

IPG PHOTONICS CORP
Form 424B5
March 02, 2012
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-179722

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered⁽¹⁾	Maximum Aggregate Offering Price	Amount of Registration Fee⁽²⁾
Common Stock, par value \$0.0001 per share	3,450,000	\$187,335,000	\$21,469

- (1) Assuming exercise in full of the underwriters' option to purchase additional shares.
(2) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

PROSPECTUS SUPPLEMENT

(to prospectus dated February 27, 2012)

3,000,000 Shares

Common Stock

We are selling 2,800,000 shares of our common stock and our chairman and chief executive officer is selling an additional 200,000 shares of our common stock.

Our shares trade on the Nasdaq Global Market under the symbol IPGP. On March 1, 2012, the last sale price of the shares as reported on the Nasdaq Global Market was \$54.80 per share.

Investing in the common stock involves risks that are described in the Risk Factors section beginning on page S-6 of this prospectus supplement.

	Per Share	Total
Public offering price	\$54.30	\$162,900,000
Underwriting discount	\$2.4435	\$7,330,500
Proceeds, before expenses, to us	\$51.8565	\$145,198,200
Proceeds, before expenses, to the selling stockholder	\$51.8565	\$10,371,300

The underwriters may also exercise their option to purchase up to an additional 450,000 shares from us, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about March 7, 2012.

Sole Bookrunning Manager

BofA Merrill Lynch

Needham & Company

Stifel Nicolaus Weisel

The date of this prospectus supplement is March 1, 2012

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We and the selling stockholder have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the selling stockholder are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

About This Prospectus Supplement

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of common stock, contains information about us and specific information about the selling stockholder, and also adds to and updates information contained in the accompanying prospectus as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information. This prospectus supplement incorporates by reference important business and financial information about us that is not included in or delivered with this prospectus supplement. To the extent any inconsistency or conflict exists between the information included or incorporated by reference in this prospectus supplement and the information included in the accompanying prospectus, the information included or incorporated by reference in this prospectus supplement updates and supersedes the information in the accompanying prospectus.

In this prospectus supplement, references to IPG Photonics, our company, we, us and our refer to IPG Photonics Corporation and its consolidated subsidiaries, except where the context otherwise indicates.

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PROSPECTUS SUPPLEMENT SUMMARY

*The following summary is qualified in its entirety by the more detailed information included elsewhere in, or incorporated by reference into, this prospectus supplement or the accompanying prospectus. Because this is a summary, it does not contain all of the information that may be important to you or that you should consider before investing in the common stock. You should read the entire prospectus supplement and the accompanying prospectus, including the section entitled *Risk Factors* and the documents incorporated by reference, which are described under *Where You Can Find More Information* and *Incorporation of Certain Information by Reference* before making an investment decision.*

Our Company

We are the leading developer and manufacturer of a broad line of high-performance fiber lasers, fiber amplifiers and diode lasers that are used in numerous applications in diverse end markets. Fiber lasers are a type of laser that combines the advantages of semiconductor diodes, such as long life and high efficiency, with the high amplification and precise beam qualities of specialty optical fibers to deliver superior performance, reliability and usability at a generally lower cost compared to competing lasers.

Our diverse lines of low, mid and high-power lasers and amplifiers are used in materials processing, advanced, communications and medical applications. For the year ended December 31, 2011, we reported net sales of \$474.5 million, an increase of 58.6% from the year ended December 31, 2010, and net income attributable to common shareholders of \$117.8 million. We sell our products globally to original equipment manufacturers (OEMs), system integrators and end users. We market our products internationally primarily through our direct sales force. We have sales offices in the United States, Germany, Italy, the United Kingdom, France, Spain, Japan, China, South Korea, Singapore, India and Russia.

We design and manufacture most of our key components used in our finished products, from semiconductor diodes to optical fibers and other components, finished fiber lasers and amplifiers. We also manufacture certain complementary products used with our lasers, including optical delivery cables, fiber couplers, beam switches, optical heads and chillers. Our vertically integrated operations allow us to reduce manufacturing costs, ensure access to critical components, rapidly develop and integrate advanced products and protect our proprietary technology.

Industry Background

Since the laser was invented over 50 years ago, laser technology has revolutionized a broad range of applications and products in various industries, including general manufacturing, automotive, shipbuilding, consumer products, electronics, semiconductors, research, medical and communications. Lasers provide flexible, non-contact and high-speed ways to process and treat various materials. For a wide variety of applications, lasers provide superior performance and a more cost-effective solution than non-laser technologies.

Historically, CO₂ gas lasers and crystal lasers have been the two principal laser types used in materials processing and many other applications. Traditional lasers have a number of disadvantages and limitations, including low beam quality, low reliability, limited output powers and wavelength choices, high energy consumption, large size, lack of mobility, the need for expensive replacement parts and complex cooling and maintenance requirements. In addition, the operating parameters of traditional lasers are difficult to control precisely.

We believe that fiber lasers represent a disruptive technology, a technology that is displacing traditional laser technologies and processes. Fiber lasers use semiconductor diodes as the light source to pump specialty

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optical fibers, which are infused with rare earth ions. Technological improvements in active optical fibers, semiconductor diodes and other optical components have resulted in performance improvements and increases in cost effectiveness, reliability and output power levels of fiber lasers. Also, component prices for fiber lasers have decreased as production volumes have risen, making fiber lasers cost-competitive and generally priced lower than competing lasers. As a result, fiber lasers have gained market share by replacing traditional lasers in existing laser applications and enabling new applications by addressing customer needs that are not met by traditional lasers and non-laser processes. We believe that fiber lasers provide a combination of benefits that include:

Superior Performance. Fiber lasers provide high beam quality over the entire power range.

Lower Cost. Fiber lasers offer strong value to customers because of their generally lower required maintenance costs, high reliability and energy efficiency. Many high-power lasers have lower acquisition costs.

Ease of Use. The all solid-state design and integrated fiber delivery of fiber lasers make them easy to operate, maintain and integrate into laser-based systems.

Compact Size and Portability. Fiber lasers are typically smaller and lighter than traditional lasers, and their portability and versatility allow them to be used in new laser applications.

Choice of Wavelengths and Precise Control of Beam. The design of fiber lasers generally provides a broad range of wavelength choices and increased beam control, allowing users to select the precise wavelength and beam parameter that best match their application and materials.

Our Competitive Strengths

We believe that our key strengths and competitive advantages include:

World's Leading Producer of Fiber Laser Technology. As a pioneer and technology leader in fiber lasers, we have built leading positions in our various end markets with a large and diverse customer base. Based on our leadership position, we are able to leverage our scale to lower costs for our customers and drive the proliferation of fiber lasers in existing and new applications.

Vertically Integrated Development and Manufacturing. We develop and manufacture all of our key high-volume specialty components, including semiconductor diodes, active fibers, passive fibers and specialty optical components. We believe that our vertical integration and our high-volume production enhances our ability to meet customer requirements, accelerate development, manage costs, improve component yields and protect our intellectual property, while maintaining high performance and quality standards.

Breadth and Depth of Expertise. We have extensive know-how in materials sciences, which enables us to make our specialty optical fibers, semiconductor diodes and other critical components. We also have expertise in optical, electrical, mechanical and semiconductor engineering, which we use to develop and manufacture our proprietary components, products and systems.

Diverse Customer Base, End Markets and Applications. Our diverse customer base, end markets and applications provide us with many growth opportunities. In 2011, we shipped more than 15,000 units to over 1,700 customers worldwide, with no single customer representing more than 8% of our sales. Our products are used in a variety of applications and end markets worldwide. Our principal end markets include general manufacturing, automotive, heavy industry, aerospace, consumer, semiconductor and electronics. In these markets, our customers use our lasers to cut, weld, mark, engrave and perform numerous micro-processing functions.

