PHOTRONICS INC
Form DEF 14A
March 03, 2014

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ]	Preliminary Proxy Statement	[ ]	Soliciting Material Under Rule 14a-12
[ ]	Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))		
[X]	Definitive Proxy Statement		
[ ]	Definitive Additional Materials		

PHOTRONICS, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3)	Filing Party:
4)	Date Filed:

PHOTRONICS, INC.
15 Secor Road
Brookfield, Connecticut 06804
(203) 775-9000

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 11, 2014

TO THE SHAREHOLDERS OF PHOTRONICS, INC.:

Notice is hereby given that the Annual Meeting of Shareholders of Photronics, Inc. will be held at the offices of Photronics, Inc., 15 Secor Road, Building 1, Brookfield, CT 06804 at 10:00 a.m. Eastern Time, on Friday April 11, 2014 for the following purposes:

1) To elect 6 members of the Board of Directors;

2) To approve an amendment to the Photronics, Inc. 2007 Long Term Equity Incentive Plan, as previously amended, to increase the authorized shares for issuance from 6,000,000 shares to 9,000,000 and to amend the amount of restricted stock allowed to be issued thereunder from 15% to 1,000,000 shares;

3) To ratify the selection of Deloitte & Touche LLP as independent registered public accounting firm for the fiscal year ending November 2, 2014;

4) To approve, by non-binding vote, the compensation of our named executive officers; The shareholders will also act on any other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors has fixed February 14, 2014, as the record date for determining the holders of common stock entitled to notice of and to vote at the meeting.

YOUR VOTE IS IMPORTANT. ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING. TO ENSURE YOUR REPRESENTATION AT THE MEETING, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, YOU ARE REQUESTED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED FOR MAILING IN THE UNITED STATES.

By Order of the Board of Directors,

/s/ Richelle E. Burr
Richelle E. Burr
Vice President, General Counsel and Secretary

March 3, 2014

PHOTRONICS, INC.
15 Secor Road
Brookfield, Connecticut 06804
(203) 775-9000

PROXY STATEMENT

For the Annual Meeting of Shareholders
to be held on April 11, 2014

GENERAL INFORMATION

The enclosed proxy is solicited by the Board of Directors (the Board or Board of Directors) of Photronics, Inc. (the Company), to be voted at the Annual Meeting of Shareholders to be held on April 11, 2014, at 10:00 a.m. Eastern Time at the offices of Photronics, Inc., 15 Secor Road, Building 1, Brookfield, CT 06804 or any adjournments or postponements thereof (the Annual Meeting). This proxy statement and the enclosed proxy card are first being sent or given to shareholders on or about March 3, 2014. Our Annual Report on Form 10-K for the fiscal year ended November 3, 2013, as filed with the Securities and Exchange Commission (SEC) is included in the Annual Report to Shareholders being made available to our shareholders with this proxy statement.

The persons named as proxies on the accompanying proxy card have informed the Company of their intention, if no contrary instructions are given, to vote the shares of the Company s common stock (Common Stock) represented by such proxies FOR Proposals 1, 2, 3 and 4, and at their discretion on any other matters which may come before the Annual Meeting. The Board of Directors does not know of any business to be brought before the Annual Meeting other than as set forth in the Notice of Annual Meeting of Shareholders.

Any shareholder who executes and delivers a proxy may revoke it at any time prior to its use. Such revocation would be effective upon either (a) receipt by the Secretary of the Company of written notice of such revocation; (b) receipt by the Secretary of the Company of a properly executed proxy bearing a later date; or (c) appearance by the shareholder at the Annual Meeting and his or her request to revoke the proxy. Any such notice or proxy should be sent to Photronics, Inc., 15 Secor Road, Brookfield, Connecticut 06804, Attention: Secretary. Appearance at the Annual Meeting without a request to revoke a proxy will not revoke a previously executed and delivered proxy.

QUORUM; REQUIRED VOTES

Only shareholders of record at the close of business on February 14, 2014, are entitled to notice of and to vote at the Annual Meeting. As of February 14, 2014, there were 61,626,398 shares of Common Stock issued and outstanding, each of which is entitled to one vote. At the Annual Meeting, the presence in person or by proxy of the holders of a majority of the total number of shares of outstanding Common Stock will be necessary to constitute a quorum. Assuming a quorum is present, the matters to come before the Annual Meeting that are listed in the Notice of Annual Meeting of Shareholders require the following votes to be approved: (1) Proposal 1 (Election of Directors) a plurality of the votes cast by the shareholders entitled to vote at the Annual Meeting is required to elect 6 members of the Board of Directors; (2) Proposal 2 (Equity Incentive Plan Amendment) a majority of the votes cast by the shareholders entitled to vote at the Annual Meeting is required to approve the amendments, provided that the total votes cast on the proposal to approve the amendments to the plan represent over 50% of the outstanding shares of Common Stock; (3) Proposal 3 (Ratification of Selection of Independent Registered Public Accounting Firm for the Fiscal Year Ending November 2, 2014) a majority of the votes cast by the shareholders entitled to vote at the Annual Meeting is required to ratify the selection of Deloitte & Touche LLP; (4) Proposal 4 (Executive Compensation) a majority of the votes cast by the shareholders entitled to vote at the Annual Meeting is required to approve the non-binding resolution approving the compensation of the named executive officers as described in the Compensation Discussion and Analysis and the narrative disclosure included in this proxy statement. Abstentions will be considered as present but will not be considered as votes in favor of any matter; broker non-votes will not be considered as present for the matter as to which the shares are not voted.

Neither the approval nor the disapproval of Proposal 4 will be binding on the Company or the Board of Directors or will be construed as overruling a decision by the Company or the Board of Directors. Neither the approval nor the disapproval of Proposal 4 will create or imply any change to our fiduciary duties or create or imply any additional fiduciary duties for the Company or the Board of Directors. However, the Company will consider the results of this advisory vote in making future decisions on the Company s compensation policies, and the compensation of the Company s named executive officers.

Pursuant to the rules that govern brokers and nominees who have record ownership of shares that are held in street name for account holders (who are the beneficial owners of the shares), brokers and nominees typically have the discretion to vote such shares on routine matters, but not on non-routine matters. If a broker or nominee has not received voting instructions from an account holder and does not have discretionary authority to vote shares on a particular item because it is a non-routine matter, a broker-non-vote occurs. Under the rules governing brokers, an uncontested director election is considered a non-routine matter for which brokers do not have discretionary authority to vote shares held by an account holder. Additionally, as required by Section 957 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), advisory votes on executive compensation and on the frequency of such votes are also considered non-routine matters for which brokers do not have discretionary authority to vote shares held by account holders. Only the ratification of our independent registered public accounting firm under Proposal 3 is considered a routine matter.

Shareholders who hold their shares through a broker (in street name) must provide specific instructions to their brokers as to how to vote their shares, in the manner prescribed by their broker.

CORPORATE GOVERNANCE AND ETHICS

Photronics is committed to the values of effective corporate governance and high ethical standards. Our Board believes that these values are conducive to long-term performance and periodically reevaluates our policies to ensure they meet the Company s needs. Set forth below are a few of the corporate governance practices and policies that we have adopted.

- **Related Party Transaction Policy.** Our Audit Committee is responsible for approving or ratifying transactions involving the Company and related parties and determining if such transactions are, or are not, consistent with the best interests of the Company and our shareholders.

- **Executive Sessions.** The Company s Board of Directors meetings regularly include executive sessions without the presence of management, including the Chairman and Chief Executive Officer.

