korean peninsula where a major portion of our foreign operations are located, could have material adverse impacts on our sales volume, cost of raw materials, earnings, cash flows and financial condition.

The fair value of warrants issued on our common stock is subject to fluctuating with the market price of our common stock, and may have a material adverse effect on our results of operations.

On May 15, 2009, in connection with an amendment to our credit facility, we issued 2.1 million warrants to purchase our common stock, approximately 2.0 million of which were outstanding at August 2, 2009. As a result of certain net cash settleable put provisions, the warrants were recorded as a liability during the three months ended August 2, 2009 and are subsequently being reported at fair value. The warrants are each exercisable for one share of common stock and have an exercise price of $0.01. Therefore, changes in the market price of our common stock could result in a significant change in the fair value of the warrants, which would result in a charge or credit to other income (expense) in our statements of operations. During the three months ended August 2, 2009, the market price of our common stock increased, which resulted in a non-cash loss of $6.8 million. Changes in the market price of our common stock may continue to have a material adverse effect on our results of operations on a non-cash basis.

Warrants issued by us include a put provision, giving the holders the option to sell the warrants to us at approximately the market price of our common stock, which may have a material adverse effect on our cash flow.

The warrants discussed above include a put provision which may be exercised from May 15, 2012 through the expiration of the warrants on May 15, 2014. The put provision is only exercisable if our common stock is not traded on a national exchange or if our credit facility, which matures on January 31, 2011, has not been paid in full by another financing facility (new credit facility, debt and/or an equity securities, or capital contributions) or with other funds. The purchase of a significant amount of our warrants by us may have a material adverse effect on our cash flows.

Risks Relating to Our Common Stock

The price of our common stock historically has been volatile. This volatility may make it difficult for you to resell your shares at or above the price that you pay for the shares, and the sale of substantial amounts of our common stock could adversely affect the price of our common stock.

The closing sales price for our common stock has varied between a high of $12.84 and a low of $0.35 per share between January 1, 2008 and September 10, 2009. The stock market in recent years has also experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The volatility in the price of our common stock may make it difficult for you to resell your shares at or above the price that you pay for the shares. Also, the sale of substantial amounts of our common stock could adversely affect the price of our common stock. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to our operating results, market and other factors, including the other factors discussed in the sections of this prospectus supplement titled Risk Factors and Forward-Looking Statements, or for reasons not directly related to our operations, many of which are outside of our control, such as reports by industry analysts; investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance; industry conditions; and general financial, economic and political instability.

Concurrent with this offering of common stock, we are conducting a separate offering of $50 million aggregate principal amount of our 5.50% Convertible Senior Notes due 2014 ($57.5 million aggregate principal amount if the underwriters exercise their overallotment option with respect to that offering in full), which, based on the initial conversion rate of 196.7052 and assuming no exercise of the underwriters overallotment option, would be convertible into an aggregate of 9,835,260 shares of our common stock. The issuance of additional shares of our common stock in this offering and in connection with conversions of the convertible senior notes will dilute the ownership interest of our common stockholders. The price of our common stock could also be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock.

In the past, many companies have been the subject of securities class action litigation following periods of volatility in the market price of their stock. If we became involved in securities class action litigation in the future, it could result in substantial costs and diversion of our management s attention and resources and could harm our stock price, business prospects, results of operations and financial condition.

Future sales of our common stock in the public market could lower the market price for our common stock.

The sale of substantial amounts of our common stock could adversely impact its price. As of August 2, 2009, we had outstanding approximately 41.9 million shares of our common stock, options to purchase approximately 5.5 million shares reserved for issuance under stock-based compensation plans (of which approximately 3.4 million shares were outstanding and 1.8 million were exercisable as of August 2, 2009), warrants issued to our bank lenders in connection with our outstanding bank borrowings exercisable for approximately 2.0 million shares of our common stock at an exercise price of $0.01 per share and 0.2 million shares of nonvested restricted stock. As a result, a total of 7.7 million shares of common stock are reserved for issuance upon the exercise of stock options, upon vesting of restricted stock grants and upon exercise of the warrants issued to our bank lenders in connection with our outstanding bank borrowings and an additional 13.86 million shares of our common stock will be reserved for issuance upon conversion of the convertible senior notes we are concurrently offering. In addition, we intend to issue to Intel Capital Corporation, an affiliate of Intel Corporation, a warrant to purchase up to 500,000 shares of our common stock with an exercise price to be equal to the initial price to the public for our common stock in this offering and a warrant to purchase up to 250,000 shares with an exercise price to be equal to the conversion price of the senior convertible notes offered in our concurrent convertible senior notes offering.

