

PHOTRONICS INC  
Form DEF 14A  
February 29, 2016

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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

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))

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):

No fee required.

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- 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):
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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MARCH 23, 2016

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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 9:00 a.m. Eastern Time, on March 23, 2016, for the following purposes:

- 1) To elect seven members of the Board of Directors;
- 2) To approve the 2016 Equity Incentive Compensation Plan;
- 3) To re-approve the performance measures under the 2011 Executive Compensation Incentive Plan;
- 4) To ratify the selection of Deloitte & Touche LLP as independent registered public accounting firm for the fiscal year ending October 30, 2016;
- 5) To approve, by non-binding advisory 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 22, 2016, as the record date for determining the holders of common stock entitled to notice of and to vote at the meeting. A list of those shareholders entitled to vote at the Annual Meeting will be available for inspection by any of our shareholders for any purpose germane to the Annual Meeting, during regular business hours at Photronics principal executive offices 20 days prior to the Annual 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 OR AUTHORIZE THE VOTING OF YOUR SHARES BY INTERNET OR TELEPHONE PRIOR TO THE DEADLINE SPECIFIED ON YOUR PROXY CARD. NO POSTAGE IS REQUIRED FOR MAILING IN THE UNITED STATES.**

We thank you for your continued support.

Shareholders planning on attending the meeting in person should bring photo identification.

By Order of the Board of Directors,

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

February 26, 2016

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

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## PROXY STATEMENT

For the Annual Meeting of Shareholders  
to be held on March 23, 2016

## GENERAL INFORMATION

The enclosed proxy is solicited by the Board of Directors (the “Board” or “Board of Directors”) of Photronics, Inc. (“Photronics” or the “Company”), to be voted at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on March 23, 2016, at 9:00 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 being filed with the Securities and Exchange Commission on February 26, 2016 and on the same day the Company will begin sending the proxy statement and proxy card to all shareholders entitled to vote at the Annual Meeting. Our Annual Report on Form 10-K for the fiscal year ended November 1, 2015, 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, 4 and 5, 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 22, 2016, are entitled to notice of and to vote at the Annual Meeting. As of February 22, 2016, there were 67,279,545 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 seven members of the Board of Directors; (2) Proposal 2 (2016 Equity Incentive Compensation Plan) a majority of the votes cast by the shareholders entitled to vote at the Annual Meeting is required to approve the plan, provided that the total votes cast on the proposal represent over 50% of the outstanding shares of Common Stock; (3) Proposal 3 (Re-approval of the performance measures under the 2011 Executive Compensation Plan) a majority of the total votes cast by the shareholders entitled to vote at the Annual Meeting is required to re-approve the performance measures under such plan, provided that the total votes cast on the proposal represent over 50% of the outstanding shares of Common Stock; (4) Proposal 4 (Ratification of Selection of Independent Registered Public Accounting Firm for the Fiscal Year Ending October 30, 2016) 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; and (5) Proposal 5 (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 advisory 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.

Neither the approval nor the disapproval of Proposal 5 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 5 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.

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. 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. Of the five proposals listed in the Notice of Annual Meeting of Shareholders only the ratification of our independent registered public accounting firm under Proposal 4 is considered a routine matter. Abstentions will be considered as present but will not be considered as votes in favor of any matter; broker non-votes will be considered as present but will not be considered as votes for the matters as to which the shares are not voted.

## 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 Executive 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 Board of Directors has responsibility for establishing broad corporate policies and reviewing overall performance rather than day to day operations of the Company. The Board's primary responsibility is to oversee management and, in doing so, to serve the Company's and its stockholders' best interests. Company management keeps the Board of Directors informed of Company activities through written reports and presentations at Board and Board Committee meetings.

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](http://www.photronics.com).

The Board of Directors has assessed each of its seven nominees for Director against the NASDAQ Global Select Market ("NASDAQ") standards for independence and determined that Messrs. Fiederowicz, Fiorita, Hsia, and Tyson meet the general definition of independent director as defined by NASDAQ.

The number of directors on the Company's Board is not permitted to be less than three or more than fifteen members under the Company's bylaws. Currently, the Board has fixed the number of directors at seven 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

In May of 2015, Peter Kirilin was appointed as Chief Executive Officer and as a member of the Board of Directors of the Company. Former Chairman and Chief Executive Officer of the Company, Constantine Macricostas became Executive Chairman at the time of Dr. Kirilin's appointment as Chief Executive Officer. The Executive Chairman reports directly to the Company's Board of Directors, assists the Chief Executive Officer in setting the agenda for meetings of the Board of Directors, presides over executive sessions of the Board and performs such other duties as the Board may assign. The Executive Chairman also works on special projects at the request of the Chief Executive Officer and is also involved in all decisions relating to capital expenditures and strategic planning.

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 Executive Chairman of the Board and Chief Executive Officer (however, each director is free to communicate directly with the Executive Chairman of the Board and the Chief Executive officer); and 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 DIRECTORS' 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 associated with related party transactions are overseen by the Audit Committee and compensation risks are overseen by the Compensation Committee. Management regularly reports these and other various risks to the relevant committee or the Board. Additional review or reporting of risks 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 extraordinary 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 22, 2016, 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	8,643,926	12.9 % (3)
Donald Smith & Co., Inc. 152 West 57 <sup>th</sup> Street New York, NY 10019	6,000,998	8.9 % (4)
Barrow, Hanley, Mewhinney & Strauss, LLC 2200 Ross Avenue, 31st Floor Dallas, TX 75201-2761	5,944,395	8.8 % (5)
Dimensional Fund Advisors Palisades West, Building One 6300 Bee Cove Road Austin, Texas 78746	5,668,379	8.5 % (6)
Black Rock, Inc. 40 East 52 <sup>nd</sup> Street New York, NY 10022	3,741,236	5.6 % (7)
Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403 1906	3,698,000	5.5 % (8)

Officers and Directors

Richelle Burr	94,134	(9)	*
Walter M. Fiederowicz	92,250	(9)	*
Joseph A. Fiorita, Jr.	201,400	(9) (10)	*
Liang-Choo Hsia	54,000	(9)	*
Soo Hong Jeong	327,525	(9)	*
Peter Kirlin	207,312	(9)	*
Constantine S. Macricostas	1,035,815	(9) (11)	1.54 %
George Macricostas	36,000	(9)	*
Christopher J. Progler	278,035	(9)	*
Sean T. Smith	333,256	(9)	*
Mitchell G. Tyson	110,779	(9)	*
Directors and Named Executive Officers as a group (11 persons)	2,770,506	(12)	4.12 % (9)

\* Less than 1%

(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) Based on Schedule 13G/A filed February 12, 2016.

5

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(4)Based on Schedule 13G filed February 10, 2016.

(5)Based on Schedule 13G filed February 3, 2016.

(6)Based on Schedule 13G/A filed on February 9, 2016.

(7)Based on Schedule 13G/A filed January 27, 2016.

(8)Based on Schedule 13G filed February 9, 2016.

Includes shares of Common Stock subject to stock options exercisable as of February 22, 2016, (or within 60 days thereof), as follows: Ms. Burr: 60,525;Mr. Fiederowicz: 68,250; Mr. Fiorita: 52,000; Dr. Hsia: 12,000; Dr. Jeong (9) 143,125; Dr. Kirlin: 113,500; Mr. Constantine Macricostas: 540,000; Mr. George Macricostas: 2,000; Dr. Proglar: 218,135; Mr. Smith: 211,250; and Mr. Tyson: 37,400.

(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 (9), (10) and (11) above.

#### PROPOSAL 1

#### ELECTION OF DIRECTORS

The Board has nominated 7 directors to be elected at the 2016 Annual Meeting to serve for a one year term. Each of the seven directors of the Company that is elected at the Annual Meeting will serve until the 2017 Annual Meeting of Shareholders (unless such director resigns or otherwise leaves the Board) 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:

<u>Name and (Age)</u>	Director Since	Position with the Company
Walter M. Fiederowicz (69 years)	1984	Director
Joseph A. Fiorita, Jr. (71 years)	1987	Director
Dr. L. C. Hsia (67 years)	2012	Director
Dr. Peter S. Kirlin	2015	Director

(55 years)

Constantine S. Macricostas 1974  
(80 years) Executive Chairman

George Macricostas 2002  
(46 years) Director

Mitchell G. Tyson 2004  
(61 years) Director

6

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Messrs. Fiederowicz, Fiorita, Hsia, and Tyson qualify as being independent under applicable 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. Mr. Fiederowicz is Chairman of the Compensation Committee and Vice Chairman of the Audit 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 management and corporate governance matters. Mr. Fiederowicz brings leadership, and extensive business and financial experience to the Board.

Joseph A. Fiorita, Jr., CPA, has been a partner since 1973 at Fiorita, Kornhaas & Company, P.C., an independent certified public accounting firm with offices located in Danbury and Southbury, 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 and Vice Chairman of the Compensation Committee. Mr. Fiorita qualifies as an audit committee financial expert as defined under Item 407 of Regulations S-K audit committee rules. 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. Dr. Hsia brings an in depth knowledge and wealth of experience in the industry to the Board.

Peter S. Kirlin joined Photronics in August, 2008 as Senior Vice President, US and Europe. Dr. Kirlin became Chief Executive Officer in May of 2015 after having been named President in 2013. Prior to joining Photronics, Dr. Kirlin, a 25-year veteran of the photomask and semiconductor industries, held several senior leadership positions of increasing responsibility. Dr. Kirlin was Vice President of Business Development at Entegris, a developer, manufacturer and supplier of liquid and gas delivery systems, components and consumables used in the semiconductor manufacturing process; Chairman and Chief Executive Officer of DuPont Photomasks; and Group Vice President of ATMI, a supplier of ultra-high purity materials and services used in the manufacture of semiconductors. Dr. Kirlin also was Executive Chairman of the privately-held firm Akzion, Inc., a provider of surface preparation solutions to the semiconductor and electronics industries. Dr. Kirlin was Executive Chairman of Akzion, Inc. from January 2007 to July 2008. Dr. Kirlin brings leadership, strategic direction, extensive business experience and a wealth of knowledge of the photomask and semiconductor industry to the Board.

Constantine S. Macricostas is Executive Chairman of the Board. Mr. Macricostas previously served as Chief Executive Officer of the Company on three different occasions from 1974 until August 1997, from February 2004 to June 2005 and from April 2009 until May 2015. Mr. Macricostas is a director of RagingWire Data Centers, Inc., (“RagingWire”). Mr. Macricostas is the father of George Macricostas. Mr. Macricostas’ knowledge of the Company and its operations as well as the industry 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, and a founder of RagingWire Data Centers, Inc., a company that provides secure data center infrastructure and managed information technology services 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 is the son of Constantine S. Macricostas. Mr. Macricostas brings over 24 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. Mr. Macricostas brings industry, risk management, leadership and business experience to the Board.

Mitchell G. Tyson is an independent business strategy and innovation consultant and serves on multiple industry, government and corporate boards of directors. He is also an Adjunct Professor at the Brandeis International Business School, a partner in the Clean Energy Venture Group, a partner in Great Dome Associates, chair of the Northeast Clean Energy Council and a member of boards of the Massachusetts Technology Collaborative, Greentown Labs and Venture Café Foundation. He is also Chairman of the Board of the Bigbelly, Inc. a supplier of enterprise waste management and urban connectivity solutions. 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. Mr. Tyson brings leadership and extensive business experience as well as financial expertise to the Board.

#### MEETINGS AND COMMITTEES OF THE BOARD

The Board of Directors met four times during the 2015 fiscal year. During fiscal 2015, each director attended all (100%) of the regular meetings of the Board of Directors and 75% of committee meetings of the Board on which such director served.

The Company's Board of Directors has Audit, Compensation, 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 and Rule 10A-3 under the Exchange Act. Mr. Fiorita qualifies as an audit committee financial expert as defined under Item 407 of Regulation S-K. The Audit Committee held 8 meetings during the 2015 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 the Executive Chairman, the Chief Executive Officer, the Chief Financial Officer, the Vice President of Human Resources and the Vice President and General Counsel participate in Compensation Committee meetings when requested by the Committee to present and discuss the materials provided, including recommendations considered to be 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 7 meetings during the 2015 fiscal year.

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. Dr. Hsia and Mr. George Macricostas are the members of the Strategic Planning and Technology Development Committee. The Strategic Planning and Development Committee held 3 meetings during the 2015 fiscal year.

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 1 meetings during the 2015 fiscal year.

The minimum qualifications for nominees to be considered by the Nominating Committee are experience as a business or technology leader, the highest ethical standards, 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 2015 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 rules and Rule 10A-3 under the Exchange Act. The Audit Committee operates under a written charter adopted by the Board of Directors of the Company. The Audit Committee also prepares a written self-performance evaluation of the Committee's performance on an annual basis.

For the fiscal year ended November 1, 2015, 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 2015 be included in the Company's Annual Report on Form 10-K for filing with the SEC.

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

This report is submitted by:

Joseph A. Fiorita, Jr.  
Chairman

Walter M. Fiederowicz

Mitchell G. Tyson

Fees Paid to the Independent Registered Public Accounting Firm

For the fiscal years ended November 1, 2015 and November 2, 2014, the aggregate fees for professional services rendered by Deloitte & Touche LLP were as follows:

	Fiscal 2015	Fiscal 2014
Audit Fees (a)	\$1,185,291	\$1,139,778
Audit-Related Fees (b)	131,024	336,529
Tax Fees (c)	58,862	49,525
All Other Fees	0	0
<b>Total</b>	<b>\$1,375,177</b>	<b>\$1,525,832</b>

Represents aggregate fees in connection with the audit of the Company's annual financial statements, internal (a) 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.

## 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.

<u>Name and Age</u>	<u>Position</u>	<u>Served as an Executive Officer Since</u>
Richelle E. Burr, 52	Vice President, General Counsel and Secretary	2010
Peter S. Kirlin, 55	Chief Executive Officer	2008
Constantine S. Macricostas, 80	Executive Chairman	2008
Christopher J. Progler, 52	Vice President, Chief Technology Officer and Strategic Planning	2004
Sean T. Smith, 55	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. Peter S. Kirlin was appointed Chief Executive Officer on May 4, 2015. Prior to his appointment as Chief Executive Officer, he served as President of the Company beginning in September of 2013. He joined Photronics in August, 2008 as Senior Vice President, US and Europe.

Constantine S. Macricostas was appointed Executive Chairman on May 4, 2015. Prior to his appointment as Executive Chairman, he served as Chairman of the Board and Chief Executive Officer beginning in September of 2013. Mr. Macricostas also served as Chief Executive Officer and President from April 2009 to September 2013. 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 of SPIE - The International Society of Optics and Photonics. He serves on management boards of MP Mask, PDMC, Inpria and IMS nanofabrication. He also serves on technical advisory boards for MP Mask and the Cymer Laser division of ASML.

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 2015 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 (identified in the Summary Compensation Table) as well as all participants in the Company’s 2011 Executive Incentive Compensation Plan (“2011 EICP”).

The purpose of this Compensation Discussion and Analysis is to provide material information about the Company’s compensation objectives and policies for its Named Executive Officers and to put into perspective the tabular disclosures and related narratives. The following report provides information about our compensation programs and policies as well as the outcomes and achievements that resulted in the determination of compensation to our Named Executive Officers. Specific 2015 compensation information for our Executive Chairman, Chief Executive Officer and other Named Executives Officers will be outlined in a series of tables following this report.

### Summary

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. Currently, research and development photomask activities for ICs are focused on 20 nanometer node and below and, for FPDs, on Generation 8 resolution enhancement, substrates larger than Generation 8 and more complex masks for AMOLED type displays. In 2014, we became the leading edge IC photomask merchant in the world. We believe we have more sub-20nm capability and capacity than all our competitors combined.

2015 was one of the best years in the history of the Company as we achieved record sales due to a full-year of our Taiwan joint venture, PDMC, and very strong demand for photomasks, particularly at the high-end. Net income was also at record levels, and we were able to generate strong cash flow, even while spending a high level on capital expenditures to increase capability and capacity.

IC sales were up on the contribution from PDMC and on an increase in demand for high-end and mainstream products. High-end memory demand was driven by the industry transition to 20nm DRAM, which began in early 2015 and is still ongoing in the early part of 2016. High-end logic foundries in Asia are ramping 28 and 14nm, a process which began in 2015, but should accelerate in 2016. Mainstream achieved gains in market share and saw new designs.

Our strong operating leverage and manufacturing efficiencies allowed us to leverage our strong revenues into bottom line performance above our initial guidance range for two consecutive quarters. Our first quarter of fiscal 2015 reflected renewed high-end demand across logic, memory and flat panel customers. Our fourth quarter saw record quarterly sales of \$141.7 million and represented the sixth consecutive quarter of year over year revenue growth. We also had two consecutive quarters with sales up on a sequential basis as well as a year over year basis. We ended the year with record quarterly sales up 14% compared with last year, our net income rose to \$18.6 million, our gross margin was 31.5% and operating margin was 19.2% for our fourth quarter. High-end IC and FPD increased 49% and 48% year over year. We had EBITDA of \$50 million and net cash of \$73 million up \$23 million from 2014 at the end of our fourth quarter. We continue to invest and deploy advanced lithography equipment across our strategically located high-end facilities and our net cash position will provide additional flexibility as we look to invest in our future and increase shareholder value. In fiscal 2015 we also agreed to exchange \$57.5 million of our 3.25%

convertible senior notes maturing in 2016 for 3.25% notes with a 2019 maturity date.

In May of 2015 half way into our fiscal 2015, we appointed Dr. Peter Kirlin as Chief Executive Officer. Dr. Kirlin has demonstrated strong leadership skills, keen market insight and a deep commitment to providing superior service to our customers. Constantine Macricostas became Executive Chairman in May of 2015, in support of a smooth transition of leadership.

Our compensation program for our Named Executive Officers received support of approximately 94.5% of the votes cast at our 2015 Annual Meeting of Shareholders. Based on the effectiveness of our compensation program and in consideration of this year's and prior year's approval, the Compensation Committee decided to continue the foundation and fundamentals of the compensation structure for fiscal 2015.

### 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 primary components to achieve the Company's primary objectives: base salary, annual cash incentives and stock-based awards. The Company minimizes its perquisites available to its employees as a whole, including its executives.

The Compensation Committee believes that the three primary components of the Company's compensation result in a compensation program that is competitive and aligns the Named Executive Officers' 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 54% for Constantine Macricostas and 43% for Peter Kirilin of total compensation in 2015.

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. Approximately 12% of the Named Executive Officers' compensation in 2015 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 25% of the Named Executive Officers' compensation in 2015 consisted of stock-based compensation.

Total Direct Compensation

Chief Executive Officer (Constantine Macricostas)

Total Direct Compensation

Chief Executive Officer (Peter Kirlin)

Total Compensation All Other Named

Executive Officers

Determination of Total Compensation

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.

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, identified in the Summary Compensation Table, the Compensation Committee considers compensation at eight publicly traded companies in the semiconductor/electronics industries with similar levels of sales and capital. These companies are Advanced Energy Industries, 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 2015 Annual Shareholders Meeting, 94.5% of the votes cast with respect to the advisory vote on executive compensation voted to approve the executive compensation paid in fiscal 2014. 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.

In fiscal 2015 all Named Executive Officers received a 2% salary increase as part of a Company-wide salary increase.

In fiscal 2016 all Named Executive Officers received a 2% salary increase as part of a Company-wide salary increase except for the Chief Executive Officer who received an approximate 10% increase and his salary became \$575,000 and the Executive Chairman who received an approximate 4% increase and his salary became \$425,000.

In May of 2015 Dr. Kirlin became Chief Executive Officer of Photronics and his salary was increased to \$525,000.

In May of 2015 Mr. Macricostas became Executive Chairman and his salary became \$410,000 per year.

Annual Incentives

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) 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 2015 and established 4 metrics for fiscal 2015 that were to be used under the 2011 EICP.

Metric	Target	Actual Performance
EBITDA	\$144MM	Exceeded
Net Income	\$27MM	Exceeded
Penetrate 14nm logic market with a leadership position at certain defined customers	Competitively Sensitive	Achieved
Accelerate the Company's business in a certain region of the world	Competitively Sensitive	Achieved 2 out of 3 sub metrics

The metrics for fiscal 2015 were EBITDA of \$144 million based on full year performance (EBITDA as defined in our credit agreement, is GAAP net income plus interest expense, income tax expense, depreciation and amortization, plus (less) special items as defined); net income \$27 million based on full year performance ( net income defined as net income attributable to Photronics, Inc. shareholders which is revenues and income less expenses and net oncome attributable to noncontrolling interests,, excluding one-time items divided by sales); penetrate 14nm logic markets with a leadership position at certain defined customers; and accelerate the Company's business in a certain region of the world. Each of the four metrics was given equal weight and personal performance of each Named Executive Officers was also given the same weight as each individual metric. The maximum payout upon certification of attainment of targets for 2015 for the Named Executive Officers (with the exception of the CEO) was 35% of the applicable Named Executive Officer's base salary. The Chief Executive Officer's maximum payout was 50%. The Compensation Committee also has 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 2015, the Company was required to meet at least two of the metrics. In November and December of 2015, the Compensation Committee met and reviewed the metrics established in January and also reviewed the performance of the Company for fiscal 2015. The Compensation Committee determined that the Company exceeded two of the targets; met one of the targets and for one of the metrics 2 out of the 3 sub metrics were met. The Company did not completely meet the fourth metric. Based on such achievement the Named Executive Officers were eligible for a cash incentive up to 35% of their respective base salaries (with the exception of the CEO who was eligible to receive 50%). However, the Compensation Committee considered that not all four metrics were completely achieved; the Company did not meet an internal goal it established; a new high-end tool introduction into manufacturing ramp was slower than expected; and the ramp of 14nm business was not as strong as anticipated-. Therefore, the Compensation Committee decided to award the following bonus to each of the Named Executive Officers under the 2011 EICP in December 2015 for fiscal

2015.

Ms. Richelle Burr	\$ 67,300
Dr. Jeong	\$ 87,500
Dr. Peter S. Kirlin	\$ 150,000
Mr. Constantine S. Macricostas	\$ 110,000
Dr. Christopher J. Progler	\$ 90,000
Mr. Sean T. Smith	\$ 67,000

16

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In January of 2016, the Compensation Committee met and established goals for 2016 under the 2011 EICP. The goals established for 2016 were: achieve net income target; achieve EBITDA target; grow high end IC market share and accelerate growth via business development.

### 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 as well as 2014, the LTEIP was amended to increase the number of shares available for issuance under the plan and to increase the amount of restricted stock allowed to be issued thereunder. 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 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 contributions 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 any 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. Option 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 vested 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 2015, the Compensation Committee considered the overall performance of the Company in 2015, the fact that 2015 was one of the best years in the history of the Company as we achieved record sales due to a full-year of our Taiwan JV, PDMC, and very strong demand for photomasks, particularly at the high-end. Net income was also at record levels, and we were able to generate strong cash flow, even while spending a high level on capital expenditures to increase capability and capacity, our strong operating leverage and manufacturing efficiencies that allowed us to leverage our strong revenues into bottom line performance above our initial guidance range for two consecutive quarters. Our first quarter of fiscal 2015 reflected renewed high-end demand across logic, memory and flat panel customers. Our fourth quarter saw record quarterly sales of \$141.7 million and represented the sixth consecutive quarter of year over year revenue growth. We also had two consecutive quarters with sales up on a sequential basis as well as a year over year basis. We ended the year with record quarterly sales up 14% compared with last year, our net income rose to \$18.6 million, our gross margin was 31.5% and operating margin was 19.2% for our fourth quarter. High-End IC and FPD increased 49% and 48% year over year. We had EBITDA of \$50 million and net cash of \$73 million up \$23 million from 2014 at the end of our fourth quarter. We continue to invest and deploy advanced lithography equipment across our strategically located high-end facilities and our net cash position will provide additional flexibility as we look to invest in our future and increase shareholder value. In fiscal 2015 we also agreed to exchange \$57.5 million of our 3.25% convertible senior notes maturing in 2016 for 3.25% notes with a 2019 maturity date



Based on the determination of the Compensation Committee, the Named Executive Officers received the following grants on January 4, 2016:

	Stock Options	Restricted Stock
Ms. Richelle Burr	25,500	4,250
Dr. SH Jeong	30,000	5,000
Dr. Peter Kirlin	60,000	12,500
Mr. Constantine Macricostas	40,000	12,500
Dr. Christopher J. Progler	33,000	5,600
Mr. Sean Smith	38,250	6,375

The stock options were granted with an exercise price of \$12.13 and will expire on January 4, 2026. The shares of restricted stock will vest in four equal increments over the next four years except for Mr. Macricostas whose final increment will vest in May of 2019. The awards although granted in fiscal 2016 were granted for fiscal 2015 performance as well as an incentive to retain the Named Executive Officers.

In December of 2015, the Compensation Committee adopted stock ownership guidelines effective for the calendar year 2016. The ownership requirements will be determined as a multiple of base salary or a non-management directors annual cash retainer converted to a fixed number of shares as follows: Executive Chairman 2 x annual base salary; Chief Executive Officer 2x annual base salary; Chief Financial Officer; Chief Technology Officer; General Counsel; President and COO Asia; and General Manager of PDMC 1x annual base salary and Non-Management Directors 2x annual cash retainer fee. Stock that counts towards satisfaction of guidelines includes shares owned outright by the participant, stock held in Photronics' Employee Stock Purchase Plan, restricted stock issued or granted, whether or not vested and shares acquired upon stock option exercises. The stock price used to calculate conversion will be the average stock price over the twenty trading days prior to the given date. Participants have five years to achieve their designated ownership level.

In order to continue to promote the long term financial success of the Company and its Subsidiaries and assist the Company in attracting, retaining and motivating highly qualified individuals and continue grants of stock options, restricted stock, stock appreciation rights, performance shares and performance units and other equity-based awards, the Board of Directors has approved the 2016 Equity Incentive Compensation Plan and we are seeking shareholder approval of the plan. A further description of the proposed plan is set forth below on page 28 of this proxy statement.

#### 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 2015, 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. 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.

### Perquisites

The Company offers very limited perquisites to its executive officers. The use of a company car or a car allowance to employees is provided to the Named Executive Officers as indicated in the Summary Compensation Table. .

### 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 due to the performance based exception. 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 1, 2015, to each of the individuals who served (i) as the Chief Executive Officer; (ii) Chief Financial Officer and (iii) the other most highly compensated executive officers of the Company whose total salary and bonus exceeded \$100,000 and (iv) one previous executive officer of the Company Dr. Jeong ceased being a Named Executive Officer of the Company in January of 2015. Dr. Jeong is President and COO of Asia and is reflected throughout this report as he was a Named Executive Officer for two months of fiscal 2015 (the “Named Executive Officers”).

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	All Other Compensation (\$)	Total (\$)
Richelle Burr	2015	254,808	67,300	34,294	96,975	12,000	(3) 465,377
Vice President, General Counsel and Secretary	2014	250,000	50,000	36,920	111,125	12,554	(3) 460,599
Soo Hong Jeong	2015	484,500	87,500	41,150	116,370	108,000	(4) 837,520
President and Chief Operating Officer	2014	475,000	35,000	22,150	66,675	108,000	(4) 706,825
Asia	2013	475,000	0	76,440	155,080	108,000	(4) 814,520
Peter S. Kirlin	2015	489,115	150,000	150,125	343,755	14,300	(5) 1,147,295
Chief Executive Officer	2014	450,000	65,000	66,450	200,025	17,200	(5) 798,675
	2013	332,000	32,000	60,060	127,941	17,100	(5) 569,101
Constantine S. Macricostas	2015	518,308	110,000	82,300	232,740	22,796	(6) 966,144
Executive Chairman	2014	600,000	60,000	88,600	266,700	46,430	(6) 1,061,730
	2013	600,000	60,000	109,200	232,620	23,208	(6) 1,025,028
Christopher J. Progler	2015	331,250	90,000	45,265	128,007	17,300	(7) 611,822
Vice President, Chief Technology Officer, Strategic Planning	2014	330,000	63,000	48,730	146,685	17,223	(7) 605,638
	2013	300,000	30,000	54,600	116,310	17,254	(7) 518,164
Sean T. Smith	2015	382,211	67,000	51,438	145,463	12,819	(8) 658,931
Senior Vice President, Chief Financial Officer	2014	375,000	45,000	55,375	166,688	13,030	(8) 655,093
	2013	375,000	37,500	73,710	145,387	7,712	(8) 639,309

(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 in accordance with ASC No. 718.

The amounts included in this column represent the grant date fair value of the options calculated in accordance (2) with ASC No. 718. The assumptions used in determining the fair value of these options are set forth in Note 9 of the Company’s Annual Report on Form 10-K.

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

Upon termination of Dr. Jeong’s employment with PKL, Dr. Jeong will receive a lump sum payment of \$108,000 multiplied by the total number of years that Dr. Jeong was employed by PKL (including years prior to the date of (4) his employment agreement). The sum of \$108,000 is fixed and is not subject to escalation or increase based on any bonus or salary increase that Dr. Jeong may receive. The Company provides Dr. Jeong with a company car and driver, as is customary in Korea.



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

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

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

(8) 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 1, 2015, the following plan-based awards were granted to the Named Executive Officers

Name	Grant Date	Stock Awards Shares of Stock or Units (#)(1)	All Other Stock Awards: Number of Shares of Stock(1)	Exercise Price of Awards (\$)	Grant Date Fair Value of Stock and Option Awards \$
Richelle Burr	12/19/2014	4,167	25,000	8.23	131,269
Soo Hong Jeong	12/19/2014	5,000	30,000	8.23	157,520
Peter S. Kirlin	12/19/2014	7,500	45,000	8.23	236,280
	5/4/2015	10,000	50,000	8.84	257,600
Constantine S. Macricostas	12/19/2014	10,000	60,000	8.23	315,040
Christopher J. Progler	12/19/2014	5,500	33,000	8.23	173,272
Sean T. Smith	12/19/2014	6,250	37,500	8.23	196,900

(1) The number of shares of Common Stock underlying each option is equal to such number of options.

See the Compensation Discussion and Analysis for an explanation of the amount of salary and bonus in proportion to total compensation and a description of the material terms of plan based awards.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

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 (\$)
Richelle Burr	6/2/2006	1,500	0	17.02	6/02/2016		
	11/10/2008	1,750	0	0.76	11/10/2018		
	12/21/2009	1,813	0	4.42	12/21/2019		
	12/10/2010	15,000	0	6.71	12/10/2020		
	12/9/2011					1,875	(2) 17,981
	12/9/2011	11,250	3,750	6.32	12/9/2021		
	12/7/2012	11,250	11,250	5.46	12/7/2022		
	12/7/2012					4,000	(2) 38,360
	12/13/2013	6,250	18,750	8.86	12/13/2023		
	12/13/2013					3,126	(2) 29,978
	12/19/2014	0	25,000	8.23	12/19/2024		
	12/19/2014					4,167	(2) 39,962
Soo Hong Jeong	6/2/2006	90,000	0	17.02	6/2/2016		
	12/9/2011					4,063	(2) 38,964
	12/9/2011	24,375	8,125	6.32	12/9/2021		
	12/7/2012					7,000	(2) 67,130
	12/7/2012	20,000	20,000	5.46	12/7/2022		
	12/13/2013					1,875	(2) 17,981
	12/13/2013	3,750	11,250	8.86	12/13/2023		
	12/19/2014					5,000	(2) 47,950
12/19/2014	0	30,000	8.23	12/19/2024			
Peter S. Kirlin	8/29/2008	25,000	0	3.27	8/29/2018		
	12/21/2009	35,000	0	4.42	12/21/2019		
	12/10/2010	20,000	0	6.71	12/10/2020		
	12/9/2011					2,500	(2) 23,975
	12/9/2011	15,000	5,000	6.32	12/9/2021		
	12/7/2012	16,500	16,500	5.46	12/7/2022		
	12/7/2012					5,500	(2) 52,745
	12/13/2013	11,250	33,750	8.86	12/13/2023		
	12/13/2013					5,625	(2) 53,944
	12/19/2014	0	45,000	8.23	12/19/2024		
	12/19/2014					7,500	(2) 71,925
5/4/2015	0	50,000	8.84	5/4/2025			
5/4/2015					10,000	(2) 95,900	



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Constantine S.	12/21/2009	225,000	0	4.42	12/21/2019			
Macricostas	12/10/2010	112,500	0	6.71	12/10/2020			
	12/9/2011					14,063	(2)	134,864
	12/9/2011	84,375	28,125	6.32	12/9/2021			
	12/7/2012					10,000	(2)	95,900
	12/7/2012	30,000	30,000	5.46	12/7/2022			
	12/13/2013	15,000	45,000	8.86	12/13/2023			
	12/13/2013					7,500	(2)	71,925
	12/19/2014	0	60,000	8.23	12/19/2024			
	12/19/2014					10,000	(2)	95,900
Christopher J. Progler	6/2/2006	80,000	0	17.02	6/02/2016			
	11/10/2008	35,000	0	0.76	11/10/2018			
	12/21/2009	35,000	0	4.42	12/21/2019			
	12/10/2010	17,500	0	6.71	12/10/2020			
	12/9/2011					2,188	(2)	20,983
	12/9/2011	13,125	4,375	6.32	12/9/2021			
	12/7/2012					5,000	(2)	47,950
	12/7/2012	15,000	15,000	5.46	12/7/2022			
	12/13/2013	8,250	24,750	8.86	12/13/2023			
	12/13/2013					4,125	(2)	39,559
	12/19/2014	0	33,000	8.23	12/19/2024			
	12/19/2014					5,500	(2)	52,745

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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 (\$)
Sean T. Smith	6/2/2006	90,000	0	17.02	6/2/2016		
	12/21/2009	50,000	0	4.42	12/21/2019		
	12/10/2010	25,000	0	6.71	12/10/2020		
	12/9/2011					3,125 (2)	29,969
	12/9/2011	18,750	6,250	6.32	12/9/2021		
	12/7/2012					6,750 (2)	64,733
	12/7/2012	18,750	18,750	5.46	12/7/2022		
	12/13/2013	9,375	28,125	8.86	12/13/2023		
	12/13/2013					4,688 (2)	44,958
	12/19/2014	0	37,500	8.23	12/19/2024		
	12/19/2014					6,250 (2)	59,938

(1)The options vest 25% on each of the first 4 anniversaries of the date of the grant

(2)Represents restricted stock awards which vest 25% on each of the first 4 anniversaries of the date of the grant.

OPTION EXERCISES AND STOCK VESTED  
FISCAL YEAR ENDED NOVEMBER 1, 2015

Name	Option Awards		Stock Awards	
	No. of Shares Acquired On Exercise (#)	Value Realized on Exercise (\$)	No. of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
(a)	(b)	(c)	(d)	(e)
Richelle Burr	30,000	131,841	6,791	57,575
Soo Hong Jeong	146,875	633,313	12,250	104,593
Peter S. Kirlin	25,000	131,903	9,625	81,433
Constantine S. Macricostas	0	0	35,625	306,600
Christopher J. Progler	0	0	8,250	69,847

Sean T. Smith

16,250 121,713 11,187 94,885

23

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## CERTAIN AGREEMENTS

Ms. Burr and the Company entered into a 3 year employment agreement dated May 21, 2010. The agreement provided for a base salary of \$170,000. The Compensation Committee or the Board of Directors reviews Burr's base salary from time to time in accordance with normal business practices of the Company and as a result of such review may increase her base salary. Burr's current base salary is \$260,000. Ms. Burr's salary increased in December of 2015 as a result of a 2% salary increase. Ms. Burr received a bonus of \$67,300 for fiscal 2015. Ms. Burr's agreement is automatically extended for consecutive 1 year periods unless the Company gives at least 30 days notice of its intent not to renew. Ms. Burr is entitled to participate in employee benefit plans and arrangements as established by the Company for similarly situated executives. Ms. Burr is also entitled to receive an automobile allowance or company car in accordance with the Company's policies and provisions applicable to other similarly situated executives of the Company. If the agreement is terminated by the Company for reasons other than for "cause", or Ms. Burr resigns for "good reason". Ms. Burr will receive a payment equal to 100% of her base salary paid out over 12 months. The agreement also provides severance payments equal to 150% of her base salary payable over 18 months in the event of involuntary termination other than for "cause" (including a resignation for "good reason") following a "change in control" and Ms. Burr's stock options or similar rights will become immediately vested. Ms. Burr has agreed not to engage in any activity that competes with the Company's business during the term of his employment agreement and for twelve months thereafter.