- **Shareholders Rights Plan Policy.** The Company does not have a shareholders rights plan and is not currently considering adopting one. The Board of Directors position is that it will only adopt a shareholders rights plan if the Board of Directors determines that it is in the best interests of the Company, taking into consideration all factors that it deems advisable and appropriate.

BOARD OF DIRECTORS   POLICIES AND COMMITTEE CHARTERS

The Company has adopted a code of ethics and corporate governance policy to assist the Board and its committees in the exercise of their responsibilities. The code of ethics and corporate governance policy apply generally to the Board and the Company s named executive officers. Each of the Board committees has a written charter that sets forth the goals and responsibilities of the committee. The Company s code of ethics and Board committee charters can be found on the Company s website at www.photronics.com.

The number of directors on our Board is not permitted to be less than three or more than fifteen members under our bylaws. Currently, the Board has fixed the number of directors at six members. The Board is responsible for nominating members to the Board and for filling vacancies on the Board that may occur between annual meetings of shareholders, in each case upon the recommendation of the Nominating Committee. The Nominating Committee seeks input from other Board members and senior management and may engage a search firm to identify and evaluate potential candidates. The Board and each of the committees of the Board conduct annual self-assessments to determine their effectiveness. Additionally, each committee reviews the adequacy of its charter annually and considers any proposed changes.

BOARD LEADERSHIP STRUCTURE

The Board of Directors believes that the current Board leadership structure, in which the roles of Chairman and Chief Executive Officer are held by one person, is appropriate for the Company and its shareholders at this time. The current Board leadership structure is believed to be appropriate because it demonstrates to our employees, suppliers, customers, and other shareholders that the Company is under strong leadership, with a single person setting the tone and having primary responsibility for managing the Company s operations. Currently, having the founder serve as Chairman and Chief Executive Officer has been an effective and successful approach for the Company. However the Company may adopt a different approach in the future.

The Board also has a Lead Independent Director. Mr. Fiederowicz serves as Lead Independent Director. Mr. Fiederowicz s duties include the following: chair any meeting of the independent directors in executive session; facilitate communications between other members of the Board and the Chairman of the Board/Chief Executive Officer (however, each director is free to communicate directly with the Chairman of the Board/Chief Executive officer); monitor, with the assistance of the General Counsel, communications from shareholders.

The Board will continue to reexamine our corporate governance policies and leadership structure on an ongoing basis to ensure that they continue to meet the Company s needs.

THE BOARD OF DIRECTOR S ROLE IN RISK OVERSIGHT AND ASSESSMENT

The Company has a risk management program overseen by senior management and approved by the Board of Directors. Risks are identified and prioritized by senior management and each prioritized risk is assigned to either a Board committee or the full Board for oversight. For example, strategic risks are overseen by the full Board; financial and business conduct risks are overseen by the Audit Committee or the full Board; risks related to related party transactions are overseen by the Audit Committee and compensation risks are overseen by the Compensation Committee. Management regularly reports on enterprise risks to the relevant committee or the Board. Additional review or reporting on enterprise risk is conducted as needed or as requested by the Board or relevant committee.

COMPENSATION RELATED RISK

The Company regularly assesses the risks related to our compensation programs, including our executive compensation programs, and does not believe that the risks arising from our compensation policies and practices are reasonably likely to have a material effect on the Company. Incentive award targets and opportunities are reviewed annually allowing the Compensation Committee to maintain an appropriate balance between rewarding high performance without encouraging excessive risk taking.

OWNERSHIP OF COMMON STOCK BY DIRECTORS, OFFICERS AND CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information on the beneficial ownership of the Company s Common Stock as of February 14, 2014, by: (i) beneficial owners of more than five percent of the Common Stock; (ii) each director; (iii) each named executive officer in the summary compensation table set forth below; and (iv) all directors and currently employed named executive officers of the Company as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percentage of Class
Waddell & Reed Financial, Inc. 6300 Lamar Avenue Overland Park, KS 66202	7,233,326	11.70%(3)
Donald Smith & Co., Inc. 152 West 57th Street New York, NY 10019	5,424,685	8.84%(4)
Dimensional Fund Advisors Palisades West, Building One 6300 Bee Cove Road Austin, Texas 78746	5,359,580	8.73%(5)
Steelhead Partners, LLC 333 108th Avenue NE Bellevue, WA 98004	4,308,685	6.50%(6)
Black Rock, Inc. 40 East 52nd Street New York, NY 10022	3,681,211	5.97% (7)
Barrow, Hanley, Mewhinney & Strauss, LLC 2200 Ross Avenue, 31st Floor Dallas, Texas 75201-2761	3,451,469	5.62%(8)
Richelle Burr	92,780(9)	*
Walter M. Fiederowicz	108,250(9)	*
Joseph A. Fiorita, Jr.	240,900(9)(10)	*
Liang-Choo Hsia	36,000(9)	*
Soo Hong Jeong	545,025(9)	*
Peter Kirlin	156,750(9)	*
Constantine S. Macricostas	1,036,029(9)(11)	*
George Macricostas	72,250(9)	*
Christopher J. Progler	270,175(9)	*
Sean T. Smith	365,999(9)	*
Mitchell G. Tyson	152,500(9)	*
Directors and Named Executive Officers as a group (11 persons)	3,076,658(12)	4.84%

* Less than 5%

(1) The address for all officers and directors is 15 Secor Road, Brookfield, Connecticut 06804.

(2) Except as otherwise indicated, the named person has the sole voting and investment power with respect to the shares of Common Stock set forth opposite such person s name.

(3) According to Schedule 13G/A filed February 7, 2014, Waddell & Reed Financial, Inc. had sole voting and dispositive power over 7,233,326 shares of Common Stock as of December 31, 2013.

(4) According to Schedule 13G filed February 10, 2014, Donald Smith & Co., Inc. had sole voting and dispositive power over 5,424,685 shares of Common Stock as of December 31, 2013.

(5)

According to Schedule 13G/A filed on February 10, 2014, Dimensional Fund Advisors, had sole voting and dispositive power over 5,359,580 shares of Common Stock as of December 31, 2013.

(6) According to Schedule 13G/A filed February 14, 2014, Steelhead Partners, LLC, had sole voting and dispositive power over 4,308,685 shares of Common Stock as of December 31, 2013.

(7) According to Schedule 13G/A filed January 30, 2014, Black Rock, Inc. had sole voting and dispositive power over 3,681,211 shares of Common Stock as of December 31, 2013.

(8) According to Schedule 13G filed February 12, 2014, Barrow, Hanley, Mewhinney & Strauss, LLC had sole voting and dispositive power over 3,451,469 shares of Common Stock as of December 31, 2013.

(9) Includes shares of Common Stock subject to stock options exercisable as of February 14, 2014, (or within 60 days thereof), as follows: Ms. Burr: 65,688; Mr. Fiederowicz: 96,250 ; Mr. Fiorita: 118,000; Dr. Hsia: 8,000; Dr. Jeong: 370,625 ; Dr. Kirlin: 118,250; Mr. Constantine Macricostas: 415,625; Mr. George Macricostas: 35,500; Dr. Progler 214,375; Mr. Smith: 271,875 ; and Mr. Tyson: 73,000.

(10) Includes 300 shares owned by the wife of Mr. Fiorita as to which shares he disclaims beneficial ownership.

(11) Includes 34,568 shares held by the wife of Mr. Macricostas as to which shares he disclaims beneficial ownership.

(12) Includes the shares listed in notes (7), (8) and (9) above.