In the future, we may sell additional shares of our common stock to raise capital. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale by us or our stockholders of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the market price of our common stock.

Table of Contents

Connecticut law and certain provisions of our certificate of incorporation and bylaws may impede or discourage a takeover, which could cause the market price of our shares to decline.

We are a Connecticut corporation, and the anti-takeover provisions of Connecticut law may discourage or make more difficult, a third party s attempt to acquire control of us or change our management, even if a change in control or change in management would be beneficial to our existing stockholders. Our certificate of incorporation and bylaws also contain certain provisions that may impede or discourage a takeover or change in management. See Description of Common Stock and Preferred Stock in the accompanying prospectus.

Table of Contents

FORWARD-LOOKING STATEMENTS

Statements contained in this prospectus supplement and the accompanying prospectus, including the documents that are incorporated by reference as set forth in Where You Can Find More Information in the accompanying prospectus, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management s beliefs, as well as assumptions made by and information currently available to management. In some cases, you can identify forward-looking statements by terminology such as expect, anticipate, believe, plan, projects, a similar expressions or the negative of such terms or other comparable terminology. These statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry s results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors and elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference as well as overall economic and business conditions; the demand for our products; competitive factors in the industries and geographic markets in which we compete; changes in federal, state and international tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); our ability to place new equipment in service on a timely basis; interest rate fluctuations and other capital market conditions, including changes in the market price of our common stock; foreign currency rate fluctuations; economic and political conditions in international markets; the ability to obtain additional financings; the ability to achieve anticipated synergies and other cost savings in connection with acquisitions and productivity programs; the timing, impact and other uncertainties of future acquisitions; the seasonal and cyclical nature of the semiconductor and flat panel display industries; management changes; damage or destruction to our facilities by natural disasters, labor strikes, political unrest or terrorist activity; the ability to fully utilize our tools; our ability to achieve desired yields, pricing, product mix, and market acceptance of our products; changes in technology; and our ability to obtain necessary export licenses.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this prospectus supplement to conform them to actual results.

Table of Contents

USE OF PROCEEDS

The net proceeds from this offering are expected to be approximately $37.5 million (or $43.2 million if the underwriters exercise their overallotment option in full), after deducting the underwriting discount and estimated expenses payable by us.

The net proceeds from our concurrent convertible senior notes offering are expected to be approximately $47.7 million (or $54.9 million if the underwriters exercise their overallotment option in that offering in full), after deducting the underwriting discount and estimated expenses payable by us.

We intend to use the net proceeds from this offering, along with the net proceeds from our concurrent convertible senior notes offering, to repay a portion of our outstanding bank borrowings. Our bank credit facilities mature on January 31, 2011. The annual interest rate on borrowings under our revolving credit facility, which bears interest at a variable rate, as defined, was 8.91% at August 2, 2009. The annual interest rate on borrowings under our term loan agreement, which bears interest at a variable rate, as defined, was 8.50% at August 2, 2009.

Neither the completion of this offering nor the completion of our concurrent offering of convertible senior notes is contingent on the completion of the other.

Nothing in this prospectus supplement or the accompanying prospectus should be construed as an offer to sell, or the solicitation of an offer to buy, any convertible senior notes in the concurrent offering.

On May 15, 2009, in connection with an amendment to our revolving credit facility, we issued warrants to our bank lenders to purchase approximately 2.1 million shares of our shares of common at an exercise price of $0.01 per share, expiring on May 15, 2014. Forty percent of the warrants, or warrants to purchase approximately 840,000 shares, can be exercised beginning May 15, 2009 and the remaining warrants can be exercised in twenty percent increments after October 31, 2009, April 30, 2010 and October 31, 2010. On each of these three dates, warrants to purchase approximately 420,000 additional shares become exercisable unless we repay our revolving credit facility in specified amounts by specified times.

