

PHOTRONICS INC
Form 10-K
January 08, 2010

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

FORM 10-K

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

For the fiscal year ended November 1, 2009

OR

**o 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

*(State or other jurisdiction
of incorporation or organization)*

06-0854886

*(IRS Employer
Identification Number)*

15 Secor Road, Brookfield, Connecticut 06804

(Address of principal executive offices and zip code)

(203) 775-9000

(Registrant's telephone number, including area code)

*Securities registered pursuant to Section 12(b) of the Act: **Common Stock, \$0.01 par value per share - NASDAQ
Global Select Market***

*Securities registered pursuant to Section 12(g) of the Act: **None***

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 period 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 3, 2009, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of the registrant common stock held by non-affiliates was approximately \$67,211,105 (based upon the closing price of \$1.76 per share as reported by the Nasdaq Global Select Market on that date).

As of December 31, 2009, 53,185,252 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2010
Annual Meeting of Shareholders
to be held in April 2010

Incorporated into Part III
of this Form 10-K

Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of Photronics, Inc. ("Company" or "we"). 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", "projects", and similar expressions. All forward-looking statements involve risks and uncertainties that are difficult to predict. In particular, any statement

contained in this annual report on Form 10-K, in press releases, written statements or other documents filed with the Securities and Exchange Commission, or in the Company's communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, regarding the consummation and benefits of future acquisitions, expectations with respect to future sales, financial performance, operating efficiencies and product expansion, are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond the control of the Company. These factors may cause actual results, performance or achievements to differ materially from anticipated results, performances or achievements. Factors that might affect such forward-looking statements include, but are not limited to, overall economic and business conditions; the demand for the Company's products; competitive factors in the industries and geographic markets in which the Company competes; changes in federal, state and international tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); the Company's 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 the Company's common stock; foreign currency rate fluctuations; economic and political conditions in international markets; the ability to obtain additional financing; 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 the Company's facilities by natural disasters, labor strikes, political unrest or terrorist activity; the ability to fully utilize its tools; the ability of the Company to achieve desired yields, pricing, product mix, and market acceptance of its products; changes in technology; and the ability of the Company to 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.

-2-

PART I

ITEM 1. BUSINESS

General

Photronics, Inc. ("Company") is a Connecticut corporation, organized in 1969. Its principal executive offices are located at 15 Secor Road, Brookfield, Connecticut 06804, telephone (203) 775-9000. Photronics, Inc. and its subsidiaries are collectively referred to herein as "Photronics" or the "Company". The Company's website is located at <http://www.photronics.com>. The Company makes available, free of charge through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed or furnished to the Securities and Exchange Commission. The information contained or incorporated in the Company's website is not part of these documents.

Photronics, Inc. and its subsidiaries is one of the world's leading manufacturers of photomasks, which are high precision photographic quartz plates containing microscopic images of electronic circuits. Photomasks are a key element in the manufacture of semiconductors and flat panel displays, 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. The Company currently operates principally from nine manufacturing facilities; two of which are located in Europe, two in Taiwan, one each in Korea and Singapore; and three in the United States. The Company closed its manufacturing facilities in Manchester, United Kingdom and Shanghai, China during the year ended November 1, 2009.

Manufacturing Technology

The Company manufactures photomasks, which are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates. The Company's photomasks are manufactured in accordance with circuit designs provided on a confidential basis by its customers. IC and FPD photomasks 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 or flat panel substrate. The typical manufacturing process for a photomask involves the receipt and conversion of circuit design data to manufacturing pattern data. A lithography system then exposes the circuit pattern onto the photomask blank. The exposed areas are developed and etched to produce that pattern on the photomask. The photomask is inspected for defects and conformity to the customer design data, any defects are repaired, any required pellicles (protective translucent cellulose membranes) are applied and, after final inspection, the photomask is shipped to the customer.

The Company currently supports 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. These technologies are capable of producing the finer line resolution, tighter overlay and larger die size for the larger and more complex circuits currently being designed. Electron beam and laser generated photomasks can be used with the most advanced processing techniques to produce the most advanced semiconductor and FPD display devices intended for use in an array of products. However, in the case of IC production, electron beam technologies fabricate the large majority of critical layer photomasks. End markets served with IC photomasks include devices used for microprocessors, memory, telecommunications and related applications. The Company currently owns a number of high-end and mature electron beam and laser-based systems. The production of photomasks by the optical (laser-based) method is less expensive and less precise than those manufactured on high-end electron beam systems.

The first several layers of photomasks are sometimes required to be delivered by the Company within 24 hours from the time it receives customers' design data. The ability to manufacture high quality photomasks within short time periods is dependent upon robust processes, geographic location, efficient manufacturing methods, high yield and high equipment reliability. The Company works to meet these requirements by making significant investments in research and development, manufacturing and data processing systems, and by utilizing statistical process control methods to optimize the manufacturing process and reduce cycle times.