PROPOSAL 1
ELECTION OF DIRECTORS

The Board has nominated 6 directors to be elected at the 2014 Annual Meeting to serve for a one year term. Each of the 6 directors of the Company that is elected at the Annual Meeting will serve until the 2015 Annual Meeting of Shareholders or, if earlier, until their successors are elected and qualified. Each nominee is currently a director of the Company and has agreed to serve if elected. The names of, and certain information with respect to, the nominees for election as directors are set forth below.

The Company is open and receptive to shareholder communication. If, for any reason, any of the nominees shall become unable to stand for election, the individuals named in the enclosed proxy may exercise their discretion to vote for any substitutes chosen by the Board of Directors, unless the Board of Directors should decide to reduce the number of directors to be elected at the Annual Meeting. The Company has no reason to believe that any nominee will be unable to serve as a director.

The Board of Directors recommends that you vote FOR the election of each of the following nominees:

Nominees:

Name and (Age)	Director Since	Position with the Company
Walter M. Fiederowicz (67 years)	1984	Director
Joseph A. Fiorita, Jr. (69 years)	1987	Director
Dr. L. C. Hsia (65 years)	2012	Director
Constantine S. Macricostas (78 years)	1974	Chairman of the Board
George Macricostas (44 years)	2002	Director
Mitchell G. Tyson (59 years)	2004	Director

Messrs. Fiederowicz, Fiorita, Hsia, and Tyson qualify as being independent under applicable NASDAQ Global Select (NASDAQ) rules.

In addition to the information set forth in the table above, the following provides certain information about each nominee for election as director, including his principal occupation for at least the past five years. Also set forth below is a brief discussion of the specific experience, qualifications, attributes or skills that led to the conclusion that each nominee and director should serve as a director as of the date of this proxy statement, in light of the Company s business and structure.

Walter M. Fiederowicz has been a private investor and consultant since August 1997. During 2011, he served as Managing Director of Painter Hill Ventures and Painter Hill Venture Fund, entities that invest in financial services and technology companies. Mr. Fiederowicz is Chairman of the Compensation Committee, Vice Chairman of the Audit Committee and a member of the Executive Committee. Mr. Fiederowicz brings to the Board of Directors substantial experience in analyzing and forecasting economic conditions both domestically and internationally. Through his service on the boards of other companies, he has gained extensive experience in leadership, risk oversight and corporate governance matters.

Joseph A. Fiorita, Jr., CPA, has been a partner since 1973 at Fiorita, Kornhaas & Company, P.C., an independent certified public accounting firm located in Danbury, Connecticut. He is a member of the Connecticut Society of Certified Public Accountants (CSCPA) and American Institute of Certified Public Accountants (AICPA). He serves as an advisory board member of various closely-held companies and charitable organizations. He is also a Corporator for Newtown Savings Bank. Mr. Fiorita is Chairman of the Audit Committee, Vice Chairman of the Compensation Committee and a member of the Executive Committee. Mr. Fiorita qualifies as an audit committee financial expert under applicable rules promulgated by the Securities and Exchange Commission (SEC). Mr. Fiorita brings to the Board of Directors broad experience in corporate finance, and is highly qualified in the fields of accounting and internal controls, both of which contribute to effective service on the Board of Directors. Through his service on the board of directors of other companies, he has gained additional experience in risk management and corporate governance.

Liang-Choo Hsia, was formerly Senior Vice President and Senior Technical Advisor at Global Foundries. He joined Global Foundries as a result of the acquisition of Chartered Semiconductor Manufacturing where, for over ten years, he played a pivotal role in defining roadmaps for advanced node migration and oversaw the company s participation in the Joint Development Alliance with IBM for advanced manufacturing at the 22/20nm nodes. He joined Chartered after serving for three years as Director of Technology Development of United Microelectronics Corporation in Taiwan. Prior to that, he spent over a decade with IBM as an advisory scientist in various divisions. Dr. Hsia has authored or co-authored over 100 papers and over 50 patents. He resides in Taiwan and has offices in Taiwan and Singapore. Dr. Hsia is a member of the investment committee, Semi Taiwan, he also serves as a Director on the Board of Everam, Inc. Taiwan, a mobile DRAM design house and on the Board of Sequia Microelectronics Corp., Taiwan, a design house for LED power supply chips. Dr. Hsia is Chairman of the Strategic Planning and Technology Development Committee and is a member of the Nominating Committee.

Constantine S. Macricostas is Chairman of the Board and Chief Executive Officer. From July 20, 2008, Mr. Macricostas assumed the responsibility of Interim Chief Executive Officer and on April 3, 2009 he became Chief Executive Officer and President. From February 23, 2004 to June 7, 2005, Mr. Macricostas also served as Chief Executive Officer. Mr. Macricostas also served as Chief Executive Officer of the Company from 1974 until August 1997. Mr. Macricostas is a founder, Vice Chairman of the Board and a director of RagingWire Enterprise Solutions, Inc., (RagingWire). Mr. Macricostas is the father of George Macricostas. Mr. Macricostas knowledge of the Company and its operations is invaluable to the Board of Directors in evaluating and directing the Company s future. Through his long service to the Company and experience in the industry, he has developed extensive knowledge in the areas of leadership, safety, risk oversight, management and corporate governance, each of which provides great value to the Board of Directors.

George Macricostas is Chairman of the Board, Chief Executive Officer, President and a founder of RagingWire, a company that provides secure managed information technology services and data center infrastructure to data intensive enterprises. Mr. Macricostas is a member of the Strategic Planning and Technology Development Committee of the Company. Mr. Macricostas is a member of the Board of Directors of the Jane Goodall Institute, and was a finalist in the 2007 Ernst and Young Entrepreneur of the Year program. From November 2005 to January 2007, Mr. Macricostas was Executive Vice Chairman of RagingWire. From May 2000 through November 2010, Mr. Macricostas was Chief Executive Officer of RagingWire. Prior to the founding of RagingWire, from February 1996 until April 2000, Mr. Macricostas was a senior vice president of the Company, where he was responsible for all aspects of the Company s global information technology infrastructure. Mr. Macricostas brings over 21 years of technical and business management experience in operations and information technology to the Board of Directors. Through his service on the Board, he has gained additional experience in risk management and corporate governance.

Mitchell G. Tyson is an independent business strategy and clean energy consultant and serves on multiple industry, government and corporate boards of directors. He is also an Adjunct Professor at the Brandeis International Business School. Until October 2010 he was the Chief Executive Officer and a Director of Advanced Electron Beams. Prior to joining Advanced Electron Beams in 2005, Mr. Tyson was a corporate consultant and lecturer. Previously, Mr. Tyson served as the Chief Executive Officer of PRI Automation, a publicly traded corporation that supplied automation systems including hardware, software and services to the semiconductor industry. From 1987 to 2002, he held positions of increasing management responsibility and helped transform PRI Automation from a small robotics manufacturer to the world s leading supplier of semiconductor fab automation systems. Prior to joining PRI Automation, Mr. Tyson worked at GCA Corporation from 1985 to 1987 as Director of Product Management and served as science advisor and legislative assistant to the late U.S. Senator Paul Tsongas from 1979 to 1985. Mr. Tyson is Chairman of the Nominating Committee and a member of the Audit Committee of the Company.

MEETINGS AND COMMITTEES OF THE BOARD

The Board of Directors met 5 times during the 2013 fiscal year. During fiscal 2013, each director attended all (100%) of the regular meetings of the Board of Directors and all (100%) of committee meetings of the Board on which such director served.

