PHOTRONICS INC
Form 10-Q
September 05, 2012

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

FORM 10-Q

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

For the quarterly period ended July 29, 2012

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 No.)
15 Secor Road, Brookfield, Connecticut (Address of principal executive offices)	06804 (Zip Code)
Registrant's telephone number, including area code	(203) 775-9000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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 x No o

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

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

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

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

Class	Outstanding at August 30, 2012
Common Stock, $0.01 par value	60,455,107 Shares

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of Photronics, Inc. ("Photronics" or the "Company"). 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, or the negative of such terms, or other comparable terminology. All forward-looking statements involve risks and uncertainties that are difficult to predict. In particular, any statement contained in this quarterly report on Form 10-Q, 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, or conference calls regarding the consummation and benefits of future acquisitions, expectations with respect to future sales, financial performance, operating efficiencies, or product expansion, are subject to known and unknown risks, uncertainties, and contingencies, many of which are beyond the control of the Company. These factors may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements expressed or implied by such forward-looking statements. Factors that might affect such forward-looking statements include, but are not limited to, overall economic and business conditions; economic and political conditions in international markets; the demand for the Company's products; competitive factors in the industries and geographic markets in which the Company competes; changes in federal, state and international tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including changes in the market price of the Company's common stock; foreign currency exchange rate fluctuations; changes in technology; 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, or the facilities of its customers or suppliers, by natural disasters, labor strikes, political unrest, or terrorist activity; the ability of the Company to (i) place new equipment in service on a timely basis; (ii) obtain additional financing; (iii) achieve anticipated synergies and other cost savings in connection with acquisitions and productivity programs; (iv) fully utilize its tools; (v) achieve desired yields, pricing, product mix, and market acceptance of its products and (vi) obtain necessary export licenses. Any forward-looking statements should be considered in light of these factors. Accordingly, there is no assurance that the Company's expectations will be realized. The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not assume an obligation to provide revisions to any forward-looking statements, except as otherwise required by securities and other applicable laws.

PHOTRONICS, INC.
AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1.CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	July 29, 2012	October 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$197,295	$189,928
Accounts receivable, net of allowance of $3,836 in 2012 and $4,055 in 2011	82,522	85,540
Inventories	22,743	22,100
Deferred income taxes	616	609
Other current assets	7,578	7,030
Total current assets	310,754	305,207
Property, plant and equipment, net	384,792	368,680
Investment in joint venture	93,271	79,984
Intangible assets, net	38,661	42,462
Deferred income taxes	11,749	11,239
Other assets	8,463	10,282
Total assets	$847,690	$817,854
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term borrowings	$7,470	$5,583
Accounts payable	64,169	54,772
Accrued liabilities	26,799	35,546
Total current liabilities	98,438	95,901
Long-term borrowings	170,989	152,577
Deferred income taxes	684	737
Other liabilities	7,612	8,883
Total liabilities	277,723	258,098
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value, 2,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.01 par value, 150,000 shares authorized, 60,137 shares issued and outstanding at July 29, 2012 and 59,651 at October 30, 2011	601	597
Additional paid-in capital	491,731	486,674
Retained earnings	37,640	13,605

Accumulated other comprehensive income	2,408	10,171
Total Photronics, Inc. shareholders' equity	532,380	511,047
Noncontrolling interests	37,587	48,709
Total equity	569,967	559,756
Total liabilities and equity	$847,690	$817,854

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
Net sales	$116,616	$135,935	$346,220	$389,861
Costs and expenses:				
Cost of sales	(84,312)	(97,695)	(258,598)	(284,540)
Selling, general and administrative	(11,784)	(11,833)	(35,311)	(33,995)
Research and development	(5,221)	(3,527)	(14,106)	(11,238)
Consolidation, restructuring and related charges	(7)	-	(1,182)	-
Operating income	15,292	22,880	37,023	60,088
Other income (expense):				
Debt extinguishment loss	-	(4,973)	-	(35,259)
Interest expense	(2,012)	(1,907)	(5,587)	(5,499)
Investment and other income (expense), net	1,245	1,517	3,444	3,480
Income before income taxes	14,525	17,517	34,880	22,810
Income tax provision	(3,258)	(4,895)	(9,242)	(11,637)
Net income	11,267	12,622	25,638	11,173
Net income attributable to noncontrolling interests	(317)	(1,357)	(1,603)	(4,235)
Net income attributable to Photronics, Inc.	$10,950	$11,265	$24,035	$6,938
Earnings per share:				
Basic	$0.18	$0.19	$0.40	$0.12
Diluted	$0.16	$0.16	$0.37	$0.12
Weighted-average number of common shares outstanding:				
Basic	60,121	58,987	60,008	56,163
Diluted	76,436	76,744	76,460	57,724