Quality control is an integral part of the photomask manufacturing process. Photomasks are manufactured in temperature, humidity, and particulate controlled clean rooms because of the high level of precision, quality and yields

-3-

required. Each photomask is inspected several times during the manufacturing process to ensure compliance with customer specifications. The Company continues to make substantial investments in equipment to inspect and repair photomasks to ensure that customer specifications are met. After inspection and any necessary repair, the Company utilizes proprietary processes to clean the photomasks prior to shipment.

The majority of IC photomasks produced for the semiconductor industry employ geometries of 90 nanometers or larger. At these geometries, the Company can produce full lines of photomasks and there is no significant technology employed by the Company's competitors that is not also available to the Company. The Company is also capable of producing full lines of photomasks for high-end IC and FPD applications. In the case of IC, this includes masks at and below the 65 nanometer technology node and for FPD at and above the Generation 7 technology node. The Company has access to technology and customer qualified manufacturing capability that allows it to compete in high-end markets serving both IC and FPD applications.

Sales and Marketing

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 internally manufacture photomasks. Photomasks are manufactured by independent merchant manufacturers like us, and by semiconductor and FPD manufacturers that produce photomasks exclusively for their own use (captive manufacturers). 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.

Generally, the Company and each of its customers engage in a qualification and correlation process before the Company becomes an approved supplier. Thereafter, the Company typically negotiates pricing parameters for a customer's orders based on the customer's specifications. Some prices may remain in effect for an extended period. In some instances, the Company enters into sales arrangements, based on the understanding that, as long as the Company's performance is competitive, the Company will receive a specified percentage of that customer's photomask requirements.

The Company conducts its sales and marketing activities primarily through a staff of full-time sales personnel and customer service representatives who work closely with the Company's management and technical personnel. In addition to the sales personnel at the Company's manufacturing facilities, the Company has sales offices throughout the United States, Europe and Asia.

The Company supports international customers through both its domestic and international facilities. The Company considers its presence in international markets important to attracting new customers, providing global solutions to its customers, minimizing delivery time, and serving customers that utilize manufacturing foundries outside of the United States, principally in Asia. See Note 17 to the Company's consolidated financial statements for the amount of net sales and long-lived assets attributable to each of the Company's geographic areas of operations.

Customers

The Company primarily sells its products to leading semiconductor and FPD manufacturers. The Company's largest customers during the fiscal year ended November 1, 2009 ("fiscal 2009") included the following:

AU Optronics Corp.	Maxim Integrated Products, Inc.
Chartered Semiconductor Manufacturing, Ltd.	Micron Technology, Inc.
Dongbu HiTek Co. Ltd.	National Semiconductor Corporation
Freescale Semiconductor, Inc.	Novatek Microelectronics Corp., Ltd.
HannStar Display Corp.	ON Semiconductor Corporation
IM Flash Technologies, LLC	Samsung Electronics Co., Ltd.
Integrated Device Technology, Inc.	Skyworks Solutions, Inc.
Jazz Semiconductor, Inc.	ST Microelectronics, Inc.
LG Philips LCD Co., Ltd.	Texas Instruments Incorporated
Magnachip Semiconductor	United Microelectronics Corp.

During fiscal 2009, the Company sold its products and services to approximately 600 customers. Samsung Electronics Co., Ltd. accounted for approximately 19% of the Company's net sales in fiscal 2009, and 25% in fiscal 2008 and 2007. This included sales of both IC and FPD photomasks. The Company's five largest customers, in the aggregate, accounted for approximately 42% in fiscal 2009, 44% in fiscal 2008 and 43% in fiscal 2007, of net sales. A significant decrease in the amount of sales to any of these customers could have a material adverse effect on the financial performance and business prospects of the Company.

Seasonality

The Company's quarterly revenues can be affected by the seasonal purchasing of its customers. The Company is typically impacted during its first fiscal quarter by the North American and European holiday periods, as some customers reduce their effective workdays and orders during this period. Additionally, the Company can be impacted during its first or second quarter by the Asian New Year holiday period which also may reduce customer orders.

Research and Development

The Company conducts its primary research and development activities at the MP Mask Technology Center, LLC ("MP Mask") joint venture operation located in Boise, Idaho, and in site-specific research and development programs to support strategic customers. The MP Mask research and development programs, coupled with site-specific research and development initiatives, are designed to advance the Company's leadership in technology and manufacturing efficiency. The Company also conducts application oriented research and development activities to support the early adoption of new photomask or supporting data and services technology into the customers' applications. Currently, research and development photomask activities are focused on 32 nanometer node and below IC technology and Generation 8 and higher FPD technology. The Company believes these core competencies will continue to be a critical part of semiconductor manufacturing as optical lithography continues to scale device capabilities at and below 45 nanometer. The Company has incurred research and development expenses of \$15.4 million, \$17.5 million and \$17.3 million in fiscal 2009, 2008 and 2007, respectively. The Company believes that it owns, controls, or licenses valuable proprietary information necessary for its business as it is presently conducted. This includes trade secrets as well as patents. The Company believes that its intellectual property and trade secret know-how will continue to be important to its technical leadership in the field of photomasks.