On January 1, 2011, the Company, PK, Ltd. and Dr. Jeong entered into a three year employment agreement. The agreement is automatically extended for consecutive 1 year periods unless the Company gives Dr. Jeong at least thirty (30) days notice of its intent not to renew. The agreement provided for a base salary of \$484,500. Dr. Jeong received a bonus of \$87,500 for fiscal 2015. During the term of the agreement, and for a period of 2 years thereafter, Dr. Jeong has agreed not to engage in any activity that competes with the Company or a subsidiary of the Company. Dr. Jeong is entitled to participate in the PKL employee benefit plans and arrangements established from time to time in Korea (which may include, without limitation, medical, dental, disability plans, basic life insurance and business travel accident insurance plans, and the Company's bonus plan(s), or 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 the agreement). The sum of \$108,000 is 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 the agreement. During the term of the agreement, 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 a country club in Korea that Dr. Jeong has membership to and uses for business purposes, as is customary in Korea.

Dr. Kirlin and the Company entered into a three year employment agreement dated May 21, 2010 which was amended May 4, 2015. The agreement provided for a base salary of \$525,000. The Compensation Committee or the Board of Directors reviews Dr. Kirlin's base salary from time to time in accordance with normal business practices of the Company and as a result of such review may increase his base salary. Dr. Kirlin's current base salary is \$575,000. Dr. Kirlin's salary was increased in May as a result of his promotion to Chief Executive Officer and again in December of 2015. Dr. Kirlin received a bonus of \$150,000 for fiscal 2015. The agreement is automatically extended for consecutive 1 year periods unless the Company gives at least 30 days notice of its intent not to renew. Dr. Kirlin is entitled to participate in employee benefit plans and arrangements as established by the Company for similarly situated executives. Dr. Kirlin is also entitled to receive an automobile allowance or company car in accordance with the Company's policies and provisions applicable to other similarly situated executives of the Company. If the agreement is terminated by the Company for reasons other than for "cause", or Dr. Kirlin resigns for "good reason" Dr. Kirlin will receive a payment equal to 100% of his base salary paid out over twelve months. The agreement also provides severance payments equal to 150% of his base salary payable over 18 months in the event of involuntary termination other than for "cause" (including a resignation for "good reason") following a "change in control" and Dr. Kirlin's stock options or similar rights will become immediately vested. Dr. Kirlin has agreed not to engage in any

activity that competes with the Company's business during the term of his employment agreement and for twelve months thereafter.

Mr. Constantine Macricostas and the Company entered into a four year employment agreement dated May 4, 2015. The agreement provides for a base salary of \$410,000. Mr. Macricostas' salary was increased in December of 2015. Mr. Macricostas current salary is \$425,000. The Company also provides Mr. Macricostas with medical reimbursement up to \$20,000 per year, as well as use of an automobile owned by the Company. Mr. Macricostas has the right to purchase the Company automobile for the net book value of the car at the time of purchase. Mr. Macricostas received a bonus of \$110,000 for fiscal 2015. If Mr. Macricostas separates from the Company (as defined the agreement) he will receive a payment of \$410,000 annually for the then remaining term of this Agreement. Additionally if there is a "change in control" of the Company during the term of this Agreement, Mr. Macricostas shall receive a payment of \$410,000 annually for the then remaining term of his Agreement and his stock options and similar rights will become immediately vested. Mr. Macricostas is subject to a non compete during the term of his employment agreement and for a period of twelve months thereafter

Dr. Progler and the Company entered into a three year employment agreement dated September 10, 2007. The agreement provided for a base salary of \$243,000 per year. The Compensation Committee or the Board of Directors reviews Dr. Progler's base salary from time to time in accordance with normal business practices of the Company, and as a result of such reviews may increase his base salary. Dr. Progler's current base salary is \$343,000. which reflects a 2% salary increase in December of 2015. Dr. Progler received a bonus of \$90,000 for fiscal 2015. The agreement is automatically extended for consecutive 1 year periods unless the Company gives at least 30 days notice of its intent not to renew. Dr. Progler is entitled to participate in employee benefit plans and arrangements as established by the Company for similarly situated executives. Dr. Progler is also entitled to receive an automobile allowance or company car in accordance with the Company's policies and provisions applicable to other similarly situated executives of the Company. If the agreement is terminated by the Company for reasons other than for "cause," or Dr. Progler resigns for "good reason", Dr. Progler will receive a payment equal to 100% of his base salary paid out over 12 months. The agreement also provides severance payments equal to 150% of his base salary payable over 18 months in the event of involuntary termination other than for "cause" (including a resignation for "good reason") following a "change in control" and Dr. Progler's stock options or similar rights will become immediately vested. Dr. Progler has agreed not to engage in any activity that competes with the Company's business during the term of his employment agreement and for twelve months thereafter.

Mr. Smith and the Company entered into a three year employment agreement dated February 20, 2003. The agreement provided for a base salary of \$210,000. The Compensation Committee or the Board of Directors reviews Mr. Smith's base salary from time to time in accordance with normal business practices of the Company, and as a result of such reviews may increase his base salary. Mr. Smith's current base salary is \$390,000, which reflects a 2% salary increase in December of 2015. Mr. Smith received a bonus of \$67,000 for fiscal 2015. The agreement is automatically extended for consecutive 1 year periods unless the Company gives at least 30 days notice of its intent not to renew. Mr. Smith is entitled to participate in employee benefit plans and arrangements as established by the Company for similarly situated executives. Mr. Smith is also entitled to receive an automobile allowance or company car in accordance with the Company's policies and provisions applicable to other similarly situated executives of the Company. If the agreement is terminated by the Company for reasons other than for "cause," or Mr. Smith resigns for "good reason", Mr. Smith will receive a payment equal to 100% of his base salary paid out over 12 months. The agreement also provides severance payments equal to 150% of his base salary payable over 18 months in the event of involuntary termination other than for "cause" (including a resignation for "good reason") following a "change in control" and Mr. Smith's stock options or similar rights will become immediately vested. Mr. Smith has agreed not to engage in any activity that competes with the Company's business during the term of his employment agreement and for twelve months thereafter.

For purpose of all the forgoing, "good reason" means the relocation of the Company's principal executive offices outside the United States without the employee's consent or any reduction in his salary or health benefits without the employee's consent.

#### EQUITY COMPENSATION PLAN INFORMATION

Plan Category	No. of Shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	No. of Shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plan Approved by Shareholders	4,312,262	\$ 7.56	3,788,423 (1)
Equity Compensation Plans Not Approved by shareholders	0	0	0
Total	4,312,262	\$ 7.56	3,788,423

Represents shares of Photronics Common Stock issuable pursuant to future issuance under the Company's 2007 (1) Long Term Equity Incentive Plan (the "LTEIP") and shares available under the Company's Employee Stock Purchase Plan.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Ms. Burr, Dr. Jeong, Dr. Kirlin, Mr. Macricostas, Dr. Progler and Mr. Smith have employment agreements with the Company that provide for severance payments in the event of termination by the Company without cause, termination upon a change of control or resignation by such Named Executive Officer with good reason. The employment agreements are further described above under the caption "Certain Agreements".

The table below was prepared as if the Named Executives Officer's employment was terminated as of November 1, 2015, the last business day of our 2015 fiscal year and, if applicable, a change in control occurred on that date. The table also utilizes the closing share price of Photronics Common Stock on November 1, 2015.

Name	Severance Payment (\$)(1)	Benefit Plans (\$)(2)	Options (\$)(3)	Restricted Stock (\$)(4)	Total (\$)
<b>Richelle Burr</b>					
Termination without cause or resignation for good reason.	260,000	18,000			278,000
Termination upon change of control	390,000	18,000	106,413	123,884	638,297
<b>SH Jeong(5)</b>					
Termination without cause or resignation for good reason.	484,500				484,500
Termination upon change of control	726,750	0	158,181	172,025	1,056,956
<b>Sean T. Smith</b>					
Termination without cause or resignation for good reason.	390,000	18,000			408,000
Termination upon change of control	585,000	18,000	169,406	199,597	972,003
<b>Christopher J. Progler</b>					
Termination without cause or resignation for good reason.	343,000	18,000			361,000
Termination upon change of control	514,500	18,000	139,204	161,237	832,941
<b>Peter S. Kirlin</b>					
Termination without cause or resignation for good reason.	575,000	18,000			593,000
Termination upon change of control	862,500	18,000	207,833	298,489	1,386,822
<b>Constantine Macricostas</b>					
Executive Chairman Separation from the Company	410,000	20,000 (6)			430,000
Termination upon Change of Control	1,640,000	20,000	330,319	398,589	2,388,908

(1) Assumes no bonus will be paid as part of the severance payment. The calculation was based on base salary for fiscal 2016.

(2) Assumes a payment of \$1,500 per month for COBRA premiums for 12 months.





The value of options assumes all outstanding option awards that are in the money and as of November 1, 2015, were immediately vested upon the change of control, regardless of whether termination of employment, for any reason, has occurred, as provided under the Company's stock incentive plans. The amount is calculated by

(3) multiplying the amount of unvested options granted by the closing price on the date of grant and then deducting that number from the number of unvested options granted multiplied by the closing share price on November 1, 2015. The closing price on the date of grant was \$6.32 for the award granted on December 9, 2011, \$5.46 for the award granted on December 7, 2012, and \$8.86 for the award granted on December 13, 2013 and \$8.23 for the award granted on December 19, 2014. The closing price on November 1, 2015 was \$9.59.

The value of restricted stock assumes all unvested outstanding awards as of November 1, 2015, were immediately vested upon the change of control, regardless of whether termination of employment, for any reason has occurred,

(4) as provided under the Company's stock incentive plans. In the case of restricted stock the value is based on the number of outstanding shares that would not ordinarily have vested as of November 1, 2015, multiplied by \$9.59, the applicable closing share price on November 1, 2015.

(5) The amount set forth above does not include the severance payment of \$108,000 multiplied by the number of years that Dr. Jeong was employed by PK, Ltd.

(6) If Mr. Macricostas separates from the company as defined in the Agreement, he will receive \$410,000 for the then remaining term of the Agreement.

## DIRECTORS' COMPENSATION

Directors who are not employees of the Company each received an annual retainer of \$40,000, in addition to a fee of \$4,000 for each director's meeting attended in fiscal 2015.

Grants of stock as part of the Directors' annual compensation are generally made at the first Board meeting of the Company's fiscal year. For fiscal 2015 each Director received a restricted stock award of 12,000 shares. The restrictions on the awards lapse quarterly over the one-year service period. We believe that providing part of the directors' annual retainer compensation in the form of equity rather than cash serves to align the interest of our directors with our shareholders as they become shareholders themselves.

Directors who are also employees of the Company are not compensated for serving on the Board.

In fiscal 2015 the Chairman of the Audit Committee received an additional annual retainer of \$40,000 and the Vice Chairman received an additional annual retainer of \$20,000. In fiscal 2015, the other member of the Audit Committee received an additional annual retainer of \$15,000. Members of the Audit Committee receive a per diem payment of \$1,250 for travel in connection with the Audit Committee and for Board of Director assignments. The Chairman of the Compensation Committee received an additional annual retainer of \$40,000 and the Vice Chairman of the Compensation Committee receives an additional annual retainer of \$20,000. In fiscal 2015, the Chairman of the Strategic Planning and Development Committee received an additional annual retainer of \$15,000 and the Vice Chairman received an additional annual retainer of \$10,000. In fiscal 2015, the Chairman of the Nominating Committee received an additional annual retainer of \$20,000 and the Vice Chairman received an additional annual retainer of \$10,000. From time to time, management may request the involvement of one or more directors outside of board meetings in connection with the development or consideration of strategic initiatives. The directors are paid an additional \$2,500 per diem prorated fee for the time devoted to such matters.

At the meeting of the Board of Directors held in December 2015, the Compensation Committee recommended to the Board the compensation to be paid to the Board for fiscal 2016. The Board, after considering this recommendation, then established the annual compensation for the directors. When assessing the directors' compensation, the Compensation Committee reviews the compensation of the directors of its peer group (the peer group is described

above in the Compensation Discussion and Analysis), reviewing each element of director compensation including the annual retainer, the committee chair retainer, meeting fees and equity awards, to determine whether the amount is competitive and reasonable for the services provided by the directors. We provide higher annual retainers for service as the Chair(s) of the Audit and Compensation Committee. We believe that providing part of the directors' annual retainer compensation in the form of equity rather than cash serves to align the interests of our directors with our shareholders as they become shareholders themselves. The annual retainer for Directors who are not employees for 2016 is \$40,000 and a meeting fee of \$4,000. Grants of stock as part of the Directors' annual compensation are generally made at the first Board meeting of the Company's fiscal year. For fiscal 2016 each Director received a restricted stock award of 12,000 shares in January of 2016. The restrictions on the awards lapse quarterly over the one-year service period.

In fiscal 2016, the Chairman of the Audit Committee will receive an additional annual retainer of \$40,000 and the Vice Chairman will receive an additional annual retainer of \$20,000. In fiscal 2016, the other member of the Audit Committee will receive an additional annual retainer of \$15,000. Members of the Audit Committee receive a per diem payment of \$1,250 for travel in connection with the Audit Committee and for Board of Director assignments. The Chairman of the Compensation Committee will receive an additional annual retainer of \$40,000 and the Vice Chairman of the Compensation Committee will receive an additional annual retainer of \$20,000. In fiscal 2016, the Chairman of the Strategic Planning and Development Committee will receive an additional annual retainer of \$15,000 and the Vice Chairman will receive an additional annual retainer of \$10,000. In fiscal 2016, the Chairman of the Nominating Committee will receive an additional annual retainer of \$20,000 and the Vice Chairman will receive an additional annual retainer of \$10,000. From time to time, management may request the involvement of one or more directors outside of board meetings in connection with the development or consideration of strategic initiatives. The directors may earn an additional \$2,500 per diem prorated fee for the time devoted to such matters.

## DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in		Total
	Cash (\$)	Stock Awards (\$)(1)	
Walter M. Fiederowicz	116,000 (2)	98,760	214,760
Joseph A. Fiorita	116,000 (3)	98,760	214,760
George Macricostas	66,000 (4)	98,760	164,760
Mitchell G. Tyson	91,000 (5)	98,760	189,760
Liang-Choo Hsia	81,000 (6)	98,760	179,760

<sup>1.</sup> The amounts shown for each director represents 12,000 shares of stock granted on December 19, 2014 with a closing stock price of \$8.23. The restricted stock vests quarterly over a year.

<sup>2.</sup> Represents \$40,000 as an annual retainer, \$40,000 as Chairman of the Compensation Committee, \$20,000 as Vice Chairman of the Audit Committee, and \$16,000 for meeting fees (4 meetings at \$4,000 per meeting).

<sup>3.</sup> Represents \$40,000 as an annual retainer, \$40,000 as Chairman of the Audit Committee, \$20,000 as Vice Chairman of the Compensation Committee, and \$16,000 for meeting fees (4 meetings at \$4,000 per meeting).

<sup>4.</sup> Represents \$40,000 as an annual retainer and \$10,000 as a member of the Strategic Planning and Technology Development Committee and \$16,000 for meeting fees (4 meetings at \$4,000 per meeting).

<sup>5.</sup> Represents \$40,000 as an annual retainer and \$15,000 as a member of the Audit Committee, \$20,000 as Chairman of the Nominating Committee, and \$16,000 for meeting fees (4 meetings at \$4,000 per meeting).

<sup>6.</sup> Represents \$40,000 as an annual retainer, \$15,000 as Chairman of the Strategic Planning and Technology Development Committee, \$10,000 as Member of the Nominating Committee, and \$16,000 for meeting fees (4 meetings at \$4,000 per meeting).

## COMPENSATION COMMITTEE

## INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 2015, no members of the Compensation Committee were officers or employees of the Company or any of its subsidiaries. During fiscal 2015, no executive officers of the Company served on the Compensation Committee or the Board of Directors of another entity whose executive officers served on the Company's Compensation Committee.

## PROPOSAL 2

## APPROVE THE 2016 EQUITY INCENTIVE COMPENSATION PLAN

For the purpose of aiding the Company and its subsidiaries in attracting, retaining and motivating qualified personnel, the Company adopted a new equity incentive plan (the "2016 EICP") in 2016. We believe that the 2016 EICP is essential to the Company's continued success. In addition to stock options, stock appreciation rights, restricted stock,

performance shares and performance units, the 2016 EICP also permits the granting of restricted stock units and other equity-based awards. The awards provided under the 2016 EICP are vital to our ability to attract and retain the highly skilled individuals who work for the Company and who serve on its Board of Directors.

The approval of a majority of the votes cast by the shareholders entitled to vote at the Annual Meeting is needed to adopt the 2016 EICP.

The text of the 2016 EICP appears at the end of this Proxy Statement as Annex A. The following description of the 2016 EICP should be read in conjunction with the full text of the 2016 EICP.

#### Administration

The 2016 EICP will generally be administered by the Compensation Committee of the Board of Directors (the “Compensation Committee”). The Compensation Committee has the authority to determine, subject to the provisions of the 2016 EICP, who will be granted awards, the terms and conditions of awards, and the number of shares subject to, or the cash amount payable with respect to, an award. The Compensation Committee may also make factual determinations in connection with the administration or interpretation of the 2016 EICP. To the extent not prohibited by applicable laws, rules and regulations, the Compensation Committee may also, from time to time, delegate some or all of its authority under the 2016 EICP to a subcommittee or to other persons or groups of persons as it deems necessary, appropriate or advisable. Additionally, subject to applicable laws, rules and regulations, any authority or responsibility that, under the terms of the 2016 EICP may be exercised by the Compensation Committee, may alternatively be exercised by the Board of Directors of the Company.

#### Eligibility

The Compensation Committee has the authority under the 2016 EICP to select the individuals who will be granted awards from among the officers, employees and directors, non-employee directors, consultants, advisors and independent contractors of the Company or a subsidiary of the Company.

#### Number of Shares Available for Issuance

A maximum of four million (4,000,000) shares of Common Stock may be issued under the 2016 EICP. Such shares may be authorized but unissued shares, shares previously issued and reacquired by the Company, or both. Any shares subject to awards which, for any reason, expire or are terminated or forfeited, become available again for grant under the 2016 EICP. Additionally shares that are tendered or withheld to pay the exercise price of an award or to satisfy tax withholding obligations and exercised shares covered by a stock-settled stock appreciation right will not be available for issuance pursuant to a new award. The Compensation Committee shall have full authority to determine the effect of a change in control, on the vesting, exercisability, settlement, payment or lapse of restrictions applicable to an award under the 2016 EICP.

#### Types of Awards; Limits

The Compensation Committee may grant the following types of awards under the 2016 EICP: options; restricted stock; restricted stock units; stock appreciation rights; performance stock; performance units; and other awards based on, or related to, shares of the Company’s Common Stock. However the 2016 EICP contains various limits with respect to the types of awards as follows: no more than 2,000,000 shares can be granted as restricted shares and no more than 15% of the shares measured as of the Effective Date can be granted to any Participant in any fiscal year; provided however that non Non-Employee Director may receive more than 30,000 shares in any fiscal year.

#### Stock Options

A stock option is the right to acquire shares of the Company’s Common Stock at a fixed exercise price for a fixed period of time (generally up to ten years). The exercise price is set by the Compensation Committee but cannot be less than 100% of the fair market value of the Company’s Common Stock on the date of grant.

The Compensation Committee may grant either incentive stock options or nonqualified stock options. As described in detail below, incentive stock options entitle the participant, but not the Company, to preferential tax treatment. The Compensation Committee determines the rules and procedures for exercising options. The exercise price may be paid in cash, shares, a combination of cash and shares, through net settlement (meaning the Company withholds shares otherwise issuable upon exercise to pay the exercise price), or by any other means authorized by the Compensation Committee, including cashless exercise, a procedure whereby vested shares covered by the option are sold by a broker and a portion of the sale proceeds are delivered to the Company to pay the exercise price.

### Stock Appreciation Rights

Stock appreciation rights are awards that entitle the participant to receive an amount equal to the excess, if any, of the fair market value on the exercise date of the number of shares for which the stock appreciation right is exercised over the grant price. The grant price is set by the Compensation Committee, but cannot be less than 100% of the fair market value of the Company's Common Stock on the date of grant. Payment to the participant on exercise may be made in cash or shares, as determined by the Compensation Committee. If the Compensation Committee determines at the time of grant that a stock appreciation right may be settled only in shares, the term may not exceed ten years. The Compensation Committee may grant stock appreciation rights in tandem with an option.

### Restricted Stock

Restricted stock awards are shares of Company Common Stock that are subject to cancellation, restrictions, and vesting conditions, as determined by the Compensation Committee. The shares may be either granted or sold to the participant.

### Restricted Stock Units

Restricted stock units entitle a participant to receive one or more shares of Company Common Stock in the future upon satisfaction of vesting conditions determined by the Compensation Committee. The Compensation Committee determines whether restricted stock units will be settled through the delivery of shares, cash of equivalent value, or a combination of shares and cash.

### Performance Stock and Performance Units

Performance stock and performance unit awards entitle a participant to receive a target number of shares if specified performance targets are achieved during a specified performance period. The Compensation Committee sets the performance targets and performance period at the date of grant. When the Compensation Committee determines the performance targets have been satisfied, performance stock and performance units are settled through the delivery of shares of Company Common Stock, cash of equivalent value, or a combination of cash and shares.

### Section 162(m) Performance-Based Awards

The Compensation Committee may determine whether any award is a "performance-based" award for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, which we refer to as the "Code." Any awards designated to be "performance-based compensation" will be conditioned on the achievement of one or more specified performance goals established by the Compensation Committee at the date of grant. The performance goals will be comprised of specified levels of one or more of the following performance criteria, as the Compensation Committee deems appropriate: net income; cash flow or cash flow on investment; pre-tax or post-tax profit levels or earnings; growth in managed assets; operating earnings; return on investment; earned value added; expense reduction levels; free cash flow; free cash flow per share; earnings per share; net earnings per share; return on assets; return on net assets; return on equity; return on capital; return on sales; operating margin; total stockholder return or stock price appreciation; EBITDA; adjusted EBITDA; revenue; or revenue before deferral, in each case determined in accordance with generally accepted accounting principles or in accordance with non-GAAP accounting historically used by the Company consistently applied on a business unit, subsidiary or consolidated basis or any combination thereof.

The performance goals may be described in terms of objectives that are related to the individual participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit. Performance goals may be measured on an absolute or cumulative basis, or on the basis of percentage of improvement over time. Further, performance goals may be measured in terms of Company performance (or performance of the applicable subsidiary, division, department, region, function or business unit), or measured relative to selected peer

companies or a market index.

The applicable performance goals will be established by the Compensation Committee within 90 days following the commencement of the applicable performance period (or such earlier or later date as permitted or required by Section 162(m)). Each participant will be assigned a target number of shares of the Company's Common Stock or cash value payable if target performance goals are achieved. The Compensation Committee will certify the attainment of the performance goals at the end of the applicable performance period. If a participant's performance exceeds such participant's target performance goals, the number of shares of Company Common Stock or the cash value payable under the performance-based award may be greater than the target number, but in no event can the amounts exceed the award limits described above. In addition, unless otherwise provided in an award agreement, the Compensation Committee may reduce the number of shares or cash value payable with respect to a performance-based award even if the performance objectives are satisfied.

30

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Amendment and Termination: Term

Generally, the Board may terminate, amend, modify, or suspend the 2016 EICP at any time. The Company will obtain stockholder approval of any termination, amendment, modification, or suspension if required by applicable law or NASDAQ rule. Subject to limited exceptions, no termination, amendment, modification, or suspension may materially impair the rights of a participant with respect to an outstanding award without the participant's consent. Unless terminated earlier, the 2016 EICP will expire in 2026, on the tenth anniversary of the effective date and no additional awards may be granted after this date.

Change of Control

In the event of a change of control of the Company, the Compensation Committee may take steps it considers appropriate, including accelerating vesting, modifying an award to reflect the change of control, or providing that outstanding awards will be assumed, or substituted for, by the surviving corporation or permitting or requiring participants to surrender options and stock appreciation rights in exchange for a cash payout equal to the difference between the highest price paid in the change of control and the exercise price. Generally, unless the Compensation Committee determines otherwise at the time of grant, the default treatment of outstanding awards upon a change of control is as follows:

- options and stock appreciation rights immediately vest in full and remain exercisable until the second anniversary of the participant's termination of employment or, if earlier, the expiration of the award's initial term;
- restrictions imposed on restricted stock and restricted stock units immediately lapse;
- the performance targets with respect to performance units, performance stock, or other awards that vest upon satisfaction of performance objectives shall be deemed attained at target levels; and
- the vesting of all other awards that are specified with respect to shares shall be accelerated.

The following events generally result in a change of control:

- one individual or entity acquires at least 35% of the voting power of the Company;
- a majority of the Company directors are replaced by directors not approved by the Board;
- there is a merger or consolidation of the Company that results in new stockholders having at least 35% of the voting power of the Company;
- there is a sale of all or substantially all of the Company assets; or
- the Company's stockholders approve a plan of liquidation or dissolution.

Repricing of Options and Stock Appreciation Rights

Options and stock appreciation rights may not be repriced. For these purposes, to reprice an award means (i) to reduce the exercise or grant price, or (ii) grant a new award with a lower exercise or grant price in exchange for the cancellation of the original award.

Adjustments or Changes in Capitalization

In the event of a stock split, reverse stock split, stock dividend, extraordinary cash dividends, recapitalization, liquidation, merger or other corporate event affecting the shares of the Company's Common Stock, the aggregate number of shares available for issuance under the 2016 EICP, the various 2016 EICP limits, and the number of shares subject to, and exercise or grant price of, outstanding awards may be appropriately adjusted by the Compensation Committee.

Limited Transferability

Generally, an award may only be transferred upon the participant's death to a designated beneficiary or in accordance with the participant's will or the laws of descent or distribution, and, except for incentive stock options, pursuant to a domestic relations order. The Compensation Committee also may permit limited transferability, generally to a participant's family member, a trust for the benefit of a family member, or a charitable organization.

## U.S. Tax Treatment of Awards

### Incentive Stock Options

An ISO results in no taxable income to the optionee or a deduction to the Company at the time it is granted or exercised. However, the excess of the fair market value of the shares acquired over the option price is an item of adjustment in computing the alternative minimum taxable income of the optionee. If the optionee holds the stock received as a result of an exercise of an ISO for at least two years from the date of the grant and one year from the date of exercise, then the gain realized on disposition of the stock is treated as a long-term capital gain. If the shares are disposed of during this period, however, (i.e., a “disqualifying disposition”), then the optionee will include in income, as compensation for the year of the disposition, an amount equal to the excess, if any, of the fair market value of the shares, upon exercise of the option over the option price (or, if less, the excess of the amount realized upon disposition over the option price). The excess, if any, of the sale price over the fair market value on the date of exercise will be a short-term capital gain. In such case, the Company will be entitled to a deduction, in the year of such a disposition, for the amount includible in the optionee’s income as compensation. The optionee’s basis in the shares acquired upon exercise of an ISO is equal to the option price paid, plus any amount includible in his or her income as a result of a disqualifying disposition.

### Non-Qualified Stock Options

A Non-Qualified Stock Option (“NQO”) results in no taxable income to the optionee or deduction to the Company at the time it is granted. An optionee exercising such an option will, at that time, realize taxable compensation in the amount of the difference between the option price and the then market value of the shares. Subject to the applicable provisions of the Code, a deduction for federal income tax purposes will be allowable to the Company in the year of exercise in an amount equal to the taxable compensation recognized by the optionee.

The optionee’s basis in such shares is equal to the sum of the option price plus the amount includible in his or her income as compensation upon exercise. Any gain (or loss) upon subsequent disposition of the shares will be a long-term or short-term gain (or loss), depending upon the holding period of the shares.

If a NQO is exercised by tendering previously owned shares of the Company’s Common Stock in payment of the option price, then, instead of the treatment described above, the following generally will apply; a number of new shares equal to the number of previously owned shares tendered will be considered to have been received in a tax-free exchange; the optionee’s basis and holding period for such number of new shares will be equal to the basis and holding period of the previously owned shares exchanged. The optionee will have compensation income equal to the fair market value on the date of exercise of the number of new shares received in excess of such number of exchanged shares; the optionee’s basis in such excess shares will be equal to the amount of such compensation income; and the holding period in such shares will begin on the date of exercise.

### Stock Appreciation Rights

Generally, the recipient of a stand-alone SAR will not recognize taxable income at the time the stand-alone SAR is granted. If an employee receives the appreciation inherent in the SARs in cash, the cash will be taxed as ordinary income to the employee at the time it is received. If an employee receives the appreciation inherent in the SARs in stock, the spread between the then current market value and the base price will be taxed as ordinary income to the employee at the time it is received. In general, there will be no federal income tax deduction allowed to the Company upon the grant or termination of SARs. However, upon the settlement of a SAR, the Company will be entitled to a deduction equal to the amount of ordinary income the recipient is required to recognize as a result of the settlement.

### Other Awards

The current United States federal income tax consequences of other awards authorized under the 2016 EICP are generally in accordance with the following: (i) restricted stock is generally subject to ordinary income tax at the time the restrictions lapse, unless the recipient elects to accelerate recognition as of the date of grant; (ii) stock unit awards are generally subject to ordinary income tax at the time of payment; and (iii) unrestricted stock awards are generally subject to ordinary income tax at the time of grant. In each of the foregoing cases, the Company will generally be entitled to a corresponding federal income tax deduction at the same time the participant recognizes ordinary income.

Tax Treatment of Awards to Non-Employee Directors and to Employees Outside the United States

The grant and exercise of options and awards under the 2016 EICP to non-employee Directors and to employees outside the United States may be taxed on a different basis.

## New Awards

It is not possible to determine the type or size of the awards that will be granted and received by any particular employee or groups in the future. Therefore, the benefits to be allocated to any individual or to various groups of individuals are not presently determinable.

THE BOARD OF DIRECTORS HAS APPROVED THE 2016 EQUITY INCENTIVE COMPENSATION PLAN DESCRIBED ABOVE AND RECOMMENDS THAT YOU VOTE “FOR” ADOPTION OF THE PLAN

### PROPOSAL 3

TO RE-APPROVE THE PERFORMANCE MEASURES UNDER THE 2011 EXECUTIVE INCENTIVE PLAN

We are asking the Company’s shareholders to re-approve the performance measures under the 2011 Executive Incentive Plan, pursuant to Section 162(m) (“Section 162(m)”) of the Internal Revenue Code of 1986, as amended (the “Code”), to preserve corporate income tax deductions that may become available to the Company. The Company is asking shareholders for this approval so that the Company may grant to executive officers, whose compensation is covered by Section 162(m), performance-based compensatory awards that are intended to be exempt from the tax deduction limitations of Section 162(m).

Pursuant to Section 162(m), the Company generally may not deduct for federal income tax purposes compensation paid to such a covered employee to the extent that the covered employee receives from the Company more than \$1 million in compensation in any single year. Compensation that is paid based on achievement of pre-established performance goals that are set by the Executive Compensation Committee, where stockholder approval of the material terms of the performance goals is received at least once every five years, is exempt from the tax deduction limitations of Section 162(m). The Board of Directors approved the 2011 Executive Incentive Compensation Plan in late 2010, and the 2011 Executive Incentive Compensation Plan was approved by the shareholders in April 2011.

Shareholders are not being asked to approve an increase in the number of shares available for grant under the 2011 Executive Incentive Plan, any modification of the performance measures under the 2011 Executive Incentive Compensation Plan or any other amendment to the 2011 Executive Incentive Plan at this time. The Company is asking the shareholders at the Annual Meeting to re-approve the performance measures of the Plan.

The following is a summary of the material features of the 2011 Executive Incentive Plan and is qualified in its entirety by reference to the 2011 Executive Incentive Plan, a copy of which was filed with the SEC and may be accessed from the SEC’s website at <http://www.sec.gov>. Capitalized terms not otherwise defined are used as set forth in the 2011 Executive Incentive Compensation Plan.

### Eligibility

Participation in the 2011 Executive Incentive Plan will be limited to key employees of the Company designated by the Chief Executive Officer of the Company and the Compensation Committee of the Board (the “Committee”).

### Plan Administration

The 2011 Executive Incentive Plan will be administered by the Committee, which has full power and authority to determine which key employees of the Company will receive awards under the 2011 Executive Incentive Plan, to set performance goals and bonus targets as of the commencement of any fiscal year, to interpret and construe the terms of the 2011 Executive Incentive Plan and to make all determinations it deems necessary in the administration of the 2011 Executive Incentive Plan, including any determination with respect to the achievement of performance goals and the application of such achievement to the bonus targets.

### Bonus Formula

The 2011 Executive Incentive Plan is designed to pay an annual bonus based on predetermined percentages and the degree of achievement of predetermined performance goals with respect to specific business criteria. The 2011 Executive Incentive Plan sets out quantitative and qualitative categories of business criteria upon which performance goals will be based. The business criteria measures within each category are assigned weightings based upon their relative degree of importance as determined by the 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 (fully diluted), (v) cash flow generation, (vi) working capital, (vii) return on invested capital, (viii) return on equity and (ix) debt reduction.

Quantitative criteria used to measure the performance of a participant employed in a business unit (i.e., subsidiary or division) of the Company may be based in whole or in part on results for the fiscal year of such business unit. 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 Committee within 90 days of the commencement of each fiscal year. In addition, within 90 days of the commencement of each fiscal year, a performance threshold for each performance goal is established with respect to each participant, representing the minimum level of achievement that the participant must attain in order to receive a bonus under the Annual Plan.

#### Bonus Targets

Annual bonus targets are either expressed as a percentage of current salary or a fixed monetary amount with respect to each category of business criteria applied. The Committee determines the target percentages or amounts annually for each individual participating in the 2011 Executive Incentive Plan within 90 days of the commencement of the fiscal year.

#### Bonus Payments

At the end of any fiscal year for which a bonus may be earned, the Committee determines each participant's level of achievement of the performance goals. The percentage of achievement is then applied to the bonus targets to determine the amount of bonus for each participant.

#### Termination and Amendment

The Committee may amend or terminate the 2011 Executive Incentive Plan at any time, provided that no amendment will be effective prior to approval by the Company's stockholders to the extent such approval is required to preserve deductibility of compensation paid pursuant to the Annual Plan under Section 162(m) of the Code or otherwise required by law.

The Board of Directors recommends that you vote "FOR" the re-approval of the performance measures under the 2011 Executive Incentive Compensation Plan.

#### PROPOSAL 4 RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Deloitte& Touche LLP ("D&T"), independent registered public accounting firm, to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending October 30, 2016. We are asking you to ratify this selection at the meeting.

A representative of D&T will attend the meeting to answer appropriate questions and may make a statement.

Approval of this proposal to ratify the appointment of D&T requires a majority of the votes cast by the shareholders entitled to vote at the Annual Meeting.

The Board of Directors recommends that you vote "FOR" this proposal to ratify the selection of D&T as independent registered public accountants for Photronics, Inc. and its subsidiaries for the fiscal year ending October 30, 2016.

#### PROPOSAL 5 TO APPROVE, BY NON-BINDING VOTE, THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

Pursuant to the Dodd-Frank Act, we are asking our shareholders to provide advisory approval of the compensation of our Named Executive Officers, as we have described it in the "Compensation Discussion and Analysis" section of this proxy statement beginning on page 13. While this vote is advisory, and not binding on the Company, it will provide

information to our Compensation Committee regarding investor sentiment about our executive compensation philosophy, policies and practices which the Compensation Committee will be able to consider when determining executive compensation for the remainder of fiscal 2016 and beyond. For the reasons stated below, we are requesting your approval of the following non-binding resolution:

“RESOLVED, that the compensation paid to the Company’s Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.”

The compensation of our Named Executive Officers and our compensation philosophy policies are comprehensively described in the Compensation Discussion and Analysis, and its accompanying tables (including all footnotes).

The Compensation Committee designs our compensation policies for our Named Executive Officers to create executive compensation arrangements that are competitive, align pay with creating shareholder value and balance compensation risk appropriately in the context of the Company’s business strategy. Based on its review of the total compensation of our Named Executive Officers for fiscal year 2015, the Compensation Committee believes that the total compensation for each of the Named Executive Officers is reasonable and effectively achieves the designed objectives of driving Company performance, attracting, retaining and motivating our people, aligning our executives with shareholders’ long-term interests and discouraging excessive risk taking.



Neither the approval nor the disapproval of this resolution will be binding on us or the Board of Directors or will be construed as overruling a decision by us or the Board of Directors. Neither the approval nor the disapproval of this resolution will create or imply any change to our fiduciary duties or create or imply any additional fiduciary duties for us or the Board of Directors.

#### THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” APPROVING THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has an operating policy the purpose of which is to ensure that contracts with entities in which any director, officer or other member of management has a financial interest are competitively priced and commercially reasonable. Under the policy, any such contract must be reviewed and approved in advance by the Audit Committee. To the extent that anyone on the Audit Committee is the person with a financial interest, the Chief Executive Officer and Chief Financial Officer of the Company will obtain independent assessment of the commercial reasonableness of the contract when considered necessary.

The Company believes that the terms of the transactions described below with affiliated persons were negotiated at arm’s length and were no less favorable to the Company than the Company could have obtained from non-affiliated parties.

The Company is a party to a long-term service contract entered into in 2002 pursuant to which it outsources certain administration of its global wide area network and related communication services to RagingWire Data Centers, Inc. (“RagingWire”), a supplier of secure data center facilities and managed information technology services, located in Ashburn, Virginia and Sacramento, California. Constantine Macricostas is a member of the Board of Directors of RagingWire, and his son, George Macricostas is Chairman of the Board, Chief Executive Officer, President and a founder of RagingWire. The decision to pursue an outsourced solution to satisfy the Company’s network and communication needs was made by our management, and we obtained bids from and reviewed the service offerings of six other global and regional vendors before RagingWire was selected as the most favorably priced solution for its service offerings. During the 2015 fiscal year, the Company incurred expenses of \$1.0 million for services provided to the Company by RagingWire and had an outstanding balance of less than \$0.1 million as of November 1, 2015. As of November 1, 2015, the Company had contracted with this service provider for various services through June 2016 at a cost of approximately \$0.2 million.

Dr. Soo Hong Jeong, who also serves as the Chairman, Chief Executive Officer and President of the Company’s majority held subsidiary in Korea, PK Ltd. (“PKL”) is also a significant shareholder of S&S Tech which serves as a supplier of photomask blanks to the Company. In fiscal 2015, the Company purchased \$20.2 million of photomask blanks from S&S Tech of which \$4.5 million was owed to S&S Tech at November 1, 2015.

#### SOLICITATION OF PROXIES AND COSTS THEREOF

We will bear the costs of solicitation of proxies. We have engaged The Proxy Advisory Group, LLC<sup>®</sup>, to assist us with the solicitation of proxies and provide related advice and informational support, for a services fee and the reimbursement of customary disbursements both of which are not expected to exceed \$10,000 in the aggregate. In addition to solicitations by mail, The Proxy Advisory Group, LLC and certain of our officers may solicit proxies by telephone, email and personal interviews without additional remuneration. We will request brokers, custodians and fiduciaries to forward proxy solicitation material to the owners of shares of our common stock that they hold in their names. We will reimburse banks and brokers for their reasonable out-of-pocket expenses incurred in connection with the distribution of our proxy materials.

As of the date of this proxy statement, the Board of Directors knows of no matters which will be presented for consideration at the Annual Meeting of Shareholders other than the proposals set forth in this Proxy Statement. If any other matters properly come before the Annual Meeting of Shareholders the persons named in the proxy will act in respect thereof in accordance with their best judgment.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file an initial report of beneficial ownership on Form 3 and changes in beneficial ownership on Form 4 or 5 with the SEC. Executive officers, directors and greater than ten percent shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that during the last fiscal year, all filing requirements applicable to its executive officers, directors and ten percent shareholders were timely except for one late Form 4 filing.

## FORM 10-K AND ADDITIONAL INFORMATION

The Company's annual report filed with the SEC on Form 10-K for the year ended November 1, 2015, which includes audited financial statements and financial statement schedules, will be furnished, free of charge, upon written request directed to the Secretary, Photronics, Inc., 15 Secor Road, Brookfield, Connecticut 06804 (203-775-9000).

## MULTIPLE SHAREHOLDERS SHARING THE SAME ADDRESS

The Company has adopted a procedure approved by the SEC called "householding" which will reduce our printing costs and postage fees. Under this procedure, multiple shareholders residing at the same address will receive a single copy of the annual report and proxy statement unless the shareholder notifies the Company that they wish to receive individual copies. Shareholders may revoke their consent to householding at any time by contacting Broadridge Financial Services, Inc. either by calling toll-free at (800) 542-1061, or by writing to Broadridge, Household Department, 51 Mercedes Way, Edgewood, New York, 11717. The Company will remove you from the householding program within 30 days of receipt of your response, following which you will receive an individual copy of our disclosure document.

## SHAREHOLDER PROPOSALS

Shareholder proposals intended for inclusion in the Company's proxy statement for the 2017 Annual Meeting of Shareholders must be received by the Company no later than November 1, 2016 and must meet certain requirements of applicable laws and regulations in order to be considered for possible inclusion in the proxy statement for that meeting. Proposals may be mailed to Photronics, Inc. to the attention of the Secretary, 15 Secor Road, Brookfield, Connecticut 06804.

The graph below presents a five year comparison of the total cumulative return on the Company's common stock in comparison to returns on the NASDAQ Composite indices. The comparison assumes an initial investment of \$100 and the reinvestment of dividends. The graph and other information included under this section should not be deemed to be "soliciting material" or be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities and Exchange Act of 1934, as amended.

Comparison of Five-Year Cumulative Total Return  
Based upon an initial investment of \$100 on October 31, 2010  
with dividends reinvested

February 26, 2016

Annex A

PHOTRONICS, INC.  
2016 Equity Incentive Compensation Plan

1. PURPOSES OF THE PLAN.

The purpose of the Plan is to (a) promote the long-term financial success of the Company and its Subsidiaries and increase stockholder value by providing Eligible Individuals with equity-based awards and (b) assist the Company in attracting, retaining and motivating highly qualified individuals who are in a position to make significant contributions to the Company and its Subsidiaries.

Upon the Effective Date, (a) no further Awards will be granted under the Prior Plans and (b) the Prior Plans shall be terminated, except that the Prior Plans shall continue to govern awards granted thereunder prior to the Effective Date.

2. DEFINITIONS AND RULES OF CONSTRUCTION.

(a) Definitions. For purposes of the Plan, unless otherwise specified or unless the context otherwise requires, the following capitalized terms shall have the meanings set forth below:

“Administrator” means Committee, unless there is no Committee in which case “Administrator” means the Non-Employee Directors of the Board or such other committee or person to whom it has delegated power to act on its behalf hereunder, generally or specifically.

“Award” means an Incentive Stock Option, Non-Qualified Stock Option, Stock Grant, Stock-Based Award, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Performance Unit, Performance Stock and other stock or cash award as the Administrator may establish pursuant to the terms of the Plan.

“Award Document” means an agreement, certificate or other type or form of document or documentation approved, generally or specifically, by the Administrator that sets forth the terms and conditions of an Award. An Award Document may be in written, electronic or other media, may be limited to a notation on the books and records of the Company and, unless the Administrator requires otherwise, need not be signed by a representative of the Company or a Participant.

“Beneficial Owner” and “Beneficially Owned” have the meaning set forth in Rule 13d-3 under the Exchange Act.

“Board” means the Board of Directors of the Company.

“Change of Control” means:

- (i) Any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company’s then outstanding securities; or
- (ii) The following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Effective Date, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended by a vote of at least a majority of the directors then still in office who either were directors on the Effective Date or whose appointment, election or nomination for election was previously so approved or recommended; or



(iii) There is consummated a merger or consolidation of the Company or any Subsidiary with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, more than fifty percent (50%) of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then outstanding securities; or

(iv) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, with respect to an Award that is subject to Section 409A of the Code and the payment or settlement of the Award will accelerate upon a Change of Control, no event set forth herein will constitute a Change of Control for purposes of the Plan or any Award Document unless such event also constitutes a "change in ownership," "change in effective control," or "change in the ownership of a substantial portion of the Company's assets" as defined under Section 409A of the Code.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable rules and regulations promulgated thereunder.

"Committee" means the Compensation Committee of the Board, any successor committee thereto or any other committee appointed from time to time by the Board to administer the Plan. It is intended that the power, authority and composition of the Committee shall meet the requirements of Section 162(m) of the Code, Section 16(b) of the Exchange Act and the applicable rules of the NASDAQ; provided, however, that, if any Committee member is found not to have met the requirements of Section 162(m) of the Code or Section 16(b) of the Exchange Act, any actions taken or Awards granted by the Committee shall not be invalidated by reason of such failure.

"Common Stock" means the common stock of the Company, par value \$0.01 per share, or such other class of shares or other securities as may be applicable under Section 14.

"Company" means Photronics, Inc., a Connecticut corporation, or any successor (other than a successor in a Change of Control) to all or substantially all of the Company's business that adopts the Plan.

"EBITDA" means earnings before interest, taxes, depreciation and amortization.

"Effective Date" means the date on which the Plan is adopted by the Board and approved by the stockholders.

"Eligible Individuals" means the individuals described in Section 5 (a) who are eligible for Awards under the Plan.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.



“Fair Market Value” means, with respect to a share of Common Stock, the fair market value on the date of grant or valuation of such Award as determined by the Administrator; provided, however, that with respect to an incentive stock option issued to a 10% or more stockholder, Fair Market Value means 110% of such fair market value or such other lower percentage as may be permitted by the Code and regulations promulgated thereunder.

“Incentive Stock Option” means an Option that is intended to comply with the requirements of Section 422 of the Code or any successor provision thereto.

“NASDAQ” means the NASDAQ Stock Market, Inc.

“Non-Employee Director” means any member of the Board who is not an officer or employee of the Company or any Subsidiary.

“Nonqualified Stock Option” means an Option that is not intended to comply with the requirements of Section 422 of the Code or any successor provision thereto.

“Option” means an Incentive Stock Option or Nonqualified Stock Option granted pursuant to Section 8 of the Plan.

“Other Award” means any form of Award other than an Incentive Stock Option, Non-Qualified Stock Option, Stock Grant, Stock-Based Award, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Performance Unit or Performance Stock, as the Administrator may establish and grant pursuant to Section 12.

“Participant” means an Eligible Individual who has been granted an Award under the Plan.

“Performance Period” means the period established by the Administrator and set forth in the applicable Award Document over which Performance Targets are measured.

“Performance Stock” means an Award granted pursuant to Section 11(a), representing the unfunded and unsecured right to receive Shares contingent upon the achievement of one or more Performance Targets, in accordance with this Plan and the applicable Award Document.

“Performance Target” means the performance measures established by the Administrator, from among the performance criteria provided in Section 7 (g), and set forth in the applicable Award Document.

“Performance Unit” means an Award granted pursuant to Section 11(b), representing the unfunded and unsecured right to receive one or more units, denominated in Shares or cash or a combination thereof, contingent upon the achievement of one or more Performance Target, in accordance with this Plan and the applicable Award Document.

“Permitted Transferees” means (i) a Participant’s family member, (ii) one or more trusts established in whole or in part for the benefit of one or more of such family members, (iii) one or more entities which are beneficially owned in whole or in part by one or more such family members, or (iv) a charitable or not-for-profit organization.

“Person” means an individual, a partnership, a corporation, an association, a joint stock company, a limited liability company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof, or a “group” within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act.

“Plan” means this 2016 Equity Incentive Compensation Plan, as amended or restated from time to time.



“Plan Limit” means the maximum aggregate number of Shares that may be issued for all purposes under the Plan as set forth in Section 6 (a).

“Prior Plan” means any of the 1996 Stock Option Plan, the 1998 Stock Option Plan, the 2000 Stock Plan and the 2007 Long Term Equity Incentive Plan, in each case, as amended from time to time.

“Restricted Stock” means one or more Shares granted pursuant to Section 9 (a).

“Restricted Stock Unit” means a right to receive one or more Shares (or cash, if applicable) in the future granted pursuant to Section 9 (b).

“Shares” means shares of Common Stock.

“Stock Appreciation Right” means a right to receive all or some portion of the appreciation on Shares granted pursuant to Section 10.

“Subsidiary” means (i) a corporation or other entity with respect to which the Company, directly or indirectly, has the power, whether through the ownership of voting securities, by contract or otherwise, to elect at least a majority of the members of its board of directors or analogous governing body or (ii) any other corporation or other entity in which the Company, directly or indirectly, has an equity or similar interest and which the Administrator designates as a Subsidiary for purposes of the Plan. For purposes of determining eligibility for the grant of Incentive Stock Options under the Plan, the term “Subsidiary” shall be defined in the manner required by Section 424(f) of the Code.

“Substitute Award” means any Award granted upon assumption of, or in substitution or exchange for, outstanding employee equity awards previously granted by a corporation or other entity acquired by the Company or with which the Company combines pursuant to the terms of an equity compensation plan that was approved by the stockholders of such company or other entity

(b) Rules of Construction. The masculine pronoun shall be deemed to include the feminine pronoun, and the singular form of a word shall be deemed to include the plural form, unless the context requires otherwise. Unless the text indicates otherwise, references to Sections are to sections of the Plan.

### 3. ADMINISTRATION.

(a) Administrator. The Administrator is authorized to:

(i) administer and interpret the provisions of the Plan and adopt, prescribe, amend, waive and rescind administrative regulations, rules and procedures relating to the Plan;

(ii) select the Participants from the Eligible Individuals;

(iii) grant Awards in accordance with the Plan and determine the number of Shares subject to each Award or the cash amount payable in connection with each Award,

(iv) determine the terms and conditions of each Award, including, without limitation, those related to term, exercise, vesting, cancellation, payment, settlement, exercisability, performance, termination of employment and, subject to Section 7 (d), a Change of Control;

(v) subject to Sections 17 and 19 (e), amend the terms and conditions of an Award after the granting thereof;

(vi) specify and approve the forms terms and conditions of Award Documents;

(vii) interpret the provisions of any Award Document;

40

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- (viii) make factual determinations in connection with the administration or interpretation of the Plan;
- (ix) employ such legal counsel, independent auditors and consultants as it deems desirable for the administration of the Plan and rely upon any advice, opinion or computation received therefrom;
- (x) vary the terms of Awards to take account of tax and securities law and other regulatory requirements or procure favorable tax treatment for Participants;
- (xi) correct any defects, supply any omission or reconcile any inconsistency in any Award Document or the Plan;
- (xii) make all other determinations and take all other actions that it deems desirable or necessary to interpret or implement properly the Plan or any Award; and
- (xiii) adopt any sub-plans as it deems necessary or appropriate in order to comply with or take advantage of any tax or other laws applicable to the Company, any Subsidiary or Participants or to otherwise facilitate the administration of the Plan.

(b) Determinations of Administrator Final and Binding. All determinations by the Administrator shall be made in the Administrator's sole discretion and shall be final, binding and conclusive for all purposes and upon all Persons.

(c) Delegation of Authority. To the extent not prohibited by applicable laws, rules and regulations, the Administrator may, from time to time, delegate some or all of its authority under the Plan to a subcommittee or subcommittees thereof or other persons or groups of persons as it deems necessary or desirable under such conditions or limitations as it may set at the time of such delegation or thereafter; provided, however, that the Administrator may not delegate its authority (i) to make Awards to employees (A) who are subject on the date of the Award to the reporting rules under Section 16(a) of the Exchange Act,

(B) whose compensation for such fiscal year may be subject to the limit on deductible compensation pursuant to Section 162(m) of the Code or (C) who are officers of the Company who are delegated authority by the Administrator hereunder, or (ii) pursuant to Section 17. For purposes of the Plan, reference to the Administrator shall be deemed to refer to any subcommittee, subcommittees, or other persons or groups of persons to whom the Administrator delegates authority pursuant to this Section 3(d).

(d) Liability of Administrator. Subject to applicable laws, rules and regulations: (i) the Administrator and its delegates shall not be liable for any action or determination made in good faith; and (ii) the Administrator and its delegates shall be entitled to indemnification and advancement of expenses to the fullest extent provided by law. In the performance of its responsibilities with respect to the Plan, the Administrator shall be entitled to rely upon information and advice furnished by the Company's officers or employees, the Company's accountants, the Company's counsel and any other Person that the Administrator or its delegates deems necessary, and the Administrator or its delegates shall not be liable for any action taken or not taken in reliance upon any such information and advice.

(e) Action by the Board. Anything in the Plan to the contrary notwithstanding, subject to applicable laws, rules and regulations, any authority or responsibility that, under the terms of the Plan, may be exercised by the Administrator may alternatively be exercised by the Board.

#### 4. CLAWBACK.

All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and

Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an Agreement as the Board determines necessary or appropriate. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company.

## 5. ELIGIBILITY.

- (a) Eligible Individuals. Awards may be granted to officers, employees, directors, consultants, advisors and independent contractors of the Company or any of its Subsidiaries; provided, however, that only employees of the Company or a Subsidiary within the meaning of Section 422 of the Code may be granted Incentive Stock Options. The Administrator shall have the authority to select the persons to whom Awards may be granted and to determine the type, number and terms of Awards to be granted to each such Participant. Under the Plan, references to “employment” or “employed” include the engagement or retention of Participants who are consultants, advisors and independent contractors and the service of Participants who are directors, except for purposes of determining eligibility to be granted Incentive Stock Options.
- (b) Grants to Participants. The Administrator shall have no obligation to grant any Eligible Individual an Award or to designate an Eligible Individual as a Participant for any reason, including without limitation the fact that such Eligible Individual received a prior Award or was previously designated as a Participant. The Administrator may grant more than one Award to a Participant and may designate an Eligible Individual as a Participant for overlapping periods of time.
- (c) Future Remuneration. The grant of an Award shall not obligate the Company or any Subsidiary of the Company to pay a Participant any particular amount of remuneration, to continue the employment of the Participant after the grant or to make further grants to the Participant at any time thereafter.

## 6. SHARES SUBJECT TO THE PLAN.

- (a) Plan Limit. Subject to adjustment in accordance with Section 14, the maximum aggregate number of Shares that may be issued for all purposes under the Plan shall be four million (4,000,000). Shares to be issued under the Plan may be authorized and unissued shares, issued shares that have been reacquired by the Company (in the open-market or in private transactions) and that are being held in treasury, or a combination thereof. All of the Shares subject to the Plan Limit may be issued pursuant to Incentive Stock Options.
- (b) Rules Applicable to Determining Shares Available for Awards. The number of Shares available for Awards at any time will be reduced by the number of Shares subject to the outstanding Awards and, by the number of Shares actually delivered prior thereto upon settlement or payment of Awards. For purposes of determining the number of Shares actually so delivered, (i) the number of Shares that are tendered by a Participant or withheld by the Company to pay the exercise price of an Award or to satisfy the Participant’s tax withholding obligations in connection with the exercise or settlement of an Award and (ii) all of the Shares covered by a stock-settled Stock Appreciation Right to the extent exercised, will be deemed to have been actually delivered. Shares Awards that are forfeited or cancelled or otherwise expire for any reason without having been exercised or settled or that are settled through issuance of consideration other than Shares (including, without limitation, cash) shall again be available for the grant of Awards; provided, however, that this provision shall not be applicable with respect to (i) the cancellation of a Stock Appreciation Right granted in tandem with an Option upon the exercise of the Option or (ii) the cancellation of an Option granted in tandem with a Stock Appreciation Right upon the exercise of the Stock Appreciation Right.
- (c) Special Limits. Anything to the contrary in Section 6 (a) notwithstanding, but subject to adjustment under Section 14, the following special limits shall apply to Shares available for Awards:
- (i) the maximum number of Shares that may be issued pursuant to awards of Restricted Stock, Restricted Stock Units, Performance Stock, Performance Units and Other Awards that are payable in Shares granted under the Plan shall be two million (2,000,000) in the aggregate ; and
- (ii) subject to the other limitations set forth herein, the maximum amount of Awards that may be awarded to any Participant in any fiscal year is 15% of the Shares measured as of the Effective Date provided however, that no

Non-Employee Director may receive one or more Awards in any fiscal year in excess of 30,000 Shares.

42

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(d) **Substitute Awards.** Any Shares underlying Substitute Awards shall not be counted against the number of Shares issuable hereunder and shall not be subject to Section 6 (c).

(e) **Legal Compliance.** Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Award will comply with applicable laws, rules and regulations as determined by counsel for the Company.

## 7. AWARDS IN GENERAL.

(a) **Types of Awards.** Incentive Stock Options, Non-Qualified Stock Options, Stock Grants, Stock-Based Awards, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units, Performance Stock and other stock or cash awards may be granted as the Administrator may determine. Any Award described in Sections 8 through 12 may be granted singly or in combination or tandem with any other Award, as the Administrator may determine. Awards under the Plan may be made in combination with, in replacement of, or as alternatives to awards or rights under any other compensation or benefit plan of the Company or its Subsidiaries, including the plan of any acquired entity.

(b) **Terms Set Forth in Award Document.** The terms and conditions of each Award shall be set forth in an Award Document in a form and with terms and conditions approved by the Administrator, which Award Document shall contain terms and conditions not inconsistent with the Plan. Notwithstanding the foregoing, and subject to applicable laws, rules and regulations, the Administrator may accelerate (i) the vesting or payment of any Award, (ii) the lapse of restrictions on any Award or (iii) the date on which any Award first becomes exercisable. The terms of Awards may vary among Participants, and the Plan does not impose upon the Administrator any requirement to make Awards subject to uniform terms.

(c) **Termination of Employment.** The Administrator shall specify at or after the time of grant of an Award the provisions governing the disposition of an Award in the event of a Participant's termination of employment with the Company or any of its Subsidiaries. Subject to applicable laws, rules and regulations, in connection with a Participant's termination of employment, the Administrator shall have the discretion to accelerate the vesting, exercisability or settlement of, eliminate the restrictions and conditions applicable to, or extend the post-termination exercise period of an outstanding Award. Such provisions may be specified in the applicable Award Document or determined at a subsequent time.

(d) **Change of Control.**

(i) The Administrator shall have full authority to determine the effect, if any, of a Change of Control (or similar events, as determined by the Administrator) on the vesting, exercisability, settlement, payment, lapse of restrictions or other terms and conditions applicable to an Award, which effect may be specified in the applicable Award Document or determined at a subsequent time. Subject to applicable laws, rules and regulations, the Administrator may, at any time prior to, coincident with or after the effective time of a Change of Control, take such actions as it may consider necessary or desirable, including, without limitation: (A) providing for the acceleration of any vesting conditions relating to the exercise or settlement of an Award or that an Award shall terminate or expire unless exercised or settled in full on or before a date fixed by the Administrator; (B) making such adjustments to an Awards to reflect such Change of Control; (C) causing Awards to be assumed, or new rights to be substituted therefor, by the surviving corporation or other entity in such Change of Control; or (D) permitting or requiring Participants to surrender outstanding Options and Stock Appreciation Rights in exchange for a cash payment, if any, equal to the difference between the highest price paid for a Share in the Change of Control and the exercise or settlement price of such Award. In addition, except as otherwise specified in an Award Document (or a Participant's written employment agreement with the Company or any Subsidiary):





- (1) any and all Options and Stock Appreciation Rights outstanding as of the effective time of the Change of Control shall become immediately exercisable, and shall remain exercisable until the earlier of the expiration of their initial term or the second (2<sup>nd</sup>) anniversary of the Participant's termination of employment with the Company;
- (2) any restrictions imposed on Restricted Stock and Restricted Stock Units outstanding as of the effective time of the Change of Control shall lapse;
- (3) the Performance Targets with respect to all Performance Units, Performance Stock and other performance-based Awards granted pursuant to Section 7 (g) or 11 outstanding as of the effective time of the Change of Control shall be deemed to have been attained at the specified target level of performance; and
- (4) the vesting of all Awards denominated in Shares outstanding as of the effective time of the Change in Control shall be accelerated.
- (ii) Notwithstanding any other provision of the Plan or any Award Document, the provisions of this Section 7 (d) may not be terminated, amended, or modified upon or after a Change of Control in a manner that would adversely affect a Participant's rights with respect to an outstanding Award without the prior written consent of the Participant. Subject to Section 17, the Board, upon recommendation of the Administrator, may terminate, amend or modify this Section 7 (d) at any time and from time to time prior to a Change of Control.
- (e) Dividends and Dividend Equivalents. The Administrator may provide Participants with the right to receive dividends or payments equivalent to dividends with respect to an outstanding Award, which payments can either be paid currently or deferred or be deemed to have been reinvested in Shares, and can be made in Shares, cash or a combination thereof, as the Administrator shall determine; provided, however, that the terms of any reinvestment of dividends must comply with all applicable laws, rules and regulations, including, without limitation, Section 409A of the Code. Notwithstanding the foregoing, no dividends or dividend equivalents shall be paid with respect to Options or Stock Appreciation Rights.
- (f) Rights of a Stockholder. A Participant shall have no rights as a stockholder with respect to Shares covered by an Award (including voting rights) until the date the Participant or his nominee becomes the holder of record of such Shares. No adjustment shall be made for dividends or disbursements for which the record date is prior to such date, except as provided in Section 14.
- (g) Performance-Based Awards.
- (i) The Administrator may determine whether any Award under the Plan is intended to be "performance-based compensation" as that term is used in Section 162(m) of the Code. Any such Awards designated to be "performance-based compensation" shall be conditioned on the achievement of one or more Performance Targets to the extent required by Section 162(m) of the Code and will be subject to all other conditions and requirements of Section 162(m). The Performance Targets will be comprised of specified levels of one or more of the following performance criteria as the Administrator deems appropriate: net income; cash flow or cash flow on investment; pre-tax or post-tax profit levels or earnings; operating earnings; return on investment; earned value added expense reduction levels; free cash flow; free cash flow per share; earnings per share; net earnings per share; return on assets; return on net assets; return on equity; return on capital; return on sales; growth in managed assets; operating margin; total stockholder return or stock price appreciation; EBITDA; adjusted EBITDA; revenue; revenue before deferral, in each case determined in accordance with generally accepted accounting principles or in accordance with non-GAAP accounting historically used by the Company (subject to modifications approved by the Administrator) consistently applied on a business unit, divisional, subsidiary or consolidated basis or any combination thereof. The Performance Targets may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a Subsidiary, division, department, region, function or business unit and may be measured on an absolute or cumulative basis or on the basis of percentage of improvement over time, and may be measured in terms of

Company performance (or performance of the applicable Subsidiary, division, department, region, function or business unit) or measured relative to selected peer companies or a market index. In addition, for Awards not intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Administrator may establish Performance Targets based on other criteria as it deems appropriate.

(ii) The Participants will be designated, and the applicable Performance Targets will be established, by the Administrator within ninety (90) days following the Administrator of the applicable Performance Period (or such earlier or later date permitted or required by Section 162(m) of the Code). Any payment of an Award granted with Performance Targets shall be conditioned on the written certification of the Administrator in each case that the Performance Targets and any other material conditions were satisfied.

The Administrator retains the right to reduce any Award notwithstanding the attainment of the Performance Targets.

(h) Deferrals. In accordance with the procedures authorized by, and subject to the approval of, the Administrator, Participants may be given the opportunity to defer the payment or settlement of an Award to one or more dates selected by the Participant; provided, however, that the terms of any deferrals must comply with all applicable laws, rules and regulations, including, without limitation, Section 409A of the Code. No deferral opportunity shall exist with respect to an Award unless explicitly permitted by the Administrator on or after the time of grant.

(i) Repricing of Options and Stock Appreciation Rights. Notwithstanding anything in the Plan to the contrary, an Option or Stock Appreciation Right shall not be granted in substitution for a previously granted Option or Stock Appreciation Right being canceled or surrendered as a condition of receiving a new Award, if the new Award would have a lower exercise price than the Award it replaces, nor shall the exercise price of an Option or Stock Appreciation Right be reduced once the Option or Stock Appreciation Right is granted. The foregoing shall not (i) prevent adjustments pursuant to Section 14 or (ii) apply to grants of Substitute Awards.

## 8. TERMS AND CONDITIONS OF OPTIONS.

(a) General. The Administrator, in its discretion, may grant Options to Eligible Individuals and shall determine whether such Options shall be Incentive Stock Options or Nonqualified Stock Options. Each Option shall be evidenced by an Award Document that shall expressly identify the Option as an Incentive Stock Option or Nonqualified Stock Option, and be in such form and contain such provisions as the Administrator shall from time to time deem appropriate.

(b) Exercise Price. The exercise price of an Option shall be fixed by the Administrator at the time of grant or shall be determined by a method specified by the Administrator at the time of grant. In no event shall the exercise price of an Option be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant; provided, however that the exercise price of a Substitute Award granted as an Option shall be determined so as to avoid excise or other taxes under Section 409A of the Code and may be less than one hundred percent (100%) of the Fair Market Value.

(c) Term. An Option shall be effective for such term as shall be determined by the Administrator and as set forth in the Award Document relating to such Option, and the Administrator may extend the term of an Option after the time of grant; provided, however, that the term of an Option may in no event extend beyond the tenth (10<sup>th</sup>) anniversary of the date of grant of such Option.

(d) Exercise; Payment of Exercise Price. Options shall be exercised by delivery of a notice of exercise in a form approved by the Company. Subject to the provisions of the applicable Award Document, the exercise price of an Option may be paid (i) in cash or cash equivalents, (ii) by actual delivery or attestation to ownership of freely transferable Shares already owned by the person exercising the Option, (iii) by a combination of cash and Shares equal in value to the exercise price, (iv) through net share settlement or similar procedure involving the withholding of Shares subject to the Option with a value equal to the exercise price or (v) by such other means as the Administrator may authorize. In accordance with the rules and procedures authorized by the Administrator for this purpose, the Option may also be exercised through a "cashless exercise" procedure authorized by the Administrator from time to time that permits Participants to exercise Options by delivering irrevocable instructions to a broker to deliver promptly to

the Company the amount of sale or loan proceeds necessary to pay the exercise price and the amount of any required tax or other withholding obligations or such other procedures determined by the Company from time to time.

45

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(e) Incentive Stock Options. The exercise price per Share of an Incentive Stock Option shall be fixed by the Administrator at the time of grant or shall be determined by a method specified by the Administrator at the time of grant, but in no event shall the exercise price of an Incentive Stock Option be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant. No Incentive Stock Option may be issued pursuant to the Plan to any individual who, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, unless (i) the exercise price determined as of the date of grant is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant of the Shares subject to such Incentive Stock Option and (ii) the Incentive Stock Option is not exercisable more than five (5) years from the date of grant thereof. No Participant shall be granted any Incentive Stock Option which would result in such Participant receiving a grant of Incentive Stock Options that would have an aggregate Fair Market Value in excess of one hundred thousand dollars (\$100,000), determined as of the time of grant, that would be exercisable for the first time by such Participant during any calendar year. No Incentive Stock Option may be granted under the Plan after the tenth anniversary of the Effective Date. The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision thereto, as amended from time to time.

#### 9. TERMS AND CONDITIONS OF RESTRICTED STOCK AND RESTRICTED STOCK UNITS.

(a) Restricted Stock. The Administrator, in its discretion, may grant or sell Restricted Stock to Eligible Individuals. An Award of Restricted Stock shall consist of one or more Shares granted or sold to an Eligible Individual, and shall be subject to the terms, conditions and restrictions set forth in the Plan and established by the Administrator in connection with the Award and specified in the applicable Award Document. Restricted Stock may, among other things, be subject to restrictions on transferability, vesting requirements or other specified circumstances under which it may be canceled.

(b) Restricted Stock Units. The Administrator, in its discretion, may grant Restricted Stock Units to Eligible Individuals. A Restricted Stock Unit shall entitle a Participant to receive, subject to the terms, conditions and restrictions set forth in the Plan and the applicable Award Document, one or more Shares. Restricted Stock Units may, among other things, be subject to restrictions on , vesting requirements or other specified circumstances under which they may be canceled. If and when the cancellation provisions lapse, the Restricted Stock Units shall become Shares owned by the applicable Participant or, at the sole discretion of the Administrator, cash, or a combination of cash and Shares, with a value equal to the Fair Market Value of the Shares at the time of payment.

#### 10. STOCK APPRECIATION RIGHTS.

(a) General. The Administrator, in its discretion, may grant Stock Appreciation Rights to Eligible Individuals. A Stock Appreciation Right shall entitle a Participant to receive, upon satisfaction of the conditions to payment specified in the applicable Award Document, an amount equal to the excess, if any, of the Fair Market Value on the exercise date of the number of Shares for which the Stock Appreciation Right is exercised over the grant price for such Stock Appreciation Right specified in the applicable Award Document. The grant price per share of Shares covered by a Stock Appreciation Right shall be fixed by the Administrator at the time of grant or, alternatively, shall be determined by a method specified by the Administrator at the time of grant, but in no event shall the grant price of a Stock Appreciation Right be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant; provided, however, that the grant price of a Substitute Award granted as a Stock Appreciation Rights shall be determined so as to not result in excise or other taxes under Section 409A of the Code and may be less than one hundred percent (100%) of the Fair Market Value. Payments to a Participant upon exercise of a Stock Appreciation Right may be made in cash or Shares, having an aggregate Fair Market Value as of the date of exercise equal to the excess, if any, of the Fair Market Value on the exercise date of the number of Shares for which the Stock Appreciation Right is exercised over the grant price for such Stock Appreciation Right. The term of a Stock Appreciation Right settled in Shares shall not exceed seven (7) years.



(b) Stock Appreciation Rights in Tandem with Options. A Stock Appreciation Right granted in tandem with an Option may be granted either at the same time as such Option or subsequent thereto. If granted in tandem with an Option, a Stock Appreciation Right shall cover the same number of Shares as covered by the Option (or such lesser number of Shares as the Administrator may determine) and shall be exercisable only at such time or times and to the extent the related Option shall be exercisable, and shall have the same term as the related Option. The grant price of a Stock Appreciation Right granted in tandem with an Option shall equal the per-share exercise price of the Option to which it relates. Upon exercise of a Stock Appreciation Right granted in tandem with an Option, the related Option shall be canceled automatically to the extent of the number of Shares covered by such exercise; conversely, if the related Option is exercised as to some or all of the Shares covered by the tandem grant, the tandem Stock Appreciation Right shall be canceled automatically to the extent of the number of Shares covered by the Option exercise.

#### 11. TERMS AND CONDITIONS OF PERFORMANCE STOCK AND PERFORMANCE UNITS.

(a) Performance Stock. The Administrator may grant Performance Stock to Eligible Individuals. An Award of Performance Stock shall consist of such number of Shares determined by the Administrator and granted to an Eligible Individual based on the achievement of Performance Targets over the applicable Performance Period, and shall be subject to the terms, conditions and restrictions set forth in the Plan and established by the Administrator in connection with the Award and specified in the applicable Award Document.

(b) Performance Units. The Administrator, in its discretion, may grant Performance Units to Eligible Individuals. A Performance Unit shall entitle a Participant to receive, subject to the terms, conditions and restrictions set forth in the Plan and established by the Administrator in connection with the Award and specified in the applicable Award Document, such number

of Shares or cash determined by the Administrator and based upon the achievement of Performance Targets over the applicable Performance Period. At the sole discretion of the Administrator, Performance Units shall be settled through the delivery of Shares or cash, or a combination of cash and Shares, with a value equal to the Fair Market Value of the underlying Shares as of the last day of the applicable Performance Period.

#### 12. OTHER AWARDS.

The Administrator shall have the authority to specify the terms and provisions of cash, stock or other equity-based or equity-related awards not described above that the Administrator determines to be consistent with the purpose of the Plan and the interests of the Company.

#### 13. CERTAIN RESTRICTIONS.

(a) Transfers. No Award shall be transferable other than pursuant to a beneficiary designation under Section 13 (c), by last will and testament or by the laws of descent and distribution or, except in the case of an Incentive Stock Option, pursuant to a domestic relations order, as the case may be; provided, however, that the Administrator may, subject to applicable laws, rules and regulations and such terms and conditions as it shall specify, permit the transfer of an Award, other than an Incentive Stock Option, for no consideration to a Permitted Transferee of the relevant participant. Any Award transferred to a Permitted Transferee shall be further transferable only by last will and testament or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the relevant Participant.

(b) Award Exercisable Only by Participant. During the lifetime of a Participant, an Award shall be exercisable only by the Participant or by a Permitted Transferee to whom such Award has been transferred in accordance with Section 13 (a). The grant of an Award shall impose no obligation on a Participant to exercise or settle the Award.





(c) Beneficiary Designation. The beneficiary or beneficiaries of the Participant to whom any benefit under the Plan is to be paid in case of his death before he receives any or all of such benefit shall be determined under the Company's Group Life Insurance Plan. A Participant may, from time to time, name any beneficiary or beneficiaries to receive any benefit in case of his death before he receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, including the beneficiary designated under the Company's Group Life Insurance Plan, and will be effective only when filed by the Participant in writing (in such form or manner as may be prescribed by the Administrator) with the Company during the Participant's lifetime. In the absence of a valid designation under the Company's Group Life Insurance Plan or otherwise, if no validly designated beneficiary survives the Participant or if each surviving validly designated beneficiary is legally impaired or prohibited from receiving the benefits under an Award, the Participant's beneficiary shall be the Participant's estate.