The Company s Board of Directors has Audit, Compensation, Executive, Nominating and Strategic and Technology Development Committees. Members of the Audit, Compensation and Nominating Committees are comprised of independent, non-employee directors.

The Audit Committee s functions include the appointment of the Company s independent registered public accountants, reviewing with such accountants the plan for and results of their auditing engagement and the independence of such accountants. Messrs. Fiederowicz, Fiorita and Tyson are the members of the Audit Committee. All members of this Committee are independent, non-employee directors under applicable NASDAQ rules. Mr. Fiorita qualifies as an audit committee financial expert under applicable SEC audit committee rules. The Audit Committee held 8 meetings during the 2013 fiscal year.

The Compensation Committee s functions include establishing the compensation levels for our executive officers and overseeing compensation policies and programs for the executive officers of the Company and administration of the Company s equity and stock plans. This includes setting corporate goals and objectives relevant to compensation of our executive officers and evaluating performance against these goals and objectives. The Committee also reviews and makes recommendations to the Board with respect to director compensation. Members of management, including our Chief Executive Officer and President, our Chief Financial Officer, our Vice President of Human Resources and our Vice President and General Counsel participate in Compensation Committee meetings as requested by the Committee to present and discuss the materials provided, including recommendations to be considered relative to executive pay and competitive market practices. These members of management assist the Committee in understanding the Company s business plan and long term strategic direction, developing the performance targets for our performance-based compensation and understanding the technical or regulatory considerations as well as the motivational factors of the decisions that are intended to drive executive and company performance. Although the Committee solicits input and perspective from management regarding executive compensation, the ultimate decision on executive compensation is made solely by the Compensation Committee, and the decision regarding the Chief Executive Officer s compensation is made by the Compensation Committee without the presence of the Chief Executive Officer. Messrs. Fiederowicz and Fiorita are the members of the Compensation Committee. All members of this Committee are independent, non-employee directors under applicable NASDAQ rules. The Compensation Committee held 11 meetings during the 2013 fiscal year.

The purpose of the Executive Committee is to permit action on behalf of the Board of Directors between meetings, particularly in those circumstances for which a timely response is required and full Board participation is not feasible. Messrs. Macricostas, Fiederowicz and Fiorita were the members of the Executive Committee in fiscal 2013. The Company has decided not to utilize an Executive Committee for fiscal 2014.

The purpose of the Strategic Planning and Technology Development Committee is to assist the Board of Directors with planning and directing the Company towards its vision and strategic goals. The Strategic Planning and Development Committee met 4 times in fiscal 2013. Dr. Hsia and Mr. George Macricostas are the members of the Strategic Planning and Technology Development Committee.

The Nominating Committee s functions include the consideration and nomination of candidates for election to the Board. Mr. Tyson and Dr. Hsia are the members of the Nominating Committee. All members of this Committee are independent, non-employee directors under applicable NASDAQ rules. This Committee held 2 meetings during the 2013 fiscal year.

The minimum qualifications for nominees to be considered by the Nominating Committee are experience as a business or technology leader, possession of the qualities or skills necessary, the ability to deliver value and leadership to the Company and the ability to understand, in a comprehensive manner, the technology utilized by the Company and its customers for the production of semiconductors and flat panel displays. If an opening for a Director arises, the Board will conduct a search for qualified candidates. The Nominating Committee utilizes its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating Committee will also consider qualified candidates for Director suggested by shareholders in written submissions sent to Photronics, Inc., 15 Secor Road, Brookfield, Connecticut 06804, Attention: Secretary. The Nominating Committee also considers the diversity of backgrounds and expertise represented in the Board s composition and whether a nominee is qualified to serve may depend in part on the backgrounds of the other directors, so that the Board of Directors as a whole has an appropriate mix of backgrounds and breadth of experience. The Nominating Committee reviews its effectiveness in balancing these considerations through its ongoing consideration of directors and nominees, as well as the Nominating Committee s annual self-evaluation process. The Nominating Committee evaluates candidates in the same manner, whether the candidate was recommended by a shareholder or not.

The Nominating Committee did not receive any Director nominations from a shareholder for the Annual Meeting.

The Board provides a process for shareholders to send communications to the Board or to any Director individually. Shareholders may send written communications to the Board or to any Director c/o Photronics, Inc., 15 Secor Road, Brookfield, Connecticut 06804, Attention: Secretary. All communications will be compiled by the Secretary and submitted to the Board, or the individual Directors, on a periodic basis.

It is the Company s policy that the Directors who stand for election at the Annual Meeting attend the Annual Meeting unless the Director has an irreconcilable conflict and attendance has been excused by the Board. All of the nominees who were Directors during the last fiscal year and who are standing for election at the Annual Meeting attended the 2013 Annual Meeting of Shareholders.

AUDIT COMMITTEE REPORT

The Audit Committee is composed of three directors, each of whom meets the independence requirements of the applicable NASDAQ and SEC rules. The Audit Committee operates under a written charter adopted by the Board of Directors of the Company. The Audit Committee also undertakes a written performance evaluation of the Committee on an annual basis.

The Audit Committee held 8 meetings during the 2013 fiscal year. For the fiscal year ended November 3, 2013, the Audit Committee reviewed and discussed the audited financial statements with management, discussed with Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (communication with Audit Committees) as amended, as adopted by PCAOB in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from Deloitte & Touche LLP required by the applicable requirement of PCAOB regarding Deloitte & Touche LLP s communication with the Audit Committee concerning independence and has discussed with Deloitte & Touche LLP that firm s independence from the Company and its management. The Audit Committee reviewed and discussed with management and Deloitte & Touche LLP, as appropriate, (1) the audited financial statements and (2) management s report on internal control over financial reporting and Deloitte & Touche LLP s related opinions. The Committee considered whether the provision of non-audit services by Deloitte & Touche LLP to the Company is compatible with maintaining the independence of Deloitte & Touche LLP and concluded that the independence of Deloitte & Touche LLP was not compromised by the provision of such services. The Audit Committee met with management periodically during the fiscal year to review the Company s Sarbanes-Oxley Section 404 compliance efforts related to internal controls over financial reporting. Additionally, the Audit Committee pre-approved all audit and non-audit services provided to the Company by Deloitte & Touche LLP. Based on the foregoing meetings, reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements for fiscal year 2013 be included in the Company s Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

The Audit Committee has a formal procedure for reviewing complaints and inquiries about accounting and auditing matters and violations of Company policy.

Fees Paid to the Independent Registered Public Accounting Firm

For the fiscal years ended November 3, 2013 and October 28, 2012, the aggregate fees for professional services rendered by Deloitte & Touche LLP were as follows:

	Fiscal 2013	Fiscal 2012
Audit Fees (a)	$1,031,323	$1,058,678
Audit-Related Fees (b)	132,300	0
Tax Fees (c)	247,309	64,073
All Other Fees	0	0
Total	$1,410,932	$1,122,751

(a) Represents aggregate fees in connection with the audit of the Company s annual financial statements, internal controls over financial reporting and review of the Company s quarterly financial statements or services normally provided by Deloitte & Touche LLP.

(b) Represents assurance and other activities not directly related to the audit of the Company s financial statements.

(c) Represents aggregate fees in connection with tax compliance, tax advice and tax planning.

This report is submitted by:
Joseph A. Fiorita, Jr.
Chairman

Walter M. Fiederowicz

Mitchell G. Tyson

EXECUTIVE OFFICERS

The names of the executive officers (the Named Executive Officers) of the Company are set forth below together with the positions held by each person in the Company. All executive officers are elected annually by the Board of Directors and serve until their successors are duly elected and qualified.