If we repay at least $62.5 million, but less than $75 million of our revolving credit facility by October 31, 2009, warrants to purchase only approximately 210,000 additional shares of our common stock will become exercisable, and the balance of the warrants to purchase approximately 1.05 million shares of our common stock will be extinguished.

If we repay at least $75 million of our revolving credit facility by October 31, 2009, no additional warrants will become exercisable and the balance of the warrants to purchase approximately 1.26 million shares of our common stock will be extinguished.

Table of Contents

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock is quoted on The Nasdaq Global Select Market under the symbol PLAB. The following table sets forth for the periods indicated the high and low daily sales prices of our common stock as reported by the Nasdaq.

	High	Low
Year Ended October 28, 2007		
First Quarter	$ 16.97	$ 13.68
Second Quarter	16.88	15.00
Third Quarter	15.96	14.14
Fourth Quarter	14.54	10.38
Year Ended November 2, 2008		
First Quarter	$ 13.10	$ 8.91
Second Quarter	12.87	8.44
Third Quarter	11.16	4.40
Fourth Quarter	4.74	0.39
Year Ending November 1, 2009		
First Quarter	$ 2.15	$ 0.33
Second Quarter	1.82	0.65
Third Quarter	5.46	1.53
Fourth Quarter (through September 10, 2009)	5.35	4.01

On September 10, 2009, the last reported sale price of our common stock on The Nasdaq Global Select Market was $4.17. As of September 1, 2009, there were 42,095,739 shares of our common stock outstanding held by approximately 291 holders of record.

We have not paid any cash dividends to date and, for the foreseeable future, anticipate that earnings will continue to be retained for use in our business. Further, our current bank credit facilities restrict, and any replacement credit facility we enter into is likely to restrict, the payment of cash dividends.

Table of Contents

CAPITALIZATION

The following table sets forth our unaudited cash and cash equivalents and capitalization as of August 2, 2009:

on an actual basis;

on an as adjusted basis to reflect the receipt and application of the net proceeds from this offering, as described under Use of Proceeds; and

on an as further adjusted basis to further reflect the receipt and application of the net proceeds from our concurrent convertible senior notes offering, as described under Use of Proceeds.

	As of August 2, 2009		
	Actual	As Adjusted (in thousands) (unaudited)	As Further Adjusted
Cash and cash equivalents	$ 85,531	$ 85,531	$ 85,531
Long-term debt:			
5.50% convertible senior notes offered concurrently with this offering	$	$	$ 50,000
Revolving credit facility	122,747	85,247	37,534
Term loan agreement	27,234	27,234	27,234
8.0% capital lease obligation payable through January 2013	23,132	23,132	23,132
5.6% capital lease obligation payable through October 2012	13,572	13,572	13,572
Other	661	661	661
	187,346	149,846	152,133
Less current portion	31,424	31,424	31,424
Total long-term debt	155,922	118,422	120,709
Minority interest	49,695	49,695	49,695
Shareholders equity:			
Preferred stock, $.01 par value: 2,000 shares authorized; no shares issued and outstanding actual, as adjusted and as further adjusted			
Common stock, $.01 par value: 150,000 shares authorized; 41,878 shares actual and 51,517 shares issued and outstanding as adjusted and as further adjusted	419	515	515
Additional paid-in capital	386,460	423,864	423,864
Retained earnings deficit	(27,788)	(27,130)	(26,293)
Accumulated other comprehensive loss	(13,082)	(13,082)	(13,082)
Total shareholders equity	346,009	384,167	385,004
Total capitalization	$ 551,626	$ 552,284	$ 555,408

The number of shares of common stock to be outstanding after this offering does not include:

5,518,755 shares reserved for issuance under our stock-based compensation plans, 3,357,522 shares of which were issuable upon exercise of options outstanding as of August 2, 2009 at a weighted average exercise price of $11.29 per share;

2,021,041 shares issuable upon exercise of outstanding warrants to purchase our common stock at an exercise price of $0.01 per share;

191,535 shares of nonvested restricted stock outstanding as of August 2, 2009;

1,445,783 additional shares that the underwriters have a right to purchase from us within 30 days from the date of this prospectus supplement to cover overallotments; and

750,000 shares issuable upon exercise of warrants that we intend to issue to Intel Capital Corporation.