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
Net income	$11,267	$12,622	$25,638	$11,173
Other comprehensive income, net of tax of $0:				
Foreign currency translation adjustments	(7,035)	3,370	(7,445)	23,157
Amortization of cash flow hedge	32	32	96	96
Other comprehensive income (loss)	(7,003)	3,402	(7,349)	23,253
Comprehensive income	4,264	16,024	18,289	34,426
Less: comprehensive income (loss) attributable to noncontrolling interests	(681)	1,456	1,962	7,244
Comprehensive income attributable to Photronics, Inc.	$4,945	$14,568	$16,327	$27,182

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended July 29, 2012	Nine Months Ended July 31, 2011
Cash flows from operating activities:		
Net income	$25,638	$11,173
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65,010	70,090
Consolidation, restructuring and related charges	262	-
Debt extinguishment loss	-	27,399
Changes in assets and liabilities:		
Accounts receivable	2,324	(10,332)
Inventories	(961)	(14,196)
Other current assets	(675)	(1,154)
Accounts payable, accrued liabilities and other	15,926	21,471
Net cash provided by operating activities	107,524	104,451
Cash flows from investing activities:		
Purchases of property, plant and equipment	(92,009)	(59,089)
Investment in joint venture	(13,397)	(10,773)
Other	(1,618)	(250)
Net cash used in investing activities	(107,024)	(70,112)
Cash flows from financing activities:		
Proceeds from long-term borrowings	25,000	17,000
Proceeds from issuance of convertible debt	-	115,000
Repayments of long-term borrowings	(3,646)	(63,445)
Repurchase of common stock by subsidiary	(11,653)	(3,294)
Payments of deferred financing fees	(198)	(4,318)
Proceeds from exercise of share-based arrangements	517	694
Net cash provided by financing activities	10,020	61,637
Effect of exchange rate changes on cash	(3,153)	7,924
Net increase in cash and cash equivalents	7,367	103,900
Cash and cash equivalents at beginning of period	189,928	98,945
Cash and cash equivalents at end of period	$197,295	$202,845
Supplemental disclosure of non-cash information:		
Accrual for property, plant and equipment purchased during period	$3,008	$19,979
Deposit related to facility purchase	2,000	-
Capital lease obligation for purchase of equipment	-	21,248
Common stock issued to extinguish debt	-	20,234

See accompanying notes to condensed consolidated financial statements.

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PHOTRONICS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three Months and Nine Months Ended July 29, 2012 and July 31, 2011
(unaudited)
(in thousands, except share amounts)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

Photronics, Inc. and its subsidiaries ("Photronics" or the "Company") 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 ("FPDs"), and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits ("ICs") and a variety of FPDs and, to a lesser extent, other types of electrical and optical components. The Company currently operates principally from eight manufacturing facilities, two of which are located in Europe, two in Taiwan, one in Korea, and three in the United States. The Company ceased manufacturing photomasks at its Singapore facility in December 2011.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending October 28, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended October 30, 2011.

NOTE 2 - CHANGES IN EQUITY

The following tables set forth the Company's consolidated changes in equity for the three and nine month periods ended July 29, 2012 and July 31, 2011:

Three Months Ended July 29, 2012

	Photronics, Inc. Shareholders						
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interests	Total Equity
Balance at April 30, 2012	60,106	$601	$490,350	$26,690	$ 8,431	$42,805	$568,877
Net income	-	-	-	10,950	-	317	11,267
Other comprehensive income (loss)	-	-	-	-	(6,004)	(999)	(7,003)
Sale of common stock through employee stock	8	-	18	-	-	-	18

option and purchase plans							
Restricted stock awards vesting and expense	23	-	221	-	-	-	221
Share-based compensation expense	-	-	657	-	-	-	657
Repurchase of common stock by subsidiary	-	-	485	-	(19)	(4,536)	(4,070)
Balance at July 29, 2012	60,137	$601	$491,731	$37,640	$ 2,408	$37,587	$569,967