Name and Age	Position	Served as a Named Executive Officer Since
Richelle E. Burr, 50	Vice President, General Counsel and Secretary	2010
Soo Hong Jeong, 58	President and Chief Operating Officer of Asia	2001
Peter S. Kirlin, 53	President	2008
Constantine S. Macricostas, 78	Chief Executive Officer	2008
Christopher J. Progler, 50	Vice President, Chief Technology Officer and Strategic Planning	2004
Sean T. Smith, 53	Senior Vice President and Chief Financial Officer	2000

Richelle E. Burr joined Photronics in 2003 as Corporate Counsel. She was promoted to Vice President, Associate General Counsel in 2008 and was appointed Secretary in April of 2009 prior to her appointment as General Counsel in January 2010.

Dr. Soo Hong Jeong was appointed President and Chief Operating Officer of Asia on February 13, 2013. He has served as President of Asia Operations since March 22, 2004. Dr. Jeong served as Chief Operating Officer of Photronics from June 2006 to February 2013. Prior to that, Dr. Jeong served as a Vice President of the Company and President and Chief Executive Officer of PK, Ltd. (PKL), since August 2001.

Dr. Peter S. Kirlin was appointed President of the Company in September of 2013. He joined Photronics in August, 2008 as Senior Vice President, US and Europe. Prior to joining Photronics, Dr. Kirlin was Executive Chairman of Akrion, Inc. from January 2007 to July 2008. Prior to that Dr. Kirlin was Vice President of Business Development at Entegris, Inc. from May 2004 to September 2006 prior to which he was Chairman and Chief Executive Officer of DuPont Photomask, Inc.

Constantine S. Macricostas has served as Chief Executive Officer and President since April 3, 2009. In September of 2013, Dr. Kirlin was appointed President of the Company and Mr. Macricostas remains as Chairman of the Board and Chief Executive Officer. Prior to that, he served as Interim Chief Executive Officer from July 20, 2008 to April 3, 2009. From February 23, 2004 to June 7, 2005, he also served as Chief Executive Officer. From January 2002 through March 2002, he temporarily assumed the position of President. Mr. Macricostas also served as Chief Executive Officer of the Company from 1974 until August 1997.

Dr. Christopher J. Progler became an executive officer on June 21, 2006. Dr. Progler has been employed by Photronics since 2001 starting with the position of Corporate Chief Scientist. He was promoted to Vice President and Chief Technology Officer in 2004. In 2011 Dr. Progler assumed the added responsibility of Strategic Planning for the Company. Dr. Progler is a Fellow and Board Member of SPIE - The International Society for Optical Engineering. He is Co-Chair of SPIE Advanced Lithography Symposium and Associate Editor for the SPIE Journal of Microlithography, Microfabrication and Microsystems.

Sean T. Smith was promoted to Senior Vice President and Chief Financial Officer on January 25, 2005. He was promoted to Vice President and Chief Financial Officer in March 2002 after serving as Vice President and Controller. He joined Photronics in April 2000.

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee of the Board of Directors (the Compensation Committee) is comprised of two of the independent, non-employee members of the Board of Directors. Neither of these individuals was an officer or employee of the Company at any time during fiscal year 2013 or at any other time, and neither of them have interlocking relationships as described in Item 407 of Regulation S-K. The Compensation Committee is responsible for setting and administering the policies governing compensation of our executive officers. The Compensation Committee reviews and approves, among other things, overall annual performance for the Named Executive Officers as well as all participants in the Company s 2011 Executive Incentive Compensation Plan (2011 EICP).

Compensation Philosophy

The Company s compensation philosophy is that rewarding the Company s executives for their individual and collective efforts and contributions to the Company, in a manner that fosters teamwork and leads to the long-term success of the Company, is in the best interests of its shareholders. The Company also believes that delivering a substantial portion of such rewards in the form of stock or stock options, aligns the interests of the Company s executives with the interests of shareholders. The Company s compensation program is designed to attract and retain talented employees by providing adequate incentives to achieve its business objectives, while not encouraging excessively risky behavior. The Compensation Committee periodically reviews the Company s approach to executive compensation in light of general economic conditions of the semiconductor industry and the Company s performance, and makes changes when appropriate.

Compensation Objectives

Consistent with the Company s philosophy, the Company believes that executive compensation must be competitive with other comparable employers in order for qualified employees to be attracted to, and retained by, the Company, and that the Company s compensation practices should provide incentives for driving better business performance and increasing shareholder value. Accordingly, the four primary objectives of the Company s compensation program, as administered by the Compensation Committee are:

- to provide competitive compensation to attract and retain talented employees;
- to advance the goals of the Company by aligning executives interests with shareholder interests;
- to minimize risks associated with compensation; and
- to balance the incentives associated with the program in a way that provides incentives for executives to assess and manage risks associated with the Company s business appropriately, in the context of the Company s business strategy.

Elements of Compensation

The Compensation Committee uses three components to achieve the Company s primary objectives: base salary, annual cash incentives and stock-based awards.

The Compensation Committee believes that the three components of the Company s compensation result in a compensation program that is competitive and aligns the Named Executive Officer s interests with shareholder value creation.

Base salaries provide each executive with a fixed, minimum level of cash compensation. The Company believes that it is important for retention, stability and continuity of leadership, that base salaries be competitive with the Company s peers. Base salaries may be increased or decreased depending upon changes in duties or economic conditions. The base salary of the highest paid executive of the Company, its Chief Executive Officer, was approximately 59% of his total compensation in 2013.

Annual cash incentives are used to promote the achievement of specific short-term goals of the Company that correspond to certain goals of the Company set on an annual basis and the underlying metrics relating thereto. Since the achievement of the annual cash incentives is determined by Company performance, and the percentage of salary awarded as annual cash incentives for 2013 was the same for all Named Executive Officers, the Company believes that such awards foster teamwork among the Named Executive Officers to meet the Company s short-term objective goals. Approximately 5% of the Named Executive Officers compensation in 2013 consisted of annual cash incentives.

Stock-based awards are the Company s preferred approach to both align the interests of shareholders with the executives, as well as enhance the Company s retention goals. By virtue of the stock-based awards, the Named Executive Officers are shareholders themselves and participate in the gains in value of the Company s stock. Over 31% of the Named Executive Officers compensation in 2013 consisted of stock-based compensation.

Total Direct Compensation Chief Executive Officer	**Total Compensation All Other Named Executive Officers**

<u>Determination of Total Compensation</u>

When determining total compensation, the Compensation Committee assesses five primary factors:

- the overall performance of the Company;
- the Named Executive Officer s role in that performance;
- the compensation previously received by the Named Executive Officer;
- the compensation of similarly situated executive officers working for peer group companies; and
- shareholder feedback.

When linking the Company s performance and the total compensation of the Named Executive Officers, the Compensation Committee uses both the objective metrics provided for under the 2011 EICP as well as its subjective assessment of the performance of the Company in the context of general economic and industry trends.

When the Compensation Committee evaluates the role of each Named Executive Officer in the performance of the Company, it considers both the recommendation and evaluation of such Named Executive Officer by the Chief Executive Officer (the Chief Executive Officer does not evaluate his own performance) and the Compensation Committee s assessment of each Named Executive Officer s leadership qualities, paying particular attention to the scope of his or her duties and the collaboration of such Named Executive Officer with other team members.