Patents and Trademarks

The Company has over 45 patents with ownership interest in the United States. The subject matter of these patents generally relates to the manufacture of photomasks themselves and the use of photomasks to manufacture other products. The expiration dates of these patents range from 2011 to 2027. Additionally, pursuant to the technology license agreement with Micron Technology, Inc. (Micron), the Company has access to certain technology of Micron and MP Mask. The Company also has a number of trademarks and trademark registrations in the United States and in other countries.

While the Company believes that its intellectual property is, and will continue to be, important to the Company's technical leadership in the field of photomasks, the Company's operations are not dependent on any one individual patent. The Company protects its intellectual property rights regarding products and manufacturing processes through patents and trade secrets. The Company also relies on non-disclosure agreements with employees and vendors to protect its intellectual property and proprietary processes.

Materials, Supplies and Equipment

Raw materials used by the Company generally include high precision quartz plates (including large area plates), which are used as photomask blanks, primarily obtained from Japanese and Korean suppliers; pellicles and electronic grade chemicals, which are used in the manufacturing process; and compacts, which are durable plastic containers in

which photomasks are shipped. These materials are generally sourced from several suppliers and although the Company is not dependent on any one supplier for most of its raw materials, glass blanks used for the production of certain high-end photomasks are only available from one supplier. The Company believes that its utilization of a select group of strategic suppliers enables it to access the most technologically advanced materials available. On an ongoing basis, the Company continues to consider additional supply sources.

The Company relies on a limited number of equipment suppliers to develop and supply the equipment used in the photomask manufacturing process. Although the Company has been able to obtain equipment on a timely basis, the

-5-

inability to obtain equipment when required could adversely affect the Company's business and results of operations. The Company also relies on these and additional suppliers to develop future generations of manufacturing systems to support the Company's requirements.

Backlog

The first several levels of a set of photomasks for a circuit pattern are often required to be shipped within 24 hours of receiving a customer's designs. Because of the short period between order and shipment dates (typically from 1 day to 2 weeks) for a significant amount of the Company's sales, the dollar amount of current backlog is not considered to be a reliable indicator of future sales volume.

International Operations

International sales were approximately 72%, 77% and 75% of the Company's sales in fiscal 2009, 2008 and 2007, respectively. The Company believes that maintaining significant international operations requires it to have, among other things, a local presence in the markets in which it operates. This requires a significant investment in financial, management, operational, and other resources.

Operations outside the United States are subject to inherent risks, including fluctuations in exchange rates, political and economic conditions in various countries, unexpected changes in regulatory requirements, tariffs and other trade barriers, difficulties in staffing and managing international operations, longer accounts receivable collection cycles and potentially adverse tax consequences. These factors may have a material adverse effect on the Company's ability to generate sales outside the United States and to deploy resources where they can be used to their greatest advantage, and consequently may adversely affect its financial conditions and results of operations.

Note 17 of the notes to the Company's consolidated financial statements reports net sales and long-lived assets by geographic region.

Competition

The photomask industry is highly competitive and most of the Company's customers utilize multiple photomask suppliers. The Company's ability to compete depends primarily upon its consistency of product quality and timeliness of delivery, as well as pricing, technical capability and service. The Company also believes that proximity to customers is an important factor in certain markets where cycle time from order to delivery is critical. A few competitors have greater financial, technical, sales, marketing and other resources than the Company. The Company believes that consistency of product quality, timeliness of delivery, and price are the principal factors considered by customers in selecting their photomask suppliers. The Company's inability to meet these requirements could adversely affect its sales. The Company believes that it is able to compete effectively because of its dedication to customer

service, its investment in state-of-the-art photomask equipment and facilities, and its experienced technical employees.

The Company estimates that for the types of photomasks it manufactures (IC and FPD) the size of the total market (captive and merchant) is approximately \$3.2 billion. Competitors include Compugraphics, Inc., Dai Nippon Printing Co., Ltd., Hoya Corporation, SK-Electronics Co. Ltd., Taiwan Mask Corporation, Toppan Printing Co., Ltd. and Toppan Chungwha Electronics. The Company also competes with semiconductor manufacturers' captive photomask manufacturing operations that supply photomasks for internal use and, in some instances, also for external customers and foundries. The Company expects to face continued competition which in the past has led to pressure to reduce prices. The Company believes the pressure to reduce prices has contributed to the decrease in the number of independent manufacturers, and expects such pressure to continue in the future.