#### 14. RECAPITALIZATION OR REORGANIZATION.

(a) Authority of the Company and Stockholders. Neither the Plan nor any Award Documents or Awards shall affect or restrict in any way the right or power of the Company or the stockholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Shares or the rights thereof or which are convertible into or exchangeable for Shares, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) Change in Capitalization. The number and kind of Shares authorized for issuance under Section 6, including the maximum number of Shares available under the special limits provided for in Section 6 (c), may be equitably adjusted in the sole discretion of the Administrator in the event of a stock split, reverse stock split, stock dividend, recapitalization, reorganization, partial or complete liquidation, reclassification, merger, consolidation, separation, extraordinary cash dividend, split-up, spin-off, combination, exchange of Shares, warrants or rights offering to purchase Shares at a price substantially below Fair Market Value, or any other corporate event or distribution of stock or property of the Company affecting the Shares in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the Plan. In addition, upon the occurrence of any of the foregoing events, the number and kind of Shares subject to any outstanding Award and the exercise or settlement price, under any outstanding Award may be equitably adjusted (including by payment of cash to a Participant) in the sole discretion of the Administrator in order to preserve the benefits or potential benefits intended to be made available to Participants.

#### 15. TERM OF THE PLAN.

Unless earlier terminated pursuant to Section 17, the Plan shall terminate on the tenth (10<sup>th</sup>) anniversary of the Effective Date, except with respect to Awards then outstanding. No Awards may be granted under the Plan after the tenth (10<sup>th</sup>) anniversary of the Effective Date.

#### 16. EFFECTIVE DATE.

The Plan shall become effective on the date on which it is approved by the stockholders.

#### 17. AMENDMENT AND TERMINATION.

Subject to applicable laws, rules and regulations, the Board may at any time terminate or, from time to time, amend, modify or suspend the Plan; provided, however, that no termination, amendment, modification or suspension (i) will be effective without the approval of the stockholders of the Company if such approval is required under applicable laws, rules and regulations, including the rules of NASDAQ and (ii) shall materially and adversely alter or impair the rights of a Participant in any Award previously made under the Plan without the consent of the holder thereof.

Notwithstanding the foregoing, the Board shall have broad authority to amend the Plan or any Award without the consent of a Participant to the extent it deems necessary or desirable (a) to comply with, take into account changes in, or interpretations of, applicable tax laws, securities laws, employment laws, accounting rules and other applicable laws, rules and regulations, (b) to take into account unusual or nonrecurring events or market conditions (including, without limitation, the events described in Section 14 (b)), or (c) to take into account significant acquisitions or dispositions of assets or other property by the Company or its Subsidiaries.

18. MISCELLANEOUS.

(a) Tax Withholding. The Company or a Subsidiary, as appropriate, may require any individual entitled to receive a payment or settlement of an Award to remit to the Company, prior to payment or settlement, an amount sufficient to satisfy any applicable tax withholding requirements. In the case of an Award payable in Shares, the Company or a Subsidiary, as appropriate, may permit a Participant to satisfy, in whole or in part, such obligation to remit taxes by directing the Company to withhold Shares that would otherwise be received by such individual or to deliver Shares then owned by the Participant, in accordance with all applicable laws and pursuant to such rules as the Administrator may establish from time to time. The Company or a Subsidiary, as appropriate, shall also have the right to deduct from all cash to be paid to a Participant (whether or not made in connection with an Award) any applicable taxes required to be withheld with respect to such payments, rules and regulations.

(b) No Right to Awards or Employment. No person shall have any claim or right to receive Awards under the Plan. Neither the Plan, the grant of Awards nor any action taken or omitted to be taken under the Plan shall be deemed to create or confer on any Eligible Individual any right to be retained in the employ of the Company or any Subsidiary, or to interfere with or to limit in any way the right of the Company or any Subsidiary to terminate the employment of such Eligible Individual at any time. No Award shall constitute salary or other recurrent compensation. Payments received by a Participant under any Award made pursuant to the Plan shall not be included in, nor have any effect on, the determination of employment-related rights or benefits under any other employee benefit plan or similar arrangement provided by the Company and the Subsidiaries, unless otherwise specifically provided for under the terms of such plan or arrangement or by the Administrator.

(c) Securities Law Restrictions. An Award may not be exercised or settled, and no Shares may be issued in connection with an Award, unless the issuance of such Shares (i) has been registered under the Securities Act of 1933, as amended, (ii) has been registered or qualified under applicable state “blue sky” laws (or the Company has determined that an exemption from registration and from qualification under such state “blue sky” laws is available) and (iii) complies with all applicable foreign securities laws. The Administrator may require each Participant purchasing or acquiring Shares pursuant to an Award under the Plan to represent to and agree with the Company in writing that such Participant is acquiring the Shares for investment purposes and not with a view to the distribution thereof. All certificates for Shares delivered under the Plan shall be subject to such stock-transfer

orders and other restrictions as the Administrator may deem advisable under rules and regulations and rules of any exchange upon which the Shares are then listed, and the Administrator may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(d) Section 162(m) of the Code. As to any Award that constitutes or may constitute “qualified performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan is intended to comply with the requirements of Section 162(m) of the Code to the extent necessary to result in deductibility of such compensation; provided, however, that, in the event the Administrator determines that compliance with Section 162(m) of the Code is not desired with respect to a particular Award, compliance with such requirements will not be required. If any provision of the Plan would cause Awards that are intended to constitute “qualified performance-based compensation” to fail to so qualify, that provision shall be severed from, and shall be deemed not to be a part of, the Plan, but the other provisions hereof shall remain in full force and effect.

(e) Section 409A of the Code. As to any Award that constitutes or may constitute “deferred compensation” within the meaning of Section 409A of the Code, the Plan is intended to comply with the requirement of Section 409A of the Code to the extent necessary to avoid the imposition of any excise or other additional tax, accelerated taxation, interest or penalty on the compensation represented by such Award. If any provision of the Plan or an Award Document would cause an Award to be subject to additional tax, accelerated taxation, interest and/or penalties under Section 409A of the Code, such provision of the Plan or Award Document may be modified by the Administrator without consent of the Participant in any manner the Administrator deems desirable or necessary. In making such

modifications the Administrator shall attempt, but shall not be obligated, to maintain, to the maximum extent practicable, the original intent of the applicable provision. Any discretionary authority that the Administrator may have pursuant to the Plan shall not be applicable cause the plan not to comply with such requirements.

- (f) Awards to Individuals Subject to Laws of a Jurisdiction Outside of the United States. To the extent that Awards are granted to Participants who are domiciled or resident outside of the United States or to persons who are domiciled or resident in the United States but who are subject to the tax laws of a jurisdiction outside of the United States, the Administrator may adjust the terms of such Awards to such person to (i) comply with the laws, rules and regulations of such jurisdiction and to (ii) permit the grant of such Awards not to be a taxable event to the Participants. The authority granted under the previous sentence shall include the discretion for the Administrator to adopt, on behalf of the Company, one or more sub-plans applicable to separate classes of Eligible Individuals who are so domiciled or resident.
- (g) Satisfaction of Obligations. Subject to applicable laws, rules and regulations, the Company may apply any cash, Shares, securities or other consideration received upon exercise or settlement of an Award to any obligations a Participant owes to the Company and the Subsidiaries in connection with the Plan or otherwise, including, without limitation, any tax obligations in connection with the Plan or otherwise.
- (h) No Limitation on Corporate Actions. Nothing contained in the Plan shall be construed to prevent the Company or any Subsidiary from taking any corporate action, whether or not such action would have an adverse effect on any Awards. No Participant, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.
- (i) Unfunded Plan. The Plan is intended to constitute an unfunded plan for incentive compensation. Prior to the issuance of Shares, cash or other form of consideration in connection with an Award, nothing contained herein shall give any Participant any rights that are greater than those of a general unsecured creditor of the Company. The Administrator may, but is not obligated, to authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Shares, cash or other forms of consideration with respect to Awards hereunder.
- (j) Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect, merger, consolidation, sales of all or substantially all of the assets of the Company, or otherwise.
- (k) Application of Funds. The proceeds received by the Company from the sale of Shares pursuant to Awards will be used for general corporate purposes.
- (l) Award Document. In the event of any conflict or inconsistency between the Plan and any Award Document, the Plan shall govern and the Award Document shall be interpreted to minimize or eliminate any such conflict or inconsistency.
- (m) Headings. The headings of Sections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of the Plan.
- (n) Severability. If any provision of this Plan is held unenforceable, the remainder of the Plan shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Plan.
- (o) Expenses. The costs and expenses of administering the Plan shall be borne by the Company.
- (p) Arbitration. Any dispute, controversy or claim arising out of or relating to the Plan that cannot be resolved by the Participant, on the one hand, and the Company, on the other, shall be submitted to arbitration in the State of Connecticut under the National Rules for the Resolution of Employment Disputes of the American Arbitration Association; provided, however, that all disputes, controversies and claims by the Participant that are not properly submitted to such arbitration by the participant within one (1) year of the date of the events giving rise to such

dispute, controversy or claim are waived, released and forfeited. The determination of the arbitrator shall be conclusive and binding on the Company and the Participant, and judgment may be entered on the arbitrator's award in any court having jurisdiction. The expenses of such arbitration shall be borne by the Company; provided, however, that each party shall bear its own legal expenses unless the Participant is the prevailing party, in which case the Company shall promptly pay or reimburse the Participant for the reasonable legal fees and expenses incurred by the Participant in connection with such arbitration (excluding any fees payable pursuant to a contingency fee arrangement).

(q) Governing Law. Except as to matters of federal law, the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Connecticut.

(r) Notice. All notices and other communications required or permitted to be given under this Plan shall be in writing and shall be deemed to have been duly given if delivered personally or mailed first class, postage prepaid, as follows:

(i) If to the Company – at its principal business address to the attention the Secretary.

(ii) If to any Participant – at the last address of the Participant known to the sender at the time the notice or other communication is sent.

(iii) In either event, notice may also be delivered via email as long as the email account is one used in the regular course of business of the Participant or Company representative

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. KEEP THIS PORTION FOR YOUR RECORDS DETACH AND RETURN THIS PORTION ONLY TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below. 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0000268977\_1 R1.0.1.25 For Withhold For All All All Except The Board of Directors recommends you vote FOR the following: 1. Election of Directors Nominees 01 Walter M. Fiederowicz 02 Joseph A. Fiorita, Jr. 03 Liang-Choo Hsia 04 Peter S. Kirlin 05 Constantine Macricostas 06 George Macricostas 07 Mitchell G. Tyson PHOTRONICS, INC. ATTN: RICHELLE BURR 15 SECOR ROAD BROOKFIELD,CT 06804 VOTE BY INTERNET - www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years. VOTE BY PHONE - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. The Board of Directors recommends you vote FOR proposals 2, 3, 4 and 5. For Against Abstain 2 To approve the 2016 Equity Incentive Compensation Plan. 3 To re-approve the performance measures under the 2011 Executive Compensation Incentive Plan. 4 To ratify the selection of Deloitte & Touche LLP as independent registered public accounting firm for the fiscal year ending October 30, 2016. 5 To approve, by non-binding advisory vote, executive compensation. Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer. For address change/comments, mark here. (see reverse for instructions) 0000268977\_2 R1.0.1.25

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice of Proxy Statement/10-K Report is available at [www.proxyvote.com](http://www.proxyvote.com) PHOTRONICS, INC. Annual Meeting of Shareholders March 23, 2016 9:00 AM The undersigned hereby appoints Richelle E. Burr and Sean T. Smith, or either one of them acting in the absence of the other, with full power of substitution, as proxies of the undersigned, and hereby authorizes each or either of them to vote, as designated on the other side, all shares of Common Stock of Photronics, Inc., which the undersigned is entitled to vote if personally present at the 2016 Annual Meeting of Shareholders of Photronics, Inc. to be held at 9:00 a.m. Eastern Time on March 23, 2016, at the Offices of Photronics, Inc., 15 Secor Road, Building 1, Brookfield, CT 06804, and at any adjournments or postponements thereof. (If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.) Address change/comments: Continued and to be signed on reverse side

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>397,252	Subcontract (Note 5) -	270,000	455,972	Transfer agent and regulatory	
fees 150 - 25,257	Travel	806	7,204	305,226	Less interest income (22) (87) (889)
Expenses 170,819	441,177	2,570,023		Net Loss	\$(129,802)\$ (283,612) \$(2,371,441)
Share \$(0.01) \$(0.02)		Weighted Average Shares Outstanding	15,852,856	15,852,856	Total Net Loss Per (Diluted loss per
share has not been presented as the result is anti-dilutive)					

(See accompanying notes)

**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Statements of Stockholders' Equity**

	Common Stock		Additional	Deficit	
	Number of	Amount	Paid-in	Accumulated	Total
	Shares		Capital	During	
				the	
				Development	
				Stage	
Initial capitalization (May 8, 1997)					
Stock issued for license to					
specific technology (Notes 1 & 4)	2,706,122	\$ 2,706	\$ -	\$ -	\$ 2,706
Stock issued to change license to					
exclusive (Note 1 & 4)	2,364,806	2,365	-	-	2,365
Less cancelled in a subsequent year	(438,694)	(439)	-	-	(439)
Stock issued for cash:					
at \$0.0576 per share	2,600,000	2,600	147,160	-	149,760
at \$6.50 per share	130,500	131	848,119	-	848,250
Net (loss) for the period	-	-	-	(134,729)	(134,729)
Balance - December 31, 1997	7,362,734	7,363	995,279	(134,729)	867,913
Stock issued for stock split net of shares cancelled	3,510,510	3,510	(3,510)	-	-
Net (loss) for the year	-	-	-	(659,002)	(659,002)
Balance - December 31, 1998	10,873,244	10,873	991,769	(793,731)	208,911
Net (loss) for the year	-	-	-	(267,161)	(267,161)
Balance - December 31, 1999	10,873,244	10,873	991,769	(1,060,892)	(58,250)
Stock issued for cash:					
at \$4.00 per share	250,000	250	999,750	-	1,000,000
Stock issued for license (Notes 1 and 4)	4,729,612	4,730	-	-	4,730
Net (loss) for the year	-	-	-	(336,210)	(336,210)
Balance - December 31, 2000	15,852,856	15,853	1,991,519	(1,397,102)	610,270
Net (loss) for the year	-	-	-	(677,595)	(677,595)
Balance - December 31, 2001	15,852,856	15,853	1,991,519	(2,074,697)	(67,325)
Net (loss) for the year	-	-	-	(166,942)	(166,942)
Balance - December 31, 2002	15,852,856	15,853	1,991,519	(2,241,639)	(234,267)
Net (loss) for the nine month period	-	-	-	(129,802)	(129,802)
Balance - September 30, 2003	15,852,856	\$ 15,853	\$ 1,991,519	\$ (2,371,441)	\$ (364,069)

(See accompanying notes)

F-6

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Statements of Cash Flows**

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Cash Flows From Operating Activities</b>			
Net Loss	\$ (166,942)	\$ (677,595)	\$ (336,210)
Adjustments to reconcile net loss to cash			
Amortization	1,331	2,396	2,015
Changes in non-cash working capital items			
Increase (decrease) in accounts payable	190,079	(27,125)	39,633
(Increase) in accounts receivable	(91,703)	-	-
(Increase) decrease in prepaid expenses	30,000	(30,000)	12,540
<b>Net Cash Used in Operating Activities</b>	<b>(37,235)</b>	<b>(732,324)</b>	<b>(282,022)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issuance of common stock	-	-	1,000,000
<b>Net Cash Provided by Financing Activities</b>	<b>-</b>	<b>-</b>	<b>1,000,000</b>
<b>Cash Flows to Investing Activities</b>			
(Increase) in property, plant and equipment	-	-	-
<b>Net Cash Used in Investing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Cash in the Period</b>	<b>(37,235)</b>	<b>(732,324)</b>	<b>717,978</b>
Cash - Beginning of Period	57,289	789,613	71,635
Cash - End of Period	\$ 20,054	\$ 57,289	\$ 789,613
<b>Non-Cash Financing Activities</b>			
9,361,846 shares issued for a license (Note 4)	\$ -	\$ -	\$ 4,729
<b>Supplementary Disclosure</b>			
Interest paid	\$ -	\$ -	-
Income tax paid	-	-	-
(See accompanying notes)			

**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Statements of Cash Flows**

	Nine months ended September 30,		Accumulation from May 8, 1997 (Inception) to September 30, 2003
	2003 (unaudited)	2002 (unaudited)	2003 (unaudited)
<b>Cash Flows From Operating Activities</b>			
Net Loss	\$ (129,802)	\$ (283,612)	\$ (2,371,441)
Adjustments to reconcile net loss to cash			
Amortization	719	1,030	9,919
Changes in non-cash working capital items			
Increase in current liabilities	115,811	364,100	464,119
(Increase) decrease in accounts receivable	4,675	(148,129)	(87,028)
Decrease in prepaid expenses	-	30,000	-
<b>Net Cash Used in Operating Activities</b>	<b>(8,597)</b>	<b>(36,611)</b>	<b>(1,984,431)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issuance of common stock	-	-	1,998,010
<b>Net Cash Provided by Financing Activities</b>	<b>-</b>	<b>-</b>	<b>1,998,010</b>
<b>Cash Flows to Investing Activities</b>			
(Increase) in property, plant and equipment	-	-	(2,122)
<b>Net Cash Used in Investing Activities</b>	<b>-</b>	<b>-</b>	<b>(2,122)</b>
<b>Increase (Decrease) in Cash in the Period</b>	<b>(8,597)</b>	<b>(36,611)</b>	<b>11,457</b>
Cash - Beginning of Period	20,054	57,289	-
Cash - End of Period	\$ 11,457	\$ 20,678	\$ 11,457
<b>Non-Cash Financing Activities</b>			
9,361,846 shares issued for a license (Note 4)	\$ -	\$ -	\$ 9,362
<b>Supplementary Disclosure</b>			
Interest paid	\$ -	\$ -	\$ -
Income tax paid	-	-	-
(See accompanying notes)			



**Net 1 UEPS Technologies, Inc.**  
*(A Development Stage Company)*  
*Notes to the Financial Statements*

**1. Development Stage Company**

Net 1 UEPS Technologies, Inc. herein (the Company) was incorporated in the State of Florida on May 8, 1997. The Company is a development stage company engaged in the business of commercializing the smart card technology based Universal Electronic Payment System ( UEPS ) and Funds Transfer System ( FTS ) through the development of strategic alliances with national and international bank and card service organizations. The FTS patents were first filed by Serge Belamant and the late Andre Mansvelt in 1989. The patents in South Africa and surrounding territories were subsequently assigned to Net 1 Investment Holdings (Pty) Ltd. or Net 1 (Pty) , a company which was acquired by Aplitec in July 2000. The patents in Europe and the United States were assigned to Net 1 Holdings S.a.r.l. or Net 1 Holdings . See Note 4 for a discussion on the FTS European patent being revoked.

The Company entered into a license agreement, dated May 19, 1997 (the License Agreement ), with Net 1 Holdings, Net 1 Operations S.a.r.l. and Net 1 Pty (collectively, the Licensors ), where the licensors granted a non-exclusive license to the Company for the UEPS technology for the issuance of 5,412,244 shares at a fair market value of \$0.001 per share. On October 1, 1997 an Amendment to the License Agreement was signed that provided for the transfer of the ownership of the UEPS technology and FTS and for the assignment of the Technology License Agreement between VISA International Service Association and Net 1 Holdings, dated July 31, 1997 (the Visa Agreement ) to the Company in consideration of 4,729,612 shares. The assignment of the Visa Agreement and the transfer of the ownership of the UEPS technology and FTS patents to the Company were never consummated because certain conditions precedent were never satisfied.

On May 3, 2000 an agreement entitled Patent and Technology Agreement was entered into between the Company and Net 1 Holdings that granted the Company licensing rights in respect of the U.S. and European patents. No conditions precedent were stipulated. The 4,729,612 shares of the Company previously issued into trust in consideration for the Amendment to the License Agreement were thus released to Net 1 Holdings. Effective July 1, 2002, the Company entered into a distribution agreement with Net 1 (Pty), which replaced the previous Outsourcing Agreement. As a condition of this agreement, Net 1 (Pty) received \$50,000 in full settlement of \$154,953 of fees due as at June 30, 2002. The Company wrote off the remaining \$104,953 of the debt as a reduction of subcontract costs in that year.

Net 1 Holdings as at December 31, 2002 owns 8,520,578 common shares of 15,852,856 issued and outstanding common shares, or 53.75%.

The Company is a subsidiary of Net 1 Holdings.

In a development stage company, management devotes most of its activities to establishing a new business primarily, the development of a detailed business plan, marketing strategy and the raising of funds required to develop and operate the business successfully. Planned principal activities have not yet produced revenues and the Company has suffered recurring operating losses as is normal in development stage companies. These factors raise doubt about the Company's ability to continue as a going concern. The ability of the Company to emerge from the development stage with respect to its planned principal business activity is dependent upon its successful efforts to raise additional equity financing, receive funding from affiliates and controlling shareholders, and develop a market for its products.

In order to meet expenses over the next twelve months the Company is actively searching for additional equity financing. For fiscal 2003, the Company recorded as revenues \$41,017 from sales of licenses during 2002 (2002 - \$157,565) in accordance with the Company's revenue recognition policy and the Patent and Technology Agreement.

See Note 6 regarding future financing and related acquisition of Net 1 Applied Technology Holdings Limited.

## **2. Summary of Significant Accounting Policies**

### **(a) Comprehensive Income**

SFAS No. 130, Reporting Comprehensive Income, establishes standards for the reporting and display of comprehensive income and its components in the financial statements. As at October 31, 2002, the Company has no items that represent comprehensive income and, therefore, has not included a schedule of comprehensive income in the financial statements.

F-9

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**Net 1 UEPS Technologies, Inc.**  
*(A Development Stage Company)*  
*Notes to the Financial Statements*

**2. Summary of Significant Accounting Policies (continued)**

(b) Recent Accounting Pronouncements

FASB has issued SFAS No. 147, 148 and 149 but they will not have any relationship to the operations of the Company therefore a description of each and their respective impact on the Company's operations have not been disclosed.

In May 2003, the FASB issued SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principal for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

On June 29, 2001, SFAS No. 141, Business Combinations, was approved by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The Company implemented SFAS No. 141 on July 1, 2001 and its impact is not expected to be material on its financial position or results of operations.

On June 29, 2001, SFAS No. 142, Goodwill and Other Intangible Assets, was approved by FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. SFAS No. 142 requires that the purchase method of accounting be used for all business combinations initiated after December 15, 2001. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company adopted SFAS No. 142 on May 1, 2002 and its impact is not expected to have a material effect on its financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligation. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, and will require companies to record a liability for asset retirement obligations in the period in which they are incurred, which typically could be upon completion or shortly thereafter. The FASB decided to limit the scope to legal obligations and the liability will be recorded at fair value. The effect of adoption of this standard on the Company's results of operations and financial positions is being evaluated.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. It provides a single accounting model for long-lived assets to be disposed of and replaces SFAS No. 121 Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of. The Company adopted SFAS No. 144 on May 1, 2002. The effect of adoption of this standard on the Company's results of operations and financial position is not expected to be material.

F-10

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Notes to the Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

(b) Recent Accounting Pronouncements (continued)

In June, 2002, FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The Company will adopt SFAS No. 146 on January 1, 2003. The effect of adoption of this standard on the Company's results of operations and financial position is being evaluated.

FASB has also issued SFAS No. 145, 147 and 148 but they will not have any relationship to the operations of the Company therefore a description of each and their respective impact on the Company's operations have not been disclosed.

(c) Property, Plant and Equipment

Computer equipment is amortized over five years on a straight-line basis.

(d) Long-Lived Assets

Costs to acquire exclusive license rights to specific technology are considered Long-Lived assets and are capitalized as incurred. These costs are being amortized on a straight line basis over five years. Intangible assets are evaluated in each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses including assessing the Company's ability to bring the commercial applications to market, related profitability projections and undiscounted cash flows relating to each application which necessarily involves significant management judgment.

(e) Basic and Diluted Net Income (Loss) per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings per Share (SFAS 128). SFAS 128 requires presentation of both basic and diluted earnings per shares (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible preferred stock, using the if-converted method. In computing Diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential common shares if their effect is antidilutive.

(f) Foreign Currency Transactions/Balances

Transactions in currencies other than the U.S. dollar are translated at the rate in effect on the transaction date. Any balance sheet items denominated in foreign currencies are translated into U.S. dollars using the rate in effect on the balance sheet date.

(g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates.

F-11

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Notes to the Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

(h) Tax Accounting

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not.

The Company has adopted Statement of Financial Accounting Standards No. 109 ( SFAS 109 ) as of its inception. The Company has incurred net operating losses as scheduled below:

Year of Loss	Amount	Year of Expiration
1997	\$ 135,000	2012
1998	659,000	2013
1999	267,000	2014
2000	336,000	2015
2001	674,000	2016
2002	166,000	2017
	\$ 2,237,000	

Pursuant to SFAS 109 the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefit of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

The components of the net deferred tax asset at the end of December 31, 2002, 2001 and 2000, and the statutory tax rate, the effective tax rate and the elected amount of the valuation allowance are scheduled below:

	2002	2001	2000
	\$	\$	\$
Net Operating Loss	166,297	673,595	336,210
Statutory	34%	34%	34%
Effective Tax Rate	-	-	-
Deferred Tax Asset	56,541	229,022	114,311
Valuation Allowance	(56,541)	(229,022)	(114,311)
Net Deferred Tax Asset	-	-	-

(i) Interim Financial Data

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results

expected for a full year or for any future period.

(j) Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." Revenue is recognized only when the price is fixed determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured. The Company has also applied Emerging Issues Task Force Issue 99-19 (EITF 99-19), "Reporting Revenue Gross as a Principal versus Net as an Agent". The Company sells licenses on behalf of Net 1 Holdings ("Net 1"), and acting as an agent records revenue on a net basis in accordance with EITF 99-19. Revenue is equal to Net 1's prior year annual net profit before amortization as certified by its independent auditors.

F-12

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**Net 1 UEPS Technologies, Inc.**  
**(A Development Stage Company)**  
**Notes to the Financial Statements**

**3. Property, Plant and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization.

		December 31, 2002		December 31, 2001	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	
Computer equipment and software	\$ 2,181	\$ 2,172	\$ 9	\$ 394	

**4. Intangible Assets**

		December 31, 2002		December 31, 2001	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	
Exclusive License	\$ 9,361	\$ 7,088	\$ 2,273	\$ 3,219	

See Note 1 for description of the license.

The Funds Transfer System patents were first filed in 1989. The European patent was granted on December 28, 1994, with effect in Austria, Belgium, Switzerland, Germany, Denmark, Spain, France, Great Britain, Greece, Italy, Liechtenstein, Luxembourg, Netherlands and Sweden. The European Patent Convention provides for an opposition period immediately following the grant of a European patent, and six parties filed an opposition to the grant of the patent on the grounds that the invention was not patentable. The case was heard before a Board of the Opposition Division in March 1998, when the patent was upheld. Following the issue of the formal decision, a number of the original opponents filed an appeal. The appeal proceedings were heard on October 10, 2002 and the appeal board reversed its earlier decision. Consequently, the European patent has been revoked and there is no possibility of any further appeal. As a result, the Company will be unable to collect royalties or fees for patent infringement in Europe.

The U.S. patent was first issued on May 17, 1991, and it is set to expire on May 11, 2011.

**5. Related Party Transactions**

- Consulting fees include \$112,500 (2002 - \$150,000, 2001 - \$150,000) paid or payable to the CEO of the Company.
- Pursuant to a Directors Resolution of January 29, 2002, \$250,000 of consulting fees have been postponed until the Company has sufficient funds.
- Pursuant to the distribution section of the Patent and Technology Agreement, subcontract costs include \$nil (2002 - \$75,047, 2001 - \$356,938) paid to Net 1 (Pty), a company with a common director.

- (d) Under the terms of the Patent and Technology Agreement dated May 3, 2000, the Company recorded revenues of \$41,017 (2002 - \$157,565, 2001 - \$nil) from Net 1 Holdings for sales made during the previous year. A total of \$87,023 (2002 - \$91,703) remains receivable without interest and is due on demand.
- (e) Effective July 1, 2002, the Company entered into a distribution agreement with Net 1 (Pty), which replaces the previous outsourcing agreement. Subcontract costs will now be determined based on a fixed rate of 9.5% of the license fees received. As a condition of this agreement, Net 1 (Pty) received \$50,000 in full settlement of \$154,953 of fees due as at June 30, 2002. The Company wrote off the remaining \$104,953 of the debt as a reduction of subcontract costs in the year.

F-13

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**Net 1 UEPS Technologies, Inc.**  
*(A Development Stage Company)*  
*Notes to the Financial Statements*

**6. Subsequent Events**

The Company is completing financial arrangements for the securing of approximately US\$ 150 million through Brait SA ( Brait ) on behalf of funds under its management. The financing, comprising the capital raising of US\$ 53 million and a share exchange of US\$ 97 million, will enable Net 1 to make an offer to acquire Net 1 Applied Technology Holdings Limited ( Aplitec ), a public Johannesburg Stock Exchange (JSE) listed company, as well as providing working capital to enable Net 1 to expand its operations and develop its internal infrastructure on an international basis. The Company, through Brait, will raise the capital through sales of its common stock at US\$ 0.50 per common share.

The Company, through Brait, has provided the Board of Directors of Aplitec with an offer to acquire all the assets and liabilities of Aplitec (excluding approximately ZAR 300 million of cash) for approximately US\$ 129 million through a combination of cash and share exchange offer to Aplitec shareholders also at a purchase price of US\$ 0.50. Aplitec is engaged in the sales, maintenance and development of UEPS smart card based products in South Africa and its surrounding territories with revenues of approximately US\$ 100 million. Aplitec has approximately 2,200 employees. Completion of the financing is subject to compliance with regulatory requirements in South Africa and in the United States, including an increase in the authorized capitalization of the Company to permit the common shares to be issued.

F-14

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## **Report of the Independent Auditors**

### **To the members of Net 1 Applied Technology Holdings Limited**

We have audited the accompanying consolidated balance sheets of Net 1 Applied Technology Holdings Ltd and subsidiaries as of June 30, 2003, 2002 and 2001, and the related consolidated statements of income, changes in Shareholders' equity and cash flows for each of the three years in the period ended June 30, 2003 set out on pages F-16 to F-49. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audits.

### **SCOPE**

We conducted our audits in accordance with auditing standards generally accepted in South Africa and the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management;
- evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

### **AUDIT OPINION**

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the companies as of June 30, 2003, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in South Africa.

### **US GAAP RECONCILIATION**

Accounting principles generally accepted in South Africa vary in significant respects from accounting principles generally accepted in the United States of America. Management has disclosed the effect of the application of accounting principles generally accepted in the United States of America on results of operations for each of the three years ended June 30, 2003 and the determination of shareholders' equity at June 30, 2003, 2002 and 2001, to the extent summarised in Note 23 to the consolidated financial statements, which note has been audited by us as detailed above.

### **FISHER HOFFMAN PKF (JHB) INC.**

Chartered Accountants (S.A.)  
Registered Accountants and Auditors  
Johannesburg, South Africa

**August 15, 2003 excluding note 23 which was audited on November 30, 2003**



**Balance sheets at June 30, 2003, 2002 and 2001****(In Thousands of Rands)**

	Notes	2003	2002	2001
<b>ASSETS</b>				
Non-current assets		R 96,050	R 62,512	R 74,289
Property, plant and equipment	2	65,075	33,192	39,751
Intangible assets	3	12,043	18,284	24,298
Deferred tax	4	18,932	11,036	10,240
Current assets		586,478	448,205	317,966
Inventory	5	6,437	15,521	16,611
Trade and other receivables	6	151,492	110,870	100,474
Cash and cash equivalents		428,549	321,814	200,881
<b>Total assets</b>		<b>682,528</b>	<b>510,717</b>	<b>392,255</b>
<b>EQUITY AND LIABILITIES</b>				
Capital and reserves		524,120	418,455	309,075
Share capital	7	237	233	230
Share premium		134,497	129,342	123,998
Accumulated profit		389,386	288,880	184,847
Minority interests			3,275	1,580
Current liabilities		158,408	88,987	81,600
Trade and other payables	8	107,474	58,591	52,805
Tax		50,934	30,396	28,795
<b>Total equity and liabilities</b>		<b>R 682,528</b>	<b>R 510,717</b>	<b>R 392,255</b>

F-16

**Income statements for the year ended June 30, 2003, 2002 and 2001.****(In Thousands of Rands)**

	Notes	2003	2002	2001
<b>Revenue</b>	9	R 691,484	R 525,585	R 557,445
Cost of sales		234,885	143,795	167,312
<b>Gross profit</b>		456,599	381,790	390,133
Other operating income		3,743	1,872	1,215
Operating expenses		284,474	248,662	265,592
Distribution costs		6,155	2,797	2,583
Administration expenses		70,895	57,551	73,493
Other operating expenses		207,424	188,314	189,516
<b>Profit/(Loss) from operations</b>	10	175,868	135,000	125,756
Interest received		73,086	33,086	11,940
Finance cost		(49,540)	(19,072)	(954)
<b>Profit/(Loss) before tax</b>		199,414	149,014	136,742
Income tax expense	12	69,132	43,286	42,471
<b>Profit/(Loss) after tax</b>		130,282	105,728	94,271
Minority interests		4,095	1,695	1,084
<b>Net profit/(Loss) for year</b>		R 126,187	R 104,033	R 93,187
<b>Earnings per share (Rands)</b>	13	0.53	0.45	0.41

F-17

**Statements of changes in equity****(In Thousands of Rands)**

	<b>Share capital</b>	<b>Share premium</b>	<b>Accumulated profit</b>	<b>Total</b>
<b>Balance at June 30, 2000</b>	R 199	R 63,684	R 91,660	R 155,543
Issue of share capital	31	60,495		60,526
Share issue cost written-off against share premium		(181)		(181)
Net profit for year			93,187	93,187
<b>Balance at June 30, 2001</b>	230	123,998	184,847	309,075
Issue of share capital	3	5,380		5,383
Share issue cost written-off against share premium		(36)		(36)
Net profit for year			104,033	104,033
<b>Balance at June 30, 2002</b>	233	129,342	288,880	418,455
Issue of share capital	4	5,179		5,183
Share issue cost written-off against share premium		(24)		(24)
Net profit for year			126,187	126,187
Dividends paid to shareholders			(25,681)	(25,681)
<b>Balance at June 30, 2003</b>	237	134,497	389,386	524,120

F-18

**Cash flow statements for the year ended June 30, 2003, 2002 and 2001.****(In Thousands of Rands)**

	Notes	2003	2002	2001
<b>Cash flows from operating activities</b>		R 171,958	R 124,512	R 136,468
Cash receipts from customers		665,211	503,476	594,094
Cash paid to suppliers and employees		(434,627)	(350,497)	(429,869)
Cash generated from/(utilised by)				
operations	18	230,584	152,979	164,225
Interest received		73,086	33,086	11,940
Finance cost		(49,540)	(19,072)	(954)
Tax paid	19	(56,491)	(42,481)	(38,743)
Dividends paid		(25,681)		
<b>Cash flows from investing activities</b>		(70,382)	(8,926)	(27,702)
Additions to property, plant and equipment		(60,791)	(19,472)	(21,956)
Proceeds from disposal of property, plant and equipment		2,841	6,335	282
Cash inflow from disposal of business	20		4,211	(66)
Acquisition of minority interests/subsidiaries	21	(12,432)		(5,962)
<b>Cash flows from financing activities</b>		5,159	5,347	36,691
Proceeds from issue of share capital		5,159	5,347	40,845
Repayment of interest-bearing borrowings				(4,154)
<b>Net increase in cash and cash equivalents</b>		106,735	120,933	145,457
Cash and cash equivalents at beginning of year		321,814	200,881	55,424
<b>Cash and cash equivalents at end of year</b>		R 428,549	R 321,814	R 200,881

F-19

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
JUNE 30, 2003, 2002 AND 2001.  
(In Thousands of Rands)**

**1. ACCOUNTING POLICIES**

The principal policies are set out below and are consistent in all material respects with those which were applied in the previous year:

**1.1 Basis of presentation**

The financial statements of the Group are prepared in conformity with Statements of Generally Accepted Accounting Practice on the historical cost basis, except where otherwise stated.

**1.2 Basis of consolidation and goodwill**

The consolidated financial statements include those of the holding company and its subsidiaries. The results of subsidiaries are included from the effective dates of their acquisition until the effective dates of their disposal. Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is capitalised as an intangible asset and amortised on the straight-line basis over the period of the expected benefit, which is estimated at 10 years. Inter-company transactions and balances are eliminated on consolidation. Separate disclosure is made of minority interests.