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Three Months Ended July 31, 2011

	Photronics, Inc. Shareholders						
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Non-controlling Interests	Total Equity
Balance at May 2, 2011	58,539	$585	$478,009	$(6,951)	$ 23,991	$56,981	$552,615
Net income	-	-	-	11,265	-	1,357	12,622
Other comprehensive income	-	-	-	-	3,303	99	3,402
Common stock issued to extinguish debt	738	7	6,461	-	-	-	6,468
Sale of common stock through employee stock option and purchase plans	205	2	243	-	-	-	245
Restricted stock awards vesting and expense	28	1	341	-	-	-	342
Share-based compensation expense	-	-	385	-	-	-	385
Balance at July 31, 2011	59,510	$595	$485,439	$4,314	$ 27,294	$58,437	$576,079

Nine Months Ended July 29, 2012

	Photronics, Inc. Shareholders						
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interests	Total Equity
Balance at October 31, 2011	59,651	$597	$486,674	$13,605	$ 10,171	$48,709	$559,756
Net income	-	-	-	24,035	-	1,603	25,638
Other comprehensive income	-	-	-	-	(7,708)	359	(7,349)
Sale of common stock through employee stock	211	2	255	-	-	-	257

option and purchase plans							
Restricted stock awards vesting and expense	98	-	673	-	-	-	673
Share-based compensation expense	-	-	1,576	-	-	-	1,576
Common stock warrants exercised	177	2	1,051	-	-	-	1,053
Repurchase of common stock by subsidiary	-	-	1,502	-	(55)	(13,084)	(11,637)
Balance at July 29, 2012	60,137	$601	$491,731	$37,640	$ 2,408	$37,587	$569,967

Nine Months Ended July 31, 2011

	Photronics, Inc. Shareholders						
	Common Stock		Additional Paid-in Capital	Retained Earnings (Accum-ulated Deficit)	Accumulated Other Comprehensive Income	Non-controlling Interests	Total Equity
	Shares	Amount					
Balance at November 1, 2010	53,779	$ 538	$ 436,825	$ (2,624)	$ 7,062	$ 54,142	$ 495,943
Net income	-	-	-	6,938	-	4,235	11,173
Other comprehensive income	-	-	-	-	20,244	3,009	23,253
Common stock issued to extinguish debt	5,229	52	45,585	-	-	-	45,637
Sale of common stock through employee stock option and purchase plans	315	3	387	-	-	-	390
Restricted stock awards vesting and expense	65	1	763	-	-	-	764
Share-based compensation expense	-	-	1,050	-	-	-	1,050
Common stock warrants exercised	122	1	1,157	-	-	-	1,158
	-	-	(328)	-	(12)	(2,949)	(3,289)

Repurchase of common stock by subsidiary							
Balance at July 31, 2011	59,510	$ 595	$ 485,439	$ 4,314	$ 27,294	$ 58,437	$ 576,079

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NOTE 3 - JOINT VENTURE, TECHNOLOGY LICENSE AND OTHER AGREEMENTS WITH MICRON TECHNOLOGY, INC.

On May 5, 2006, Photronics and Micron Technology, Inc. ("Micron") entered into the MP Mask joint venture (“MP Mask”), which 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 in Boise, Idaho, (headquarters of MP Mask) and Photronics invested $135 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.

This joint venture is a variable interest entity ("VIE") (as that term is defined in the Accounting Standards Codification ("ASC")) because all costs of the joint venture are passed on to the Company and Micron through purchase agreements they have entered into with the joint venture, and it is dependent upon the Company and Micron for any additional cash requirements. On a quarterly basis the Company reassesses whether its interest in MP Mask gives it a controlling financial interest in this VIE. The purpose of this quarterly reassessment is to identify the primary beneficiary (which is defined in the ASC as the entity that consolidates a VIE) of the VIE. As a result of the reassessment in the current quarter, the Company determined that Micron is still the primary beneficiary of the VIE, by virtue of its tie-breaking voting rights within MP Mask’s Board of Managers, thereby giving it the power to direct the activities of MP Mask that most significantly impact its economic performance, including its decision making authority in the ordinary course of business and its purchasing the majority of products produced by the VIE.