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Broad Product Portfolio and Ability to Meet Customer Requirements. We offer a broad range of standard and custom fiber lasers and amplifiers, enabling deployment of our products in a wide variety of applications and end markets. Our vertically integrated manufacturing and broad technology expertise enable us to design, prototype and commence high-volume production of our products rapidly, allowing our customers to meet their time-to-market requirements.

Our Strategy

Our objective is to maintain and extend our leadership position by pursuing the following key elements of our strategy:

Leverage Our Technology to Increase Sales. As fiber lasers become more widely accepted, we plan to leverage our position as the leader in fiber lasers and our applications expertise to develop solutions for customers and increase our position in the broader laser market. We believe that our fiber lasers will continue to displace traditional lasers in many existing applications due to their superior performance and value.

Target New Applications for Lasers and Expand into Broader Markets. We intend to expand the use of fiber lasers into additional applications where higher power, portability, efficiency, size and flexible fiber cable delivery can lead customers to adopt fiber lasers instead of non-laser solutions. We believe that the advantages of fiber laser technology can overcome many of the limitations that have hindered the adoption of conventional lasers in broader industrial markets and processes.

Expand Our Product Portfolio. We plan to continue to invest in research and development to add additional wavelengths, power levels and other parameters while also improving beam quality, as well as developing new product lines and laser-based systems.

Lower Our Costs Through Manufacturing Improvements and Innovation. We plan to seek further improvements in component manufacturing processes and device assembly as well as innovation in components and device designs to improve performance and decrease the overall cost per watt for our products.

Expand Global Reach to Attract Customers Worldwide. Our customers' manufacturing operations have expanded in emerging markets and are moving to lower-cost international locations. We have increased and will continue to increase our international sales and service locations to respond to our customers' needs.

Corporate Information

We were incorporated in Delaware in 1998. Our principal executive office is located at 50 Old Webster Road, Oxford, Massachusetts 01540. Our telephone number is (508) 373-1100. Our website is located at www.ipgphotonics.com.

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The Offering

Common stock offered by IPG Photonics 2,800,000 shares

Common stock offered by the selling stockholder 200,000 shares

Shares to be outstanding after the offering 50,484,206 shares

Use of proceeds Our net proceeds from this offering without exercise of the option to purchase additional shares will be approximately \$144.7 million, after deducting underwriting discounts and commissions and transaction expenses. We intend to use these net proceeds for general corporate purposes and to fund our capital expenditures and working capital requirements. We may also use some of the net proceeds for acquisitions of complementary businesses and technologies, although no such acquisitions are currently pending.

The selling stockholder, our chairman and chief executive officer, will receive all proceeds from the offering of his shares. See Selling Stockholder.

See Use of Proceeds on page S-23 of this prospectus supplement.

Risk factors See Risk Factors beginning on page S-6 of this prospectus supplement and other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of the common stock.

Nasdaq Global Market symbol

IPGP

The number of shares outstanding after the offering excludes 6,640,170 shares reserved for issuance under our stock option plans as of March 1, 2012, of which (1) outstanding options to purchase 2,928,645 shares of our common stock at an average option price of \$25.69 and (2) unvested outstanding restricted stock units with respect to 88,016 shares of our common stock have been issued. This number assumes that the underwriters' option to purchase additional shares is not exercised. If the option to purchase additional shares is exercised in full, we will issue and sell an additional 450,000 shares.

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The following tables summarize our consolidated financial data for the periods indicated. The summary consolidated statement of income data for the years ended December 31, 2011, 2010 and 2009, and the summary consolidated balance sheet data as of December 31, 2011 have been derived from our audited consolidated financial statements, which are incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2011. Our historical results are not necessarily indicative of the results for any future period.

	Year Ended December 31,		
	2011	2010	2009
(In thousands, except per share data)			
Consolidated Statement of Income Data:			
Net sales	\$ 474,482	\$ 299,256	\$ 185,894
Cost of sales	217,227	152,798	121,626
Gross profit	257,255	146,458	64,268
Operating expenses:			
Sales and marketing	21,731	19,100	15,157
Research and development	25,422	19,160	18,543
General and administrative expenses	37,442	28,645	20,489
(Gain) loss on foreign exchange	(2,862)	(848)	1,022
Total operating expenses	81,733	66,057	55,211
Operating income	175,522	80,401	9,057
Interest (expense) income, net	(681)	(1,188)	(1,252)
Other (expense) income, net	(257)	39	(36)
Income before provision for income taxes	174,584	79,252	7,769
Provision for income taxes	(53,575)	(24,900)	(2,485)
Net income	121,009	54,352	5,284
Less: Net income (loss) attributable to noncontrolling interests	3,250	361	(135)
Net income attributable to IPG Photonics Corporation	117,759	53,991	5,419
Net income attributable to common shareholders	\$ 117,759	\$ 53,991	\$ 5,419
Net income per share:			
Basic	\$ 2.48	\$ 1.16	\$ 0.12
Diluted	\$ 2.41	\$ 1.13	\$ 0.12
Weighted-average number of shares outstanding:			
Basic	47,365	46,424	45,489
Diluted	48,685	47,594	46,595

	As of December 31,	
	2011	
(In thousands)		
Consolidated Balance Sheet Data:		
Cash and cash equivalents	\$	180,234
Short-term investments		25,451
Working capital, excluding cash and cash equivalents and short-term investments		135,060
Total assets		608,132
Revolving line-of-credit facilities		7,057

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Long-term debt, including current portion	17,339
Redeemable noncontrolling interests	46,123
Stockholders' equity	443,323

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RISK FACTORS

An investment in our common stock involves risks. You should carefully consider the risks set forth below, as well as all of the other information contained in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including our Annual Report on Form 10-K for the year ended December 31, 2011, before deciding to invest in our common stock. The occurrence of any of the following risks could materially and adversely affect our business, financial condition, prospects, results of operations and cash flows. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, prospects, financial condition, results of operations and cash flows.

Risks Relating to Our Business

Downturns in the geographic areas and markets we serve, particularly materials processing, could have a material adverse effect on our sales and profitability.

Our business depends substantially upon capital expenditures by our customers, particularly by manufacturers in the materials processing market, which includes general manufacturing, automotive, heavy industry, aerospace, consumer, semiconductor and electronics. Approximately 88.4% of our revenues in 2011 were from customers in the materials processing market. Although applications in this market are broad, sales for these applications are cyclical and have historically experienced sudden and severe downturns and periods of oversupply, resulting in significantly reduced demand for capital equipment, including the products that we manufacture and market. For example, in 2009, our sales decreased by 25% in the materials processing market as a result of the global economic recession. For the foreseeable future, our operations will continue to depend upon capital expenditures by customers in this market, which, in turn, depend upon the demand for their products or services. Our sales have materially benefited in 2010 and 2011 from our increased sales of mid- and high-power lasers to end users in China. A slowing of economic growth, or a recession in China, would slow our growth rates or may result in a decrease in our sales. Decreased demand for products and services from customers for materials processing applications during an economic downturn or a decrease in purchases from end users in China may lead to decreased demand for our products, which would reduce our sales and margins. We may not be able to respond by decreasing our expenses quickly enough, due in part, to our fixed overhead structure related to our vertically integrated operations and our commitments to continuing investment in research and development.

Our business is impacted by global economic conditions and macroeconomic downturns can disrupt our business and sales and may harm our financial condition.