This table should be read with Management s Discussion and Analysis of Results of Operations and Financial Condition and our financial statements and the accompanying notes set forth in our most recent quarterly and annual reports that are incorporated by reference herein.

Table of Contents

UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following discussion is a general summary of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock applicable to Non-U.S. Holders. As used herein, a Non-U.S. Holder means a beneficial owner of our common stock that is *not* a U.S. person or a partnership for U.S. federal income tax purposes, and that will hold shares of our common stock as capital assets (i.e., generally, for investment). For U.S. federal income tax purposes, a U.S. person includes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other business entity treated as a corporation) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust that (A) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons, or (B) otherwise has elected to be treated as a U.S. domestic trust.

If an entity classified as a partnership for U.S. federal income tax purposes holds shares of our common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership.

This summary does not consider specific facts and circumstances that may be relevant to a particular Non-U.S. Holder s tax position and does not consider U.S. state and local or non-U.S. tax consequences. It also does not consider Non-U.S. Holders subject to special tax treatment under the U.S. federal income tax laws (including partnerships or other pass-through entities, banks and insurance companies, dealers in securities, persons holding our common stock as part of a straddle, hedge, conversion transaction or other risk-reduction transaction, controlled foreign corporations, passive foreign investment companies, companies that accumulate earnings to avoid U.S. federal income tax, foreign tax-exempt organizations, former U.S. citizens or residents and persons who hold or receive our common stock as compensation). This summary is based on provisions of the U.S. Internal Revenue Code of 1986, as amended (the Code), applicable Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (IRS) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change, possibly on a retroactive basis, and different interpretations.

This summary is included herein as general information only. Accordingly, each prospective Non-U.S. Holder is urged to consult its tax advisor with respect to the U.S. federal, state, local and non-U.S. income, estate and other tax consequences of holding and disposing of our common stock.

U.S. Trade or Business Income

For purposes of this discussion, dividend income and gain on the sale or other taxable disposition of our common stock will be considered to be U.S. trade or business income if such income or gain is (i) effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States and (ii) in the case of a Non-U.S. Holder that is eligible for the benefits of an income tax treaty with the United States, attributable to a permanent establishment (or, for an individual, a fixed base) maintained by the Non-U.S. Holder in the United States. Generally, U.S. trade or business income is not subject to U.S. federal withholding tax (provided the Non-U.S. Holder complies with applicable certification and disclosure requirements); instead, U.S. trade or business income is subject to U.S. federal income tax on a net income basis at regular U.S. federal income tax rates in the same manner as a U.S. person. Any U.S. trade or business income received by a Non-U.S. Holder that is a corporation also may be subject to a branch profits tax at a 30% rate, or at a lower rate prescribed by an applicable income tax treaty, under specific circumstances.

Table of Contents

Dividends

Distributions of cash or property that we pay on our common stock will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). A Non-U.S. Holder generally will be subject to U.S. federal withholding tax at a 30% rate, or at a reduced rate prescribed by an applicable income tax treaty, on any dividends received in respect of our common stock. If the amount of a distribution exceeds our current and accumulated earnings and profits, such excess first will be treated as a tax-free return of capital to the extent of the Non-U.S. Holder s tax basis in our common stock, and thereafter will be treated as capital gain. In order to obtain a reduced rate of U.S. federal withholding tax under an applicable income tax treaty, a Non-U.S. Holder will be required to provide a properly executed IRS Form W-8BEN certifying its entitlement to benefits under the treaty. A Non-U.S. Holder of our common stock that is eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS. A Non-U.S. Holder should consult its own tax advisor regarding its possible entitlement to benefits under an income tax treaty.

The U.S. federal withholding tax does not apply to dividends that are U.S. trade or business income, as defined above, of a Non-U.S. Holder who provides a properly executed IRS Form W-8ECI, certifying that the dividends are effectively connected with the Non-U.S. Holder s conduct of a trade or business within the United States.

Dispositions of our Common Stock

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax in respect of any gain on a sale or other disposition of our common stock unless:

- the gain is U.S. trade or business income, as defined above;
- the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of the disposition and meets other conditions; or