In establishing compensation levels for the Company s Named Executive Officers of the Company, identified in the Summary Compensation Table, the Compensation Committee considers compensation at nine publicly traded companies in the semiconductor/electronics industries with similar levels of sales and capital. These companies are Advanced Energy Industries, Inc., ATMI, Inc., Axcelis Technologies, Inc., Brooks Automation, Inc., Cabot

Microelectronics Corp., Entegris, Inc., FEI Co, Kulicke & Soffa Industries, Inc., and Veeco Instruments, Inc. Information regarding these companies and their compensation practices is drawn from their proxy statements. The Compensation Committee adjusts executive compensation in connection with this review. Generally, the Compensation Committee believes that the compensation of its executive officers should be set near the median compensation of this comparison group; however it is also important to the Compensation Committee that compensation reflect individual performance and that may warrant compensation up to 20% above or below the median.

In addition, while establishing its compensation policies for a given year, the Compensation Committee will evaluate the results from the most recent shareholder advisory vote on compensation to consider the implications of such advisory vote for the compensation policies and determine whether changes are appropriate. At the 2013 Annual Shareholders Meeting, 98% of the votes cast with respect to the advisory vote on executive compensation voted to overwhelmingly approve the executive compensation paid in fiscal 2012. In light of this vote, as well as the Compensation Committee s review of the compensation arrangements discussed above, general market pay practices for its executives and its assessments of individual and corporate performance, the Compensation Committee determined that no significant change in its compensation policies would be made. The Compensation Committee will consider the results from this year s and future shareholder advisory votes regarding future executive compensation decisions.

The Compensation Committee does not use tally sheets.

Base Salary

The Compensation Committee evaluates and establishes base salary levels in light of economic conditions (generally and in the regions where executives work) and comparisons to other similarly situated companies. Base salary is designed to recognize an executive s knowledge, skills, abilities, level of responsibility and ongoing performance. The Compensation Committee targets base salary for all executives to be at a level consistent with our assessment of their value relative to their peers in the labor market, while also taking into account our need to maintain costs in light of business conditions and the challenging economic times. Any recommendations for salary changes to any Named Executive Officers (other than the Chief Executive Officer) are made by the Chief Executive Officer and presented to the Compensation Committee for approval.

Dr. Progler s salary was increased in fiscal year 2013 from $285,000 to $300,000, because of strategic planning initiatives he undertook in 2012, technology implemented on behalf of the Company and to make Dr. Progler s salary competitive with other similarly situated chief technology officers. Dr. Peter Kirlin was promoted to President of the Company in September of 2013. As a result of Dr. Kirlin s promotion and his increased responsibilities, his salary was increased from $320,000 to $450,000 in September of 2013.

Dr. Progler s salary was further increased in the beginning of fiscal 2014 from $300,000 to $330,000 again as a result of the strategic initiatives he implemented in 2013 and to make Dr. Progler s salary competitive with other similarly situated technology officers. Ms. Burr s salary was increased in the beginning of fiscal 2014 from $220,000 to $250,000 as a result of additional duties she assumed as General Counsel for the Company and also to make Ms. Burr s salary competitive with other, similarly situated general counsel.

Annual Incentives

During the 2011 Annual Meeting, our shareholders approved the 2011 EICP. Participation in the 2011 EICP is limited to key employees of the Company as designated by the Compensation Committee. The 2011 EICP is administered by the Compensation Committee, which has full power and authority to determine which key employees of the Company receive awards under the 2011 EICP, set performance goals and bonus targets for each fiscal year, interpret and construe the terms of the 2011 EICP and to make all determinations it deems necessary in the administration of the 2011 EICP, including any determination with respect to the achievement of performance goals and the application of such achievement to the bonus targets. The 2011 EICP sets out quantitative and qualitative categories of business criteria upon which performance goals are based. The business criteria measures within each category may be assigned different weightings based upon their relative degree of importance as determined by the Compensation Committee.

In the quantitative category, one or more of the following business criteria may be used as performance measures: (i) net sales, (ii) operating income, (iii) net income, (iv) earnings per share of common stock, (v) net cash flows provided by operating activities, (vi) net increase in working capital, (vii) return on invested capital, (viii) return on equity and/or (ix) debt reduction. In the qualitative category, the business criteria relate to objective individual performance, taking into account individual goals and objectives. The performance goals with respect to each category of business criteria are established by the Compensation Committee within ninety days of the commencement of each fiscal year. Annual bonus targets are either expressed as a percentage of current salary or a fixed monetary amount with respect to each performance goal. At the end of each fiscal year for which a bonus may be earned, the Compensation Committee determines each participant s level of achievement of the established performance goals. Consistent with the relevant provisions of the Dodd-Frank Act, the Company will clawback , or retroactively adjust if the relevant performance measures that awards are based upon are later restated or otherwise adjusted in a manner that would reduce the size of the award or payment. The Compensation Committee may amend or terminate the 2011 EICP at any time provided that no amendment will be effective prior to approval of the Company s shareholders to the extent such approval is required to preserve deductibility of compensation paid pursuant to the 2011 EICP under Section 162(m) of the Internal Revenue Service Code or otherwise required by law.

The Compensation Committee met in January of 2013 and established 5 metrics for fiscal 2013 that were to be used under the 2011 EICP.

Metric	Target	Actual Performance
Operating Margin Percentage	5%	7%
Annual Revenue Per Employee	$353 thousand	$325 thousand
Increased Market Share	Increased Market Share	Achieved
Achievement of Strategic Milestone	Strategic Milestones	Achieved
Minimum Free Cash Flow	$40 million	$46 million

The metrics for fiscal 2013 were operating margin percentage (operating margin percentage is operating income, excluding one-time items, divided by sales), annualized revenue per employee, market share gain, achievement of strategic milestones and minimum free cash flow (minimum free cash flow is defined as EBITDA less non-financed cash capital expenditure. EBITDA as defined in our credit agreement is GAAP net income plus interest expense, income tax expense, depreciation and amortization, and plus (less) special items as defined). Each of the five metrics was given equal weight. The maximum payout upon certification of attainment of targets for 2013 for the Named Executive Officers (with the exception of the CEO) was 25% of the applicable Named Executive Officer s base salary. The Chief Executive Officer s maximum payout was 40%. The Compensation Committee had the discretion to reduce the maximum amount payable to any Named Executive Officer in its sole discretion. In order for the Named Executive Officers to be eligible for a cash bonus for fiscal 2013, the Company was required to meet at least two of the metrics. In December of 2013, the Compensation Committee met and reviewed the metrics established in January and also reviewed the performance of the Company for fiscal 2013. The Compensation Committee determined that the Company achieved four out of the five metrics established for 2013. The Company did not meet the annualized revenue per employee metric. Based on such achievement the Named Executive Officers were eligible for a cash incentive up to 20% of their respective base salaries (with the exception of the CEO who was eligible to receive 32%). However, the Compensation Committee also considered that EBITDA declined from $135 million in 2012 to $110 million in 2013, gross margin declined from 25% in 2012 to 24% and revenues declined 6% to $422 million from $450 million in 2012. High-end IC sales accounted for the overall decline in revenue, primarily attributable to an Asian foundry customer for which the Company was not qualified as a result of a node migration. Therefore, the

Compensation Committee decided to award a bonus of 10% of base salary to each of the Named Executive Officers under the 2011 EICP. Based on the determination of the Compensation Committee, the following Named Executive Officers received the following cash bonus in December 2013:

Constantine Macricostas	$60,000
Sean T. Smith	$37,500
Dr. Peter S. Kirlin	$32,000
Dr. Christopher J. Progler	$30,000

In January of 2014, the Compensation Committee met and established goals to be used for 2014 under the 2011 EICP. The goals established for 2014 were: EBITDA, operating margin, achievement of high end qualification plan and successfully closing and fully integrating by the end of October 2014 the joint venture in Taiwan that the Company announced in November of 2013.