We have customers in many geographic areas. If a global economic downturn were to occur, we believe many of our customers would significantly decrease their capital expenditures to cut their costs. Accordingly, we believe our ability to generate sales is particularly sensitive to global and regional macroeconomic conditions. Adverse changes have occurred and may occur in the future as a result of declining or flat global or regional economic conditions, fluctuations in currency and commodity prices, wavering confidence, capital expenditure reductions, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of our lasers and amplifiers, increase exposure to losses from bad debts, increase the cost and decrease the availability of financing, increase the risk of loss on investments, or increase costs associated with manufacturing and distributing products. A prolonged economic downturn could have a material adverse effect on our business, financial condition and results of operations.

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Uncertainty in the general economic conditions of markets in which we participate negatively affect our ability to estimate future income and expenditures.

Current and future conditions in the economy have an inherent degree of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy, including the materials processing, telecommunications, advanced and medical markets and applications in which we participate. Because all components of our budgeting and forecasting are dependent upon estimates of growth or contraction in the markets and applications we serve and demand for our products, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make.

Our sales depend upon our ability to penetrate new applications for fiber lasers and increase our market share in existing applications.

Our level of sales will depend on our ability to generate sales of fiber lasers in applications where conventional lasers, such as CO₂ and YAG lasers, have been used or in new and developing markets and applications for lasers where they have not been used previously. To date, a significant portion of our revenue growth has been derived from sales of fiber lasers primarily for applications where CO₂ and YAG lasers historically have been used. In order to maintain or increase market demand for our fiber laser products, we will need to devote substantial resources to:

demonstrate the effectiveness of fiber lasers in new applications;

increase our direct and indirect sales efforts;

effectively service and support our installed product base on a global basis;

extend our product line to address new applications;

develop new applications for our products; and

continue to reduce our manufacturing costs and enhance our competitive position.

Fiber lasers are relatively new when compared to conventional lasers and our future success depends on the development and broader acceptance of fiber lasers. Potential customers may be reluctant to adopt fiber lasers as an alternative to conventional lasers, such as CO₂ and YAG, and non-laser methods, such as mechanical tools. Such potential customers may have substantial investments and know-how related to their existing laser and non-laser technologies, and may perceive risks relating to the reliability, quality, usefulness and cost-effectiveness of fiber lasers when compared to other laser or non-laser technologies available in the market. If we are unable to implement our strategy to develop new applications for our products, our revenues, operating results and financial condition could be adversely affected. We cannot assure you that we will be able to successfully implement our business strategy. In addition, our newly developed or enhanced products may not achieve market acceptance or may be rendered obsolete or less competitive by the introduction of new products by other companies.

Our vertically integrated business results in high levels of fixed costs and inventory levels that may adversely impact our gross profits and our operating results in the event that demand for our products declines or we maintain excess inventory levels.

We have a high fixed cost base due to our vertically integrated business model, including the fact that approximately 77% of our 2,137 employees as of December 31, 2011 were employed in our manufacturing operations. We may not adjust these fixed costs quickly enough to adapt to rapidly changing market conditions. Our gross profit, in absolute dollars and as a percentage of net sales, is impacted by our sales volume, the corresponding absorption of fixed manufacturing overhead expenses and manufacturing yields. In addition, because we are a vertically integrated manufacturer and design and manufacture our key specialty components,

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insufficient demand for our products may subject us to the risks of high inventory carrying costs and increased inventory obsolescence. If our capacity and production levels are not properly sized in relation to expected demand, we may need to record write-downs for excess or obsolete inventory. Because we are vertically integrated, the rate at which we turn inventory has historically been low when compared to our cost of sales. We do not expect this to change significantly in the future and believe that we will have to maintain a relatively high level of inventory compared to our cost of sales. As a result, we continue to expect to have a significant amount of working capital invested in inventory. Changes in our level of inventory lead to an increase in cash generated from our operations when inventory is sold or a decrease in cash generated from our operations at times when the amount of inventory increases.

The markets for our products are highly competitive and increased competition could increase our costs, reduce our sales or cause us to lose market share.

The industries in which we operate are characterized by significant price and technological competition. Our fiber laser and amplifier products compete with conventional laser technologies and amplifier products offered by several well-established companies, some of which are larger and have substantially greater financial, managerial and technical resources, more extensive distribution and service networks, greater sales and marketing capacity, and larger installed customer bases than we do. Also, we compete with widely used non-laser production methods, such as resistance welding. We believe that competition will be particularly intense from makers of CO₂, YAG, disc and direct diode lasers, as these makers of laser solutions may lower prices to maintain or increase current market share and have committed significant research and development resources to pursue opportunities related to these technologies.

In addition, we face competition from a growing number of fiber laser makers, including Rofin-Sinar Technologies, Inc., Trumpf GmbH + Co. KG, GSI Group Inc., Coherent Inc., Hypertherm, Inc., Newport Corporation, The Furukawa Electric Co., Ltd., Keopsys SA, Mitsubishi Cable Industries, Ltd., Miyachi Unitek Corporation, Raycus Fiber Laser Technologies Co. Ltd. and JDS Uniphase Corporation. Competition from other fiber laser makers has increased and some have introduced fiber lasers or announced plans to introduce fiber lasers that compete with our products. We may not be able to successfully differentiate our current and proposed products from our competitors' products and current or prospective customers may not consider our products to be superior to competitors' products. To maintain our competitive position, we believe that we will be required to continue a high level of investment in research and development, application development and customer service and support, and to react to market pricing conditions. We may not have sufficient resources to continue to make these investments and we may not be able to make the technological advances or price adjustments necessary to maintain our competitive position. We also compete against our OEM customers' internal production of competitive laser technologies.

Our manufacturing capacity and operations may not be appropriate for future levels of demand and may adversely affect our gross margins.

In response to an increase in demand for our fiber lasers, we added substantial manufacturing capacity at our facilities in the United States, Germany and Russia in the period from 2005 to 2008. Beginning in 2010, we entered another phase of expanding capacity at those manufacturing facilities. We continue to expand our capacity further in Russia. A significant portion of our manufacturing facilities and production equipment, such as our semiconductor production and processing equipment, diode packaging equipment and diode burn-in stations, are special-purpose in nature and cannot be adapted easily to make other products. If the demand for fiber lasers or amplifiers does not increase or decreases from current levels, we may have significant excess manufacturing capacity and under-absorption of our fixed costs, which could in turn adversely affect our gross margins and profitability.

To maintain our competitive position as the leading developer and manufacturer of fiber lasers and to meet anticipated demand for our products, we invested significantly in the expansion of our manufacturing and

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operations throughout the world and will do so in the future. We incurred in the past and will incur significant costs associated with the acquisition, build-out and preparation of our facilities. We had capital expenditures of \$53.0 million and \$28.4 million in 2011 and 2010, respectively, and we expect to incur approximately \$55 million to \$60 million in capital expenditures, excluding acquisitions, in 2012. In connection with these projects, we may incur cost overruns, construction delays, labor difficulties or regulatory issues which could cause our capital expenditures to be higher than what we currently anticipate, possibly by a material amount, which would in turn adversely impact our operating results. Moreover, we may experience higher costs due to yield loss, production inefficiencies and equipment problems until any operational issues associated with the opening of new manufacturing facilities are resolved.

The laser and amplifier industries are experiencing declining average selling prices, which could cause our gross margins to decline and harm our operating results.