Employees

As of November 1, 2009, the Company and its majority-owned subsidiaries had approximately 1,300 employees. The Company believes it offers competitive compensation and other benefits and that its employee relations are good.

-6-

ITEM 1A. RISK FACTORS

The Company is dependent on the semiconductor industry which, as a whole, is volatile and could have a negative material impact on its business.

The Company sells substantially all of its photomasks to semiconductor designers, manufacturers and foundries, as well as to other high performance electronics manufacturers. The Company believes that the demand for photomasks depends primarily on design activity rather than sales volume from products using photomask technologies. Consequently, an increase in semiconductor or FPD 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 or FPD designs could reduce demand for photomasks even if demand for semiconductors and FPDs increases. Further, advances in design and production methods for semiconductors and other high performance electronics could reduce the demand for photomasks. Historically, the semiconductor industry has been volatile, with sharp periodic downturns and slowdowns. These downturns have been characterized by, among other things, diminished product demand, excess production capacity and accelerated erosion of selling prices. The semiconductor industry began to experience a downturn in fiscal 2008, which continued through fiscal 2009, and had an adverse impact on the Company's 2009 operating results.

The Company's sales of photomasks for use in fabricating high performance electronic products such as FPDs decreased in fiscal 2009 as compared to fiscal 2008. The Company's results may suffer if the FPD photomask market does not grow or if the Company is unable to serve this market successfully. As is the case with semiconductor photomask demand, the Company believes 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.

The Company incurred net losses in fiscal years 2009 and 2008, and may incur future net losses.

The Company incurred net losses of \$41.9 million in fiscal 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 that began in 2008. Net losses incurred in both fiscal years 2009 and 2008 include significant non-cash charges for restructurings, impairments of goodwill, and impairments of long-lived assets. The Company cannot provide assurance of when Photronics will return to profitability.

The Company's quarterly operating results fluctuate significantly and may continue to do so in the future which could adversely impact the Company's business.

The Company has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations will continue and could intensify in the future. Fluctuations in operating results may result in volatility in the prices of the Company's securities, particularly its common stock and securities linked to the value of the Company's 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. The Company operates in a high fixed cost environment and, to the extent its revenues and asset utilization increase or decrease, operating margins will be positively or negatively impacted. The Company's customers generally order photomasks on an as-needed basis, and substantially all of the Company's net sales in any quarter are dependent on orders received during that quarter. Since the Company operates with little backlog and the rate of new orders may vary significantly from month-to-month, the Company's 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 the Company's operating results would be adversely affected. Due to the foregoing factors, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. In addition, in future quarters the Company's operating results could be below the expectations of public market analysts and investors, which, in turn, could materially adversely affect the market prices of the Company's common stock.

-7-

The Company's industry is subject to rapid technological change and the Company might fail to remain competitive, which could have a material adverse effect on the Company's 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, the Company will be required to continually anticipate, respond to and utilize changing technologies of increasing complexity in both traditional and emerging markets that it serves. In particular, the Company believes 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 in the production of semiconductors. As of the end 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, the Company's business and results of operations would be materially adversely affected. If the Company is unable to anticipate, respond to or utilize these or other changing technologies, due to resource, technological or other constraints, its business and results of operations could be materially adversely affected. Further, should sales volumes decrease based upon the flow of

design releases from the Company's customers, the Company may have excess or underutilized production capacity that could significantly impact operating margins, or result in write-offs from asset impairments.

The Company's operations will continue to require substantial capital, which it may be unable to obtain.

The manufacture of photomasks requires substantial investments in high-end manufacturing capability at existing and new facilities. The Company expects that it will be required to continue to make substantial capital expenditures to meet the technological demands of its customers and to position it for future growth. The Company's capital expenditure payments for fiscal 2010 are expected to be in the range of \$45 million to \$55 million, of which \$10 million was accrued as of November 1, 2009. Further, the Company's credit facility has a limitation on capital expenditure payments. The Company cannot provide assurance that it will be able to obtain the additional capital required in connection with its operations on reasonable terms, if at all, or that any such expenditure will not have a material adverse effect on its business and results of operations.

The Company's agreements with Micron have several risks; should either company not comply or execute under these agreements it could significantly disrupt the Company's business and technology activities which could have a material effect on the Company's operations or cash flows.

On May 5, 2006, Photronics and 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 and Photronics paid Micron \$135.0 million in exchange for a 49.99% interest in MP Mask, a license for photomask technology of Micron and certain supply agreements. The Company 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 received distributions from MP Mask of \$5.0 million in both 2009 and 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, the Company 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 the Company. Should the Company choose not to make a requested contribution to the joint venture, Photronics' ownership interest may be reduced.