**1.3 Property, plant and equipment**

Property, plant and equipment are shown at cost less accumulated depreciation. Property, plant and equipment are depreciated on the straight-line basis at rates which are estimated to amortise the assets to their anticipated residual values over their useful lives. Within the following asset classifications, the expected economic lives are approximately:

Computer equipment	3 years
Office equipment	3 years
Vehicles	4 to 5 years
Furniture and fittings	5 to 10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

**1.4 Leasehold improvement costs**

Costs incurred in the adaptation of leased properties to serve the requirements of the Company are capitalised and amortised over the shorter of the term of the lease and the contract for which the lease has been entered into. Where the Company is required to restore a property to its original condition upon termination of a lease, the related costs are expensed as incurred.

**1.5 Intangible assets**



Intangible assets are shown at cost less accumulated amortisation and are amortised over their useful lives, which is estimated at five years.

**1.6 Deferred tax**

Deferred tax is provided at current rates on the comprehensive allocation basis, using the liability method. Deferred tax assets are raised to the extent that it is probable that taxable

F-20

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income will be available against which deductible temporary differences and accumulated tax losses can be utilised.

## 1.7 Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes transport and handling costs.

## 1.8 Financial instruments

Initial recognition and measurement

Financial instruments are recognised when the Group becomes a party to the transaction. Initial measurements are at cost, which includes transaction costs subsequent to initial recognition. These instruments are measured as set out below:

### 1.8.1 Trade and other receivables:

Trade and other receivables originated by the Group are stated at cost less provision for doubtful debts.

### 1.8.2 Cash and cash equivalents:

Cash and cash equivalents are stated at the bank statement balances.

### 1.8.3 Trade and other payables:

Trade and other payables are carried at their estimated fair value.

### 1.8.4 The company uses derivative financial instruments including currency forward contracts to hedge its exposure to foreign currency fluctuations. It is the policy of the group not to trade in derivative financial instruments. The company is also exposed to credit risk.

#### 1.8.4.1 Foreign exchange risk

The company has used forward contracts in order to limit its exposure to the ZAR/USD and ZAR/EUR exchange rate fluctuations from foreign currency transactions. As of June 30, 2003 and 2002, the outstanding foreign exchange contracts are as follows:

	2003	2002	2001
Forward purchase contracts			
National amount		USD 1.150	
Strike price		ZAR 12.643	
Maturity		January 8, 2003	

1.8.4.2 Interest rate risk

As a result of its normal borrowing activities, the Company's operating results are exposed to fluctuations in interest rates, which the Company manages primarily through its regular financing activities. The Company generally maintains investment in cash equivalents.

1.8.4.3 Credit risk

Credit risk relates to the risk of loss that the Company would incur as a result of non-performance by counterparties. The Company maintains credit risk policies with regard to its counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as deemed appropriate.

F-21

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In regards to credit risk on financial instruments, the Company maintains the policy to enter into such transactions only with highly rated financial institutions.

## **1.9 Foreign exchange transactions**

Foreign exchange transactions are translated at the spot rate ruling at the date of the transaction. Monetary items are translated at the closing spot rate at the balance sheet date. Exchange differences occurring on the settlement of monetary items or on the reporting of outstanding monetary items, are brought into account as income for the period. Non-monetary items are translated at the spot rate at the date of the transaction or the spot rate on the valuation date if carried at fair value.

## **1.10 Revenue recognition**

### *Fees and commissions*

The Company provides a State pension and welfare benefit distribution service to provincial governments in South Africa. Fees are computed based on the number of beneficiaries included in the Government payfile. Fee income received for these services is recognised in the income statement when distributions have been made.

The Company provides an automated payment collection service to third parties, for which it charges monthly fees. These fees are recognised in the income statement as the collections are made.

### *Interest income*

Interest income earned from micro-lending activities is recognised in the income statement as it falls due, using the effective interest rate method by reference to the constant interest rate stated in each loan agreement. Interest receivable over the term of a loan is recognised as a receivable on inception of the loan and a corresponding amount recorded as deferred income.

For loans in arrears where recovery is determined to be doubtful, an expense is recorded for amounts of interest previously recognised in the income statement that have not been collected. An expense is also charged for future interest recorded as a receivable on the balance sheet. Subsequently, interest income is recorded in the income statement as it falls due under the original terms of the loan agreement.

### *Systems implementation projects*

The Company undertakes smart card system implementation projects. The hardware and software installed in these projects are in the form of customised systems, which ordinarily involve modification to meet the customer's specifications. Software delivered under such arrangements is available to the customer permanently, subject to the payment of annual license fees. Revenue for such arrangements is recognised under the completed contract method, no income and profit being recognised until the contract is completed, save for annual license fees, which are recognised in the period to which they relate. Up-front and interim payments received are recorded as client deposits until customer acceptance.

### *Other income*

Revenue from service and maintenance activities is charged to customers on a time-and-materials basis and is recognised in the income statement as services are delivered to customers.

**1.11 Research and development expenditure**

Research expenditure is written-off in the period in which it is incurred. Development expenditure is capitalised until the operation to which it relates commences trading. The expenditure is then written-off on the straight-line basis over the life of the product, which is estimated at no longer than four years. Where the project is terminated, the related development expenditure is written-off immediately.

F-22

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### **1.12 Provisions**

Provisions are recognised when the Group has a present obligation as a result of a part event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated.

### **1.13 Cost deferrals**

The cost of purchasing and initialising smart cards is capitalised and amortised over the term of the benefits distribution contract, subject to a limit of there being probable future revenues to match the costs deferred.

### **1.14 Loan provisions**

A specific provision is established for all loans where it is considered likely that some of the capital will not be repaid by the borrower. Where the loan capital is insured, the amount due to be recovered from the insurer is recorded as a receivable. Default is taken to be likely after a specified period of repayment default, which is generally taken to be not more than 150 days. This assessment is made based on previous experience and on management judgement of economic conditions.

F-23

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**2003**                      **2002**                      **2001**

## 2. PROPERTY, PLANT AND EQUIPMENT

<b>Cost</b>			
Computer equipment	R 85,482	R 54,075	R 49,436
Furniture and office equipment	17,983	20,715	19,240
Motor vehicles	59,606	35,236	71,524
	163,071	110,026	140,200
<b>Accumulated depreciation</b>			
Computer equipment	59,535	38,095	29,746
Furniture and office equipment	9,229	13,743	11,753
Motor vehicles	29,232	24,996	58,950
	97,996	76,834	100,449
<b>Carrying amount</b>			
Computer equipment	25,947	15,980	19,690
Furniture and office equipment	8,754	6,972	7,487
Motor vehicles	30,374	10,240	12,574
	65,075	33,192	39,751

**The carrying amount of property, plant and equipment can be reconciled as follows:**

Carrying amount at beginning of year	33,192	39,751	38,915
Additions	60,791	19,472	22,412
Disposals	(2,642)	(5,656)	(30)
Depreciation	(26,266)	(20,375)	(21,546)
<b>Carrying amount at end of year</b>	<b>R 65,075</b>	<b>R 33,192</b>	<b>R 39,751</b>

## 3. INTANGIBLE ASSETS

<b>Cost</b>			
Capitalised development costs	R 15,076	R 15,076	R 15,076
Trademarks		2,718	2,718
Goodwill	23,093	18,031	18,031
	38,169	35,825	35,825
<b>Accumulated amortization</b>			
Capitalised development costs	15,076	12,797	9,081
Trademarks		1,088	544
Goodwill	11,050	3,656	1,902
	26,126	17,541	11,527
<b>Carrying amount</b>			
Capitalised development costs		2,279	5,995
Trademarks		1,630	2,174
Goodwill	12,043	14,375	16,129
	R 12,043	R 18,284	R 24,298

**The carrying amount of intangible assets can be reconciled as follows:**

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Carrying amount at beginning of year	R 18,284	R 24,299	R 12,020
Acquisition of minority interests/subsidiaries	5,062		18,676
Disposal of trademark	(1,630)		
Amortisation	(9,673)	(6,015)	(6,398)
<b>Carrying amount at end of year</b>	<b>R 12,043</b>	<b>R 18,284</b>	<b>R 24,298</b>

F-24

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	2003	2002	2001
<b>4. DEFERRED TAX</b>			
Balance at the beginning of year	R 11,036	R 10,240	R 8,630
Acquisition of subsidiaries			(193)
Movement during year attributable to			
temporary differences	7,896	796	1,803
Balance at the end of year	18,932	11,036	10,240
<b>Deferred tax on temporary differences arising from:</b>			
Assessed losses	8,496	8,468	16,909
Capitalised development costs	990	990	(125)
Provisions and accruals	16,764	4,048	1,869
Pre-paid expenses	(8,099)	(3,251)	(8,625)
Property, plant and equipment	582	582	13
Other	199	199	199
	R 18,932	R 11,036	R 10,240
<b>5. INVENTORY</b>			
Merchandise	R 6,437	R 15,521	R 16,611
	R 6,437	R 15,521	R 16,611
<b>6. TRADE AND OTHER RECEIVABLES</b>			
Trade and other receivables are stated net			
of the following provisions for non-recoverable loans	R 50,770	R 42,442	R 25,174
Balance of provision at beginning of year	42,442	25,174	10,616
Additional provisions charged to the			
income statement.	8,383	19,275	15,142
Amounts utilized	(55)	(2,007)	(584)
<b>7. SHARE CAPITAL</b>			
Authorised:			
500,000,000 ordinary shares of 0.1 cent			
each	R 500	R 500	R 500
500,000,000 N ordinary shares of 0,001			
cent each	5	5	5
Issued:			
236,977,187 (2002: 233,463,846) ordinary			
shares of 0,1 cent each	R 237	R 233	R 230
<b>Share options</b>			
Unexercised at beginning of year	3,550	7,250	11,025
Cancelled during year	(37)	(50)	(150)
Exercised during year	(3,513)	(3,650)	(3,625)
Unexercised at end of year		3,550	7,250



	2003	2002	2001
<b>8. TRADE AND OTHER PAYABLES</b>			
Trade payables	R 47,233	R 23,403	R 27,305
Accruals	32,897	18,657	5,189
Value-added tax payable	4,938	3,632	5,579
Other payables	3,160	2,444	153
Provisions	19,246	10,455	14,579
Balance at beginning of year	10,455	14,579	17,803
Additional provisions charged to the income statement	12,040	6,171	12,868
Unused amounts credited to the income statement	(882)	(2,338)	(7,694)
Utilised in year	(2,367)	(7,957)	(8,398)
	R 107,474	R 58,591	R 52,805

Provisions consist of the following:

	Bonus	Leave pay	Other	Total
Balance at beginning of year	R 564	R 6,514	R 3,377	R 10,455
Additional provisions charged to the income statement	6,926	3,738	1,376	12,040
Unused amounts credited to the income statement	(32)	(850)		(882)
Utilised in year	(988)	(1,379)		(2,367)
	R 6,470	R 8,023	R 4,753	R 19,246

	2003	2002	2001
<b>9. REVENUE</b>			

Sale of goods	R 72,259	R 63,082	R 98,993
Services rendered	619,225	462,503	458,452
	R 691,484	R 525,585	R 557,445

#### 10. PROFIT/(LOSS) FROM OPERATIONS

Profit/(Loss) from operations is stated after:			
Auditor's remuneration:	R 991	R 930	R 632
Audit fees	603	615	600
Other services	388	315	32
Depreciation and amortization:	35,939	26,390	27,944
Amortisation capitalised development costs	2,279	3,716	3,953
Amortisation trademarks		545	543
Amortisation goodwill	7,394	1,754	1,902
Depreciation computer equipment	15,569	10,487	7,908
Depreciation furniture and office equipment	2,833	3,298	2,056
Depreciation motor vehicles	7,864	6,590	11,582

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Directors' emoluments:	2,949	2,023	1,855
For services as directors	75	100	25
For managerial and other services	2,874	1,923	1,830
Employee costs	138,287	129,315	134,002
Operating lease rentals - leased premises	20,315	19,627	19,555
Profit on disposal of property, plant and equipment	200	679	252
Profit on disposal of business	1,086	2,713	
Loss on disposal of joint venture			188
Other costs:	10,224		
Settlement of share options	5,349		
Provision for loss on loan	4,875		
	F-26		

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**11. DIRECTORS  
EMOLUMENTS**

	2001			2003			2002		
	Bonus	Total	Basic Salaries	Bonus	Total	Basic Salaries	Bonus	Total	Basic Salaries
Fees and salaries									
Paid to executive									
directors	R 2,294	R 580	R 2,874	R 1,873	R 50	R 1,923	R 1,830		R 1,830
S C P Belamant	1,431	400	1,831	1,200		1,200	1,200		1,200
H G Kotzé	863	180	1,043	673	50	723	630		630
Fees paid to non-executive									
directors:									
J C Livingstone			75			75			
D A J Donald						25			25
B J S Hore									
D G S Muller									

	000					
	Opening balance	Shares exercised during year	Sold during year	Closing balance	Exercise price per share	Average sale price per share
Share options						
<b>Executive directors</b>						
S C P Belamant	600	600	1,200		R 1.475	R 3.51
H G Kotzé	600	600	1,200		R 1.475	R 3.51
<b>Non-executive directors</b>						
J C Livingstone	600	600	600	600	R 1.475	R 2.98
D A J Donald						
D G S Muller						
B J S Hore						

**12. INCOME TAX EXPENSE**

	2003	2002	2001
South African normal tax			
Current year	R 73,818	R 44,082	R 44,014
Deferred tax	(7,896)	(796)	(1,803)
Secondary Tax on Companies	3,210		260
	R 69,132	R 43,286	R 42,471
	%	%	%
Reconciliation of rate of tax:			
South African normal tax rate	30.0	30.0	30.0
Permanent differences	3.1	(1.1)	0.7
Secondary Tax on Companies	1.6		0.2

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Deferred tax not provided on tax losses		0.1	0.2
Effective rate of tax	34.7	29.0	31.1
Gross estimated tax losses of certain subsidiaries available for utilisation against			
Future taxable income	R 46,040	R 32,337	R 18,211
Applied to increase deferred tax asset	(28,320)	(28,227)	(18,211)
	R 17,720	R 4,110	R

F-27

<b>13. EARNINGS PER SHARE</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Number of shares in issue at end of year			
<b>13.1</b> ( 000)	236,977	233,464	229,814
<b>13.2</b> Earnings per share (Rands)	0.53	0.45	0.41
The calculation of earnings per share is based on consolidated net profit attributable to ordinary shareholders of R126,187 (2002: R104,033 / 2001: R83,187) and the weighted average number of shares			
Weighted average number of issued shares ( 000)	236,977	230,001	225,004

Aplitec has no other equity instruments outstanding at the balance sheet date.

#### **14. OPERATING LEASE COMMITMENTS**

<b>Due</b>	<b>Within 1 year</b>	<b>Within 2-5 years</b>	<b>After 5 years</b>	<b>Total</b>
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The Group leases certain premises under operating leases. The minimum future commitments of the Group for leased premises are:

2003	R 7,967	R 5,586	R 81	R 13,634
2002	8,062	3,551		11,613
2001	15,964	9,411		25,375

#### **15. CAPITAL COMMITMENTS**

	<b>2003</b>	<b>Group 2002</b>	<b>2001</b>
The Group's outstanding capital commitments at the year-end, which have been approved by the directors and contracted for amounted to:	R	R 12,643	R 3,200

These commitments will be funded from cash generated from operations.

#### **16. RETIREMENT BENEFITS**

The Group Provident Fund was a defined contribution fund, registered in terms of the Pension Funds Act (1965), of which membership was optional. The fund was discontinued and currently the Group provides no retirement benefits.

#### **17. RELATED PARTY TRANSACTIONS**

Light & Livingstone Financial Services CC, in which Mr. J C Livingstone (a non-executive director) is a member, performs the Company Secretarial function for the Group.





2003                      2002                      2001

**18. CASH GENERATED FROM/(UTILISED BY) OPERATIONS**

Profit/(Loss) before interest and tax	R	175,868	R	135,000	R	125,756
Depreciation and amortisation		35,939		26,390		27,944
Unpaid on disposal of joint venture						
Income from subsidiaries						
Profit on disposal of property, plant and equipment		(200)		(679)		(252)
Profit on disposal of business		(1,086)		(2,713)		188
Profit/(Loss) from operations before working capital changes		210,521		157,998		153,636
Working capital changes		20,063		(5,019)		10,589
Inventory		9,084		1,078		(98)
Trade and other receivables		(42,906)		(12,019)		34,331
Trade and other payables		53,885		5,922		(23,644)
	R	230,584	R	152,979	R	164,225

**19. TAX PAID**

Unpaid at beginning of year	R	(30,396)	R	(28,795)	R	(23,101)
Unpaid on acquisition of subsidiary						(246)
Unpaid on disposal of joint venture						83
Current tax and secondary tax charged to the income statement		(77,029)		(44,082)		(44,274)
Unpaid at end of year		50,934		30,396		28,795
	R	(56,491)	R	(42,481)	R	(38,743)

**20. DISPOSAL OF BUSINESS**

Goodwill	R	1,630	R		R	
Inventory						11
Trade and other receivables		2,284		1,623		
Cash and cash equivalents						702
Trade and other payables		(5,000)		(136)		
Profit on disposal of business		1,086		2,713		
Cash and cash equivalents received						4,913
Cash and cash equivalents paid						(702)
Net cash inflow	R		R	4,211	R	

**21. PURCHASE OF MINORITY INTERESTS/SUBSIDIARIES**

Cash and cash equivalents	R		R		R	
Property, plant and equipment						1,101
Inventory						29
Trade and other receivables						715
Trade and other payables						(293)
Tax						(246)

Deferred tax					(193)
Goodwill		12,432			17,886
Minority interests					6,317
Acquisition costs incurred					146
Cost price		12,432			25,462
Shares issued at a premium					(19,500)
Net cash outflow	R	12,432	R	R	5,962

**22. CASH AND CASH EQUIVALENTS**

Bank balances and cash	R	428,549	R	321,814	R	200,881
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F-29

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## 23. US GAAP INFORMATION

**RECONCILIATION OF NET INCOME, SHAREHOLDERS EQUITY AND CASH FLOWS FROM SA GAAP TO US GAAP**

The financial statements have been prepared in accordance with South African Generally Accepted Accounting Principles (SA GAAP), which differs in certain respects from Generally Accepted Accounting Principles in the United States (US GAAP). The effect of applying US GAAP principles to net profit and shareholders equity is set out below along with an explanation of applicable differences between SA GAAP and US GAAP:

	Notes	2001	2002	2003
<b>Net profit as reported in accordance with SA GAAP</b>		R 93,187	R 104,033	R 126,187
Items increasing / (decreasing) net profit:				
Goodwill - capitalization	(a)	(11,909)	(11,909)	
Goodwill - non-amortization	(b)			5,660
Goodwill - purchase price adjustment	(c)	1,510	1,510	
Intangible assets - purchase price adjustment	(c)	(630)	(630)	(630)
Goodwill - purchase price adjustment - compensation	(d)	1,089	1,089	
Goodwill - treatment of negative goodwill	(e)	93	371	
Goodwill - date of acquisition	(f)	(5,883)		(11,204)
Goodwill - self insurance	(i)	1,400	1,400	
Goodwill - acquisition of Net 1 Investment				
Holdings intangible asset	(g)	(1,448)	(1,448)	(1,448)
Deferred taxes - acquisition of Net 1 Investment				
Holdings intangible asset	(g)	1,448	1,448	1,448
Development expenditure	(h)	3,307	3,716	2,279
Self-insurance	(i)	2,832	4,751	7,901
Stock compensation - employees	(j)	(11,233)	(3,904)	(5,553)
Derivatives	(k)	116		
Internally developed intangible asset	(l)	543	543	1,630
Income tax - rate differences	(m)	(10,687)	(11,361)	(13,886)
Income tax - effect of US GAAP adjustments	(n)	(2,330)	(3,166)	(4,224)
Net profit in accordance with US GAAP before extraordinary item and cumulative effect of change in accounting principle				
		61,405	86,443	108,160
Extraordinary item - SFAS 142	(e)			7,764
Change in accounting policy upon adoption of SFAS 142	(e)			2,879
Net profit in accordance with US GAAP after extraordinary item and cumulative effect of change in accounting principle				
		R 61,405	R 86,443	R 118,803
<b>Earnings per share before extraordinary item and cumulative effect of a change in accounting principle computed in accordance with US GAAP</b>				
Basic (ZAR)		0.27	0.38	0.46

Diluted (ZAR)	0.27	0.37	0.46
<b>Earnings per share after extraordinary item</b>			
<b>and cumulative effect of a change in</b>			
<b>accounting principle computed in accordance</b>			
<b>with US GAAP</b>			
Basic (ZAR)	0.27	0.38	0.50
Diluted (ZAR)	0.27	0.37	0.50

F-30

	Notes	2001	2002	2003
<b>Shareholders equity as reported in accordance with SA GAAP</b>				
		R 309,075	R 418,455	R 524,120
Items increasing / (decreasing) shareholders equity:				
Goodwill - capitalization	(a)	93,973	82,064	82,064
Goodwill - non-amortization	(b)			5,660
Goodwill - purchase price adjustment	(c)	(11,299)	(9,789)	(9,789)
Intangible asset - purchase price adjustment	(c)	5,669	5,039	4,409
Goodwill - purchase price adjustment - compensation	(d)	(8,440)	(7,351)	(7,351)
Goodwill - treatment of negative goodwill	(e)	93	464	464
Goodwill - date of acquisition	(f)	(5,883)	(5,883)	(17,087)
Goodwill - self insurance	(i)	3,150	4,550	4,550
Goodwill - acquisition of Net 1 Investment				
Holdings intangible asset	(g)	13,028	11,581	10,133
Deferred taxes - impact of acquisition of Net 1				
Investment Holdings intangible asset	(g)	(13,028)	(11,581)	(10,133)
Development expenditure	(h)	(5,995)	(2,279)	
Self-insurance	(i)	2,832	7,583	15,484
Derivatives	(k)	(125)	(125)	(125)
Internally developed intangible asset	(l)	(2,173)	(1,630)	
Income tax - rate differences	(m)	(20,261)	(31,622)	(45,508)
Income tax - effect of US GAAP adjustments	(n)	2,063	(1,103)	(5,327)
Change in accounting policy on adoption of SFAS 142				
	(e)			2,879
Dividends declared but not paid			(25,681)	(35,547)
Extraordinary item				7,764
Shareholders equity in accordance with US GAAP				
		R 362,679	R 432,692	R 526,660
<b>Movements in shareholders equity in accordance with US GAAP</b>				
Balance at beginning of period		R 229,696	R 362,679	R 432,692
Issue of share capital		60,526	5,383	5,183
Share issue costs		(181)	(36)	(24)
Net profit for the year		61,405	86,443	118,803
Stock-based compensation		11,233	3,904	5,553
Dividends declared			(25,681)	(35,547)
Balance at end of period		R 362,679	R 432,692	R 526,660

The cash flow statement is presented in accordance with SA GAAP, which in this respect is the same as IAS No 7, Cash flow statements and consequently the SEC does not require a reconciliation to US GAAP to be presented.

A summary of the principal differences between SA GAAP and US GAAP applicable to the Company is set forth below:

**(a) Goodwill - capitalization**

Under SA GAAP up to and including the financial year ended June 30, 2000, goodwill arising in a business combination was written off immediately against shareholders' equity. With effect from July 1, 2000, SA GAAP changed and entities were required to capitalize goodwill arising on business combinations and to amortize the goodwill over its useful life.

F-31

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The Company wrote off the following amounts of goodwill directly to reserves:

1998	17,110
1999	71,154
2000	32,778
Total	R 121,042

Under US GAAP until July 1, 2002 goodwill should have been capitalized and amortized over its useful life not to exceed 40 years.

The adjustment therefore gives effect to the amount of goodwill that would have been required to be recognized in a US GAAP balance sheet and the amount of amortization that would have arisen thereon, which has been calculated on the basis of a useful life of 10 years.

**(b) Goodwill - non-amortization**

Under current SA GAAP since July 1, 2000 (see a above), positive purchased goodwill should be capitalized as an asset. If it is regarded as having a limited useful life it should then be amortized over that useful live which is generally presumed not to exceed 20 years. If it is regarded as having a useful life in excess of 20 years the goodwill is amortized over the best estimate of its useful life and the recoverable amount of the goodwill is assessed at least annually in order to identify any impairment loss. If goodwill is regarded as having an indefinite useful live it should not be amortized. Goodwill that is not amortized should be tested for impairment at the end of each reporting period and, if necessary, written down.

Under US GAAP, accounting for goodwill and intangible assets was substantially the same as current SA GAAP until the adoption of SFAS No. 141, Business Combinations (SFAS 141) and SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires all business combinations consummated after June 30, 2001 to be accounted for under the purchase method. SFAS 141 also sets forth guidelines for applying the purchase method of accounting in the determination of intangible assets, including goodwill, acquired in a business combination.

SFAS 142 addresses the initial and ongoing financial accounting and reporting for acquired goodwill and other intangible assets. SFAS 142 requires that goodwill be separately disclosed from other intangible assets in the balance sheet, and no longer be amortized but tested for impairment at least annually (or more frequently if impairment indicators arise). SFAS 142 is effective for financial statements for periods beginning on or after December 15, 2001. Additionally, the amortization provisions of SFAS 142 are applicable to goodwill arising in all business acquisitions consummated after June 30, 2001 regardless of the adoption date of SFAS 142.

The Company adopted SFAS 142 generally with effect from July 1, 2002. From that date all goodwill is no longer amortized.

This adjustment therefore reverses the amount of goodwill amortization charged after July 1, 2002 in the SA GAAP financial statements. This adjustment excludes R1,754 of expense recorded as goodwill amortization for SA GAAP purposes that would be considered to be intangible asset amortization expense under US GAAP in accordance with adjustment (g) below.

The Company has carried out the initial impairment testing of goodwill required by SFAS 142 as at July 1, 2002. Fair value was determined based on discounted cash flows using reasonable and appropriate assumptions that are consistent with internal forecasts. As a result, the Company determined that goodwill was not impaired and no adjustments were recorded.

**(c) Goodwill and intangible assets - purchase price adjustment**

During the three year period ended June 30, 2000, the Company acquired controlling interests in Cash Paymaster Services (Proprietary) Limited, Country on a Card, Moneyline Financial Services (Proprietary) Limited, and Net 1 Southern Africa (Proprietary) Limited (Creative Logica). Purchase consideration was satisfied in each instance by the Company through the issuance of a fixed number of shares. The number of shares issued was determined based on a fixed share price and the value ascribed

F-32

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to the business being acquired. For the Company's purpose, the purchase price was determined using that fixed share price.

US GAAP requires that shares issued in a purchase business combination should be accounted for at their fair value, which in the case of quoted shares should be determined using the market value at the date the terms of the acquisition are announced, and in the case of the acquisition of an intangible asset, at the date of acquisition.

This adjustment reduces the total amount of purchased goodwill for US GAAP purposes. Because the goodwill arising under SA GAAP was written off directly to reserves, the adjustment consequently reduces the amount of amortization expense arising as a consequence of adjustment (a) above until 2003 when goodwill ceased to be amortized for US GAAP purposes, and increases the amount of amortization expense recorded in respect of the Company's intangible asset in accordance with adjustment (g) below.

**(d) Goodwill - purchase price adjustment and compensation effect**

In March 1999, the Company acquired 100% of Cash Paymaster Services (Proprietary) Limited. The consideration was payable in two tranches, and included the issuance of 5 million shares to employees of the acquired company to induce them to enter into new employment contracts. There were no provisions requiring the employees to return the shares if they left employment.

For US GAAP purposes, these shares represented compensation to employees which, absent any service period, should have been immediately expensed.

This adjustment therefore adjusts for US GAAP purposes the amount of goodwill that arose on the acquisition by reducing it and instead charging an amount of compensation expense to income in 1999 and thus reducing the amount of goodwill amortization arising from adjustment (a).

The Company also paid R4 million for consulting services to be provided by the selling shareholder. Under SA GAAP, the amount is being amortized over the period over which the services are to be rendered. For US GAAP, such payments are not additional purchase price consideration, and should be expensed in a manner consistent with SA GAAP.

**(e) Treatment of negative goodwill**

Under SA GAAP, negative goodwill is determined as the excess of the fair value of identifiable assets and liabilities acquired over the purchase price in a business combination. It is then amortized by crediting the income statement over an appropriate period.

Under SA GAAP, negative goodwill is included in the balance sheet and is credited to goodwill in two different methods. For negative goodwill that is related to anticipated future losses or expenditures, it is recognized as income when the losses or expenditure are incurred. For negative goodwill that relates to identifiable non-monetary assets, it is recognized in income on a straight-line basis over the useful economic life of the non-monetary assets.

Under US GAAP, until July 1, 2002, the excess of the fair value of identifiable assets and liabilities over purchase price was first applied to reduce pro-rata the fair value of long-lived intangible and tangible assets (with certain exceptions) and once the carrying value of such assets had been reduced to zero the remaining amount (negative goodwill) was then amortized by crediting the income statement over an appropriate period.

Under US GAAP for business combinations initiated after June 30, 2001, where the sum of the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the acquired entity, that excess is allocated as a pro-rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except (a) financial assets other than investments accounted for by the equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, (d) prepaid assets related to pension or other post retirement benefit plans, and (e) any other current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess is recognized as an extraordinary gain. Any unamortized negative goodwill relating to a business combination which occurred prior to July 1, 2001 was required to be written off and recognized as a change in accounting principle upon adoption of SFAS 142.

F-33

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Prior to July 1, 2002 no negative goodwill arose for SA GAAP purposes but because of adjustment (f) described below and the effect of reducing the purchase price for US GAAP purposes, negative goodwill arose for US GAAP purposes. This adjustment recognizes that amount of negative goodwill, amortizes it for US GAAP purposes up to July 1, 2002 and then recognizes the remaining amount as a cumulative adjustment .

Subsequent to June 30, 2002 negative goodwill arose for SA GAAP and US GAAP purposes. This adjustment also credits the amount of negative goodwill recognized under US GAAP to income as an extraordinary item and reverses the amortization credit recorded for SA GAAP purposes.

**(f) Goodwill - date of acquisition adjustment**

For the Company's purposes, the date of acquisition of a minority interest in the year ended June 30, 2003 has been treated as being the beginning of the financial year and the results of the acquired business have been included in consolidated income statement from that date. Likewise, goodwill has been computed as the difference between the purchase price and the fair value of the identifiable assets and liabilities as of the same date.

For US GAAP purposes, the results of acquired businesses should be reflected in the income statement only as from the date of acquisition and the fair value of acquired assets and liabilities determined as of that date.

This adjustment therefore deducts from the income for the period the results of the acquired business from the beginning of the year until the date of acquisition and treats that amount as goodwill to be accounted for in accordance with SFAS 142. the relevant provisions of US GAAP at the time.

**(g) Goodwill - Acquisition of Net 1 Investment Holdings**

The Company obtained the patent for the Funds Transfer System (FTS) on its acquisition of Net 1 Investment Holdings (Proprietary) Limited (Net 1) on July 12, 2000. 100% of Net 1's issued share capital was acquired for R3 million, which was satisfied through the issuance of 9,750,000 of Aplitec common shares. Net 1 was a holding company that did not generate significant revenues or expenses and did not have significant assets or liabilities other than the FTS patent rights for South Africa and surrounding territories, on which the Company's smart card applications are now based.

For SA GAAP purposes, this was treated as the acquisition of a business as it was a corporate entity and the excess of the purchase price over the identifiable assets acquired was treated as goodwill and amortized over 10 years.

For US GAAP purposes, EITF 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business, defines a business and the acquisition of Net 1 Investment Holdings was in substance the acquisition of an asset. As such, the treatment of the premium on acquisition over the net asset value is regarded as being attributable to the patent rights acquired and not treated as goodwill. The patent rights carrying value should be amortized over 10 years, which is the same period that would be used to amortize goodwill. Accordingly there would be no income statement effect if the patent were amortized as opposed to goodwill of the same amount.

However, while under SA GAAP, no deferred tax liability is recognized in respect of intangible assets acquired other than in a business combination where there is a difference at the date of acquisition between the assigned values and the tax bases of the assets, under US GAAP, a deferred tax liability (and corresponding increase in assets acquired) is recognized for all temporary differences between the assigned values and the tax bases of intangible assets acquired. The recording of such deferred tax liability has no net impact on net income or

shareholders' equity as determined under US GAAP as the decrease in income tax expense is offset by a corresponding increase in amortization.

**(h) Development expenditure**

The Company capitalised R15 million in development costs in 1998 and 1999 and has then amortised these over the four years ended June 30, 2003. Subsequent to 1999, development costs have been expensed as incurred.

F-34

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Under SA GAAP, expenditure on development is charged to income in the year in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalized as an intangible asset and amortized on a straight-line basis over the life of the project from the date when the developed asset is put into use. Research costs are generally expensed as incurred.

Under US GAAP, costs incurred to develop computer software to be used externally are expensed as incurred until the developed software has been proven to be technologically feasible, in accordance with SFAS 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed (SFAS 86). Under SFAS 86, technological feasibility of a computer software produce is established when all planning, designing, coding, and testing activities that are necessary to establish that the produce can be produced to meet its design specifications including functions, features, and technical performance requirements. Costs to develop software for internal use by the Company are generally expensed as incurred, except in certain situations, as outlined in Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1), issued by the AICPA. Under SOP 98-1, only certain costs to develop internal-use computer software during the application development stage or costs to develop or obtain software that allows for access or conversion of old data by new systems are eligible for capitalization. All other costs, including those incurred in the project development and post-implementation stages are expensed as incurred.

The Company did not meet the relevant criteria for capitalization of software development costs under US GAAP and consequently the amounts capitalized under SA GAAP would not have been capitalized under US GAAP.

**(i) Self-insurance provision and captive insurance company**

The Company has established a provision in respect of self-insured losses (mainly attributable to cash in transit theft) based on an actuarially determined amount of such losses expected to arise in the next 12 months. The amount provided is R10 million in the year ended June 30, 2002 and a further R10 million in the year ended June 30, 2003. These provisions have not been claimed for tax purposes and accordingly a debit to deferred tax has been raised to account for the tax effect of such amounts.

In addition, the Company has an insurance captive with a current balance of around R10 million. This was acquired as part of the acquisition of Cash Paymaster Services in 1999. This asset was not recognised on acquisition and the amount at acquisition was R14 million.

For the purpose of US GAAP, self-insurance does not represent the transfer of risk and as such it is not possible to recognize a liability for future losses that will arise from events subsequent to the balance sheet date. In addition the captive insurance company should be consolidated for US GAAP purposes.

This adjustment therefore reverses that part of the charge in the income statement in respect of such losses that does not represent the losses of the period, consolidates the assets of the captive insurance company and decreases, for US GAAP purposes, the amount of goodwill amortization that is recorded under SA GAAP.

**(j) Stock compensation - employees**

Under SA GAAP there is currently no literature that regulates the accounting treatment of employee stock compensation. Accordingly, for SA GAAP purposes, the Company does not account for the stock options at the time of grant. Upon exercise, the issuance of the shares is accounted for at the exercise price of the stock option, with no effect on earnings. Options granted to directors are disclosed in the Company's financial statements.

Under US GAAP, companies may elect to follow the accounting prescribed by either Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees (APB 25), or SFAS No 123, Accounting for Stock-Based Compensation (SFAS 123). Under US GAAP, compensation is recorded for the cost of providing warrants and options to the employee over the relevant service period. The costs can be determined based on either the intrinsic value method (APB 25) or the fair value method (SFAS 123).

Under the intrinsic value method, the compensation cost is the difference between the market price of the stock at the measurement date and the price to be contributed by the employee (exercise price).

F-35

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Under the intrinsic method, the measurement date is the first date on which the employee knows the number of shares that such employee is entitled to receive and the exercise price. The measurement date is often the grant date; however, it may be later than the grant date in plans with variable terms that depend on events that occur after the grant date. These terms may be variable by design, may become variable due to their modification after the date of grant, or may be considered variable due to their relationship to other stock option features. In such cases, compensation is measured at the end of each reporting period until the measurement date or, in some cases, until exercise, forfeiture, or expiry of the stock option.

The Company has elected to apply the intrinsic value method in respect of grants to employees made in May 2000. While these grants of options were made at an exercise price that was equivalent to market value at date of grant the employees were permitted to exercise using a loan provided by the Company. These loans are non-recourse and bear interest at a variable rate. Consequently, under EITF 95-16, Accounting for Stock Compensation Arrangements with Employer Loan Features under APB Opinion No. 25 and FIN 44, Accounting for Certain Transactions Involving Stock Compensation, these awards are accounted for as variable awards under US GAAP with the final measurement of the compensation expense only being determined when the loans are repaid or when the options are exercised without a loan.