Products in the laser and amplifier industries generally, and our products specifically, are experiencing and may in the future continue to experience a decline in average selling prices, or ASPs, as a result of new product and technology introductions, increased competition and price pressures from significant customers. If the ASPs of our products decline further and we are unable to increase our unit volumes, introduce new or enhanced products with higher margins or reduce manufacturing costs to offset anticipated decreases in the prices of our existing products, our operating results may be adversely affected. In addition, because of our significant fixed costs, we are limited in our ability to reduce total costs quickly in response to any revenue shortfalls. Because of these factors, we have experienced and we may experience in the future material adverse fluctuations in our operating results on a quarterly or annual basis if the ASPs of our products continue to decline.

Because we lack long-term purchase commitments from our customers, our sales can be difficult to predict, which could lead to excess or obsolete inventory and adversely affect our operating results.

We generally do not enter into long-term agreements with our customers obligating them to purchase our fiber lasers or amplifiers. Our business is characterized by short-term purchase orders and shipment schedules and, in some cases, orders may be cancelled or delayed without significant penalty. As a result, it is difficult to forecast our revenues and to determine the appropriate levels of inventory required to meet future demand. In addition, due to the absence of long-term volume purchase agreements, we forecast our revenues and plan our production and inventory levels based upon the demand forecasts of our OEM customers, end users and distributors, which are highly unpredictable and can fluctuate substantially. This could lead to increased inventory levels and increased carrying costs and risk of excess or obsolete inventory due to unanticipated reductions in purchases by our customers. In this regard, we recorded provisions for inventory totaling \$6.1 million, \$2.7 million and \$5.3 million in 2011, 2010 and 2009, respectively. These provisions were recorded as a result of changes in market prices of certain components, the value of those inventories that was realizable through finished product sales and uncertainties related to the recoverability of the value of inventories due to technological changes and excess quantities. If our OEM customers, end users or distributors fail to accurately forecast the demand for our products, fail to accurately forecast the timing of such demand, or are unable to consistently negotiate acceptable purchase order terms with customers, our results of operations may be adversely affected.

We may experience lower than expected manufacturing yields, which would adversely affect our gross margins.

The manufacture of semiconductor diodes and the packaging of them is a highly complex process. Manufacturers often encounter difficulties in achieving acceptable product yields from diode and packaging operations. We have from time to time experienced lower than anticipated manufacturing yields for our diodes and packaged diodes. This occurs during the production of new designs and the installation and start-up of new process technologies. If we do not achieve planned yields, our product costs could increase resulting in lower gross margins, and key component availability would decrease.

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We are subject to litigation alleging that we are infringing third-party intellectual property rights. Intellectual property claims could result in costly litigation and harm our business.

In recent years, there has been significant litigation involving intellectual property rights in many technology-based industries, including our own. We face risks and uncertainties in connection with such litigation, including the risk that patents issued to others may harm our ability to do business; that there could be existing patents of which we are unaware that could be pertinent to our business; and that it is not possible for us to know whether there are patent applications pending that our products might infringe upon, since patent applications often are not disclosed until a patent is issued or published. Moreover, the frequency with which new patents are granted and the diversity of jurisdictions in which they are granted make it impractical and expensive for us to monitor all patents that may be relevant to our business.

From time to time, we have been notified of allegations and claims that we may be infringing patents or intellectual property rights owned by third parties. In 2007, we settled two patent infringement lawsuits filed against us and in 2010 we settled another patent infringement lawsuit filed against us.

In November 2006, IMRA America, Inc. filed an action against us alleging that certain products we produce infringe one U.S. patent allegedly owned by IMRA America. IMRA America alleged willful infringement and sought damages, including for alleged lost profits, of at least \$26 million through June 2011, treble damages, attorneys' fees and injunctive relief. IMRA America also alleged inducement of infringement and contributory infringement. We filed an answer in which we denied infringement and also filed declaratory judgment counterclaims based on this and other defenses. This lawsuit concerns products made, used, sold or offered for sale in or imported into the United States and therefore the lawsuit affects products that account for a substantial portion of our revenues. This lawsuit does not concern products, or revenues that are derived from products, that are not made, used, sold or offered for sale in or imported into the United States. In June 2008, the U.S. Patent and Trademark Office, or USPTO, ordered re-examination of the patent claims asserted by IMRA America against the Company. In July 2009, the USPTO confirmed the patentability of all of the claims in the IMRA America patent over the prior art cited in the re-examination, as well as of new claims added during the re-examination. In August 2009, we submitted an additional re-examination request, which was denied by the USPTO. The USPTO issued a re-examination certificate in October 2009. The U.S. District Court for the Eastern District of Michigan adopted the claim construction of IMRA America on one of the four claim terms, but did not decide the others. In March 2011, the District Court granted our motion for partial summary judgment of no marking or no statutory notice, which had the effect of precluding IMRA America from seeking damages for any alleged infringing products sold prior to November 16, 2006, the date the lawsuit was filed, with the exception of four particular alleged infringing products, as to which IMRA America is precluded from seeking damages for sales prior to August 6, 2006. The U.S. District Court denied our motions for summary judgment on non-infringement, invalidity, no willful infringement and laches, and granted IMRA America's motions for summary judgment on no invalidity for derivation and no equitable misconduct. The trial occurred in September and October 2011, and the jury returned a unanimous verdict that we did not infringe IMRA America's patent. IMRA America has filed post-trial motions seeking to set aside the jury verdict. IMRA America also has the right to appeal the verdict. IMRA America has also informed us that it has patents and applications in the United States and in foreign jurisdictions directed to fiber lasers and fiber amplifiers, but has not asserted them against us. The Company has filed oppositions in Japan and Germany to two patents owned by IMRA America. In Japan, the patent office invalidated two claims and maintained 49 claims of the IMRA America patent, and we are appealing the decision. The German opposition is pending and there has been no decision.

There can be no assurance that we will be able to dispose without a material effect any post-trial motions or appeals made in the litigation with IMRA America, or claims or other allegations made or asserted in the future. The outcome of any litigation is uncertain. Even if we ultimately are successful on the merits of any such litigation or re-examination, legal and administrative proceedings related to intellectual property are typically expensive and time-consuming, generate negative publicity and divert financial and managerial resources. Some litigants may have greater financial resources than we have and may be able to sustain the costs of complex intellectual property litigation more easily than we can.

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If we do not prevail in any intellectual property litigation brought against us, including the IMRA America litigation, it could affect our ability to sell our products and materially harm our business, financial condition and results of operations. These developments could adversely affect our ability to compete for customers and increase our revenues. Plaintiffs in intellectual property cases often seek, and sometimes obtain, injunctive relief. Intellectual property litigation commenced against us could force us to take actions that could be harmful to our business, competitive position, results of operations and financial condition, including the following:

stop selling our products or using the technology that contains the allegedly infringing intellectual property;

pay actual monetary damages, royalties, lost profits or increased damages and the plaintiff's attorneys' fees, which individually or in the aggregate may be substantial; and

attempt to obtain a license to use the relevant intellectual property, which may not be available on reasonable terms or at all. In addition, intellectual property lawsuits can be brought by third parties against OEMs and end users that incorporate our products into their systems or processes. In some cases, we indemnify OEMs against third-party infringement claims relating to our products and we often make representations affirming, among other things, that our products do not infringe the intellectual property rights of others. As a result, we may incur liabilities in connection with lawsuits against our customers. Any such lawsuits, whether or not they have merit, could be time-consuming to defend, damage our reputation or result in substantial and unanticipated costs.

Our inability to protect our intellectual property and proprietary technologies could result in the unauthorized use of our technologies by third parties, hurt our competitive position and adversely affect our operating results.