On May 19, 2009, the Company's 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 the Company at the end of the lease term. As a result of the new lease agreement, the Company reduced its lease obligations and the carrying value of its assets under capital leases by approximately \$28 million. Including the \$28 million reduction in carrying value of assets under capital leases, the Company's total investment to date in the purchase and equipping of the Company's U.S. nanoFab is approximately \$157 million. The U.S. nanoFab began production in the second fiscal quarter of 2008.

Failure by Photronics 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 the Company's business and technology activities, and could adversely affect the Company's operations and cash flows.

The Company has 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 its sales and results of operations.

Historically, the Company has sold a significant proportion of photomasks to a limited number of IC and FPD manufacturers. During fiscal 2009, one customer, Samsung Electronics Co., Ltd., accounted for approximately 19% of the Company's net sales. The Company's five largest customers, in the aggregate, accounted for 42% of net sales in fiscal 2009, 44% in fiscal 2008, and 43% in fiscal 2007. None of the Company's customers has entered into a long-term agreement with the Company requiring them to purchase the Company's products. 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 an unfavorable change in market, economic, or competitive conditions in the semiconductor or FPD industries, could have a material adverse effect on the Company's 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 the Company's financial performance and business prospects.

The Company depends on a small number of suppliers for equipment and raw materials and, if the Company's suppliers do not deliver their products to them, the Company may be unable to deliver its products to its customers, which could adversely affect its business and results of operations.

The Company relies on a limited number of photomask equipment manufacturers to develop and supply the equipment it uses. 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 the Company's business and results of operations. Further, the Company relies on equipment manufacturers to develop future generations of manufacturing equipment to meet its requirements. In addition, the manufacturing equipment necessary to produce advanced photomasks could become prohibitively expensive.

The Company uses high precision quartz photomask blanks, pellicles, and electronic grade chemicals in its 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. The Company has no long-term contracts for the supply of these raw materials. Any delays or quality problems in connection with significant raw materials, particularly photomask blanks, could cause delays in shipments of photomasks, which could have a material adverse effect on the Company's business and results of operations. The fluctuation of foreign currency exchange rates with respect to prices of equipment and raw materials used in manufacturing also could have a material adverse effect on the Company's business and results of operations.

The Company faces risks associated with complex manufacturing processes, including the use of sophisticated equipment and manufacturing processes with complex technologies. The inability of the Company to effectively utilize these processes and technologies could have a material adverse effect on its business and results of operations.

The Company's 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. The Company has, on occasion, experienced manufacturing difficulties and capacity limitations that have delayed the Company's ability to deliver products within the time frames contracted for by its customers. The Company cannot provide assurance that it 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 its business and results of operations.

The Company's debt agreements limit its ability to obtain financing and obligates the Company to repay debt.

As of November 1, 2009, the Company had \$2.6 million outstanding under its revolving credit facility and \$27.2 million outstanding under its term loan agreement. The outstanding balance of the revolving credit facility was reduced by \$120.2 million during the quarter ended November 1, 2009, primarily with the net proceeds of the Company's 5.5% convertible notes and common stock offerings, and with cash from operations. On June 8, 2009, the Company entered into the aforementioned term loan agreement in the U.S. for \$27.2 million, which was used to repay outstanding foreign loans on June 12, 2009. Financial covenants related to these debts include, among others, a Senior Leverage Ratio, Total Leverage Ratio, Minimum Fixed Charge Ratio and minimum six-month EBITDA levels. Existing covenant restrictions limit the Company's ability to obtain additional debt financing and, should Photronics be unable to meet one or more of these covenants, the bank may require the Company to repay the outstanding balances prior to the expiration date of the agreements.

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

The Company's prior and future acquisitions may entail certain operational and financial risks.

The Company has made significant acquisitions throughout its history. Acquisitions have focused on increasing its manufacturing presence in Asia, including its acquisition of Precision Semiconductor Mask Corporation, a Taiwanese photomask manufacturer, in 2000 and PK Ltd., a Korean photomask manufacturer, in 2001 and increasing its technology base through the MP Mask joint venture between Photronics and Micron in 2006. The Company may make additional acquisitions in the future. Acquisitions place significant demands on the Company's 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 the Company and the acquired operation, and these customers transition to another vendor in order to ensure a second source of supply. Furthermore, the Company may be required to utilize its cash reserves and/or issue new securities for future acquisitions, which could have a dilutive effect on its earnings per share.

The Company's cash flow from operations and current holdings of cash may not be adequate for its current and long term needs.

The Company's liquidity is highly dependent on its sales volume and the timing of its capital expenditures, (which can vary significantly from period to period), as it operates in a high fixed cost environment. Depending on conditions in the IC semiconductor and FPD market, the Company's cash flows from operations and current holdings of cash may not be adequate to meet the Company's current and long-term needs for capital expenditures, operations and debt repayments. Historically, in certain years the Company has used external financing to fund these needs. Due to conditions in the credit markets, some financing instruments used by the Company in the past may not be currently available to it. The Company is evaluating alternatives to increase its capital, delaying capital expenditures and evaluating further cost reduction initiatives. However, the Company cannot assure that additional sources of financing would be available to it on commercially favorable terms should its capital requirements exceed cash available from operations and existing cash, and cash available under its credit facility.