The Company has utilized MP Mask for both high-end IC photomask production and research and development purposes. MP Mask charges its variable interest holders based on their actual usage of its facility. MP Mask separately charges for any research and development activities it engages in at the requests of its owners. The Company recorded cost of sales of $1.6 million and $5.7 million and research and development expenses of $0.2 million and $0.7 million during the three and nine month periods ended July 29, 2012. Cost of sales of $6.5 million and $14.8 million and research and development expenses of $0.2 million and $0.7 million were recorded during the three and nine month periods ended July 31, 2011.

MP Mask is governed by a Board of Managers, appointed by Micron and the Company. Since MP Mask's inception, Micron, as a result of its majority ownership, has held majority voting power on the Board of Managers. The voting power held by each party is subject to change as ownership interests change. Under the MP Mask joint venture operating agreement, the Company may be required to make additional capital contributions to MP Mask up to the maximum amount defined in the operating agreement. However, should the Board of Managers determine that further additional funding is required, MP Mask shall pursue its own financing. If MP Mask 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 MP Mask, its ownership percentage may be reduced. The Company increased its investment in the MP Mask joint venture by $7.4 million and $13.3 million during the three and nine month periods ended July 29, 2012, respectively. During the three and nine month periods ended July 31, 2011, the Company increased its investment in MP Mask by $0.5 million and $10.7 million, respectively. These investments were primarily related to capital calls made by the joint venture.

The Company's investment in the VIE, which represents its maximum exposure to loss, was $93.3 million at July 29, 2012, and $80.0 million at October 30, 2011. These amounts are reported in the Company's condensed consolidated balance sheets as "Investment in joint venture". The Company recorded income from its investment in the VIE of $0.6 million in the nine month period ended July 31, 2011, and recorded no income from its investment in the three month period ended July 31, 2011, or in the three or nine month periods ended July 29, 2012. Income from the VIE is included in "Investment and other income, net" in the condensed consolidated statements of income.

In the first quarter of 2008 a capital lease agreement with Micron commenced for the U.S. nanoFab facility in Boise, Idaho. Quarterly lease payments, which bore interest at 8%, were $3.8 million through January 2013. This lease was cancelled in the third fiscal quarter of 2009, at which time the Company and Micron (the lessor) entered into a new lease agreement for the facility. Under the provisions of the new lease agreement, quarterly lease payments were reduced from $3.8 million to $2.0 million, the term of the lease was extended from December 31, 2012 to December 31, 2014, and ownership of the property would not transfer to the Company at the end of the lease term. The interest rate of the new lease agreement remained at 8%. As a result of the new lease agreement, the Company reduced its lease obligation and the carrying value of its assets under capital leases by approximately $28 million. The Company paid the capital lease obligation in full in April 2011 with a portion of the net proceeds of the March 2011 issuance of its 3.25% convertible senior notes.

In the second quarter of fiscal 2012 the Company paid $35 million to Micron in connection with the purchase of the U.S. nanoFab facility and the remaining term of the operating lease agreement through 2014 was cancelled. Also in connection with this purchase, the Company entered into a $25 million term loan agreement in the second quarter of fiscal 2012 (see Note 4 for further discussion).

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NOTE 4 - LONG-TERM BORROWINGS

Long-term borrowings consist of the following:

	July 29, 2012	October 30, 2011
3.25% convertible senior notes due on April 1, 2016	$ 115,000	$ 115,000
Term loan, which bears interest at a variable rate, as defined (2.5% at July 29, 2012)	24,375	-
5.5% convertible senior notes due on October 1, 2014	22,054	22,054
3.09% capital lease obligation payable through March 2016	16,198	19,218
4.75% financing loan with customer	832	1,888
	178,459	158,160
Less current portion	7,470	5,583
	$ 170,989	$ 152,577

In March 2012 the Company, in connection with its purchase of the U.S. nanoFab facility (see Note 3 for further discussion), amended its credit facility ("the credit facility") to include the addition of a $25 million term loan maturing in March 2017 with minimum quarterly principal payments of $0.6 million (quarterly payments commenced in June 2012 and are based on a ten year repayment period). The amendment also included a twenty-five basis point reduction in the interest rate charged on any borrowings under the credit facility. The credit facility bears interest (2.5% at July 29, 2012), based on the Company's total leverage ratio, at LIBOR plus a spread, as defined in the credit facility.