We rely on patents, trade secret laws, contractual agreements, technical know-how and other unpatented proprietary information to protect our products, product development and manufacturing activities from unauthorized copying by third parties. Although we acquired a patent portfolio in 2008 and started a program in 2007 to increase the number of patent applications we file, our patents do not cover all of our technologies, systems, products and product components and may not prevent third parties from unauthorized copying of our technologies, products and product components. We seek to protect our proprietary technology under laws affording protection for trade secrets. We also seek to protect our trade secrets and proprietary information, in part, by requiring employees to enter into agreements providing for the maintenance of confidentiality and the assignment of rights to inventions made by them while employed by us. We have significant international operations and we are subject to foreign laws which differ in many respects from U.S. laws. Policing unauthorized use of our trade secret technologies throughout the world and proving misappropriation of our technologies are particularly difficult, especially due to the number of our employees and operations in numerous foreign countries. The steps that we take to acquire ownership of our employees' inventions and trade secrets in foreign countries may not have been effective under all such local laws, which could expose us to potential claims or the inability to protect intellectual property developed by our employees. Furthermore, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws in any country in which we operate may adversely affect our ability to enforce our trade secret and intellectual property positions. Costly and time-consuming litigation could be necessary to determine the scope of our confidential information and trade secret protection. We also enter into confidentiality agreements with our consultants and other suppliers to protect our confidential information that we deliver to them. However, there can be no assurance that our confidentiality agreements will not be breached, that we will be able to effectively enforce them or that we will have adequate remedies for any breach.

Given our reliance on trade secret laws, others may independently develop similar or alternative technologies or duplicate our technologies and commercialize discoveries that we have made. Therefore, our intellectual property efforts may be insufficient to maintain our competitive advantage or to stop other parties

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from commercializing similar products or technologies. Many countries outside of the United States afford little or no protection to trade secrets and other intellectual property rights. Intellectual property litigation can be time-consuming and expensive, and there is no guarantee that we will have the resources to fully enforce our rights. If we are unable to prevent misappropriation or infringement of our intellectual property rights, or the independent development or design of similar technologies, our competitive position and operating results could suffer.

We depend upon internal production and on outside single or limited-source suppliers for many of our key components and raw materials. Any interruption in the supply of these key components and raw materials could adversely affect our results of operations.

We rely exclusively on our own production capabilities to manufacture certain of our key components, such as semiconductor diodes, specialty optical fibers and optical components. We do not have redundant production lines for some of our components, such as our diodes and some other components, which are made at a single manufacturing facility. These may not be readily available from other sources at our current costs. If our manufacturing facilities were damaged significantly or incapacitated, it could take a considerable length of time, or it could increase our costs, for us to resume manufacturing or find alternative sources of supply. Many of the tools and equipment we use are custom-designed, and it could take a significant period of time to repair or replace them. Our three major manufacturing facilities are located in Oxford, Massachusetts; Burbach, Germany; and Fryazino, Russia. If, as a result of a flood, fire, natural disaster, political unrest, act of terrorism, war, outbreak of disease or other similar event, any of our three major manufacturing facilities or equipment should become inoperable, inaccessible, damaged or destroyed, our business could be adversely affected to the extent that we do not have redundant production capabilities.

Also, we purchase certain raw materials used to manufacture our products and other components, such as semiconductor wafer substrates, modulators, micro-optics and bulk optics, from single or limited-source suppliers. In general, we have no long-term contractual supply arrangements with these suppliers. Some of our suppliers are also our competitors. Some of our suppliers reduced their inventory levels and manufacturing capacity because of the recent recession. As a result, we experienced and may in the future experience longer lead times or delays in fulfillment of our orders. Furthermore, other than our current suppliers, there are a limited number of entities from whom we could obtain these supplies. We do not anticipate that we would be able to purchase these components or raw materials that we require in a short period of time or at the same cost from other sources in commercial quantities or that have our required performance specifications. Any interruption or delay in the supply of any of these components or materials, or the inability to obtain these components and materials from alternate sources at acceptable prices and within a reasonable amount of time, could adversely affect our business. If our suppliers face financial or other difficulties, if our suppliers do not maintain sufficient inventory on hand or if there are significant changes in demand for the components and materials we obtain from them, they could limit the availability of these components and materials to us, which in turn could adversely affect our business.

We rely on the significant experience and specialized expertise of our senior management and scientific staff and if we are unable to retain these key employees and attract other highly skilled personnel necessary to grow our business successfully, our business and results of operations could suffer.

Our future success is substantially dependent on the continued service of our executive officers, particularly our founder and chief executive officer, Dr. Valentin P. Gapontsev, age 73, and the managing director of our German subsidiary IPG Laser GmbH, Dr. Eugene Scherbakov, age 64, our highly trained team of scientists, many of whom have numerous years of experience and specialized expertise in optical fibers, semiconductors and optical component technology, and other key engineering, sales, marketing, manufacturing and support personnel, any of whom may leave, which could harm our business. The members of our scientific staff who are expected to make significant individual contributions to our business are also members of our executive management team. Furthermore, our business requires scientists and engineers with experience in several disciplines, including physics, optics, materials sciences, chemistry and electronics. We will need to

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continue to recruit and retain highly skilled scientists and engineers for certain functions. Our future success also depends on our ability to identify, attract, hire, train, retain and motivate highly skilled research and development, managerial, operations, sales, marketing and customer service personnel. If we fail to attract, integrate and retain the necessary personnel, our ability to extend and maintain our scientific expertise and grow our business could suffer significantly.

We may pursue acquisitions and investments in new businesses, products, patents or technologies. These may involve risks which could disrupt our business and may harm our financial condition.

While we currently have no binding commitments or agreements to make any acquisitions or investments, in the future we may make acquisitions of and investments in new businesses, products, patents and technologies that we believe could complement, enhance or expand our current businesses or product lines or that might otherwise offer us growth opportunities.

We have limited experience in making acquisitions and, therefore, we may have difficulty identifying appropriate opportunities. Any acquisition or investment opportunities that we are able to identify may present a number of risks and challenges, including:

inability to negotiate or finance the acquisition on favorable terms;

diversion of management's attention from our existing businesses to integration of the operations and personnel of the acquired or combined business;

possible adverse effects on our operating results during the integration process;

failure of the acquired business or investment to achieve our long-term objectives, including operational, profitability and investment return objectives; and

the inability to achieve other intended objectives of the transaction.

In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired businesses, products, patents or technologies. We may not be able to maintain uniform standards, controls, procedures and policies, which may lead to operational inefficiencies. To complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or have amortization expenses and write-downs of acquired assets, which could adversely affect our profitability and result in dilution to our existing and future stockholders.

In addition, any future acquisition may involve companies, products or technologies located outside of the United States, which may further complicate the consummation and integration of the acquisition.

Failure to effectively build and expand our direct field service and support organization could have an adverse effect on our business.

We believe that it will become increasingly important for us to provide rapid, responsive service directly to our customers throughout the world and to build and expand our own personnel resources to provide these services. Any actual or perceived lack of direct field service in the locations where we sell or try to sell our products may negatively impact our sales efforts and, consequently, our revenues. Accordingly, we have an ongoing effort to develop our direct support systems worldwide. This requires us to recruit and train additional qualified field service and support personnel as well as maintain effective and highly trained organizations that can provide service to our customers in various countries. We may not be able to attract and train additional qualified personnel to expand our direct support operations successfully. We may not be able to find and engage additional qualified third-party resources to supplement and enhance our direct support operations. Further, we may incur significant costs in providing these direct field and support services. Failure to implement our direct support operation effectively could adversely affect our relationships with our customers, and our operating results may suffer.

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A few customers account for a significant portion of our sales, and if we lose any of these customers or they significantly curtail their purchases of our products, our results of operations could be adversely affected.