-10-

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

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

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

The Company operates in a highly competitive industry; should the Company be unable to meet its customers' requirements for product quality, timeliness of delivery or technical capabilities, it could adversely affect the Company's sales.

The photomask industry is highly competitive, and most of the Company's customers utilize more than one photomask supplier. The Company's competitors include Compugraphics, Inc., Dai Nippon Printing Co., Ltd., Hoya Corporation, SK-Electronics Co., Ltd., Taiwan Mask Corporation, Toppan Printing Co., Ltd. and Toppan Chungwha Electronics Corporation. The Company also competes with semiconductor manufacturers' captive photomask manufacturing operations, some of which market their photomask manufacturing services to outside customers. The Company expects to face continued competition from these and other suppliers in the future. Many of the Company's competitors have substantially greater financial, technical, sales, marketing and other resources than it does. Also, when producing smaller geometry photomasks, some of the Company's competitors may be able to more rapidly develop, produce, and achieve higher manufacturing yields than the Company. The Company believes 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. The Company's inability to meet these requirements could have a material adverse effect on its business and results of operations. In the past, competition led to pressure to reduce prices which, the Company believes, contributed to the decrease in the number of independent manufacturers. This pressure to reduce prices may continue in the future.

The Company's substantial international operations are subject to additional risks.

International sales accounted for approximately 72% of the Company's net sales for fiscal 2009, 77% in fiscal 2008, and 75% in fiscal 2007. The Company believes that maintaining significant international operations requires it

to have, among other things, a local presence in the markets in which it operates. This requires significant investments of financial, managerial, operational, and other resources. Since 1996, the Company has significantly expanded its operations in international markets by acquiring existing businesses in Europe, establishing a manufacturing operation 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 the served market continues to shift to Asia, the Company will continue to assess its 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, 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 the Company's ability to generate sales outside the United States and, consequently, on its business and results of operations.

Changes in foreign currency exchange rates could materially, adversely affect the Company's business, results of operations, or financial condition.

The Company's financial statements are prepared in accordance with accounting principals generally accepted in the United States of America (U.S. GAAP) and are reported in U.S. dollars. The Company's international operations have transactions and balances denominated in currencies other than the U.S. dollar, primarily the Korean won, New Taiwan dollar, Japanese yen, Singapore dollar, euro, British pound and Chinese renminbi. In fiscal 2009, the Company recorded a net loss of \$3.1 million in its statement of operations from changes in foreign currency rates, while its net assets were increased by \$10.7 million as a result of the translation of foreign currency financial statements to U.S. dollars. In the event of significant foreign currency fluctuations, the Company's results of operations, financial condition or cash flows may be adversely affected.

-11-

The Company's business depends on managerial and technical personnel, who are in great demand, and its inability to attract and retain qualified employees could adversely affect the Company's business and results of operations.

The Company's success, in part, depends upon key managerial, engineering and technical personnel, as well as its ability to continue to attract and retain additional personnel. The loss of certain key personnel could have a material, adverse effect upon the Company's business and results of operations. There can be no assurance that the Company can retain its key managerial, and technical employees, or that it can attract similar additional employees in the future. The Company believes that it provides competitive compensation and incentive packages to its employees.

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

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

- * it will be able to adequately protect its technology;

- * competitors will not independently develop similar technology; or
- * international intellectual property laws will adequately protect its intellectual property rights.

The Company 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, with or without merit, or litigation to enforce or protect its intellectual property rights or to defend itself against claimed infringement of the rights of others could result in substantial costs, diversion of resources, and product shipment delays or, could force the Company 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 the Company's business, results of operations and financial position.

The Company may be unprepared for changes to environmental laws and regulations and may incur liabilities arising from environmental matters.

The Company is 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 the Company's financial position and results of operations. Any failure by the Company to adequately comply with these laws and regulations could subject it 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, so that these liabilities may be joint and several with other parties. In the past, the Company has been involved in remediation activities relating to its properties. The Company believes, based upon current information, that environmental liabilities relating to these activities or other matters are not material to its financial statements. However, there can be no assurances that the Company will not incur any material environmental liabilities in the future.

The Company's production facilities could be damaged or disrupted by a natural disaster or labor strike, either of which could adversely affect its financial position, results of operations and cash flows.

The Company's 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 the Company's manufacturing facilities could result in a prolonged interruption of its business. Any disruption resulting from these events could cause significant delays in shipments of the Company's products and the loss of sales and customers, which could have a material, adverse effect on the Company's financial position, results of operations, and cash flows.