In March 2011 the Company issued through a private offering, pursuant to Rule 144A under the Securities Act of 1933, as amended, $115 million aggregate principal amount of 3.25% convertible senior notes. The notes mature on April 1, 2016, and note holders may convert each $1,000 principal amount of notes to 96.3879 shares of common stock (equivalent to an initial conversion price of $10.37 per share of common stock) at any time prior to the close of business on the second scheduled trading day immediately preceding April 1, 2016. The conversion rate is subject to adjustment upon the occurrence of certain events, which are described in the indenture dated March 28, 2011. The Company is not required to redeem the notes prior to their maturity date. Interest on the notes accrues in arrears, and is paid semiannually through the notes' maturity date. Interest payments on the notes commenced on October 1, 2011. The net proceeds of the notes were approximately $110.7 million, which were used, in part, to acquire $35.4 million of the Company's 5.5% convertible senior notes which were to mature on October 1, 2014, and to repay, in full, its then outstanding obligations under capital leases of $19.8 million.

In March 2011 the Company amended the credit facility which, as amended, included, among other things: i) a reduction of the aggregate commitments of the lenders from $65 million to $30 million; ii) a reduction of the applicable interest rates and modifications of the leverage ratios related thereto; iii) an extension of the maturity date to April 30, 2015; iv) an increase in the permitted amount of certain financed capital assets up to $75 million outstanding at any one time; v) an allowance to issue the 3.25% convertible senior notes; vi) an increase in the investments "basket" from $15 million to $25 million per year; vii) an allowance to repurchase the 5.5% convertible senior notes and other indebtedness and viii) removal of the limitation on maximum last twelve months capital expenditures.

The credit facility is secured by substantially all of the Company's assets located in the United States, as well as common stock the Company owns in certain of its foreign subsidiaries, and is subject to the following financial covenants: minimum fixed charge ratio, total leverage ratio and minimum unrestricted cash balance. As of July 29, 2012, the Company had no outstanding borrowings under the credit facility's revolving loan and $30 million was available for borrowing.

In June 2011 the Company acquired $5.0 million of its 5.5% convertible senior notes in exchange for 0.7 million shares of its common stock, with a fair value of $6.5 million, and cash of $3.2 million (the note holders received 147.529 shares and cash of $647 for each $1,000 note). The Company, in connection with this repurchase, recorded an extinguishment loss of $5.0 million, which included the write off of deferred financing fees of $0.3 million. The loss is included in other income (expense) in the Company's condensed consolidated statements of income.

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In March 2011 the Company acquired $30.4 million of its 5.5% convertible senior notes in exchange for 4.5 million shares of its common stock, with a fair value of $39.2 million, and cash of $19.7 million (the note holders received 147.529 shares and cash of $647 for each $1,000 note). The Company, in connection with this repurchase, recorded an extinguishment loss of $30.1 million, which included the write off of deferred financing fees of $1.7 million. The loss is included in other income (expense) in the Company's condensed consolidated statements of income.

In September 2009 the Company issued, through a public offering, $57.5 million aggregate principal amount of 5.5% convertible senior notes, which were to mature on October 1, 2014. Under the terms of the offering, the note holders could convert each $1,000 principal amount of notes to 196.7052 shares of common stock (equivalent to an initial conversion price of $5.08 per share of common stock) on, or before, September 30, 2014. The conversion rate is subject to adjustment upon the occurrence of certain events which are described in the indenture dated September 16, 2009. The Company is not required to redeem the notes prior to their maturity. The net proceeds of this offering were approximately $54.9 million, which were used to reduce amounts outstanding under the Company's credit facility. As discussed above, $35.4 million aggregate principal amount of these notes were acquired by the Company during fiscal year 2011.

In April 2011 the Company entered into a five year, $21.2 million capital lease for manufacturing equipment. Payments under the lease, which bears interest at 3.09%, are $0.4 million per month through March 2016. The lease agreement provides that the Company must maintain the equipment in good working order, and includes a cross default with cross acceleration provision related to certain nonfinancial covenants incorporated in the Company's credit facility agreement. As of July 29, 2012, the total amount payable through the end of the lease term was $17.2 million, of which $16.2 million represented principal and $1.0 million represented interest.