We rely on a few customers for a significant portion of our sales. In the aggregate, our top five customers accounted for 17%, 19% and 12% of our consolidated net sales in 2011, 2010 and 2009, respectively. We generally do not enter into agreements with our customers obligating them to purchase our fiber lasers or amplifiers. Our business is characterized by short-term purchase orders and shipment schedules. If any of our principal customers discontinues its relationship with us, replaces us as a vendor for certain products or suffers downturns in its business, our business and results of operations could be adversely affected.

We have experienced, and expect to experience in the future, fluctuations in our quarterly operating results. These fluctuations may increase the volatility of our stock price.

We have experienced, and expect to continue to experience, fluctuations in our quarterly operating results. We believe that fluctuations in quarterly results may cause the market price of our common stock to fluctuate, perhaps substantially. Factors which may have an influence on our operating results in a particular quarter include:

the increase, decrease, cancellation or rescheduling of significant customer orders;

the timing of revenue recognition based on the delivery, installation or acceptance of certain products shipped to our customers;

seasonality attributable to different purchasing patterns and levels of activity throughout the year in the areas where we operate;

the timing of customer qualification of our products and commencement of volume sales of systems that include our products;

our ability to obtain export licenses for our products and components on a timely basis or at all;

the rate at which our present and future customers and end users adopt our technologies;

the gain or loss of a key customer;

product or customer mix;

competitive pricing pressures;

the relative proportions of our U.S. and international sales;

our ability to design, manufacture and introduce new products on a cost-effective and timely basis;

our ability to manage our inventory levels;

any inventory write-downs related to excess quantities and obsolete items;

the incurrence of expenses to develop and improve application and support capabilities, the benefits of which may not be realized until future periods, if at all;

different capital expenditure and budget cycles for our customers, which affect the timing of their spending;

foreign currency fluctuations; and

our ability to control expenses.

These factors make it difficult for us to accurately predict our operating results. In addition, our ability to accurately predict our operating results is complicated by the fact that many of our products have long sales cycles, some lasting as long as twelve months. Once a sale is made, our delivery schedule typically ranges from

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four weeks to four months, and therefore our sales will often reflect orders shipped in the same quarter that they are received and will not enhance our ability to predict our results for future quarters. In addition, long sales cycles may cause us to incur significant expenses without offsetting revenues since customers typically expend significant effort in evaluating, testing and qualifying our products before making a decision to purchase them. Moreover, customers may cancel or reschedule shipments, and production difficulties could delay shipments. Accordingly, our results of operations are subject to significant fluctuations from quarter to quarter, and we may not be able to accurately predict when these fluctuations will occur.

Foreign currency transaction and translation risk may negatively affect our net sales, cost of sales and operating margins and could result in exchange losses.

We conduct our business and incur costs in the local currency of most countries in which we operate. In 2011, our net sales outside the United States represented a significant portion of our total sales. We incur currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or a sales transaction using a different currency from the currency in which it receives revenues because exchange rates between two currencies can change between the transaction date and the time of settlement. Changes in exchange rates can also affect our results of operations by changing the translated U.S. dollar value of sales and expenses denominated in foreign currencies. We cannot accurately predict the impact of future exchange rate fluctuations on our results of operations. Further, given the volatility of exchange rates, we may not be able to effectively manage our currency transaction or translation risks, and any volatility in currency exchange rates may increase the price of our products in local currency to our foreign customers, which may have an adverse effect on our financial condition, cash flows and profitability.

We depend on our OEM customers and system integrators and their ability to incorporate our products into their systems.

Our sales depend in part on our ability to maintain existing and secure new OEM customers. Our revenues also depend in part upon the ability of our current and potential OEM customers and system integrators to develop and sell systems that incorporate our laser and amplifier products. The commercial success of these systems depends to a substantial degree on the efforts of these OEM customers and system integrators to develop and market products that incorporate our technologies. Relationships and experience with traditional laser makers, limited marketing resources, reluctance to invest in research and development and other factors affecting these OEM customers and third-party system integrators could have a substantial impact upon our financial results. If OEM customers or integrators are not able to adapt existing tools or develop new systems to take advantage of the features and benefits of fiber lasers, then the opportunities to increase our revenues and profitability may be severely limited or delayed. Furthermore, if our OEM customers or third-party system integrators experience financial or other difficulties that adversely affect their operations, our financial condition or results of operations may also be adversely affected.

We may not be able to effectively manage our growth and we may need to incur significant costs to address the operational requirements related to our growth, either of which could harm our business and operating results.

We have been experiencing a period of significant growth and expansion, both in the United States and internationally, which has required, and will continue to require, increased efforts of our management and other resources. Our recent and anticipated growth has placed, and is expected to continue to place, significant strain on our research and development, sales and marketing, operational and administrative resources. To manage our growth, we will need to continue to monitor our operational and financial systems and expand, train and manage our employees. For example, we must implement new modules of our management information and customer relationship management systems, hire and train new sales representatives, service, application, financial and information technology personnel, and expand our supply chain management and quality control operations. These may require substantial managerial and financial resources, and our efforts in this regard may not be

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successful. If we fail to adequately manage our expected growth, or to improve our operational, financial and management information systems, or fail to effectively motivate or manage our new and future employees, the quality of our products and the management of our operations could suffer and our operating results could be adversely affected.

Our inability to manage risks associated with our international customers and operations could adversely affect our business.

We have significant facilities in and our products are sold in numerous countries. The United States, Germany, Japan, Russia and China are our principal markets. A significant amount of our revenues are derived from customers, and we have substantial tangible assets, outside of the United States. We anticipate that foreign sales will continue to account for a significant portion of our revenues in the foreseeable future. Our operations and sales in these markets are subject to risks inherent in international business activities, including:

longer accounts receivable collection periods and less-developed credit assessment and collection procedures;

fluctuations in the values of foreign currencies;

changes in a specific country's or region's economic conditions, such as recession;

compliance with a wide variety of domestic and foreign laws and regulations and unexpected changes in those laws and regulatory requirements, including uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;

certification requirements;

environmental regulations;

less effective protection of intellectual property rights in some countries;

potentially adverse tax consequences;

different capital expenditure and budget cycles for our customers, which affect the timing of their spending;

political, legal and economic instability, foreign conflicts, and the impact of regional and global infectious illnesses in the countries in which we and our customers, suppliers, manufacturers and subcontractors are located;

preference for locally produced products;

difficulties and costs of staffing and managing international operations across different geographic areas and cultures;

seasonal reductions in business activities; and

fluctuations in freight rates and transportation disruptions.

Political and economic instability and changes in governmental regulations could adversely affect both our ability to effectively operate our foreign sales offices and the ability of our foreign suppliers to supply us with required materials or services. Any interruption or delay in the supply of our required components, products, materials or services, or our inability to obtain these components, materials, products or services from alternate sources at acceptable prices and within a reasonable amount of time, could impair our ability to meet scheduled product deliveries to our customers and could cause customers to cancel orders.

We are also subject to risks of doing business in Russia through our subsidiary, NTO IRE-Polus, which provides components and test equipment to us and sells finished fiber devices to customers in Russia and neighboring countries. The results of operations, business prospects and facilities of NTO IRE-Polus are subject

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to the economic and political environment in Russia. In 2010, a Russian investor purchased a minority interest in NTO IRE-Polus. As a minority investor, it has rights under Russian law, as well as under our negotiated agreements with it. Even though we control a supermajority of the shares and a majority of the board, certain actions require unanimous shareholder approval, including changes to capital, additional investments, use of proceeds other than initially agreed to uses and amounts, distributions, transactions in excess of agreed upon amounts and related party transactions. In recent years Russia has undergone substantial political, economic and social change. As is typical of an emerging market, Russia does not possess a well-developed business, legal and regulatory infrastructure that would generally exist in a more mature free market economy. In addition, the tax, currency and customs legislation within Russia is subject to varying interpretations and changes, which can occur frequently. The future economic direction of Russia remains largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments. Our failure to manage the risks associated with NTO IRE-Polus and our other existing and potential future international business operations could have a material adverse effect upon our results of operations.