-12-

The Company's sales can be impacted by the health and stability of the general economy, which could adversely affect its operations and cash flows.

The global recession and other unfavorable changes in general economic conditions in the U.S. or other countries in which the Company does business may have the effect of reducing the demand for photomasks. For example, an economic downturn may lead to a decrease in demand for end products whose manufacturing process involves the use of photomasks, which may result in a reduction in new product design and development by semiconductor manufacturers, which could adversely affect the Company's operations and cash flows.

Changes in the Company's credit standing could adversely affect its financial position.

The Company's ability to raise debt capital can be materially influenced by acquisitions, dispositions, other investment decisions, and the results of its operations in the near-term. Should the Company's credit standing decline, its cost and ability to raise needed working and investment capital could adversely affect its results of operations and cash flows.

Additional taxes could adversely affect the Company's financial results.

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

The Company's business could be adversely impacted by global or regional catastrophic events.

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

The fair value of certain warrants issued on the Company's common stock is subject to fluctuations with the market price of the Company's common stock, and may have a material, adverse effect on the Company's results of operations.

On May 15, 2009, in connection with an amendment to the Company's credit facility, Photronics issued 2.1 million warrants to purchase the Company's common stock, approximately 0.8 million of which were outstanding at November 1, 2009. As a result of certain net cash settleable put provisions, the warrants were recorded as a liability during fiscal 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 the Company's 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 the Company's statements of operations. During the period that the warrants were outstanding in fiscal 2009, the market price of the Company's common stock increased, which resulted in a non-cash loss of \$0.3 million. Changes in the market price of the Company's common stock may continue to have a material adverse effect on the Company's results of operations on a non-cash basis.

Certain warrants issued by the Company include a "put" provision, giving the holders the option to sell the warrants to the Company at approximately the market price of the Company's common stock, which may have a material adverse effect on the Company's cash flows.

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 the Company's common stock is not traded on a national exchange or if the Company's 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. As of November 1, 2009, approximately 768,000 warrants were outstanding that include a put provision. The purchase of a significant amount of the Company's common stock by Photronics under the put provision may have a material adverse effect on the Company's cash flows.

Servicing the Company's debt requires a significant amount of cash, and the Company may not have sufficient cash flow from its operations to pay its indebtedness.

The Company's ability to make scheduled payments of the principal and interest or to refinance its indebtedness depends on its future performance, which is subject to economic, financial, competitive and other factors beyond the Company's control. The Company's business may not continue to generate sufficient cash flow from operations in the future to service its debt and make necessary capital expenditures. If the Company is unable to generate such cash flow, it may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. The Company's ability to refinance its indebtedness will depend on the capital markets and the Company's financial condition at such time. The Company may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on its debt obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. DESCRIPTION OF PROPERTY

The following table presents certain information about the Company's photomask manufacturing facilities:

<u>Location</u>	<u>Type of Interest</u>	
Allen, Texas	Owned	
Boise, Idaho	Leased	
Brookfield, Connecticut	Owned	
Bridgend, South Wales	Leased	
Cheonan, Korea	Owned	
Dresden, Germany	Leased	
Hsinchu, Taiwan	Leased	
Shanghai, China	Owned	(1)
		(2)
Singapore	Leased	
Taichung, Taiwan	Owned	(1)

(1) The Company owns its manufacturing facilities in Shanghai and Taichung, however, it leases the related land.

(2) Production at the Shanghai, China facility ceased in July 2009.

The Company believes that its existing manufacturing facilities are suitable and adequate for its present purposes. The Company also leases various sales offices. The Company's administrative headquarters are located in Brookfield, Connecticut in a building that it owns.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various claims that arise in the ordinary course of business. The Company believes such claims, individually or in the aggregate, will not have a material adverse effect on the business of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of fiscal 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDERS' MATTERS

The Common Stock of the Company is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol PLAB. The table below shows the range of high and low sale prices per share for each quarter for fiscal year 2009 and 2008, as reported by NASDAQ.

	<u>High</u>	<u>Low</u>
Fiscal Year Ended November 1, 2009:		
Quarter Ended February 1, 2009	\$ 2.15	\$0.33
Quarter Ended May 3, 2009	1.82	0.65
Quarter Ended August 2, 2009	5.46	1.53
Quarter Ended November 1, 2009	5.49	4.00
Fiscal Year Ended November 2, 2008:		
Quarter Ended January 27, 2008	\$13.10	\$8.91
Quarter Ended April 27, 2008	12.87	8.44
Quarter Ended July 27, 2008	11.16	4.40
Quarter Ended November 2, 2008	4.74	0.39

On December 29, 2009, the closing sale price for the Common Stock as reported by NASDAQ was \$4.54. Based on information available to the Company, the Company believes it has approximately 5,900 shareholders.