#### **(k) Derivative financial instruments**

The Company has historically entered into foreign exchange forward contracts to hedge its exposure to fluctuations in foreign currency exchange rates on specific transactions. Under SA GAAP, prior to the adoption of AC133, Financial Instruments: Recognition and Measurement (AC 133) on July 1, 2002, gains and losses on forward contracts designated as hedges of identifiable foreign currency firm commitments were recognized in the measurement of the related foreign currency transactions.

Under SA GAAP, upon adoption of AC133, the difference between previous carrying amounts and the fair value of derivatives, which prior to the adoption of AC133 had been designated as either fair value or cash flow hedges but do not qualify as hedges under AC133, is recognized as an adjustment of the opening balance of retained earnings at the beginning of the financial year AC133 is initially applied. Changes in the fair value of derivatives not designated as hedges after July 1, 2002 are recorded in the income statement.

Under US GAAP, upon adoption of SFAS 133, the difference between previous carrying amounts and the fair values of derivatives, which prior to the adoption of SFAS 133 had been designated as cash flow type hedges but do not qualify as hedges under SFAS 133 is recognized as a cumulative effect adjustment of other comprehensive income in the year SFAS 133 is initially applied.

#### **(l) Internally developed intangible asset**

In 2000, the Company incurred costs of approximately R3 million to develop and promote a trademark. Under SA GAAP, these costs were capitalized as an intangible asset. Under US GAAP, only the costs of intangible assets acquired from other enterprises or individuals that provide a future discernible benefit are capitalized, whilst other costs of developing, maintaining, or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to an enterprise as a whole are deducted from income when incurred. The trademark developed by the Company would not be considered to have a determinate life under US GAAP, and would consequently be expensed as incurred.

This adjustment therefore treats the costs of developing the trademark as an expense in 2000 for US GAAP purposes and reverses the intangible asset amortization under SA GAAP from 2000.

#### **(m) Income tax - rate differences and effect on tax charge**

The tax rate in South Africa varies depending on whether income is distributed. The income tax rate is 30% but upon distribution an additional tax (Secondary Tax on Companies or STC ) of 12.5% is due based on the amount of the dividends net of dividends received during a dividend cycle.

In conformity with SA GAAP, the Company reflects the STC as a component of the income tax charge for the period in which dividends are declared. SA GAAP also requires that deferred tax be provided for at the undistributed rate of 30%.

F-36

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For the purpose of US GAAP, under SFAS No. 109, Accounting for Income Taxes (SFAS 109), temporary differences have been tax effected using the tax rate that will apply when income is distributed, i.e. an effective rate of 37.78% including STC.

The Company has therefore computed the estimated STC that would become payable upon distribution of relevant undistributed earnings and accrued that amount as an additional liability for US GAAP purposes.

#### **(n) Deferred taxation**

The tax effects of the US GAAP adjustments have been calculated based on the enacted tax rate of 37.78% (2002: 37.78%; 2001: 37.78%).

A reconciliation of the deferred tax balances under SA GAAP to the amounts determined under US GAAP is as follows:

	2001	2002	2003
Net deferred tax assets (liabilities):			
As reported under SA GAAP	R 10,240	R 11,036	R 18,932
Additional temporary difference	(13,028)	(11,580)	(10,132)
Income tax - rate difference	2,706	2,913	4,960
Tax effect of US GAAP adjustments	2,063	(1,103)	(5,327)
As adjusted under US GAAP	R 1,981	R 1,266	R 8,433

Under US GAAP, long-term tax liabilities would be recognized as of June 30, 2001, 2002, and 2003 of \$20,261, \$31,622 and \$ 45,508, respectively, in respect of the tax rate adjustment described in adjustment (m) above.

#### **Other differences between SA GAAP and US GAAP not affecting the determination of shareholders equity or net income for the periods presented**

##### **Capitalized interest**

Under SA GAAP, borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of that asset.

Under US GAAP, interest cost incurred during the construction period is capitalized. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the estimated useful life of the asset. Capitalized interest was nil for the years ended June 30, 2003, 2002 and 2001.

The Company has no material GAAP difference in this respect.

##### **Revenue recognition**

The Company recognizes revenue when all significant risks and rewards of ownership of the asset sold are transferred. Under SA GAAP, turnover represents the net invoice value of goods and services provided to third parties, deducting sales taxes and duties.

US GAAP has a number of specific pronouncements relating to aspects of revenue recognition in general and in particular industries. The SEC Staff has issued Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB 101). Under SAB 101 revenue is recognized when the following four criteria are all met: (i) persuasive evidence of an arrangement exists, (ii) delivery has

F-37

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occurred or services have been rendered, (iii) the sales price to the buyer is fixed or determinable, and (iv) collectibility is reasonably assured.

The Company has no material GAAP difference in this respect.

### **Inventory**

Under SA GAAP, inventory is valued at the lower of cost and net realisable value. Under US GAAP inventory is valued at the lower of cost and market value. No material difference results

### **Impairment of assets**

Under SA GAAP, the Company is required to annually assess at the balance sheet date or earlier should a triggering event occur, whether there are any indications that an asset may be impaired. Should there be such an indicator, the asset must be tested for impairment. An impairment loss must be recognized in the income statement, should the carrying amount of an asset exceed its recoverable amount. The impairment loss is the difference between the carrying amount of the asset and its recoverable amount. The recoverable amount is the higher of the net selling price of the asset and its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset. The reversal of an impairment loss in subsequent periods is permitted when there has been a change in economic conditions or the expected use of the asset.

Under US GAAP, the Company is required to test for impairment whenever there is an indication of impairment. For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. If there is no impairment by reference to undiscounted cash flows, no further action is required but the useful life of the asset must be reconsidered. If impairment exists the Company must measure impairment by comparing the fair value of the asset to its carrying value. Fair value is either market value (if an active market for the asset exists) or the sum of discounted future cash flows. The discount rate reflects the risk that is specific to that asset. For assets to be disposed of, the loss recognized is the excess of the carrying amount of the asset over its fair value less costs to sell. The reversal of previously recognized impairment losses is prohibited.

The Company currently has no material GAAP difference for impairment of assets.

### **Business combinations - contingent purchase price**

SA GAAP requires that when an acquisition agreement provides for an adjustment to the purchase consideration contingent on one or more future events, the amount of the adjustment should be included in the cost of the acquisition as at the date of acquisition if the adjustment is probable and the amount can be measured reliably. The cost of the acquisition should be adjusted when a contingency affecting the amount of the purchase consideration is resolved subsequent to the date of the acquisition, such that payment of the amount is probable and a reliable estimate of the amount can be made.

Under US GAAP contingent purchase consideration is usually only included in the measurement of purchase price, and hence goodwill, when the contingency is resolved and consideration becomes payable.

The Company currently has no material GAAP difference in this respect.

### **Business combinations - determination of fair value**

Under SA GAAP, where it is not possible to complete the determination of fair values by the date on which the first post-acquisition financial statements are approved, a provisional assessment of fair values is made and any adjustments required to those provisional fair values, and the corresponding adjustments to purchased goodwill, are incorporated in the financial statements for the first full annual accounting period following the acquisition.

Under US GAAP, adjustments are likewise permitted subsequent to consummation of the acquisition, but the allocation period should usually not exceed one year from the consummation of a business combination.

F-38

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The Company currently has no material GAAP difference in this respect.

#### **Accounting for minority interest in a business combination**

Under SA GAAP, minority interest in a business combination is either stated at the minority's proportion of the fair values of the net identifiable assets of the acquired entity or at historical values.

Under US GAAP, minority interest is determined at historical values.

For SA GAAP purposes, the Company states minority interest at historical values. Accordingly, the Company has no GAAP difference in this respect.

#### **Accounting for leases**

Under SA GAAP, a lease is classified as a finance lease if the risks and rewards of ownership lie with the lessee.

Examples of situations that would normally lead to a lease being classified as a finance lease are:

- (1) The lease transfers ownership of the asset to the lessee by the end of the lease term.
- (2) The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised.
- (3) The lease term is for the major part of the economic life of the asset even if title is not transferred.
- (4) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
- (5) The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.
- (6) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee.
- (7) Gains or losses from the fluctuation in the fair value of the residual fall to the lessee (for example in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- (8) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Under US GAAP, if any one of the following four criteria applies to a lease agreement, then the lease must be classified as a finance lease by the lessee:

- (1) The lease transfers ownership of the leased assets to the lessee at the end of the lease term.
- (2) The lease contains a bargain purchase option.
- (3) The lease term is greater than or equal to 75% of the economic useful life of the leased asset.

- (4) The present value of the minimum lease payments is greater than or equal to 90% of the fair value of the leased asset.

The Company currently has no material GAAP difference in this respect.

**Restructuring costs**

Under SA GAAP, a provision is required to be recognized when an entity has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

F-39

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Under US GAAP, restructuring costs are accounted for under SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. It also concludes that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Under SFAS 146, fair value is the objective for initial measurement of the liability. In respect to other exit costs, liabilities are simply recognized when they are incurred, which is normally when the goods or services associated with the activity are received.

The Company currently has no material GAAP difference in this respect.

### **Investments in securities**

Under SA GAAP, accounting for investments in equity securities that have readily determinable fair values and for all debt securities is based on the particular security classification.

Debt securities that the entity has the positive intention and ability to hold to maturity are classified as held to maturity and reported at amortized cost.

Debt and equity securities that are held for current resale are classified as held for trading securities and reported at fair value, with unrealized gains and losses included in earnings.

All other debt and equity securities are classified as available for sale and should be reported at fair value, with unrealized gains and losses either included in earnings or recognized in equity until the debt or equity security is sold, collected, or otherwise disposed of, or until the financial asset is determined to be impaired.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An enterprise should assess at each balance sheet date whether there is any objective evidence that a financial asset or group of assets may be impaired. If any such evidence exists, the enterprise should estimate the recoverable amount of that asset or group of assets and recognize any impairment loss in earnings. If a loss on a financial asset carried at fair value has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognized directly in equity should be removed from equity and recognized in net profit or loss for the period even though the financial asset has not been derecognized.

Under US GAAP, investments in equity securities with no readily determinable fair values are recorded at historical cost. The accounting for investments in equity securities that have readily determinable fair values and for all debt securities is based on the particular security classification.

Debt securities that the entity has the positive intention and ability to hold to maturity are classified as held to maturity and reported at amortized cost. The requirements for use of this category are very restrictive.

Debt and equity securities that are held for current resale are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. All other debt and equity securities are classified as available for sale and reported at fair value, with unrealized gains and losses reported as other comprehensive income.

For securities classified as either held to maturity or available for sale, other than temporary declines in fair value require that the cost of the security be written down to the fair value and the adjustment be recorded through earnings.

The Company currently has no material GAAP difference in this respect.

**Stock compensation - non-employees**

In 1997 the Company granted certain stock options (the call options ) to three black empowerment agencies whereby the agency had the right to acquire shares at a pre-determined price provided that they introduced certain levels of additional business to the Company.

F-40

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These call options were not exercised because the Company believed that the required levels of additional business were not attained. However, in respect of one agency the Company decided to make cash settlement and that amount was recognized as an expense in 2002.

Under US GAAP, warrants and options granted to non-employees for services performed are accounted for at fair value. The fair value is measured at the earlier of the completion of the services or the date when the Company receives a commitment of performance with estimates of final compensation expense made in the intervening periods until final cost can be measured.

Because of the nature of the performance conditions, the Company does not believe it would have been required to recognize any compensation cost under these arrangements and as such a measurement date was never reached. Consequently, for the purpose of US GAAP the cash settlement appropriately measures the cost.

In addition to granting the call options to the black empowerment agencies, the Company also had the option to require the agencies to purchase shares at the same pre-determined price (the put options). Although the put options in respect of two of the agencies expired unexercised, the Company exercised its put option in respect of one agency in 1999 and issued 4 million shares. At the time of issuance, the market price of the Company's share exceeded the option's exercise price and the agency had no further obligation to provide any additional service.

Under SA GAAP, the issuance of the put option was recognized as the issuance of share capital at the option exercise price.

Under US GAAP, the option would be accounted for at fair value, with the excess between the option exercise price and the fair value of the shares recognized as a period expense. In 1999, therefore, an additional expense would have been recorded for US GAAP purposes, with an offsetting increase to additional-paid-in-capital. There is no impact of this entry on total shareholders' equity, however, in any of the periods presented.

### **Derecognition of assets**

Under SA GAAP, financial assets are derecognized when the Company realizes the rights to the benefits specified in the contract, the rights expire or the Company surrenders or otherwise loses control of the contractual rights that comprise the financial asset.

Under SA GAAP, financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Under US GAAP, a transfer of all or a portion of a financial asset in which the transferor surrenders control over such financial asset shall be accounted for as a sale to the extent that consideration other than beneficial interests in the transferred asset is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- a. The transferred assets have been isolated from the transferor - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- b. transferee (or, if the transferee is a qualifying SPE, each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- c.

The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call

The Company currently has no material GAAP difference in this respect.

F-41

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**ADDITIONAL DISCLOSURES REQUIRED BY US GAAP****(a) Stock-based compensation**

The Company accounts for stock-based compensation under the expense recognition provisions of APB 25 and provides disclosures of pro-forma stock compensation expense in accordance with SFAS 123. Included in net income for the Company's share option plan under APB 25 was a charge of R11 million (2002: R4 million; 2001: R5 million). Had compensation expense for share options granted under the stock option plan been determined based on fair value at the grant dates consistent with the method required in accordance with SFAS 123, the Company's net income and earnings per share in accordance with US GAAP for 2001, 2002 and 2003 would have been as presented in the pro-forma disclosures below:

Net income, as reported under			
US GAAP	R 61,405	R 86,443	R 118,803
Add back: stock-based compensation expense included in reported net income, net of related tax effects	11,233	3,904	5,553
Deduct: total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(3,934)	(2,122)	(902)
Pro-forma net income	R 68,704	R 88,225	R 123,454
Earnings per share, basic and diluted (R):			
Basic, as reported	0.27	0.38	0.50
Basic, pro forma	0.31	0.39	0.52
Diluted, as reported	0.27	0.37	0.50
Diluted, pro forma	0.30	0.38	0.52

The fair value for these options at the date of grant was estimated using a Black-Scholes model. The assumptions used in this valuation were as follows:

Risk-free interest rate	12.00%	13.00%	14.00%
Dividend yield	0.00%	0.00%	0.00%
Stock volatility	67.82%	67.82%	67.82%
Average expected life (years)	2.15	2.15	2.15

The movement in stock-based awards outstanding during the three years ended June 30, 2003 is summarized in the following table:

	2001	2002	2003
	Weighted average	Weighted average	Weighted average exercise

	No. of shares under option	exercise price	No. of shares under option	exercise price	No. of shares under option	price
Outstanding at beginning of year	11,025,000	1.475	7,250,000	1.475	3,550,008	1.475
Granted						
Exercised	3,625,000	1.475	3,649,992	1.475	3,513,341	1.475
Lapsed or otherwise forfeited	150,000	1.475	50,000		36,667	
Outstanding at end of year		7,250,000	1.475	3,550,008	1.475	
Exercisable at end of year						

**(b) Goodwill and intangible assets**

On July 1, 2002 the Company adopted SFAS 142 for US GAAP purposes, which requires that goodwill and certain intangible assets with indefinite useful lives, including those recorded in past business combinations, no longer be amortized, but instead be tested for impairment at least annually. The standard also requires the completion of a transitional impairment test with any resulting impairment identified treated as a cumulative effect of a change in accounting principle.

Prior to SFAS 142, the Company assessed goodwill for impairment based on the guidance in Accounting Principles Board Opinion No. 17, Intangible Assets and SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* and had to evaluate the periods of amortization continually to determine whether later events and circumstances warranted revised estimates of useful lives; impairment had to be recognized when the carrying amount exceeded the fair market value of the asset.

In connection with the adoption of SFAS 142, the Company completed a transitional impairment test of its goodwill. Fair value was determined based on discounted cash flows using reasonable and appropriate assumptions that are consistent with internal forecasts. As a result, the Company determined that goodwill was not impaired and that no adjustment was required.

Summarized below is the carrying value and accumulated amortization of the intangible asset that will continue to be amortized under SFAS 142, as well as the carrying amount of goodwill, which will no longer be amortized.

	2002			2003		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Goodwill	85,816	(30,172)	55,644	90,276	(30,172)	60,104
Finite-lived intangible assets:						
FTS patent <sup>(1)</sup>	38,316	(7,663)	30,653	38,316	(11,494)	26,822

(1) See note (g) to the description of quantified differences between US GAAP and SA GAAP for a discussion of the FTS patent.

Aggregate amortization expense for the year ended June 30, 2003 was R3.8 million. The Company estimates amortization expense to be R3.8 million each year for the next five years. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives and other relevant factors.

As required by SFAS 142, the standard has not been retroactively applied to the results for the period prior to adoption. Net profit on a pro-forma basis, as if SFAS 142 had been adopted as of July 1, 2000, is presented below:

	2001	2002	2003
Reported net profit	R 61,405	R 86,443	R 118,803
Add back: goodwill amortization	9,118	8,970	
Recognition of negative goodwill	(5,688)		
Adjusted net profit	R 64,835	R 95,413	R 118,803

**(c) Comprehensive income**

For each of the three years ended June 30, 2003, the Company's total comprehensive income was equal to net income as reported under US GAAP.

**(d)**

**Summarized income statements and balance sheets (Under US GAAP)  
(In thousands of Rands)**

<b>Balance sheets</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Current assets	R 334,673	R 459,663	R 596,768
Goodwill	63,535	55,644	60,104
Intangible assets	34,487	30,653	26,822
Other long-term assets	47,095	41,892	83,779
Total assets	479,790	587,852	767,473

F-43

<b>Balance sheets</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Current liabilities	81,600	46,342	174,886
Long-term liabilities	33,931	105,544	65,927
Minority interests	1,579	3,274	
Shareholders equity	R 362,679	R 432,692	R 526,660

<b>Income statements</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Revenue	557,445	525,585	678,567
Cost of sales	(167,312)	(143,795)	(234,885)
Other operating income	1,215	1,872	5,373
Operating expenses	(279,922)	(253,172)	(274,552)
Interest income	10,986	14,014	23,546
Profit before taxation	122,412	144,504	198,049
Taxation	(54,040)	(56,365)	(85,794)
Profit after taxation	68,372	88,139	112,255
Income attributable to minority interests	(6,967)	(1,696)	(4,095)
Profit from continuing operations	61,405	86,443	108,160
Extraordinary item			7,764
Effect of accounting change			2,879
Net profit for the year	61,405	86,443	118,803

### **(e) Operating segments**

The Company discloses segment information in accordance with SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information* (SFAS 131), which requires companies to report selected segment information on a quarterly basis and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues.

The Company has three reportable segments which each operate exclusively within South Africa: Transaction-based activities, Financial services and Technology sales and outsourcing. The Company's reportable segments are strategic divisions that offer different products and services and are managed separately as each division requires different resources and marketing strategies.

The Transaction-based activities segment provides a state pension and welfare benefit distribution service to provincial governments in South Africa. Fee income is earned based on the number of beneficiaries included in the government payfile. This segment has individually significant customers that each provide more than 10 per cent of the total revenue of the Company. For the year ended June 30, 2003, there were two such customers, providing 35 per cent and 20 per cent of total revenue (2002: three customers providing 30, 18 and 13 per cent of total revenue; 2001: three customers providing 16, 14 and 12 per cent of total revenue).

The Financial services segment derives revenue from short-term personal lending activities. Interest income is recognized in the income statement as it falls due, using the interest method by reference to the constant interest rate stated in each loan agreement

The Technology sales and outsourcing segment markets, sells and implements the Universal Electronic Payment System. The segment undertakes smart card system implementation projects, delivering hardware and software

in the form of customized systems. Revenue for such arrangements is

F-44

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recognized under the completed contract method, no income and profit being recognized until the contract is completed.

Corporate / eliminations include the Company's head office cost centres in addition to the elimination of inter-segment transactions.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 1 and any intersegment sales or transfers are eliminated.

The Company evaluates segment performance based on net income after tax. The following tables summarize segment information:

	<b>Transaction- based Activities</b>	<b>Financial Services</b>	<b>2003 Technology Sales and Outsourcing</b>	<b>Corporate/ Eliminations</b>	<b>Total</b>
Revenues from external customers	R 523,550	R 121,426	R 57,767	R (11,259)	R 691,484
Interest revenue	52,928	4,994	11,138	4,026	73,086
Interest expense	44,260	3,886	2	1,392	49,540
Depreciation and amortization	25,507	2,997	127	7,308	35,939
Income tax expense	46,005	14,170	5,868	3,089	69,132
Net profit after tax	101,580	32,824	13,612	(17,734)	130,282
Segment assets	448,986	116,760	95,161	21,621	682,528
Expenditures for long-lived assets	54,729	960	135	4,967	60,791

	<b>Transaction- based Activities</b>	<b>Financial Services</b>	<b>2002 Technology Sales and Outsourcing</b>	<b>Corporate/ Eliminations</b>	<b>Total</b>
Revenues from external customers	R 371,498	R 106,196	R 56,224	R (8,333)	R 525,585
Interest revenue	25,582	2,807	4,976	(279)	33,086
Interest expense	16,406	4,093	-	(1,427)	19,072
Depreciation and amortization	14,653	2,547	502	8,688	26,390
Income tax expense	30,780	3,297	8,949	260	43,286
Net profit after tax	79,035	7,572	20,929	(1,808)	105,728
Segment assets	310,271	90,297	107,643	2,506	510,717
Expenditures for long-lived assets	9,574	8,295	54	1,549	19,472

	<b>Transaction- based Activities</b>	<b>Financial Services</b>	<b>2001 Technology Sales and Outsourcing</b>	<b>Corporate/ Eliminations</b>	<b>Total</b>
Revenues from external customers	R 366,447	R 94,914	R 98,281	R (2,197)	R 557,445
Interest revenue	7,151	1,953	2,133	703	11,940

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Interest expense	311	2,633	10	(2,000)	954
Depreciation and amortization	17,169	1,138	653	8,985	27,945
Income tax expense	25,900	7,541	8,581	449	42,471
Net profit after tax	57,863	17,660	20,008	(1,260)	94,271
Segment assets	221,936	72,388	75,998	21,933	392,255
Expenditures for long-lived assets	16,238	1,412	155	4,151	21,956

F-45

**(f) Earnings per share**

Basic earnings per common share has been calculated by dividing the net income, before and after the extraordinary item and the cumulative effect of a change in accounting principle, by the weighted average number of common shares outstanding during each period. Diluted earnings per share has been calculated to give effect to the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued in each period.

The following table details the weighted average number of common shares outstanding for the years ended June 30:

	2001	2002	2003
Weighted average number of shares basic	225,004,299	230,001,354	236,977,187
Weighted average effect of dilutive securities:			
Employee stock options	228,661,336	2,122,263	-
Weighted average number of shares diluted	228,661,336	232,123,617	236,977,187

**(g) Recent accounting pronouncements****New accounting pronouncements adopted at June 30, 2003 for US GAAP purposes.**

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This Statement supersedes SFAS 121. However, this Statement retains the fundamental provisions of SFAS 121 for recognition and measurement of the (a) impairment of long-lived assets to be held and used and (b) long-lived assets to be disposed of by sale. The Company adopted SFAS 144 effective July 1, 2002, and it had no material impact on the Company's results of operations and financial position.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF 94-3). SFAS 146 eliminates the definition and requirements for recognition of exit costs in EITF 94-3. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost as defined in EITF 94-3 was recognized at the date of an entity's commitment to an exit plan. SFAS 146 also concluded that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS 146 also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 is effective for all exit or disposal activities initiated after December 31, 2002. The Company adopted SFAS 146 on January 1, 2003. The adoption of SFAS 146 had no impact on the Company's results of operations and financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others* (an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of Interpretation No. 34) (FIN 45). This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

This interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness to Others, (FIN 34), which is being superseded. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company adopted the disclosure requirements in the year ended June 30, 2003.

F-46

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The interpretive guidance incorporated without change from FIN 34 continues to be required for financial statements for fiscal years ending after June 15, 1981 - the effective date of FIN 34. The Company adopted the initial recognition and initial measurement provisions of FIN 45 and it had no material impact on the Company's results of operations and financial positions.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure* (SFAS 148). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements of SFAS 148 are effective for interim periods beginning after December 15, 2002. As the Company has no stock-based compensation plans accounted for under SFAS 123, SFAS 148 is not applicable to the Company's stock option plan accounting in the year ended June 30, 2003. The Company continues to apply the provisions in APB 25, as interpreted by FIN 28.

In April 2002, the FASB issued SFAS No. 145, *Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections* (SFAS 145). SFAS 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt (SFAS 4), SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt made to satisfy Sinking-Fund requirements. As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in Accounting Principles Boards Opinion 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions.

SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company adopted all provisions of SFAS 145 in the year ended June 30, 2002. The adoption of SFAS 145 had no material impact on the Company's results of operations or financial position.

### **New accounting pronouncements not adopted at June 30, 2003**

In August 2001, the FASB issued SFAS No. 143, *Accounting for Obligations, Associated with the Retirement of Long-Lived Assets* (SFAS 143). SFAS 143 establishes accounting standards for recognition and measurement of a liability at fair value for an asset retirement obligation and an addition to the associated asset retirement cost. The accretion of interest expense each period is subsequently recorded as an expense and added to the liability. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company adopted SFAS 143 on July 1, 2003 and is currently evaluating the impact it will have on its results of operations and financial position. However, the Company does not believe that the adoption of SFAS 143 will have a material impact on its results of operations and financial position.

In November 2002, the EITF reached a final consensus related to Revenue Arrangement with Multiple Deliverables (EITF 00-21). The consensus requires that revenue arrangements with multiple deliverables should be divided into separate units of accounting if (a) a delivered item has value to the customer on stand alone basis, (b) there is objective and reliable evidence of the fair value of the undelivered item and (c) if the arrangement includes a general right of return, delivery or performance of the undelivered items is considered

probable and substantially in the control of the vendor. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair value and appropriate revenue recognition criteria would be applied to each separate unit of accounting. The Company has not yet determined what effect, if any, EITF 00-21 would have on revenue and net income determined in accordance with US GAAP. The EITF agreed the effective date for the consensus will be for all revenue arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The Company is still evaluating the impact of this EITF on its financial statements. This EITF will be effective for the Company for revenue arrangements entered into after July 1, 2004.

F-47

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In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities - and Interpretation of ARB No. 51* (FIN 46). This interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, which is provided through other interest that will absorb some or all of the expected losses of the entity.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
  - (a) The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights.
  - (b) The obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities.
  - (c) The right to receive the expected residual returns of the entity if they occur, which is the compensation for the risk of absorbing the expected losses.

FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Interpretation applies to public enterprises as of the beginning of the applicable interim or annual period.

FIN 46 may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The Company is still evaluating the impact of this interpretation on its financial statements. However, the Company does not believe that the adoption of FIN 46 will have a material impact on its results of operations and financial position.

In April 2003 the FASB issued SFAS No. 149, *Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities* (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. In particular, it (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to the language used in FIN 45 and (4) amends certain other existing pronouncements.

SFAS 149 is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003.

The provisions of SFAS 149 that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. SFAS 149 should be applied prospectively.

The Company does not expect that the adoption of this Statement will have a material impact on its results of operations and financial position.

In May 2003 the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS 150). SFAS 150 modifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position.

SFAS 150 affects an issuer's accounting for three types of freestanding financial instruments, namely:

- Mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets.



- Financial instruments, other than outstanding shares, that do or may require the issuer to buy back some of its equity shares in exchange for cash or other assets.
- Unconditional obligations that can be settled with equity shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's equity shares.

SFAS 150 does not apply to features embedded in financial instruments that are not derivatives in their entirety.

In addition to its requirements for the classification and measurement of financial instruments within its scope, SFAS 150 also requires disclosures about alternative ways of settling such instruments and the capital structure of entities, all of whose shares are mandatorily redeemable.

SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company is currently evaluating the impact of SFAS 150 on its results of operations and financial position.

F-49

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**Net 1 Applied Technology Holdings Limited**  
**Interim balance sheets at September 30, 2003 and June 30, 2003**

(In Thousands of Rands)

	Notes	September 30, 2003 (Unaudited)	June 30, 2003 (Audited)
<b>ASSETS</b>			
Non-current assets		R 95,518	R 96,050
Property, plant and equipment		63,306	65,075
Intangible assets	2	10,195	12,043
Deferred tax		22,017	18,932
Current assets		573,000	586,478
Inventory		4,810	6,437
Trade and other receivables		199,139	151,492
Cash and cash equivalents		369,051	428,549
<b>Total assets</b>		<b>668,518</b>	<b>682,528</b>
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves		524,596	524,120
Share capital		237	237
Share premium		134,307	134,497
Accumulated profit		390,052	389,386
Current liabilities		143,922	158,408
Trade and other payables		87,995	107,474
Tax		55,927	50,934
<b>Total equity and liabilities</b>		<b>R 668,518</b>	<b>R 682,528</b>

F-50

**Net 1 Applied Technology Holdings Limited****Interim income statements for the three month periods ended September 30, 2003 and September 30, 2002  
(unaudited)****(In Thousands of Rands)**

	<b>Notes</b>	<b>Three months ended September 30, 2003 (Unaudited)</b>	<b>Three months ended September 30, 2002 (Unaudited)</b>
<b>Revenue</b>		R 192,335	R 159,275
Cost of sales		64,771	61,013
<b>Gross profit</b>		127,564	98,262
Other operating income		101	58
Operating expenses		73,403	54,300
Distribution costs		3,490	520
Administration expenses		17,786	12,067
Other operating expenses		52,127	41,713
<b>Profit/(Loss) from operations</b>		54,262	44,020
Interest received		27,485	12,803
Finance cost		(20,884)	(5,890)
<b>Profit/(Loss) before tax</b>		60,863	50,933
Income tax expense	3	24,650	18,637
<b>Profit/(Loss) after tax</b>		36,213	32,296
Minority interests		-	2,003
<b>Net profit/(Loss) for year</b>		R 36,213	R 30,293
<b>Earnings per share (Rands)</b>	5	0.15	0.13

F-51

**Net 1 Applied Technology Holdings Limited****Interim cash flow statements for the three month periods ended September 30, 2003 and September 30, 2002  
(unaudited)****(In Thousands of Rands)**

	Notes	Three months ended September 30, 2003 (Unaudited)	Three months ended September 30, 2002 (Unaudited)
<b>Cash flows from operating activities</b>		R (53,365)	R (11,356)
Cash receipts from customers		147,305	157,908
Cash paid to suppliers and employees		(148,982)	(129,491)
Cash (utilised by) / generated from			
operations	8	(1,677)	28,417
Interest received		27,485	12,803
Finance cost		(20,884)	(5,890)
Tax paid		(22,742)	(21,005)
Dividends paid		(35,547)	(25,681)
<b>Cash flows from investing activities</b>		(5,944)	(12,900)
Additions to property, plant and equipment		(6,023)	(13,093)
Proceeds from disposal of property, plant and equipment		79	193
<b>Cash flows from financing activities</b>		(189)	-
Proceeds from issue of share capital		1	-
Share issue expenses		(190)	
<b>Net decrease in cash and cash equivalents</b>		(59,498)	(24,256)
Cash and cash equivalents at beginning of year		428,549	321,814
<b>Cash and cash equivalents at end of year</b>		R 369,051	R 297,558

F-52

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2002  
(Unaudited)**

(In Thousands of Rands)

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements (hereinafter referred to as the Interim Financial Statements ) have been prepared in accordance with South African generally accepted accounting principles ( SA GAAP ). The Interim Financial Statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company s management considers necessary for a fair presentation of the financial position as of such dates and the operating results and cash flows for those periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with SA GAAP have been condensed or omitted. The results of operations for the three-month period ended September 30, 2003 may not necessarily be indicative of the operating results that may be incurred for the entire fiscal year.

The June 30, 2003 balance sheet was derived from audited financial statements but does not include all disclosures required by SA GAAP. The Company believes that the disclosures are adequate to make the information presented not misleading. These Interim Financial Statements should be read in conjunction with the Company s audited consolidated balance sheets as of June 30, 2003, 2002 and 2001, and the related audited consolidated statements of operations, cash flows and changes in stockholders equity for each of the three years in the period ended June 30,2003.

	<b>September 30, 2003</b>	<b>June 30, 2003</b>
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**2. INTANGIBLE ASSETS**

<b>Cost</b>		
Capitalised development costs	R 15,076	R 15,076
Trademarks		-
Goodwill	23,093	23,093
	38,169	38,169
<b>Accumulated amortization</b>		
Capitalised development costs	15,076	15,076
Trademarks		-
Goodwill	12,898	11,050
	27,974	26,126
<b>Carrying amount</b>		
Capitalised development costs		-
Trademarks		-
Goodwill	10,195	12,043
	R 10,195	R 12,043
<b>The carrying amount of intangible assets can be reconciled as follows:</b>		
Carrying amount at beginning of year	R 12,043	R 18,284
Acquisition of minority interests/subsidiaries	-	5,062

Disposal of trademark	-	(1,630)
Amortisation	(1,848)	(9,673)
<b>Carrying amount at end of year</b>	<b>R 10,195</b>	<b>R 12,043</b>

F-53

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	<b>Three months ended September 30, 2003</b>	<b>Three months ended September 30, 2002</b>
<b>3. INCOME TAX EXPENSE</b>		
South African normal tax		
Current year	R 23,292	R 13,586
Deferred tax	(3,085)	1,841
Secondary Tax on Companies	4,443	3,210
	R 24,650	R 18,637
	%	%
Reconciliation of rate of tax:		
South African normal tax rate	30.0	30.0
Permanent differences	3.2	0.3
Secondary Tax on Companies	7.3	6.3
Deferred tax not provided on tax losses		-
Effective rate of tax	40.5	36.6
Gross estimated tax losses of certain subsidiaries available for utilisation against		
Future taxable income	R 56,347	R 43,190
Applied to increase deferred tax asset	(38,603)	(35,480)
	R 17,744	R 7,710

	<b>September 30, 2003</b>	<b>June 30, 2003</b>
<b>4. SHARE CAPITAL</b>		
Authorised:		
500,000,000 ordinary shares of 0.1 cent each	R 500	R 500
500,000,000 N ordinary shares of 0,001 cent each	5	5
Issued:		
236,977,187 (2002: 233,463,846) ordinary shares of 0,1 cent each	R 237	R 237
<b>Share options</b>		
Unexercised at beginning of year	-	3,550
Cancelled during year	-	(37)
Exercised during year	-	(3,513)
Unexercised at end of year	-	





	<b>Three months ended September 30, 2003</b>	<b>Three months ended September 30, 2002</b>
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**5. EARNINGS PER SHARE**

	Number of shares in issue at end of year		
<b>13.1</b>	( 000)	236,977	233,464
<b>13.2</b>	Earnings per share (Rands)	0.15	0.13
	The calculation of earnings per share is based on consolidated net profit attributable to ordinary shareholders of R36,316 (2002: R30,295) and the weighted average number of shares.		
	Weighted average number of issued shares		
	( 000)	236,977	230,001
	Aplitec has no other equity instruments outstanding at the balance sheet date.		

**6. OPERATING LEASE COMMITMENTS**

	<b>Due</b>	<b>Within 1 year</b>	<b>Within 2-5 years</b>	<b>After 5 years</b>	<b>Total</b>
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The Group leases certain premises under operating leases. The minimum future commitments for leased premises are:

2003	R 7,967	R 5,586	R 81	R 13,634
2002	8,062	3,351	-	11,613

**7. CAPITAL COMMITMENTS**

	<b>September 30, 2003</b>	<b>June 30, 2003</b>
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The Group's outstanding capital commitments at the year-end, which have been approved by the directors and contracted for amounted to:

R 9,048	R -
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F-55

	<b>Three months ended September 30, 2003</b>	<b>Three months ended September 30 2002</b>
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**8. CASH GENERATED FROM/(UTILISED BY) OPERATIONS**

Profit/(Loss) before interest and tax	R 54,262	R 44,023
Depreciation and amortisation	9,584	6,093
Unpaid on disposal of joint venture		
Income from subsidiaries		
Profit on disposal of property, plant and equipment	(24)	206
Profit on disposal of business	-	-
Profit/(Loss) from operations before working capital changes	63,822	50,322
Working capital changes	(65,499)	(21,095)
Inventory	1,628	290
Trade and other receivables	(47,647)	(10,171)
Trade and other payables	(19,480)	(12,024)
	R (1,647)	R 28,417

**9. RELATED PARTY TRANSACTIONS**

Light & Livingstone Financial Services CC, in which Mr. J C Livingstone (a non-executive director) is a member, performs the Company Secretarial function for the Group.