Our products could contain defects, which may reduce sales of those products, harm market acceptance of our fiber laser products or result in claims against us.

The manufacture of our fiber lasers and amplifiers involves highly complex and precise processes. Despite testing by us and our customers, errors have been found, and may be found in the future, in our products. These defects may cause us to incur significant warranty, support and repair costs, incur additional costs related to a recall, divert the attention of our engineering personnel from our product development efforts and harm our relationships with our customers. These problems could result in, among other things, loss of revenues or a delay in revenue recognition, loss of market share, harm to our reputation or a delay or loss of market acceptance of our fiber laser products. Defects, integration issues or other performance problems in our fiber laser and amplifier products could also result in personal injury or financial or other damages to our customers, which in turn could damage market acceptance of our products. Our customers could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, could be time-consuming and costly to defend.

We are subject to export control regulations that could restrict our ability to increase our international sales and may adversely affect our business.

A significant part of our business involves the export of our products to other countries. The U.S. government has in place a number of laws and regulations that control the export, re-export or transfer of U.S.-origin products, software and technology. The governments of other countries in which we do business have similar regulations regarding products, software and technology originating in those countries. These laws and regulations may require that we obtain a license before we can export, re-export or transfer certain products, components, software or technology. The requirement to obtain a license could put us at a competitive disadvantage by restricting our ability to sell products to, or service products for, customers in certain countries or by giving rise to delays or expenses related to obtaining a license. In applying for a license and responding to questions from licensing authorities, we have experienced and, in the future, may experience delays in obtaining export licenses based on issues solely within the control of the applicable government agency. Under the discretion of the issuing government agency, an export license may permit the export of one unit to a single customer or multiple units to one or more customers. Licenses may also include conditions that limit the use, resale, transfer, re-export, modification, disassembly, or transfer of a product, software or technology after it is exported without first obtaining permission from the relevant government agency. Failure to comply with these laws and regulations could result in government sanctions, including substantial monetary penalties, denial of export privileges, debarment from government contracts and a loss of revenues. Delays in obtaining or failure to obtain required export licenses may require us to defer shipments for substantial periods or cancel orders. Any of these circumstances could adversely affect our operations and, as a result, our financial results could suffer.

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Our ability to access financial markets to finance a portion of our working capital requirements and support our liquidity needs may be adversely affected by factors beyond our control and could negatively impact our ability to finance our operations, meet certain obligations or implement our operating strategy.

We occasionally borrow under our existing credit facilities to fund operations, including working capital investments. Our major credit lines in the U.S. and Germany expire in June 2015 and June 2012, respectively. In the past, market disruptions experienced in the United States and abroad have materially impacted liquidity in the credit and debt markets, making financing terms for borrowers less attractive, and, in certain cases, have resulted in the unavailability of certain types of financing. Uncertainty in the financial markets may negatively impact our ability to access additional financing or to refinance our existing credit facilities or existing debt arrangements on favorable terms or at all, which could negatively affect our ability to fund current and future expansion as well as future acquisitions and development. These disruptions may include turmoil in the financial services industry, unprecedented volatility in the markets where our outstanding securities trade, and general economic downturns in the areas where we do business. If we are unable to access funds at competitive rates, or if our short-term or long-term borrowing costs increase, our ability to finance our operations, meet our short-term obligations and implement our operating strategy could be adversely affected.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

We may in the future be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. Additional equity financing may be dilutive to the holders of our common stock, and debt financing, if available, may involve restrictive covenants and could reduce our profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

We are subject to various environmental laws and regulations that could impose substantial costs upon us and may adversely affect our business, operating results and financial condition.

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment, including those relating to the storage, use, discharge, disposal, product composition and labeling of, and human exposure to, hazardous and toxic materials. We could incur costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or require us to acquire additional expensive equipment, modify our manufacturing processes, or incur other significant expenses in order to remain in compliance with such laws and regulations. At this time, we do not believe the costs to maintain compliance with current environmental laws to be material. Although we do not currently anticipate that such costs will become material, if such costs were to become material in the future, whether due to unanticipated changes in environmental laws, unanticipated changes in our operations or other unanticipated changes, we may be required to dedicate additional staff or financial resources in order to maintain compliance. There can be no assurance that violations of environmental laws or regulations will not occur in the future as a result of the lack of, or failure to obtain, permits, human error, accident, equipment failure or other causes.

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Risks Relating to Our Common Stock

The market price of our common stock is subject to volatility, which could result in substantial losses for investors purchasing shares in this offering.

The market price of our common stock is subject to volatility. Fluctuations in market price and volume are particularly common among securities of technology companies. As a result, you may be unable to sell your shares of common stock at or above the offering price. The market price of our common stock may fluctuate significantly in response to the following factors, among others, some of which are beyond our control:

general market conditions;

U.S. and international economic factors;

actual or anticipated fluctuations in our quarterly operating results;

changes in or failure to meet publicly disclosed expectations as to our future financial performance;

changes in securities analysts' estimates of our financial performance or lack of research and reports by industry analysts;

changes in market valuations or earnings of similar companies;

announcements by us or our competitors of significant products, contracts, acquisitions or strategic partnerships;

developments or disputes concerning intellectual property or proprietary rights, including increases or decreases in litigation expenses associated with intellectual property lawsuits we may initiate, or in which we may be named as defendants, and the outcome of such litigation;

failure to complete significant sales;

any future sales of our common stock or other securities;

additions or departures of key personnel;

investor perception of our prospects, our industry or the business of our competitors;

loss of one or more of our significant customers;

changes in governmental regulation;

major catastrophic events; and

changes in our pricing policies or the pricing policies of our competitors.

We could be the subject of securities class action litigation due to future stock price volatility, which could divert management's attention and adversely affect our operating results.

The stock market in general, and market prices for the securities of technology companies like ours in particular, have experienced volatility from time to time that often has been unrelated to the operating performance of the underlying companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. In several recent situations where the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of such lawsuit could be costly and divert the time and attention of management and harm our business.

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Dr. Valentin P. Gapontsev, our chairman, chief executive officer, and two trusts he created will collectively control approximately 35.4% of our voting power after the completion of this offering, and will have a significant influence on the outcome of director elections and other matters requiring stockholder approval, including a change in corporate control.

After giving effect to the offering, Dr. Valentin P. Gapontsev, our Chairman and Chief Executive Officer, and IP Fibre Devices (UK) Ltd. (IPFD), of which Dr. Gapontsev is the managing director, together with two trusts he created, will beneficially own approximately 35.4% of our common stock. Trustees of the trusts are officers or employees of the Company. Dr. Gapontsev and the trusts have a significant influence on the outcome of matters requiring stockholder approval, including:

election of our directors;

amendment of our certificate of incorporation or by-laws; and

approval of mergers, consolidations or the sale of all or substantially all of our assets.

Dr. Gapontsev and the trusts may vote their shares of our common stock in ways that are adverse to the interests of other holders of our common stock, including investors in this offering. These significant ownership interests could delay, prevent or cause a change in control of our company, any of which could adversely affect the market price of our common stock.

Anti-takeover provisions in our charter documents and Delaware law could prevent or delay a change in control of our company, even if a change in control would be beneficial to our stockholders.