The Company has not paid any cash dividends to date and, for the foreseeable future, anticipates that earnings will continue to be retained for use in its business. Further, the Company's revolving credit facility ("credit facility") precludes it from paying cash dividends.

The information regarding the Company's equity compensation required to be disclosed by Item 201(d) of Regulation S-K is incorporated by reference from the Company's 2010 definitive Proxy Statement into Item 12 of Part III of this report.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from the Company's audited consolidated financial statements. The data should be read in conjunction with the audited consolidated financial statements and notes thereto and other financial information included elsewhere in this Form 10-K (in thousands, except per share amounts):

	Year Ended				
	November 1, 2009	November 2, 2008	October 28, 2007	October 29, 2006	October 2005
OPERATING DATA:					
Net sales	\$361,353	\$422,548	\$421,479	\$454,875	\$440,7
Cost and expenses:					
Cost of sales	(304,282)	(349,841)	(321,958)	(307,851)	(295,6
Selling, general and administrative	(41,162)	(55,167)	(61,507)	(62,215)	(54,2
Research and development	(15,423)	(17,475)	(17,300)	(27,337)	(32,1
Consolidation, restructuring and related charges	(13,557) (a)	(510) (d)	-	(15,639) (g)	
Impairment of long-lived assets	(1,458) (b)	(66,874) (e)	-	-	
Impairment of goodwill	-	(138,534) (f)	-	-	
Gains on sales of facilities	2,034	-	2,254	-	
Operating income (loss)	(12,495)	(205,853)	22,968	41,833	58,6
Other income (expense):					
Interest expense	(22,401)	(11,878)	(5,928)	(11,916)	(10,8
Investment and other income (expense), net	(2,208) (c)	5,562	6,844	15,469	7,5
Income (loss) before income tax benefit (provision) and minority interest	(37,104)	(212,169)	23,884	45,386	55,3
Income tax benefit (provision)	(4,323)	2,778	3,178	(10,462)	(10,0
Minority interest in income of consolidated subsidiaries	(483)	(1,374)	(2,539)	(5,592)	(6,6
Net income (loss)	\$ (41,910) (a) (b) (c)	\$ (210,765) (d) (e) (f)	\$ 24,523	\$ 29,332 (g)	\$ 38,6
Earnings (loss) per share:					
Basic	\$(0.97) (a) (b) (c)	\$(5.06) (d) (e) (f)	\$0.59	\$0.71 (g)	\$1.
Diluted	\$(0.97) (a) (b) (c)	\$(5.06) (d) (e) (f)	\$0.56	\$0.66 (g)	\$0.

Weighted average number of common shares outstanding:					
Basic	43,210	41,658	41,539	41,369	35,5
Diluted	43,210	41,658	51,282	51,072	45,2

-16-

BALANCE SHEET DATA

	As of				
	November 1, 2009	November 2, 2008	October 28, 2007	October 29, 2006	October 30, 2005
Working capital	\$ 89,542	\$ 66,419	\$ 96,606	\$ 127,691	\$300,557
Property, plant and equipment, net	347,889	436,528	531,578	443,637	412,429
Total assets	663,656	758,007	1,059,780	1,045,683	945,729
Long-term debt	112,137	202,979	191,253	170,288	238,949
Shareholders' equity	399,755	382,782	654,284	614,282	561,875

- (a) Includes consolidation and restructuring charges of \$13.6 million (\$12.9 million net of tax) in connection with the closures of the Company's Shanghai, China, and Manchester, U.K. manufacturing facilities.
- (b) Includes impairment charge of \$1.5 million (\$1.1 million net of tax) related to the Company's Manchester, U.K. manufacturing facility.
- (c) Includes non-cash mark-to-market charge of \$0.3 million net of tax in connection with warrants issued to purchase the Company's common stock.
- (d) Includes consolidation and restructuring charges of \$0.5 million (\$0.4 million net of tax) in connection with the closure of the Company's Manchester, U.K. manufacturing facility.
- (e) Includes impairment charge of \$66.9 million (\$60.9 million net of tax) for certain long-lived assets in Asia and Europe.

- (f) Includes impairment of goodwill charge of \$138.5 million (\$137.3 million net of tax).
- (g) Includes consolidation and restructuring charges of \$15.6 million net of tax in connection with the closure of the Company's Austin, Texas manufacturing and research and development facility.
- (h) Includes early extinguishment charge of \$1.7 million in connection with the early redemption of \$64.4 million of the Company's 4.75% convertible notes.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Results of Operations for the Years Ended November 1, 2009, November 2, 2008 and October 28, 2007

Overview

The Company sells substantially all of its photomasks to semiconductor designers and manufacturers, and manufacturers of FPDs. Photomask technology is also being applied to the fabrication of other higher performance electronic products such as photonics, micro-electronic mechanical systems and certain nanotechnology