Long Term Equity Incentives

The Company s long term incentive program uses restricted stock and stock options. The plans allow for the grant of stock options and restricted stock awards to directors and executive officers of the Company, as well as other employees of the Company.

The Compensation Committee believes that the grant of stock options and restricted stock awards provides a strong link between executive compensation and shareholder return, aligning the long term interests of its executives with those of the Company s shareholders and thereby promoting strategic planning while minimizing excessive risk.

In March of 2007, the Company adopted a Long Term Equity Incentive Plan (LTEIP). In April of 2010, the LTEIP was amended to increase the number of shares available for issuance under the plan from 3 million to 6 million and the amount of restricted stock allowed to be issued thereunder from 10% to 15% of the total shares issued cumulatively. The LTEIP permits the grant of stock options, restricted stock, stock appreciation rights, performance shares and performance units as well as restricted stock units and other equity-based awards. The granting of equity awards under the LTEIP is generally decided every December at the Company s Board of Directors meeting. Grants to executive officers under the LTEIP are based on job responsibilities and the potential for individual contribution impacting the Company s overall performance. When considering grants, the Compensation Committee exercises judgment and discretion, generally using a sliding scale approach and also considers previous stock award grants in order to align generally with its overall compensation philosophy. For example, the Compensation Committee may consider reducing grants in a particular year, when a Named Executive Officer has large realizable gains from stock award grants in previous years. The Company generally provides restricted stock awards and stock options to the executive officers pursuant to the terms of the LTEIP.

The annual option granting process generally begins with the Compensation Committee providing direction to the Chief Executive Officer as to the total number of shares available for grant for the year. The Chief Executive Officer then provides individual grant recommendations to the Compensation Committee (except for his own) for review and approval. The Chief Executive Officer s recommendation is a subjective evaluation of the Named Executive Officers contribution to the Company s future success, the level of incentive compensation previously received as well as the market price of the common stock on the date of grant. The Compensation Committee considers the aggregate number of shares available, the number of shares previously awarded and the number of individuals to whom the Company wishes to grant stock options or restricted stock awards. The Compensation Committee reserves the right to consider the factors it considers relevant under the circumstances then prevailing in reaching its determination regarding the amount of each stock option and/or restricted stock award.

Options awards typically vest 25% per year beginning one year after the grant date, with full vesting on the fourth anniversary of the grant date. The options expire ten years after the grant date, unless the employee separates earlier from the Company, at which point the options expire 30 days after separation. The exercise price is equal to the closing price of our common stock on the date of grant.

Restricted stock awards typically vest 25% per year beginning one year after the grant date, with full vesting on the fourth anniversary of the grant date. Any shares not fully vested on the date the employee separates from the Company are forfeited.

The Chief Executive Officer s grant is determined by the Compensation Committee at its sole discretion, based on the Compensation Committee s evaluation of the Chief Executive Officer s expected contribution to the Company s future success, the level of incentive compensation previously awarded, the overall performance of the Company, a review of the Chief Executive Officer s peer group compensation and the market price of the Company s common stock on the date of grant.

When determining the long term incentive grants in December of 2013, the Compensation Committee considered the overall performance of the Company in 2013 and also considered that in 2013 EBITDA declined from $135 million in 2012 to $110 million in 2013, and gross margin declined from 25% in 2012 to 24% in 2013 and that revenues declined 6% to $422 million from $450 million in 2012. High-end IC sales accounted for the overall decline in revenue, primarily attributable to an Asian foundry customer for which the Company was not qualified as a result of a node migration.

Based on the determination of the Compensation Committee, the Named Executive Officers received the following grants in December 2013:

	Stock Options	**Restricted Stock**
Constantine Macricostas	60,000	10,000
Peter Kirlin	45,000	7,500
Sean T. Smith	37,500	6,250
Dr. Christopher J. Progler	33,000	5,500
Dr. Soo Hong Jeong	15,000	2,500

The stock options were granted with an exercise price of $8.86 and will expire on December 13, 2023. The shares of restricted stock will vest in four equal increments over the next four years. The awards were granted in fiscal 2014 and were granted for 2013 performance but were also awarded to retain the Named Executive Officers.

The Compensation Committee may consider adopting stock ownership guidelines for the Named Executive Officers.

Health and Welfare and Retirement Benefits

The Named Executive Officers participate in a variety of health and welfare and paid time off benefits designed to allow the Company to retain its workforce. With the exception of the benefits described below for Dr. Jeong, the benefits program enjoyed by the Company s Named Executive Officers is the same as that offered to all other domestic employees.

The Company does not have a defined benefit pension plan or supplemental retirement plan. However, the Company does have a Profit Sharing and Savings Plan (the Plan). The Plan is a 401(k) compliant plan which enables participating employees to make contributions from their earnings and share in the contributions the Company makes to a trust fund maintained by the trustee. An account in the trust fund is maintained by the trustee for the Plan. All employees are eligible to participate in the Plan, except for nonresident aliens with no United States earned income from the Company and temporary employees or interns. The minimum amount that an employee can contribute is 1% and the maximum amount is 50%. In fiscal year 2013, the Company provided a matching contribution based on the contributions that participating employees made to the Plan. Participating employees received a matching contribution of 50% of the first 4% of their contribution to the Plan.

Dr. Jeong is entitled to participate in the PKL employee benefit plans and arrangements as may be established from time to time in Korea (which may include, without limitation, medical plan, dental plan, disability plan, basic life insurance and business travel accident insurance plan, as well as the Company s bonus plan(s), and stock award plans or any successor plans thereto). The Company and PKL have the right to terminate or change any such plans or programs at any time. Upon termination of Dr. Jeong s employment with PKL, Dr. Jeong will receive a lump sum payment of U.S. $108,000 multiplied by the total number of years that Dr. Jeong was employed by PKL (including years prior to the date of his employee agreement). The sum of $108,000 shall be fixed and is not subject to escalation or increase based on any bonus or salary increase that Dr. Jeong may receive during the term of his agreement.

Employment Agreements

In order to retain the Named Executive Officers and retain continuity of management in the event of an actual or threatened change of control, the Company has entered into employment agreements with each of the Named Executive Officers except for Mr. Macricostas. Each agreement covers title, duties and responsibilities and stipulates compensation terms. Each employment agreement also sets forth the severance benefits due in the event of a change in control or termination without cause. These employment agreements are described below under the caption Certain Agreements. The estimate of the compensation that would be payable in the event of a change in control or termination without cause is described below under the caption Potential Payments Upon Termination or Change in Control. The Compensation Committee believes that these agreements are a competitive requirement to attract and retain highly qualified executive officers. Before authorizing the Company to enter into the employment agreements with the Named Executive Officers, the Compensation Committee analyzed each of the termination and change in control arrangements and determined that each arrangement was advisable and appropriate under the circumstances of the Company and given the circumstances of each of the individual Named Executive Officers. The Compensation Committee will review these arrangements again upon the renewal of each employment agreement. Mr. Macricostas does not have an employment agreement but does have a consulting agreement with the Company. However, the consulting agreement has been suspended for the period of time that Mr. Macricostas is an employee of the Company. Mr. Macricostas became an employee of the Company on November 10, 2008.