F-56

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**10. US GAAP INFORMATION****RECONCILIATION OF NET INCOME, SHAREHOLDERS EQUITY AND CASH FLOWS FROM SA GAAP TO US GAAP**

The interim financial statements have been prepared in accordance with South African Generally Accepted Accounting Principles (SA GAAP), which differs in certain respects from Generally Accepted Accounting Principles in the United States (US GAAP). The effect of applying US GAAP principles to net profit and shareholders equity is set out below:

	Notes	Three months ended September 30	
		2002 (Unaudited)	2003 (Unaudited)
<b>Net profit as reported in accordance with SA GAAP</b>		R 30,293	R 36,213
Items increasing / (decreasing) net profit:			
Goodwill non-amortization	(b)	5	707
Intangible assets - purchase price adjustment	(c)	(158)	(158)
Goodwill date of acquisition	(f)	3,934	854
Goodwill acquisition of Net 1 Investment Holdings intangible asset	(g)	(362)	(362)
Deferred taxes acquisition of Net 1 Investment Holdings intangible asset	(g)	362	362
Development expenditure	(h)	2,370	-
Self-insurance	(i)	4,658	6,750
Stock compensation employees	(j)	(560)	-
Internally developed intangible asset	(l)	136	-
Income tax rate differences	(m)	(791)	(797)
Income tax effect of US GAAP adjustments	(n)	(2,650)	(2,490)
Net profit in accordance with US GAAP from continuing operations		37,237	41,079
Extraordinary item SFAS 142	(e)	7,764	-
Change in accounting policy upon adoption of SFAS 142	(e)	2,879	-
Net profit in accordance with US GAAP after extraordinary item and cumulative effect of change in accounting principle		R 47,880	R 41,079
<b>Earnings per share before extraordinary item and cumulative effect of a change in accounting principle computed in accordance with US GAAP</b>			
Basic and diluted		0.16	0.17
<b>Earnings per share after extraordinary item and cumulative effect of a</b>			

**change in accounting principle computed in accordance  
with US GAAP**

Basic and diluted		0.21	0.17
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F-57

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	Notes	June 30, 2003 (Audited)	September 30, 2003 (Unaudited)
<b>Shareholders equity as reported in accordance with SA GAAP</b>		R 524,120	R 524,595
Items increasing / (decreasing) shareholders equity:			
Goodwill capitalization	(a)	82,064	82,064
Goodwill non-amortization	(b)	5,660	6,367
Goodwill - purchase price adjustment	(c)	(9,789)	(9,789)
Intangible asset - purchase price adjustment	(c)	4,409	4,251
Goodwill purchase price adjustment - compensation	(d)	(7,351)	(7,351)
Goodwill treatment of negative goodwill	(e)	464	464
Goodwill date of acquisition	(f)	(17,087)	(16,234)
Goodwill self insurance	(i)	4,550	4,550
Goodwill acquisition of Net 1 Investment Holdings intangible asset	(g)	10,133	9,771
Deferred taxes impact of acquisition of Net 1 Investment Holdings intangible asset	(g)	(10,133)	(9,771)
Self-insurance	(i)	15,484	22,234
Derivatives	(k)	(125)	(125)
Income tax rate differences	(m)	(45,508)	(46,304)
Income tax effect of US GAAP adjustments	(n)	(5,327)	(7,817)
Change in accounting policy on adoption of SFAS 142	(e)	2,879	2,879
Dividends declared but not paid		(35,547)	-
Extraordinary item		7,764	7,764
<b>Shareholders equity in accordance with US GAAP</b>		<b>R 526,660</b>	<b>R 567,548</b>

The cash flow statement is presented in accordance with SA GAAP, which in this respect is the same as IAS No 7, *Cash flow statements* and consequently the SEC does not require a reconciliation to US GAAP to be presented.

A discussion of the material variations in the accounting principles, practices, and methods used in preparing the audited consolidated financial statements in accordance with SA GAAP from the principles, practices, and methods generally accepted in the United States is provided in Note 23 to the Company's audited financial statements for the three years ended June 30, 2003. There are no new significant variations between SA GAAP and US GAAP accounting principles, practices, and methods used in preparing the unaudited consolidated interim financial statements.

#### **ADDITIONAL DISCLOSURES REQUIRED BY US GAAP**

##### **(a) Goodwill and intangible assets**

On July 1, 2002 the Company adopted SFAS 142 for US GAAP purposes, which requires that goodwill and certain intangible assets with indefinite useful lives, including those recorded in past business combinations, no longer be amortized, but instead be tested for impairment at least annually. The standard also requires the

completion of a transitional impairment test with any resulting impairment identified treated as a cumulative effect of a change in accounting principle.

Prior to SFAS 142, the Company assessed goodwill for impairment based on the guidance in Accounting Principles Board Opinion No. 17, *Intangible Assets* and SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* and had to evaluate the periods of amortization continually to determine whether later events and circumstances warranted revised estimates of useful lives; impairment had to be recognized when the carrying amount exceeded the fair market value of the asset.

In connection with the adoption of SFAS 142, the Company completed a transitional impairment test of its goodwill. Fair value was determined based on discounted cash flows using reasonable assumptions that are consistent with internal forecasts. As a result, the Company determined that goodwill was not impaired and that no adjustment was required.

F-58

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Summarized below is the carrying value and accumulated amortization of the intangible asset that will continue to be amortized under SFAS 142, as well as the carrying amount of goodwill, which will no longer be amortized.

	June 30, 2003			September 30, 2003		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Goodwill	R 90,276	R (30,172)	R 60,104	R 90,276	R (30,172)	R 60,104
Finite-lived intangible assets:						
FTS patent	R 38,316	R (11,494)	R 26,822	R 38,316	R (12,452)	R 25,864

Aggregate amortization expense for the quarter ended September 30, 2003 was approximately R 1 million. The Company estimates amortization expense to be R3.8 million each year for the next five years. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives and other relevant factors.

#### (b) Comprehensive income

For each of the three month periods ended September 30, 2002 and September 30, 2003, the Company's total comprehensive income was equal to net income as reported under US GAAP.

#### (c) Summarized income statements and balance sheets

Balance sheets	June 30,	September
	2003	30, 2003
Current assets	596,768	583,290
Goodwill	60,104	60,104
Intangible assets	26,822	25,864
Other long-term assets	83,779	86,047
Total assets	767,473	755,305
Current liabilities	153,435	124,310
Long-term liabilities	61,697	63,446
Shareholders' equity	552,341	567,549

  

Income statements	Three month period ended	
	2002	2003
Revenue	159,275	192,335
Cost of sales	(61,013)	(64,771)
Other operating income	58	101
Operating expenses	(44,277)	(65,612)
Interest income	6,913	6,601

Profit before taxation	60,956	68,654
Taxation	(21,716)	(27,576)
Profit after taxation	39,240	41,078
Income attributable to minority interests	2,003	-
Net profit from continuing operations	37,237	41,078
Extraordinary item	7,764	-
Effect of accounting change	2,879	-
Net profit for the year	47,880	41,078

**(d) Operating segments**

The Company discloses segment information in accordance with SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information* (SFAS 131), which requires companies to report selected segment information on a quarterly basis and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues.

F-59



The Company has three reportable segments which each operate exclusively within South Africa: Transaction-based activities, Financial services and Technology sales and outsourcing. The Company's reportable segments are strategic divisions that offer different products and services and are managed separately as each division requires different resources and marketing strategies.

The Transaction-based activities segment provides a state pension and welfare benefit distribution service to provincial governments in South Africa. Fee income is earned based on the number of beneficiaries included in the government payroll. This segment has individually significant customers that each provide more than 10 per cent of the total revenue of the Company. For the year ended June 30, 2003, there were two such customers, providing 35 per cent and 20 per cent of total revenue (2002: three customers providing 30, 18 and 13 per cent of total revenue; 2001: three customers providing 16, 14 and 12 per cent of total revenue).

The Financial services segment derives revenue from short-term personal lending activities. Interest income is recognized in the income statement as it falls due, using the interest method by reference to the constant interest rate stated in each loan agreement.

The Technology sales and outsourcing segment markets, sells and implements the Universal Electronic Payment System. The segment undertakes smart card system implementation projects, delivering hardware and software in the form of customized systems. Revenue for such arrangements is recognized under the completed contract method, no income and profit being recognized until the contract is completed.

Corporate / eliminations include the Company's head office cost centers in addition to the elimination of inter-segment transactions.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 1 to the Company's audited financial statements and any intersegment sales or transfers are eliminated.

The Company evaluates segment performance based on net income after tax. The following tables summarize segment information:

	<b>September 30, 2003</b>				
	Transaction- based activities	Financial services	Technology sales and outsourcing	Corporate / Eliminations	Total
	R'000	R'000	R'000	R'000	R'000
Revenues from external customers	157,343	28,395	10,142	(3,545)	192,335
Interest revenue	20,819	1,141	3,104	2,421	27,485
Interest expense	19,681	203	-	1,000	20,884
Depreciation and amortization	7,414	767	3	1,400	9,584
Income tax expense	14,839	3,970	1,040	4,801	24,650
Net profit after tax	33,206	9,538	2,426	(8,958)	36,212
Segment assets	455,025	117,091	78,687	17,715	668,518
Expenditures for long-lived assets	5,418	288	4	313	6,023

	<b>September 30, 2002</b>				
	Transaction- based activities	Financial services	Technology sales and outsourcing	Corporate / Eliminations	Total

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	R'000	R'000	R'000	R'000	R'000
Revenues from external customers	106,668	30,127	24,799	(2,319)	159,275
Interest revenue	9,412	961	2,041	389	12,803
Interest expense	4,888	970	-	32	5,890
Depreciation and amortization	3,215	824	90	1,965	6,094
Income tax expense	10,273	2,958	2,523	2,883	18,637
Net profit after tax	23,933	7,027	5,886	(4,550)	32,296

F-60

**(e) Recent accounting pronouncements**

**New accounting pronouncements adopted at September 30, 2003 for US GAAP purposes**

In August 2001, the FASB issued SFAS No.143, *Accounting for Obligations, Associated with the Retirement of Long-Lived Assets* (SFAS 143). SFAS 143 establishes accounting standards for recognition and measurement of a liability at fair value for an asset retirement obligation and an addition to the associated asset retirement cost. The accretion of interest expense each period is subsequently recorded as an expense and added to the liability. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company adopted SFAS 143 on July 1, 2003. The Company adopted SFAS 143 effective July 1, 2003, and it had no material impact on the Company's results of operations or financial position.

In April 2003 the FASB issued SFAS No. 149, *Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities* (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. In particular, it (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to the language used in FIN 45 and (4) amends certain other existing pronouncements.

SFAS 149 is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003.

The provisions of SFAS 149 that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. SFAS 149 should be applied prospectively.

The Company adopted SFAS 149 effective July 1, 2003, and it had no material impact on the Company's results of operations or financial position.

In May 2003 the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS 150). SFAS 150 modifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position.

SFAS 150 affects an issuer's accounting for three types of freestanding financial instruments, namely:

- Mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets.
- Financial instruments, other than outstanding shares, that do or may require the issuer to buy back some of its equity shares in exchange for cash or other assets.
- Unconditional obligations that can be settled with equity shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's equity shares.

SFAS 150 does not apply to features embedded in financial instruments that are not derivatives in their entirety.

In addition to its requirements for the classification and measurement of financial instruments within its scope, SFAS 150 also requires disclosures about alternative ways of settling such instruments and the capital structure of entities, all of whose shares are mandatorily redeemable.

SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the SFAS 150 effective July 1, 2003, and it had no material impact on the Company's results of operations or financial position.

**New accounting pronouncements not adopted at September 30, 2003 for US GAAP purposes**

In November 2002, the EITF reached a final consensus related to Revenue Arrangement with Multiple Deliverables (EITF 00-21). The consensus requires that revenue arrangements with multiple deliverables should be divided into separate units of accounting if (a) a delivered item has value to the customer on stand alone basis, (b) there is objective and reliable evidence of the fair value of the undelivered item and (c) if the arrangement includes a general right of return, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair value and appropriate revenue

F-61

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recognition criteria would be applied to each separate unit of accounting. The Company has not yet determined what effect, if any, EITF 00-21 would have on revenue and net income determined in accordance with US GAAP. The EITF agreed the effective date for the consensus will be for all revenue arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The Company is still evaluating the impact of this EITF on its financial statements. This EITF will be effective for the Company for revenue arrangements entered into after July 1, 2004.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities - and Interpretation of ARB No. 51* (FIN 46). This interpretation of Accounting Research Bulletin No.51, *Consolidated Financial Statements*, addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, which is provided through other interest that will absorb some or all of the expected losses of the entity.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
  - (a) The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights.
  - (b) The obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities.
  - (c) The right to receive the expected residual returns of the entity if they occur, which is the compensation for the risk of absorbing the expected losses.

In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R" or the "Interpretation"). FIN 46R clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004, except that all public companies must at a minimum apply the provisions of the Interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003. The Company does not anticipate that the adoption of FIN 46 will have a material impact on its financial position, cash flows and results of operations.

ARTICLES OF AMENDMENT  
TO  
ARTICLES OF INCORPORATION  
OF  
NET 1 UEPS TECHNOLOGIES, INC.

Pursuant to the provisions of section 607.1006, Florida Statutes, this Florida corporation adopts the following articles of amendment to the articles of incorporation:

FIRST: Amendment adopted (indicate articles number being amended, added or deleted)

ARTICLE IV, CAPITAL STOCK IS AMENDED TO READ AS FOLLOWS:

The maximum number of shares of capital stock (as defined in Section 6 herein) that the Corporation (as defined in Section 6 herein) shall be authorized to issue and have outstanding at any one time shall be eight hundred million (800,000,000), of which five hundred million (500,000,000) shares shall be designated as common stock (the Common Stock ), par value \$.001 per share, and three hundred million (300,000,000) shares shall be designated as Preferred Stock (the Preferred Stock ) par value of \$ 0.001 per share.

Blank Check Preferred Stock

Series of the Preferred Stock may be created and issued from time to time, with such designations, preferences, conversion rights, cumulative, relative, participating, optional or other rights, including voting rights, qualifications, limitations or restrictions thereof as shall be stated and express in the resolution or resolutions providing for the creation and issuance of such series of Preferred Stock as adopted by the Board of Directors pursuant to the authority in this paragraph given.

Special Convertible Preference Stock

The Corporation hereby establishes and designates a class of its Preferred Stock as follows:

Section 1. Number; Designation; Rank.

(a) This series of convertible Preferred Stock is designated as the Special Convertible Preference Stock (the Convertible Preference Stock ). The number of shares constituting the Convertible Preference Stock is 192,967,138 shares, par value \$0.001 per share. The Convertible Preference Stock ranks, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation:

(i) on parity, without preference and priority, to the Common Stock, par value \$0.001 per share, of the Corporation (subject to Section 2), and each other class or series of Equity Security (as defined in Section 6 herein) of the Corporation, the terms of which expressly provide that it will rank on parity, without preference or priority, with the Convertible Preference Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation (collectively, with the Common Stock, the Parity Securities ); and

(ii) junior in preference and priority to each other class or series of Equity Security of the Corporation the term of which expressly provide that it will rank senior in preference or priority to the Convertible Preference Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Corporation (collectively, the Senior Securities ).

Section 2. Dividends.

A-1

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(a) So long as there are any shares of Convertible Preference Stock outstanding, immediately prior to the declaration of any dividend or distribution on the Common Stock or the Convertible Preference Stock, the Board of Directors shall determine the portion (if any) of the Corporation's assets available for such dividend or distribution that is the result of funds or assets from New Aplitec (as defined in Section 6 herein), received by way of dividend, distribution, or other payment of earnings, capital, interest or principal or otherwise (the South African Amount ) and shall determine what portion of such assets available for such dividend or distribution is not the South African Amount (the Non-South African Amount ); provided that the South African Amount shall not include amounts received by way of any liquidation, distribution or dividend after an Insolvency Event on the part of New Aplitec has occurred.

(b) So long as there are any shares of Convertible Preference Stock outstanding, the Directors may declare and pay a dividend or distribution on the shares of Convertible Preference Stock and the Common Stock solely from a Non-South African Amount (without declaring and paying a dividend from the South African Amount) and the Directors may declare and pay a dividend or distribution on the Common Stock solely from a South African Amount (without declaring and paying a dividend from the Non-South African Amount).

(c) Any determination by the Board of Directors of a South African Amount or a Non-South African Amount shall be made in good faith and shall be final and binding on both the holders of Common Stock and the holders of Convertible Preference Stock.

(d) So long as there are any shares of Convertible Preference Stock outstanding, each holder of issued and outstanding Convertible Preference Stock will be entitled to receive, when, as and if declared by the Board, for each share of Convertible Preference Stock a pro rata portion, together with the holders of Common Stock on a share for share basis, of the Non-South African Amount. The holders of Common Stock and Convertible Preference Stock shall rank *pari passu* in respect of dividends and distributions from Non-South African Amounts.

(e) So long as there are any shares of Convertible Preference Stock outstanding, dividends and distributions from the South African Amounts shall be paid only to the holders of Common Stock and the holders of Convertible Preference Stock shall have no entitlement to participate in any such dividends or distributions from South African Amounts.

(f) So long as there are any shares of Convertible Preference Stock outstanding, the Corporation shall take all actions necessary or advisable under the Florida Business Corporation Act to authorize and permit the payment of dividends to the holders of Common Stock in the maximum amount of the South African Amount, and to the extent permitted in the exercise of their fiduciary duties and under the Florida Business Corporation Act, the Board of Directors shall declare and cause the Corporation to pay a dividend on the Common Stock in the South African Amount promptly upon the receipt of proceeds representing the South African Amount after deducting therefrom the taxes payable by the Corporation on the amount so received.

### Section 3. Liquidation, Dissolution and Winding Up.

In the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding-up of the Corporation, the holders of shares of Convertible Preference Stock shall be entitled to receive, share for share and *pari passu* with the holders of shares of Common Stock, all the assets of the Corporation of whatever kind available for distribution to stockholders, after the rights of the holders of Senior Securities have been satisfied.

### Section 4. Voting Rights.

(a) Holders of Convertible Preference Stock have the right to receive notice of, attend, speak and vote at general meetings of the Corporation.



(b) The holders of Convertible Preference Stock are entitled to vote on all matters on which the holders of Common Stock are entitled to vote, and except as otherwise provided herein or by law, the holders of Convertible Preference Stock will vote together with the holders of Common Stock as a single class. Each holder of

A-2

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Convertible Preference Stock present in person (as defined in Section 6 herein), or the person representing the holder of Convertible Preference Stock, is entitled to a number of votes equal to the number of shares of Common Stock that would be issued upon conversion of the Convertible Preference Stock held by such holder on the record date.

(c) So long as there are any shares of Convertible Preference Stock outstanding, as adjusted for stock dividends, splits, combinations and similar events, and except as otherwise provided by law, the Corporation may not take any of the following actions without the prior vote or written consent of holders representing at least a majority of the then outstanding shares of Convertible Preference Stock, voting together as a separate class:

(i) any increase (including by way of merger, consolidation or otherwise) in the total number of authorized or issued shares of Convertible Preference Stock; or

(ii) any amendment, alteration or change to the powers, designations, preferences, rights, qualifications, limitations or restrictions of the Convertible Preference Stock set forth in these Articles of Incorporation in any manner (including by way of merger, consolidation or otherwise) that adversely affects the holders of Convertible Preference Stock.

#### Section 5. Conversion.

Each share of Convertible Preference Stock is convertible into one share of Common Stock as provided in this Section 5.

(a) General. Convertible Preference Stock is convertible upon the occurrence of a Trigger Event (as defined in Section 6 herein) into duly authorized, validly issued, fully paid and nonassessable shares of Common Stock in the ratio of one share of Convertible Preference Stock for each one share of Common Stock. For each share of Convertible Preference Stock that is converted, the holder thereof shall transfer and deliver to the Corporation (i) 1.228070176 New Aplitec B Share (as defined in Section 6 herein) (the Equity Payment Ratio ) and (ii) the Appropriate Principal Amount (as defined in Section 6 herein). The Equity Payment Ratio is the ratio of (i) the number of New Aplitec B Shares required to be delivered to the Corporation in connection with the conversion of shares of Convertible Preference Stock to (ii) one share of Convertible Preference Stock, and shall equal 1.228070176 but may be adjusted from time to time as provided herein.

(b) Optional Conversion. Each holder of Convertible Preference Stock is entitled to convert, at any time and from time to time at the option and election of such holder, any or all shares of outstanding Convertible Preference Stock held by such holder into shares of Common Stock. In order to convert shares of Convertible Preference Stock into shares of Common Stock, the holder, or any trustee holding the Convertible Preference Stock and acting for the account of the holder upon receipt of written notice by such holder that such holder elects to convert any or all of such number of shares represented by such certificates as specified therein, must surrender (A) the certificates representing such shares of Convertible Preference Stock, (B) the certificates for the New Aplitec B Shares, and (C) an assignment and transfer, in favor of the Corporation, evidencing the New Aplitec B Loans, in each case in the appropriate amounts as described in Section 5(a), at the principal office of the Corporation, or if so designated by the Corporation, the Corporation's transfer agent or other agent appointed by the Corporation for effectuating the conversion (the Conversion Agent ).

(c) Mandatory Conversion. Upon the notice of the Corporation that an Exchange Control Event (as defined in Section 6 herein) has occurred or without notice upon the occurrence of an Insolvency Event (as defined in Section 6 herein), the outstanding shares of Convertible Preference Stock shall automatically and without any further act by the holder thereof be converted into Common Stock. The Corporation shall provide written notice to all holders of Convertible Preference Stock and to New Aplitec stating that the Convertible Preference Stock has been converted to Common Stock, the Conversion Date (as defined below) and that the holders of Convertible Preference Stock are required to deliver to the Corporation on the date set out in the notice (which shall be a date not earlier than fourteen

days from the date of notice) (i) the share certificates for the shares of Convertible Preference Stock, (ii) the certificates for the New Aplitec B Shares, and (iii) an assignment and transfer in favor of the Corporation of the New Aplitec B Loans.

A-3

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(d) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Convertible Preference Stock, unless the Board of Directors of the Corporation shall otherwise determine to issue fractional shares. Subject to the foregoing, in lieu of fractional shares, the Corporation shall pay cash equal to such fractional amount multiplied by the Fair Market Value per share of Common Stock as of the Conversion Date (as defined below). If more than one share of Convertible Preference Stock is being converted at one time by the same holder, then the number of full shares issuable upon conversion will be calculated on the basis of the aggregate number of shares of Convertible Preference Stock converted by such holder at such time.

(e) Mechanics of Conversion.

(i) The Conversion Date shall be, (A) in the case of an optional conversion, the date of receipt of notice (together with certificates) by the Conversion Agent or the Corporation, (B) in the case of an Exchange Control Event, the date determined by the Board of Directors and set forth in the notice of mandatory conversion, and (C) in the case of an Insolvency Event, the date such event first occurred. If reasonably required by the Corporation, certificates surrendered for conversion in accordance with this Section 5 must be endorsed or accompanied by a written instrument of transfer, in a form reasonably satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney-in-fact duly authorized in writing. Within three business days after the relevant Conversion Date in the case of an optional conversion (or as soon as practical in case of other Trigger Events), the Corporation shall promptly issue and deliver or cause to be issued and delivered to such holder a certificate for the number of shares of Common Stock (the New Common Stock ) to which such holder is entitled, together with a check or cash for payment of fractional shares, if any, but in no case shall such delivery exceed five business days (or 20 business days in the case of an Insolvency Event). Such conversion will be deemed to have been made on the Conversion Date, and the person (as defined in Section 6) entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such Conversion Date. In the case of an optional conversion where fewer than all the shares represented by any such certificate are to be converted, a new certificate shall be issued representing the unconverted shares without cost to the holder thereof, except for any documentary, stamp or similar issue or transfer tax due because any certificate for shares of Common Stock is issued in a name other than the name of the converting holder. The Corporation shall pay any documentary, stamp or similar issue or transfer tax due on the issue of Common Stock upon conversion or due upon the issuance of a new certificate for any shares of Convertible Preference Stock not converted other than any such tax due because shares of Common Stock or a certificate for shares of Convertible Preference Stock are issued in a name other than the name of the converting holder.

(ii) The Corporation shall at all times reserve and keep available, free from any preemptive rights, out of its authorized but unissued shares of Common Stock for the purpose of effecting the conversion of the Convertible Preference Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding Convertible Preference Stock (assuming for the purposes of this calculation that all outstanding shares of Convertible Preference Stock are held by one holder). The Corporation shall comply with all United States federal and state laws, rules and regulations and applicable rules and regulations of any securities exchange or automated quotation system on which the Common Stock is then listed or quoted. Before taking any action which would cause an adjustment in the Equity Payment Ratio that would result in the consideration received by the Corporation upon conversion per share of Common Stock to be below the then par value of the shares of Common Stock issuable upon conversion of the Convertible Preference Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and nonassessable shares of Common Stock after taking such action.

(iii) From and after the Conversion Date, dividends on the Convertible Preference Stock to be converted on such Conversion Date shall cease to accrue; such shares shall no longer be deemed to be outstanding; and all rights of the holder thereof as a holder of Convertible Preference Stock (except the right to receive from the Corporation the Common Stock upon conversion) shall cease and terminate with respect to such shares. Any shares of Convertible Preference Stock that have been converted will, after such conversion, be deemed cancelled and retired

and have the status of authorized but

A-4

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unissued Preferred Stock, without designation as to series until such shares are once more designated as part of a particular series by the Board.

(iv) If the optional conversion is in connection with any public offering or other sale, the conversion may, at the option of any holder tendering any share of Convertible Preference Stock for conversion, be conditioned upon the closing of the sale of shares of Common Stock with the underwriter or other purchaser in such sale, in which event such conversion of such shares of Convertible Preference Stock shall not be deemed to have occurred until immediately prior to the closing of such sale.

(v) The New Common Stock shall be credited as fully paid and shall rank *pari passu* in all respects and form once class with the shares of Common Stock then in issue.

(vi) If the shares of Convertible Preference Stock remain capable of conversion into shares of Common Stock and there is a consolidation or stock-split of then outstanding shares of Common Stock, the shares of Convertible Preference Stock shall be consolidated or split in a similar manner in order, in the Directors' fair and reasonable opinion, to maintain the relative economic benefits attributable to the shares of Convertible Preference Stock and the shares of Common Stock after the consolidation or stock-split with the position prior to such consolidation or stock-split. In any such event, the Equity Payment Ratio shall be adjusted in a similar manner in order, in the Directors' fair and reasonable opinion, to maintain the relative economic benefits attributable to the shares of Convertible Preference Stock and the New Aplitec B Shares, New Aplitec B Loans and the shares of Common Stock.

(f) Effect of Reclassification, Merger or Sale.

(i) If any of the following events occur, namely (x) any reclassification of or any other change to the outstanding shares of Common Stock (other than a stock split or consolidation to which Section 5(e)(vi) applies), (y) any merger, consolidation or other combination of the Corporation with another person as a result of which all holders of Common Stock become entitled to receive capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) with respect to or in exchange for such Common Stock, or (z) any sale, conveyance or other transfer of all or substantially all of the properties of the Corporation to any other person as a result of which all holders of Common Stock become entitled to receive capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) with respect to or in exchange for such Common Stock, then shares of Convertible Preference Stock will be convertible into the kind and amount of shares of capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) receivable upon such reclassification, change, merger, consolidation, combination, sale, conveyance or transfer by a holder of a number of shares of Common Stock issuable upon conversion of such shares of Convertible Preference Stock (assuming, for such purposes, a sufficient number of authorized shares of Common Stock available to convert all such Convertible Preference Stock) immediately prior to such reclassification, change, merger, consolidation, combination, sale, conveyance or transfer.

(ii) If the holders of Common Stock were entitled to exercise a right of election as to the kind or amount of capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) receivable upon such reclassification, change, merger, consolidation, combination, sale, conveyance or transfer, then the holders of Convertible Preference Stock shall have the same election as to the kind and amount of capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) receivable in respect of each share of Common Stock issuable upon conversion of the Convertible Preference Stock.

(iii) If a tender offer (which includes any exchange offer) is made to and accepted by the holders of Common Stock under circumstances in which, upon completion of such tender offer, the maker thereof, together with

members of any group (as defined in Section 6 herein) of which such maker is a part, and together with any affiliate or associate (as defined in Section 6 herein) of such maker and any members of any such group of which any such affiliate or associate is a part, own beneficially more than 50% of the outstanding shares of Common Stock, each holder of Convertible Preference Stock will be

A-5

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entitled to receive the highest amount of capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) to which such holder would actually have been entitled as a holder of Common Stock if such holder had converted such holder's Convertible Preference Stock prior to the expiration of such tender offer, accepted such offer and all of the Common Stock held by such holder had been purchased pursuant to such tender offer.

(iv) This Section 5(f) will similarly apply to successive reclassifications, changes, mergers, consolidations, combinations, sales, conveyances and transfers. If this Section 5(f) applies to any event or occurrence, Section 5(e) will not apply.

(g) Notice of Record Date. In the event of:

(i) any stock split or combination of the outstanding shares of Common Stock;

(ii) any reclassification, change, merger, consolidation, combination, sale, conveyance or transfer to which Section 5(f) applies; or

(iii) the dissolution, liquidation or winding up of the Corporation;

then the Corporation shall file with its corporate records and mail to the holders of the Convertible Preference Stock at their last addresses as shown on the records of the Corporation, at least 10 days prior to the record date specified in (A) below or 20 days prior to the date specified in (B) below, a notice stating:

(A) the record date of such stock split, combination, dividend or other distribution, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such stock split, combination, dividend or other distribution are to be determined, or

(B) the date on which such reclassification, change, merger, consolidation, combination, sale, conveyance, transfer, liquidation, dissolution or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record will be entitled to exchange their shares of Common Stock for the capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) deliverable upon such reclassification, change, merger, consolidation, combination, sale, conveyance, transfer, liquidation, dissolution or winding up.

(h) Certificate of Adjustments. Upon the occurrence of each adjustment or readjustment of the Equity Payment Ratio pursuant to this Section 5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof (as defined in Section 6 herein) and furnish to each holder of Convertible Preference Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based and shall file a copy of such certificate with its corporate records. The Corporation shall, upon the reasonable written request of any holder of Convertible Preference Stock, furnish to such holder a similar certificate setting forth (i) such adjustments and readjustments, (ii) the Equity Payment Ratio then in effect, and (iii) the number of shares of Common Stock and the amount, if any, of capital stock, other securities or other property (including but not limited to cash and evidences of indebtedness) which then would be received upon the conversion of Convertible Preference Stock.

(i) No Impairment. The Corporation may not, whether by any amendment of these Articles of Incorporation, by any reclassification or other change to its capital stock, by any merger, consolidation or other combination involving the Corporation, by any sale, conveyance or other transfer of any of its assets, by the liquidation, dissolution or winding up of the Corporation or by any other way, impair or restrict its ability to convert shares of Convertible Preference Stock and issue shares of Common Stock therefor, or avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at



all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such

A-6

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action as may be necessary or appropriate in order to protect the conversion rights of the holders of the Convertible Preference Stock against impairment to the extent required hereunder.

Section 6. Additional Definitions. For purposes of these articles of amendment, the following terms shall have the following meanings:

(a) affiliate means, with respect to any specified person, any other person that directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, such specified person, for so long as such other person remains so associated to such specified person.

(b) Aplitec means Net 1 Applied Technology Holdings Limited, registration number 1997/007207/06, a public company incorporated in South Africa.

(c) Aplitec Holdings Participation Trust means the Aplitec Holdings Participation Trust, a trust established in the Cayman Islands.

(d) Appropriate Principal Amount means, as of any time, (i) the aggregate principal amount of the New Aplitec B Loans initially issued, plus any accrued interest, less (A) any repayments of such loans and (B) any of such loans transferred to the Corporation in connection with the conversion of shares of Convertible Preferred Stock into shares of Common Stock, divided by (ii) the number of shares of Convertible Preference Stock outstanding at such time.

(e) associate has the meaning given such term in Rule 12b-2 under the Exchange Act.

(f) Board of Directors or Board or Directors means the board of directors of the Corporation.

(g) capital stock means any and all shares, interests, participations or other equivalents (however designated, whether voting or non voting) of capital stock, partnership interests (whether general or limited) or equivalent ownership interests in or issued by such person, and with respect to the Corporation includes, without limitation, any and all shares of Common Stock and the Preferred Stock.

(h) Corporation means this Corporation.

(i) Equity Securities means (x) any shares of capital stock of the Corporation, (y) any rights, options, warrants or similar securities to subscribe for, purchase or otherwise acquire any shares of capital stock of the Corporation, and (z) debt or other evidences of indebtedness, capital stock or other securities directly or indirectly convertible into or exercisable or exchangeable for any shares of capital stock of such the Corporation.

(j) Exchange Act means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(k) Exchange Control Event means the relaxation or abolishment of exchange control regulations in the Republic of South Africa such that residents of South Africa are permitted to hold shares of Common Stock, provided that the Corporation may rely on the reasonable opinion of South African legal counsel as to the occurrence of an Exchange Control Event.

(l) Fair Market Value of any property means the fair market value thereof as determined in good faith by the Board, which determination must be set forth in a written resolution of the Board, in accordance with the following rules:

(i) for a security traded or quoted on a national securities exchange or automated quotation system, the Fair Market Value will be the average of the closing prices of such security on such exchange or quotation system over a 20-trading day period ending on the trading day immediately prior to the date of determination;

A-7

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(ii) for Common Stock that is not so traded or quoted, the Fair Market Value shall be determined: (x) mutually by the Board and the holders of at least a majority of the then outstanding shares of Convertible Preference Stock, (y) by the Board based on a valuation of the Corporation not less than the implied valuation of the Common Stock based on an arms -length sale of Equity Securities to a non-affiliate third-party within six months of the date of determination, or (z) by a nationally recognized investment bank or accounting firm (whose fees and expenses will be paid by the Corporation); or

(iii) for any other property, the Fair Market Value shall be determined by the Board assuming a willing buyer and a willing seller in an arm s-length transaction;

provided that if holders representing two-thirds of the then outstanding shares of Convertible Preference Stock object to a determination of the Board made pursuant to clause (ii)(y) or (z) or clause (iii), then the Fair Market Value of such property will be as determined by a nationally recognized investment banking or accounting firm (whose fees and expenses will be paid by the Corporation) selected by mutual agreement between the Board and the holders representing a majority of the then outstanding shares of Convertible Preference Stock.

(m) group has the meaning assigned to such term in Section 13(d)(3) of the Exchange Act.

(n) hereof , herein and hereunder and words of similar import refer to these resolutions as a whole and not merely to any particular clause, provision, section or subsection.

(o) Insolvency Event means

(i) any case, proceeding or other action commenced by either the Corporation or New Aplitec, and in each case, (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it or seeking to adjudicate it bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets;

(ii) any case, action or proceeding or other action of relief of a nature referred to in clause (i) above against either the Corporation or New Aplitec, which, in each case, (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days;

(iii) any case, proceeding or action against either the Corporation or New Aplitec, and in each case, seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief that shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or

(iv) any action by either the Corporation or New Aplitec, and in each case, in furtherance of, or indicating consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above.

(p) New Aplitec means Newshelf 713 (Proprietary) Limited registration number is 2002/03144607, to be renamed Net 1 Applied Technologies South Africa (Proprietary) Limited or a similar name, a private company incorporated in South Africa.

(q) New Aplitec B Loans means B class loans in the capital of New Aplitec in an aggregate principal amount of ZAR 239,356,482, or ZAR 1.001004 per New Aplitec B Share which are linked by their terms to the New Aplitec B Shares.



- (r) New Aplitec B Shares means the B Class preference shares of New Aplitec of nominal value ZAR 0.001 each in the capital of New Aplitec which are linked by their terms to the New Aplitec B Loans.
- (s) New Aplitec Participation Trust means the New Aplitec Participation Trust, a trust established in South Africa.
- (t) person means any individual, corporation, limited liability Corporation, limited or general partnership, joint venture, association, joint stock Corporation, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity or any group comprised of two or more of the foregoing.
- (u) Subsidiaries means any of the Corporation's majority or wholly owned subsidiaries.
- (v) Trigger Event means, any of:
- (i) the occurrence of notice from the holder of Convertible Preference Stock provided for in Section 5(a) of the determination to convert shares of Convertible Preference Stock into shares of Common Stock;
  - (ii) the occurrence of an Insolvency Event; or
  - (iii) the occurrence of an Exchange Control Event.
- (w) ZAR means the South African Rand.