In January 2010 the Company borrowed $3.7 million from a customer to purchase manufacturing equipment. This loan bears interest at 4.75% and is primarily being repaid with product supplied to the customer. Product valued at $0.4 million and $0.9 million was shipped to the customer and applied against the loan during the three and nine month periods ended July 29, 2012, respectively, and product valued at $0.3 million and $0.9 million was applied against the loan in the respective prior year periods. The Company estimates that the loan will be fully repaid in fiscal 2013.

NOTE 5 - COMMON STOCK WARRANTS

In September 2009 the Company entered into two warrant agreements with Intel Capital Corporation to purchase a total of 750,000 shares of the Company's common stock. Under one warrant agreement 500,000 shares of the Company's common stock can be purchased at an exercise price of $4.15 per share and under the second warrant agreement 250,000 shares of the Company's common stock can be purchased at an exercise price of $5.08 per share. The warrant agreements expire in September 2014. Also in September 2009, the Company and Intel Corporation entered into an agreement to share technical and operations information regarding the development of the Company's products, the capabilities of the Company's photomask manufacturing lines and the alignment of photomask toolsets. Intel Capital Corporation also invested in the Company's convertible debt offering of September 2009. The warrants were recorded at their fair value on their date of grant, which was determined using the Black-Scholes option pricing model. As of July 29, 2012, none of the warrants issued to Intel Capital Corporation had been exercised.

In conjunction with the May 2009 amendment to its then existing credit facility, the Company also entered into a warrant agreement with its lenders. See Note 6 for further discussion of these warrants.

NOTE 6 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company utilizes derivative instruments to reduce its exposure to the effects of the variability of interest rates and foreign currencies on its financial performance when it believes such action is warranted. Historically, the Company has been a party to derivative instruments to hedge either the variability of cash flows of a prospective transaction or the fair value of a recorded asset or liability. In certain instances, the Company has designated these transactions as hedging instruments. However, whether or not a derivative was designated as being a hedging instrument, the Company's purpose for engaging in the derivative has always been for risk management (and not speculative) purposes. The Company historically has not been a party to a significant number of derivative instruments and does not expect its derivative activity to significantly increase in the foreseeable future.

In addition to the utilization of derivative instruments discussed above, the Company attempts to minimize its risk of foreign currency exchange rate variability by, whenever possible, procuring production materials within the same country that it will utilize the materials in manufacturing, and by selling to customers from manufacturing sites within the country in which the customers are located.

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In May 2009, in connection with an amendment to its credit facility, the Company issued 2.1 million warrants, each exercisable for one share of the Company's common stock at an exercise price of $0.01 per share. Forty percent of the warrants were exercisable upon issuance, and the remaining balance was to become exercisable in twenty percent increments at various points in time after October 31, 2009. As a result of certain net cash settleable put provisions within the warrant agreement, the warrants were recorded as a liability in the Company's consolidated balance sheet. As of the issuance date and for future periods that such warrants remained outstanding, the Company had adjusted the liability based upon the current fair value of the warrants, with any changes in their fair value being recognized in earnings. Due to the warrants' exercise price of $0.01 per share, their fair value approximated the market price of the Company's common stock. Approximately 1.2 million of these warrants were cancelled as a result of the Company's early repayment of certain amounts under its credit facility during the year ended November 1, 2009, and the associated liability was reduced accordingly. During the three month period ended January 29, 2012, all of the 0.2 million of these warrants that remained outstanding were exercised. In connection with this exercise, the Company recognized a gain of $0.1 million, included in investment and other income (expense), net, in its condensed consolidated statements of income. During the three and nine month periods ended July 31, 2011, the Company recognized a gain of $0.2 million and a loss of $0.6 million, respectively, in connection with these warrants, which were also included in investment and other income (expense), net. See Note 5 for disclosures related to other common stock warrants.

A portion of an existing loss on a cash flow hedge in the amount of $0.1 million is expected to be reclassified into earnings over the next twelve months.

The table below presents the effect of derivative instruments on the Company's condensed consolidated balance sheets at July 29, 2012 and October 30, 2011.

Derivatives