Tax and Accounting Impact on Compensation

Financial reporting and income tax consequences to the Company of individual compensation elements are important considerations for the Compensation Committee when it is analyzing the overall level of compensation and the mix of compensation. Overall, the Compensation Committee seeks to balance its objective of ensuring an effective compensation package for the Named Executive Officers while attempting to ensure the deductibility of such compensation while ensuring an appropriate and transparent impact on reported earnings and other closely followed financial measures.

Section 162(m) of the Internal Revenue Code limits the amount of compensation paid to each Named Executive Officer that may be deducted by the Company to $1 million in any year. There is an exception to the $1 million limitation for performance-based compensation that meets certain requirements. Historically, the compensation paid to our executive officers has not exceeded this limit. To the extent that it is practicable and consistent with the Company s executive compensation philosophy, the Company intends to design its executive officer compensation policy to ensure the deductibility of such compensation under Section 162(m) or if it is determined not to be in the best interest of stockholders, the Compensation Committee will abide by its compensation philosophy even if it results in a loss of deductibility.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee, comprised of independent directors, reviewed and discussed the above Compensation Discussion and Analysis (CD&A) with the Company s management. Based on the review and discussions, the Compensation Committee recommended to the Company s Board of Directors that the CD&A be included in these Proxy Materials.

Respectfully submitted,

Walter M. Fiederowicz, Chairman
Joseph A. Fiorita, Jr.

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid or accrued by the Company for services rendered for the three-year period ended November 3, 2013, to each of the individuals who served (i) as the Chief Executive Officer; (ii) Chief Financial Officer and (iii) the three other most highly compensated executive officers of the Company whose total salary and bonus exceeded $100,000 (such executives are collectively referred to as the Named Executive Officers).

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(2)	All Other Compensation ($)	Total ($)
Soo Hong Jeong							
President and	2013	475,000	0	76,440	155,080	108,000(3)	814,520
Chief Operating Officer Asia	2012	475,000	47,500	102,700	146,738	108,000(3)	879,938
	2011	475,000	75,000	109,038	152,555	153,256(3)	964,849
Peter S. Kirlin							
President	2013	332,000	32,000	60,060	127,941	17,100(4)	569,101
	2012	320,000	32,000	63,200	90,300	17,000(4)	522,500
	2011	320,000	65,000	67,100	93,880	17,062(4)	563,042
Constantine S. Macricostas							
Chairman and Chief Executive	2013	600,000	60,000	109,200	232,620	23,208(5)	1,025,028
Officer	2012	600,000	60,000	355,500	507,938	2,617(5)	1,526,055
	2011	600,000	130,000	377,438	528,075	22,296(5)	1,657,809
Christopher J. Progler							
Vice President,	2013	300,000	30,000	54,600	116,310	17,254(6)	518,164
Chief Technology Officer,	2012	285,000	28,500	55,300	79,013	16,900(6)	464,713
Strategic Planning	2011	285,000	55,000	58,713	82,145	17,571(6)	498,429
Sean T. Smith							
Senior Vice President,	2013	375,000	37,500	73,710	145,387	7,712(7)	639,309
Chief Financial Officer	2012	375,000	37,500	79,000	112,875	11,006(7)	615,381
	2011	360,000	85,000	83,875	117,350	7,765(7)	653,990

(1) The amounts shown in the Stock Awards column represents the closing price of the Company s Common Stock on the date of grant multiplied by the number of shares awarded.

(2) The amounts included in this column represent the grant date fair value of the options calculated in accordance with ASC No. 718. The assumptions used in determining the fair value of these options are set forth in Note 10 of the Company s Annual Report on Form 10-K.

(3) The Company provides Dr. Jeong with a company car and driver, as is customary in Korea. The Company also pays the annual membership fee on behalf of Dr. Jeong to two country clubs in Korea that Dr. Jeong has membership to and uses for business purposes as is customary in Korea.

(4) Represents car allowance and matching contribution pursuant to the Company s 401(k) Savings and Profit Sharing Plan.

(5) Represents allowance for personal use of a Company car and medical reimbursements.

(6) Represents car allowance and matching contribution pursuant to the Company s 401(k) Savings and Profit Sharing Plan.

(7) Represents allowance for personal use of a Company car and matching contribution pursuant to the Company s 401(k) Savings and Profit Sharing Plan.

GRANT OF PLAN-BASED AWARDS TABLE

During the fiscal year ended November 3, 2013, the following plan-based awards were granted to the Named Executive Officers

Name	Grant Date	Stock Awards Shares of Stock or Units (#)	All Other Stock Awards: Number of Shares of Stock(1)	Grant Date Fair Value of Stock and Option Awards $
Soo Hong Jeong	12/7/2012	14,000	40,000	231,520
Peter S. Kirlin	12/7/2012	11,000	33,000	188,001
Constantine S. Macricostas	12/7/2012	20,000	60,000	341,820
Christopher J. Progler	12/7/2012	10,000	30,000	170,910
Sean T. Smith	12/7/2012	13,500	37,500	219,098

(1) The number of shares of Common Stock underlying each option is equal to such number of options. The exercise price of each option awarded is $5.46.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END
NOVEMBER 3, 2013

Name	Option Awards					Stock Awards	
	Grant Date	No. of Securities Underlying Unexercised Options (#) Exercisable	No. of Securities Underlying Unexercised Options (1) (#) Un-exercisable	Option Exercise Price ($)	Option Expiration Date	No. of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
(a)		(b)	(c)	(d)	(e)	(f)	(g)
Soo Hong Jeong	2/17/2004	15,000	0	19.58	2/17/2014		
	1/17/2005	125,000	0	14.56	1/17/2015		
	6/2/2006	90,000	0	17.02	6/02/2016		
	11/10/2008	25,000	0	0.76	11/10/2018		
	12/21/2009	48,750	16,250	4.42	12/21/2019		
	6/2/2006					3,750(2)	31,050
	12/10/2010					8,125(3)	67,275
	12/10/2010	16,250	16,250	6.71	12/10/2020		
	12/9/2011					12,188(3)	100,917
	12/9/2011	8,125	24,375	6.32	12/9/2021		
	12/7/2012	0	40,000	5.46	12/7/2022		
	12/7/2012					14,000(3)	115,920
Peter S. Kirlin	8/29/2008	50,000	0	3.27	8/29/2018		
	11/10/2008	12,500	0	0.76	11/10/2018		
	12/21/2009	26,250	8,750	4.42	12/21/2019		
	12/10/2010					5,000(3)	41,400
	12/10/2010	10,000	10,000	6.71	12/10/2020		
	12/9/2011					7,500(3)	62,100
	12/9/2011	5,000	15,000	6.32	12/9/2021		
	12/7/2012	0	33,000	5.46	12/7/2022		
	12/7/2012					11,000(3)	91,080
Constantine S. Macricostas	2/17/2004	5,000	0	19.58	2/17/2014		
	1/17/2005	25,000	0	14.56	1/17/2015		
	2/14/2005	5,000	0	16.65	2/14/2015		
	12/21/2009	168,750	56,250	4.42	12/21/2019		
	12/10/2010					28,125(3)	232,875
	12/10/2010	56,250	56,250	6.71	12/10/2020		
	12/9/2011					42,188(3)	349,317
	12/9/2011	28,125	84,375	6.32	12/9/2021		
	12/7/2012					20,000(3)	165,600
	12/7/2012	0	60,000	5.46	12/7/2022		