#### Section 7. Transfer Restrictions.

The shares of Convertible Preference Stock may not be sold, assigned, transferred, pledged, or encumbered, except in connection with the conversion into shares of Common Stock. The shares of Convertible Preference Stock may not be held by any person other than the Aplitec Holdings Participation Trust for the benefit of the New Aplitec Participation Trust and indirectly for the benefit of former shareholders of Aplitec, and directly by the New Aplitec Participation Trust indirectly for the benefit of former shareholders of Aplitec.

#### Section 8. Miscellaneous.

- (a) Notices. Any notice, demand, offer, request or other communication required or permitted to be given by the Corporation to the holders of shares of Convertible Preference Stock shall be in writing and shall be deemed to be given upon the earliest to occur of:
- (i) the date actually received by the holder of Convertible Preference Stock;
  - (ii) one (1) business day after being delivered by facsimile (with receipt of appropriate confirmation);
  - (iii) one (1) business day after being deposited with a nationally recognized overnight courier service; or
  - (iv) three (3) business days after being addressed to each holder of record at such holder's address appearing on the books of the Corporation and deposited in the United States mail (first class with postage prepaid and return receipt requested).
- (b) Status of Converted or Redeemed Shares. No shares of Convertible Preference Stock converted into shares of Common Stock or redeemed, repurchased or otherwise acquired by the Corporation or any of its

Subsidiaries (as defined in Section 6 herein) shall be reissued as Convertible Preference Stock and shall have the status of undesignated Preferred Stock.

A-9

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(c) Amendments. Any amendment to this Article IV shall be subject to the terms hereof and shall comply with the Florida Business Corporation Act.

(d) Reports. The Corporation shall mail to all holders of Convertible Preference Stock any reports, proxy statements and other materials that it mails to the holders of Common Stock.

(e) Headings and Subheadings. The headings and subheadings of the sections, paragraphs, subparagraphs, clauses and sub clauses of this Article are for convenience of reference only and shall not define, limit or otherwise affect any of the provisions hereof.

**[Rest of page intentionally left blank.]**

A-10

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SECOND: If an amendment provides for an exchange, reclassification or cancellation of issued shares, provision for implementing the amendment if not contained in the amendment itself, are as follows: NONE.

THIRD: The date of each amendment s adoptions is \_\_\_\_\_ , 2004.

FOURTH: The date of the adoption of this Amendment \_\_\_\_\_ , 2004:

The amendment was approved by the shareholders. The number of votes cast for the amendment was sufficient for approval.

Signed this \_\_\_ day  
of \_\_\_\_\_, 2004

By:  
Name:  
Title:

A-11

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FORM OF  
2004 STOCK INCENTIVE PLAN OF  
NET 1 UEPS TECHNOLOGIES, INC.  
AND ITS SUBSIDIARIES

## 1. Purpose of the Plan

The purpose of the Plan is to aid the Company and its Affiliates in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of the Company and its Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such key employees, directors or consultants will have in the welfare of the Company as a result of their proprietary interest in the Company's success.

## 2. Definitions

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

- (a) Act: The Securities Exchange Act of 1934, as amended, or any successor thereto.
- (b) Affiliate: With respect to the Company, any entity directly or indirectly controlling, controlled by, or under common control with, the Company or any other entity designated by the Board in which the Company or an Affiliate has an interest.
- (c) Award: An Option, Stock Appreciation Right or Other Stock-Based Award granted pursuant to the Plan.
- (d) Beneficial Owner: A beneficial owner, as such term is defined in Rule 13d-3 under the Act (or any successor rule thereto).
- (e) Board: The Board of Directors of the Company.
- (f) Code: The Internal Revenue Code of 1986, as amended, or any successor thereto.
- (g) Committee: The Board, or such committee of the Board as it shall designate from time to time, in accordance with Section 4.
- (h) Company: Net 1 UEPS Technologies, Inc., a Florida corporation.
- (i) Disability: Inability of a Participant to perform in all material respects the Participant's duties and responsibilities to the Company, or any Subsidiary of the Company, by reason of a physical or mental disability or infirmity which inability is reasonably expected to be permanent and has continued (i) for a period of six consecutive months or (ii) such shorter period as the Committee may reasonably determine in good faith. The Disability determination shall be in the sole discretion of the Committee and a Participant (or the Participant's representative) shall furnish the Committee with medical evidence documenting the Participant's disability or infirmity which is satisfactory to the Committee.

- (j) Effective Date: The date the Board approves the Plan, or such later date as is designated by the Board.

B-1

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- (k) Employment: The term Employment as used herein shall be deemed to refer to (i) a Participant's employment if the Participant is an employee of the Company or any of its Affiliates, (ii) a Participant's services as a consultant, if the Participant is consultant to the Company or its Affiliates and (iii) a Participant's services as a non-employee director, if the Participant is a non-employee member of the Board.
- (l) Fair Market Value: On a given date, (i) if there should be a public market for the Shares on such date, the arithmetic mean of the high and low prices of the Shares as reported on such date on the Composite Tape of the principal national securities exchange on which such Shares are listed or admitted to trading, or, if the Shares are not listed or admitted on any national securities exchange, the arithmetic mean of the per Share closing bid price and per Share closing asked price on such date as quoted on the Over-the-Counter Bulletin Board (or such market in which such prices are regularly quoted)(the OTC Bulletin Board ), or, if no sale of Shares shall have been reported on the Composite Tape of any national securities exchange or quoted on the OTC Bulletin Board on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used, and (ii) if there should not be a public market for the Shares on such date, the Fair Market Value shall be the value established by the Committee in good faith.
- (m) ISO: An Option that is also an incentive stock option granted pursuant to Section 6(d) of the Plan.
- (n) LSAR: A limited stock appreciation right granted pursuant to Section 7(d) of the Plan.
- (o) Other Stock-Based Awards: Awards granted pursuant to Section 8 of the Plan.
- (p) Option: A stock option granted pursuant to Section 6 of the Plan.
- (q) Option Price: The purchase price per Share of an Option, as determined pursuant to Section 6(a) of the Plan.
- (r) Participant: An employee, director or consultant of the Company or a Subsidiary who is selected by the Committee to participate in the Plan.
- (s) Performance-Based Awards: Certain Other Stock-Based Awards granted pursuant to Section 8(b) of the Plan.
- (t) Person: A person, as such term is used for purposes of Section 13(d) or 14(d) of the Act (or any successor section thereto).
- (u) Plan: The 2004 Stock Incentive Plan of Net 1 UEPS Technologies, Inc. and its Subsidiaries.
- (v) Shares: Shares of common stock, par value \$0.001 per share, of the Company.
- (w) Stock Appreciation Right: A stock appreciation right granted pursuant to Section 7 of the Plan.
- (x) Subsidiary: With reference to the Company, a subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

### 3. Shares Subject to the Plan

- (a) The total number of Shares which may be issued under the Plan is 17,441,872; provided,  
B-2
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that, (i) the maximum number of Shares for which Options may be granted is 8,720,936, and (ii) the maximum number of Shares for which Stock Appreciation Rights and Other Stock-Based Awards may be granted is 8,720,936. The maximum number of Shares for which Options and Stock Appreciation Rights (or Awards other than in Section 8(b)) may be granted during a calendar year to any Participant shall be [ \_\_\_\_\_ ]. The Shares may consist, in whole or in part, of unissued Shares or treasury Shares. The issuance of Shares or the payment of cash upon the exercise of an Award or in consideration of the cancellation or termination of an Award shall reduce the total number of Shares available under the Plan, as applicable. Shares which are subject to Awards which terminate or lapse without the payment of consideration may be granted again under the Plan. Shares delivered to the Company as part or full payment for the exercise of an Option or to satisfy withholding obligations upon the exercise of an Option, in each case if permitted by the Committee, may be granted again under the Plan.

#### **4. Administration**

The Plan shall be administered by the Committee, which may delegate its duties and powers in whole or in part to any subcommittee thereof, which Committee shall consist, unless otherwise determined by the Board, (i) during any period that the Company is subject to Section 16 of the Act, solely of at least two individuals who are intended to qualify as Non-Employee Directors within the meaning of Rule 16b-3 under the Act (or any successor rule thereto) and (ii) during any period that the Company is subject to Section 162(m) of the Code, solely of outside directors within the meaning of Section 162(m) of the Code (or any successor section thereto). Awards may, in the discretion of the Committee, be made under the Plan in assumption of, or in substitution for, outstanding awards previously granted by the Company or its affiliates or a company acquired by the Company or with which the Company combines. The number of Shares underlying such substitute awards shall be counted against the aggregate number of Shares available for Awards under the Plan. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, to grant awards consistent with the terms of the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors). The Committee shall have the full power and authority to establish the terms and conditions of any Award consistent with the provisions of the Plan and to waive any such terms and conditions at any time (including, without limitation, accelerating or waiving any vesting conditions). The Committee shall require payment of any amount it may determine to be necessary to withhold for federal, state, local or other taxes as a result of the exercise, grant or vesting of an Award. Unless the Committee specifies otherwise, the Participant may elect to pay a portion or all of such withholding taxes by (a) delivery in Shares or (b) having Shares withheld by the Company from any Shares that would have otherwise been received by the Participant.

#### **5. Limitations**

No Award may be granted under the Plan after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

#### **6. Terms and Conditions of Options**

Options granted under the Plan shall be, as determined by the Committee, non-qualified or incentive stock options for federal income tax purposes, as evidenced by the related Award agreements, and shall be subject to the foregoing and the following terms and conditions and to such other terms and conditions, not inconsistent

therewith, as the Committee shall determine:

- (a) Option Price. The Option Price per Share shall be determined by the Committee, but shall not be less than 100% of the Fair Market Value of the Shares on the date an Option is granted; provided, however, that the Committee may, in its sole discretion, initially grant Options following the Effective Date with an Option Price per Share of \$.50.

B-3

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- (b) Exercisability. Options granted under the Plan shall vest and become exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an Option be exercisable more than ten years after the date it is granted. Unless otherwise provided in an Award agreement, an Option shall vest with respect to twenty percent (20%) of the Shares initially covered by the Option on each of the first, second, third, fourth and fifth anniversaries of the date the Option was granted, subject to the Participant's continued Employment with the Company and the other terms and conditions of the Plan and the Award agreement.
- (c) Exercise of Options. Except as otherwise provided in the Plan or in an Award agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of Section 6 of the Plan, except as otherwise provided in an Award agreement, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, the date payment is received by the Company pursuant to clauses (i), (ii), (iii) or (iv) in the following sentence. The purchase price for the Shares as to which an Option is exercised shall be paid to the Company in full, in accordance with Committee procedures, at the election of the Participant (i) in cash or its equivalent (e.g., by check), (ii) to the extent permitted by the Committee, in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; provided that such Shares have been held by the Participant for no less than six months (or such other period as established from time to time by the Committee in order to avoid adverse accounting treatment applying generally accepted accounting principles), (iii) partly in cash and, to the extent permitted by the Committee, partly in such Shares or (iv) to the extent permitted by the Committee, if there is a public market for the Shares at such time, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such Sale equal to the aggregate Option Price for the Shares being purchased. No Participant shall have any rights to dividends or other rights of a stockholder with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.
- (d) ISOs. The Committee may grant Options under the Plan that are intended to be ISOs. Such ISOs shall comply with the requirements of Section 422 of the Code (or any successor section thereto). No ISO may be granted to any Participant who at the time of such grant owns ten percent or more of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless (i) the Option Price for such ISO is at least 110% of the Fair Market Value of a Share on the date the ISO is granted and (ii) the date on which such ISO terminates is a date not later than the day preceding the fifth anniversary of the date on which the ISO is granted. Any Participant who disposes of Shares acquired upon the exercise of an ISO either (i) within two years after the date of grant of such ISO or (ii) within one year after the transfer of such Shares to the Participant, shall notify the Company of such disposition and of the amount realized upon such disposition. All Options granted under the Plan are intended to be nonqualified stock options, unless the applicable Award agreement expressly states that the Option is intended to be an ISO. If an Option is intended to be an ISO, and if for any reason such Option (or portion thereof) shall not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a nonqualified stock option granted under the Plan; provided that such Option (or portion thereof) otherwise



complies with the Plan's requirements relating to nonqualified stock options. In no event shall any member of the Committee, the Company or any of its Affiliates (or their respective employees, officers or directors) have any liability to any Participant (or any other Person) due to the failure of an Option to qualify for any reason as an ISO.

B-4

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- (e) Attestation. Wherever in this Plan or any agreement evidencing an Award a Participant is permitted to pay the exercise price of an Option or taxes relating to the exercise of an Option by delivering Shares, the Participant may, subject to procedures satisfactory to the Committee, satisfy such delivery requirement by presenting proof of beneficial ownership of such Shares, in which case the Company shall treat the Option as exercised without further payment and shall withhold such number of Shares from the Shares acquired by the exercise of the Option.

## 7. Terms and Conditions of Stock Appreciation Rights

- (a) Grants. The Committee also may grant (i) a Stock Appreciation Right independent of an Option or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related Option is granted or at any time prior to the exercise or cancellation of the related Option, (B) shall cover the same number of Shares covered by an Option (or such lesser number of Shares as the Committee may determine) and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as are contemplated by this Section 7 (or such additional limitations as may be included in an Award agreement).
- (b) Terms. The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than the greater of (i) the Fair Market Value of a Share on the date the Stock Appreciation Right is granted or, in the case of a Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, the Option Price of the related Option and (ii) the minimum amount permitted by applicable laws, rules, by-laws or policies of regulatory authorities or stock exchanges. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant upon exercise to an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the exercise price per Share, times (ii) the number of Shares covered by the Stock Appreciation Right. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefore an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the Option Price per Share, times (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered. The date a notice of exercise is received by the Company shall be the exercise date. Payment shall be made in Shares or in cash, or partly in Shares and partly in cash (any such Shares valued at such Fair Market Value), all as shall be determined by the Committee. Stock Appreciation Rights may be exercised from time to time upon actual receipt by the Company of written notice of exercise stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead cash will be paid for a fraction or, if the Committee should so determine, the number of Shares will be rounded downward to the next whole Share.
- (c) Limitations. The Committee may impose, in its discretion, such conditions upon the exercisability or transferability of Stock Appreciation Rights as it may deem fit.
- (d) Limited Stock Appreciation Rights. The Committee may grant LSARs that are exercisable upon the occurrence of specified contingent events. Such LSARs may provide for a different method of determining appreciation, may specify that payment will be made only in cash and may provide that any related Awards are not exercisable while such LSARs are exercisable.

Unless the context otherwise requires, whenever the term **Stock Appreciation Right** is used in the Plan, such term shall include LSARs.

B-5

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## 8. Other Stock-Based Awards

- (a) Generally. The Committee, in its sole discretion, may grant or sell Awards of Shares, Awards of restricted Shares and Awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Shares ( Other Stock-Based Awards ). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive, or vest with respect to, one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made, the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued shall be fully paid and non-assessable). Unless otherwise provided in an Award agreement, Other Stock-Based Awards shall vest with respect to twenty percent (20%) of the Shares initially covered by such Other Stock-Based Award on each of the grant date and the first, second, third and fourth anniversaries of the date such Award was granted, subject to the Participant's continued Employment with the Company and the other terms and conditions of the Plan and the Award agreement.
- (b) Performance-Based Awards. Notwithstanding anything to the contrary herein, certain Other Stock-Based Awards granted under this Section 8 may be granted in a manner which is deductible by the Company under Section 162(m) of the Code (or any successor section thereto) (Performance-Based Awards ). A Participant's Performance-Based Award shall be determined based on the attainment of written performance goals approved by the Committee for a performance period established by the Committee (i) while the outcome for that performance period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance goal relates or, if less, the number of days which is equal to 25% of the relevant performance period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on shareholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital and (xviii) return on assets. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or one or more of its divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items. The maximum amount of a Performance-Based Award during a calendar year to any Participant shall be: (x) with respect to Performance-Based Awards that are Options, [\_\_\_\_\_] Shares and (y) with respect to Performance-Based Awards that are not Options, \$[\_\_\_\_\_]. The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify and ascertain the amount of the applicable Performance-Based Award. No

Performance-Based Awards will be paid for such performance period until such certification is made by the Committee. The amount of the Performance-Based Award actually paid to a given Participant may be less than the

B-6

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amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Section 162(m) of the Code, elect to defer payment of a Performance-Based Award.

## **9. Adjustments Upon Certain Events**

Notwithstanding any other provisions in the Plan to the contrary, the following provisions shall apply to all Awards granted under the Plan:

- (a) In the event of any change in the outstanding Shares after the Effective Date by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spinoff, combination or transaction or exchange of Shares or other corporate exchange, or any distribution to shareholders of Shares other than regular cash dividends or any transaction similar to the foregoing, the Committee, in its sole discretion and without liability to any person, may make such substitution or adjustment, if any, as it deems to be equitable, as to (i) the number or kind of Shares or other securities issued or reserved for issuance pursuant to the Plan or pursuant to outstanding Awards, (ii) the maximum number of Shares for which Options or Stock Appreciation Rights may be granted during a calendar year to any Participant, (iii) the maximum amount of a Performance-Based Award that may be granted during a calendar year to any Participant, (iv) the Option Price or exercise price of any stock appreciation right and/or (v) any other affected terms of such Awards.
- (b) In the event a significant corporate transaction such a sale of voting stock, merger, sale of substantial assets, or other similar corporate event involving the Company, occurs after the Effective Date, (i) if determined by the Committee in the applicable Award agreement or otherwise, any outstanding Awards then held by Participants which are unexercisable or otherwise unvested or subject to lapse restrictions may automatically be deemed exercisable or otherwise vested or no longer subject to lapse restrictions, as the case may be, as of immediately prior to such Corporate transaction, and (ii) the Committee may, but shall not be obligated to, (A) cancel such Awards for fair value (as determined in the sole discretion of the Committee) which, in the case of Options and Stock Appreciation Rights, may equal the excess, if any, of value of the consideration to be paid in such corporate transaction to holders of the same number of Shares subject to such Options or Stock Appreciation Rights (or, if no consideration is paid in any such transaction, the Fair Market Value of the Shares subject to such Options or Stock Appreciation Rights) over the aggregate exercise price of such Options or Stock Appreciation Rights or (B) provide for the issuance of substitute Awards that will substantially preserve the otherwise applicable terms of any affected Awards previously granted hereunder as determined by the Committee in its sole discretion or (C) provide that for a period of at least 15 days prior to the consummation of such corporate transaction, such Options shall be exercisable as to all shares subject thereto and that upon the consummation of such corporate transaction, such Options shall terminate and be of no further force and effect.

## **10. No Right to Employment or Awards**

The granting of an Award under the Plan shall impose no obligation on the Company or any Subsidiary to continue the Employment of a Participant and shall not lessen or affect the Company's or Subsidiary's right to

terminate the Employment of such Participant. No Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not such Participants are similarly situated).

B-7

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## **11. Successors and Assigns**

The Plan shall be binding on all successors and assigns of the Company and a Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

## **12. Nontransferability of Awards**

Unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. An Award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant.

## **13. Amendments or Termination**

The Board may amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made, (a) without the approval of the shareholders of the Company, if such action would (except as is provided in Section 9 of the Plan), increase the total number of Shares reserved for the purposes of the Plan or change the maximum number of Shares for which Awards may be granted to any Participant or (b) without the consent of a Participant, if such action would diminish any of the rights of the Participant under any Award theretofore granted to such Participant under the Plan; provided, however, that the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws.

## **14. International Participants**

With respect to Participants who reside or work outside the United States of America and who are not (and who are not expected to be) covered employees within the meaning of Section 162(m) of the Code, the Committee may, in its sole discretion, amend the terms of the Plan or Awards with respect to such Participants in order to conform such terms with the requirements of local law.

## **15. Choice of Law**

The Plan shall be governed by and construed in accordance with the laws of the State of Florida without regard to conflicts of laws.

## **16. Effectiveness of the Plan**

The Plan shall be effective as of the Effective Date, subject to the approval of the shareholders of the Company.



January 30, 2004

Board of Directors  
Net 1 UEPS Technologies, Inc.  
744 West Hastings St., #325  
Vancouver, BC V6C 1A5  
Canada

Members of the Board:

Re: Fairness Opinion

You have requested our Opinion as independent business valuers as to the fairness ( Opinion ) of the consideration to be received by Net 1 UEPS Technologies, Inc. ( NET or the Company ) for the issuance of approximately 105.6 million shares of common stock at a price of \$0.50 per share (the Issuance ) to Brait Private Equity ( BRAIT ) at January 30, 2004 (the Valuation Date ). We have not been requested to opine as to, and our Opinion does not in any manner address, the underlying business decision of the Company to proceed with the contemplated acquisition of substantially all of the assets and the assumption of substantially all of the liabilities (the Transaction ) of Net Applied Technology Holdings Limited ( APLITEC ). In addition, we have not been requested to explore any alternatives to the Issuance. The basis for our Opinion is supported by our Valuation Report addressed to Mr. Claude Guerard, Chief Executive Officer of NET dated January 30, 2004.

In arriving at our Opinion, we, among other things, included discussions, meetings, reliance and review of the following:

- a) Form 10Q for the quarter ended September 30, 2003 and Form 10K for the year ended December 31, 2002;
- b) Discussions with management and directors of NET were undertaken;
- c) Assumptions on NET's market, competitive position and outlook as relayed by NET management at the Valuation Date;
- d) Relevant external and internal public information including economic, investment, industry, public market and transaction data as a background against which to assess findings specific to the business were considered;
- e) Major contracts both existing and anticipated in the very near future for NET, if any, were discussed with management, including any features or factors that may have an influence on value;
- f) Management's forecast financial statements for the Company; and,
- g) Discussed with management of the Company the nature of the business, past operating results, future prospects with respect to operations, profitability and competition.

In arriving at our Opinion, we relied upon and assumed the accuracy and completeness of all of the financial and other information that was used, without assuming any responsibility for any independent verification of any such information, and further relied upon the assurances of NET's management that they were not aware of any facts or circumstances that would make any such information inaccurate or misleading.

Further, we relied upon representations by NET management that there were no material changes to NET's financial position, results of operations, or the forecast financial statements provided to us subsequent to September 30, 2003, the date of the most current available financial statements provided to us. We have not audited this information as part of our analysis and therefore, we do not express an opinion or other form of assurance regarding the information.

C-1

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We assumed that the Issuance will comply, in all respects, with the securities laws, trade regulations and other applicable statutes and regulations of the various foreign jurisdictions under which the Issuance may be governed. Our Opinion was based upon market, economic and other conditions as they existed on, and could be evaluated as of, January 30, 2004. Accordingly, although subsequent developments may affect our Opinion, we do not assume any obligation to update, review or reaffirm our Opinion.

In connection with our services, we received a fee for this engagement which was in no way contingent upon the results of our analysis. In addition, the Company has agreed to indemnify us for certain liabilities that may arise out of the rendering of this Opinion. This Opinion is not intended to be and does not constitute a recommendation to any shareholder of the Company as to how such shareholder should vote, if required to, with respect to either the Issuance or the Transaction.

Our Opinion is for the use and benefit of the Board of Directors of the Company and is rendered to the Board of Directors in connection with its consideration of the Issuance and may not be used by the Company for any other purpose or reproduced, disseminated, quoted or referred to by the Company at any time, in any manner or for any purpose, without the prior written consent of Stenton Leigh Capital Corp., except that this Opinion may be reproduced in full in, and references to the Opinion and to Stenton Leigh Capital Corp. and its relationship with the Company may be included in any proxy statement or registration statement relating to the Issuance that the Company files with the U.S. Securities and Exchange Commission and is distributed to holders of the Company's Common Stock in connection with the Issuance.

Based upon and subject to the foregoing, it is our Opinion that, as of the date of this letter, (a) the value of NET is approximately \$.004 per share at January 30, 2004, the Valuation Date and (b) the consideration to be received by NET from BRAIT, is fair.

Very truly yours,

STENTON LEIGH CAPITAL CORP.

Milton H. Barbarosh, CPA, CA, MBA, CBV, ASA  
President

**PART II**

**INFORMATION NOT REQUIRED IN THE PROSPECTUS**

Item 20. *Indemnification of Directors and Officers*

Section 607.0850(1) of the Florida Business Corporation Act ( FBCA ) permits a Florida corporation to indemnify any person who may be a party to any third party proceeding by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, against liability incurred in connection with such proceeding (including any appeal thereof) if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 607.0850(2) of the FBCA permits a Florida corporation to indemnify any person who may be a party to a derivative action if such person acted in any of the capacities set forth in the preceding paragraph, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expenses of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding (including appeals), provided that the person acted under the standards set forth in the preceding paragraph. However, no indemnification shall be made for any claim, issue or matter for which such person is found to be liable unless, and only to the extent that, the court determines that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnification for such expenses which the court deems proper.

Section 607.0850(4) of the FBCA provides that any indemnification made under the above provisions, unless pursuant to a court determination, may be made only after a determination that the person to be indemnified has met the standard of conduct described above. This determination is to be made by a majority vote of a quorum consisting of the disinterested directors of the board of directors, by duly selected independent legal counsel, or by a majority vote of the disinterested shareholders. The board of directors also may designate a special committee of disinterested directors to make this determination.

Section 607.0850(3), however, provides that a Florida corporation must indemnify any director, or officer, employee or agent of a corporation who has been successful in the defense of any proceeding referred to in Section 607.0850(1) or (2), or in the defense of any claim, issue or matter therein, against expenses actually and reasonably incurred by him in connection therewith.

Expenses incurred by a director or officer in defending a civil or criminal proceeding may be paid by the corporation in advance of the final disposition thereof upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it is ultimately determined that such director or officer is not entitled to indemnification under Section 607.0850. Expenses incurred by other employees or agents in such a proceeding may be paid in advance of final disposition thereof upon such terms or conditions that the board of directors deems appropriate.

The FBCA further provides that the indemnification and advancement of payment provisions contained therein are not exclusive and it specifically empowers a corporation to make any other further indemnification or advancement of expenses under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both for actions taken in an official capacity and for actions taken in other capacities while holding an office. However, a corporation cannot indemnify or advance expenses if a judgment or other final adjudication establishes that the actions of the director or officer were material to the adjudicated cause of action and the director or officer (a) violated criminal law, unless the director or officer had reasonable cause to believe his conduct was unlawful, (b) derived an improper personal benefit from a transaction, (c) was or is a director in a circumstance where the liability under Section 607.0834 (relating to unlawful distributions) applies, or (d) engages in willful misconduct or conscious

disregard for the best interests of the corporation in a proceeding by or in right of the corporation to procure a judgment in its favor or in a proceeding by or in right of a shareholder.

Net 1 s Bylaws provide that Net 1 shall indemnify any director or officer or any former director or officer against any liability arising from any action or suit to the full extent permitted by Florida law as referenced above.

II-1

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Advances against expenses may be made under the Net 1 Bylaws and any other indemnification agreement that may be entered into by Net 1 and the indemnity coverage provided thereunder may include liabilities under the federal securities laws as well as in other contexts.

Reference is made to Article V of Net 1's Bylaws filed as Exhibit 3.3 hereto.

II-2

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**Item 21. Exhibits and Financial Statement Schedules**

## (a) Exhibits

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
<u>2.1</u>	<u>Sale Agreement, dated October 31, 2003, between Net 1 Applied Technology Holdings Limited, Net 1 Investment Holdings (Proprietary) Limited, Net 1 Support Services (Proprietary) Limited and Newshelf 713 (Proprietary) Limited.</u>
<u>2.2</u>	<u>Subscription Agreement, dated October 31, 2003, between Net 1 UEPS Technologies, Inc. and Newshelf 713 (Proprietary) Limited.</u>
<u>2.3</u>	<u>Asset Purchase Agreement, dated as of January 30, 2004, between Net 1 Holdings S.a.r.l. and Net 1 UEPS Technologies, Inc.</u>
<u>2.4</u>	<u>Common Stock Purchase Agreement, dated as of January 30, 2004, between Net 1 UEPS Technologies, Inc. and SAPEF III International G.P. Limited (or its nominees).</u>
<u>2.5</u>	<u>Subscription Agreement, dated November 10, 2003, between the Trustees for the time being of the New Aplitec Participation Trust and Newshelf 713 (Proprietary) Limited.</u>
<u>2.6</u>	<u>Trust Deed of the New Aplitec Participation Trust, dated October 31, 2003, entered into between Newshelf 713 (Proprietary) Limited and Brait Capital Partners Trustees (Proprietary) Limited.</u>
<u>2.7</u>	<u>Trust Deed for the Aplitec Holdings Participation Trust, dated January 30, 2004, between Walkers SPV, SAPEF III International G.P. Limited (in its capacity as original enforcer), Brait Capital Partners Trustees (Proprietary) Limited (in its capacity as trustee of the New Aplitec Participation Trust) and Net 1 UEPS Technologies, Inc.</u>
<u>2.8</u>	<u>Umbrella Agreement, dated November 10, 2003, between SAPEF III International G.P. Limited, The Trustees of the South African Private Equity Trust III, Net 1 UEPS Technologies, Inc., The Trustees of the New Aplitec Participation Trust and Newshelf 713 (Proprietary) Limited.</u>
<u>2.9</u>	<u>Underwriting Agreement, dated November 5, 2003, South African Private Equity Trust III and South African Private Equity Fund III L.P. and Newshelf 713 (Proprietary) Limited.</u>
3.1	Articles of Incorporation of Net 1 UEPS Technologies, Inc. (incorporated by reference to Exhibit 1 to the registrant's registration on Form 10-SB dated August 1, 2000).
3.2	Articles of Amendment to Articles of Incorporation of Net 1 UEPS Technologies, Inc. (included as Annex A to the proxy statement/prospectus which is part of this Registration Statement and incorporated by reference herein).
3.3	By-Laws of Net 1 UEPS Technologies, Inc. (incorporated by reference to Exhibit 2 to the registrant's Registration on Form 10-SB dated August 1, 2000).
<u>5.1</u>	<u>Opinion of Schneider Weinberger LLP, Florida counsel to Net 1, as to the legality of the securities being registered</u>

10.1      Distribution Agreement, dated July 1, 2002, between Net 1 UEPS Technologies, Inc. and Net 1 Investment Holdings (Pty) Limited.

II-3

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<u>10.2</u>	<u>Patent and Technology Agreement, dated June 19, 2000, by and between Net 1 Holdings S.á.r.l. and Net 1 UEPS Technologies, Inc.</u>
<u>10.3</u>	<u>Service Level Agreement between The Limpopo Provincial Government in its Department of Health and Welfare and Cash Paymaster Services (Northern) (Pty) Limited.</u>
<u>10.4</u>	<u>Service Level Agreement between the Department of Social Welfare and Population Development, Kwazulu Natal and Cash Paymaster Services Kwazulu Natal (Pty) Ltd.</u>
10.5	2004 Stock Incentive Plan (included as Annex B to the proxy statement/prospectus which is part of this Registration Statement and incorporated by reference herein).
<u>23.1</u>	<u>Consent of Manning Elliott, Chartered Accountants</u>
<u>23.2</u>	<u>Consent of Fisher Hoffman PKF (Jhb) Inc.</u>
23.3	Consent of Schneider Weinberger LLP (incorporated by reference to Exhibit 5.1 to the Registration Statement)
24.1	Power of Attorney (contained in the Signatures section of the Registration Statement)
99.1	Fairness Opinion of Stenton Leigh Capital Corporation (included as Annex C to the proxy statement/prospectus and incorporated by reference herein).
<u>99.2</u>	<u>Form of Proxy for Special Meeting of Net 1 Shareholders</u>

**Item 22. Undertakings**

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

The undersigned registrant undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

The registrant undertakes that every prospectus: (i) that is filed pursuant to the paragraph immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Net 1 of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted

by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11, or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

**SIGNATURE PAGE**

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of New York, state of New York, on February 2, 2004.

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Claude Guerard  
Name: Claude Guerard  
Title: Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Claude Guerard and each or any one of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<b><u>Signature</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
/s/ Claude Guerard Claude Guerard	Chief Executive Officer and Director (Principal Executive Officer)	February 2, 2004
/s/ Serge Belamant Serge Belamant	Non-Executive Chairman	February 2, 2004
/s/ David Anthony David Anthony	Secretary and Treasurer (Principal Financial and Accounting Officer)	February 2, 2004

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Exhibit Number	Description of Exhibit
2.1	<u>Sale Agreement, dated October 31, 2003, between Net 1 Applied Technology Holdings Limited, Net 1 Investment Holdings (Proprietary) Limited, Net 1 Support Services (Proprietary) Limited and Newshelf 713 (Proprietary) Limited.</u>
2.2	<u>Subscription Agreement, dated October 31, 2003, between Net 1 UEPS Technologies, Inc. and Newshelf 713 (Proprietary) Limited.</u>
2.3	<u>Asset Purchase Agreement, dated as of January 30, 2004, between Net 1 Holdings S.a.r.l. and Net 1 UEPS Technologies, Inc.</u>
2.4	<u>Common Stock Purchase Agreement, dated as of January 30, 2004, between Net 1 UEPS Technologies, Inc. and SAPEF III International G.P. Limited (or its nominees).</u>
2.5	<u>Subscription Agreement, dated November 10, 2003, between the Trustees for the time being of the New Aplitec Participation Trust and Newshelf 713 (Proprietary) Limited.</u>
2.6	<u>Trust Deed of the New Aplitec Participation Trust, dated October 31, 2003, entered into between Newshelf 713 (Proprietary) Limited and Brait Capital Partners Trustees (Proprietary) Limited.</u>
2.7	<u>Trust Deed for the Aplitec Holdings Participation Trust, dated January 30, 2004, between Walkers SPV, SAPEF III International G.P. Limited (in its capacity as original enforcer), Brait Capital Partners Trustees (Proprietary) Limited (in its capacity as trustee of the New Aplitec Participation Trust) and Net 1 UEPS Technologies, Inc.</u>
2.8	<u>Umbrella Agreement, dated November 10, 2003, between SAPEF III International G.P. Limited, The Trustees of the South African Private Equity Trust III, Net 1 UEPS Technologies, Inc., The Trustees of the New Aplitec Participation Trust and Newshelf 713 (Proprietary) Limited.</u>
2.9	<u>Underwriting Agreement, dated November 5, 2003, South African Private Equity Trust III and South African Private Equity Fund III L.P. and Newshelf 713 (Proprietary) Limited.</u>
3.1	Articles of Incorporation of Net 1 UEPS Technologies, Inc. (incorporated by reference to Exhibit 1 to the registrant's registration on Form 10-SB dated August 1, 2000).
3.2	Articles of Amendment to Articles of Incorporation of Net 1 UEPS Technologies, Inc. (included as Annex A to the proxy statement/prospectus which is part of this Registration Statement and incorporated by reference herein).
3.3	By-Laws of Net 1 UEPS Technologies, Inc. (incorporated by reference to Exhibit 2 to the registrant's Registration on Form 10-SB dated August 1, 2000).
5.1	<u>Opinion of Schneider Weinberger LLP, Florida counsel to Net 1, as to the legality of the securities being registered</u>
10.1	<u>Distribution Agreement, dated July 1, 2002, between Net 1 UEPS Technologies, Inc. and Net 1 Investment Holdings (Pty) Limited.</u>

10.2      Patent and Technology Agreement, dated June 19, 2000, by and between Net 1 Holdings S.á.r.l. and Net 1 UEPS Technologies, Inc.

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- 10.3      Service Level Agreement between The Limpopo Provincial Government in its Department of Health and Welfare and Cash Paymaster Services (Northern) (Pty) Limited.
  - 10.4      Service Level Agreement between the Department of Social Welfare and Population Development, Kwazulu Natal and Cash Paymaster Services Kwazulu Natal (Pty) Ltd.
  - 10.5      2004 Stock Incentive Plan (included as Annex B to the proxy statement/prospectus which is part of this Registration Statement and incorporated by reference herein).
  - 23.1      Consent of Manning Elliott, Chartered Accountants
  - 23.2      Consent of Fisher Hoffman PKF (Jhb) Inc.
  - 23.3      Consent of Schneider Weinberger LLP (incorporated by reference to Exhibit 5.1 to the Registration Statement)
  - 24.1      Power of Attorney (contained in the Signatures section of the Registration Statement)
  - 99.1      Fairness Opinion of Stenton Leigh Capital Corporation (included as Annex C to the proxy statement/prospectus and incorporated by reference herein).
  - 99.2      Form of Proxy for Special Meeting of Net 1 Shareholders
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