Provisions of our certificate of incorporation and by-laws, including certain provisions that will take effect when Dr. Valentin P. Gapontsev, together with his affiliates and associates, ceases to beneficially own an aggregate of 25% or more of our outstanding voting securities, may discourage, delay or prevent a merger, acquisition or change of control, even if it would be beneficial to our stockholders. The existence of these provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

authorizing the issuance of blank check preferred stock;

establishing a classified board;

providing that directors may only be removed for cause;

prohibiting stockholder action by written consent;

limiting the persons who may call a special meeting of stockholders;

establishing advance notice requirements for nominations for election to the board of directors and for proposing matters to be submitted to a stockholder vote; and

supermajority stockholder approval to change these provisions.

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Provisions of Delaware law may also discourage, delay or prevent someone from acquiring or merging with our company or obtaining control of our company. Specifically, Section 203 of the Delaware General Corporation Law, which will apply to our company following such time as Dr. Gapontsev, together with his affiliates and associates, ceases to beneficially own 25% or more of the total voting power of our outstanding shares, may prohibit business combinations with stockholders owning 15% or more of our outstanding voting stock.

Investors in this offering will pay a higher price than the book value of our common stock.

You will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering because the price per share being offered hereby is substantially higher than the book value per share of our common stock. Based on the public offering price of \$54.30 per share in this offering, if you purchase shares in this offering, you will suffer immediate and substantial dilution in the net tangible book value of the common stock.

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Substantial sales of our common stock, including shares issued upon the exercise of currently outstanding options or pursuant to our universal shelf registration statement or our common stock shelf registration statement, could cause our stock price to decline.

Sales of a substantial number of shares of common stock, or the perception that sales could occur, could adversely affect the market price of our common stock. On completion of this offering, we will have 50,484,206 shares of common stock outstanding and approximately 2,928,645 shares subject to outstanding options. We have registered all shares of common stock that we may issue under our stock option plans and our employee stock ownership plan. As these shares are issued, they may be freely sold in the public market subject, in the case of any awards under our stock-based compensation plans, to applicable vesting requirements. In addition, all of the unregistered shares of our common stock are now eligible for sale under Rule 144 or Rule 701 under the Securities Act.

We currently have the ability to offer and sell common stock, preferred stock, warrants, debt and convertible securities under a currently effective universal shelf registration statement and common stock under a currently effective shelf registration statement. In the future, we may issue additional options, warrants or other securities convertible into our common stock. Sales of substantial amounts of shares of our common stock or other securities under our universal shelf registration statement or our common stock shelf registration statement could lower the market price of our common stock and impair our ability to raise capital through the sale of equity securities.

Our directors, executive officers and other stockholders holding in the aggregate approximately 39.7% of our outstanding shares prior to giving effect to this offering have agreed not to sell or otherwise dispose of more than 100,000 shares of common stock for a period ending at least 90 days after the date of this prospectus supplement without the prior written approval of Merrill Lynch, Pierce, Fenner & Smith Incorporated, which could be given at any time. When the lock-up agreements expire or are terminated, approximately 19,129,000 shares of our common stock will be eligible for sale.

We do not anticipate paying dividends on our capital stock in the foreseeable future.

We have never declared or paid any cash dividends on our capital stock. We anticipate that we will retain any future earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account any business conditions, any contractual and legal restrictions on our payment of dividends, and our financial condition, operating results, cash needs and growth plans. In addition, current agreements with certain of our lenders contain, and future loan agreements may contain, restrictive covenants that generally prohibit us from paying cash dividends, making any distribution on any class of stock or making stock repurchases.

If securities analysts stop publishing research or reports about our business, or if they downgrade our stock, the price of our stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us. If one or more of these analysts who cover us downgrade our stock, our stock price would likely decline. Further, if one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein contain certain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words anticipate, expect, believe, goal, plan, intend, estimate, may, will, and similar expressions and variations thereof are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Those statements appear in this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein by reference, particularly in the sections entitled Prospectus Supplement Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, and include statements regarding the intent, belief or current expectations of the Company and management that are subject to known and unknown risks, uncertainties and assumptions.

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein also contain statements that are based on the current expectations of our Company and management. These statements, including information regarding our backlog and other matters, are forward-looking statements. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission, we do not plan to publicly update or revise any forward-looking statements contained herein after we distribute this prospectus supplement and the accompanying prospectus, whether as a result of any new information, future events or otherwise.

Table of Contents**USE OF PROCEEDS**

We will receive net proceeds from this offering, without the exercise of the option to purchase additional shares, of approximately \$144.7 million after deducting underwriting discounts and commissions, and estimated transaction expenses payable by us of approximately \$451,469. We intend to use these net proceeds for general corporate purposes and to fund our capital expenditures and working capital requirements. We may also use some of the net proceeds for acquisitions of complementary businesses and technologies, although no such acquisitions are currently pending. The selling stockholder, our chairman and chief executive officer, will receive all net proceeds from the sale of his shares. See Selling Stockholder.

PRICE RANGE OF OUR COMMON STOCK

Our common stock trades on the NASDAQ Global Market under the symbol IPGP. As of March 1, 2012, there were 47,684,206 shares of our common stock outstanding. As of March 1, 2012, there were approximately 60 stockholders of record. The following table provides the high and low intraday sales prices per share during the periods indicated as reported on the NASDAQ Global Market.

2010	High	Low
First Quarter	\$ 17.42	\$ 13.32
Second Quarter	\$ 19.20	\$ 14.57
Third Quarter	\$ 25.29	\$ 13.93
Fourth Quarter	\$ 33.43	\$ 19.87
2011	High	Low
First Quarter	\$ 61.63	\$ 29.37
Second Quarter	\$ 78.59	\$ 53.08
Third Quarter	\$ 76.07	\$ 42.66
Fourth Quarter	\$ 58.16	\$ 33.33
2012	High	Low
First Quarter (through March 1)	\$ 61.18	\$ 34.67

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We anticipate that we will retain any future earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account any business conditions, any contractual and legal restrictions on our payment of dividends, and our financial condition, operating results, cash needs and growth plans. In addition, current agreements with certain of our lenders contain, and future loan agreements may contain, restrictive covenants that generally prohibit us from paying cash dividends, making any distribution on any class of stock or making stock repurchases.

Table of Contents**SELLING STOCKHOLDER**

The following table provides information about the beneficial ownership of our common stock as of March 1, 2012 by the selling stockholder.

In accordance with SEC rules, beneficial ownership includes any shares for which a person or group of affiliated persons has sole or shared voting power or investment power and any shares for which the person or entity has the right to acquire beneficial ownership within 60 days through the exercise of any option or otherwise. We believe that the person named in the table has sole voting and investment power with respect to the shares of common stock set forth opposite his name. The address of the selling stockholder is in care of IPG Photonics Corporation, 50 Old Webster Road, Oxford, Massachusetts 01540.

The percentages of beneficial ownership are based on 47,684,206 shares of common stock outstanding as of March 1, 2012 and 50,484,206 shares of common stock that will be outstanding after completion of this offering, assuming no exercise of the underwriters' option to purchase additional shares.

Name of Beneficial Owner	Beneficial Ownership Prior to Offering		Shares Being Offered	Beneficial Ownership After Offering	
	Number	Percentage		Number	Percentage
Valentin P. Gapontsev, Ph.D.(1)	9,180,933	19.3%	200,000	8,980,933	17.8%

- (1) Includes shares beneficially owned by IP Fibre Devices (UK) Ltd. (IPFD), of which Dr. Gapontsev is the managing director. Dr. Gapontsev has sole voting and investment power with respect to the shares held of record by IPFD. Dr. Gapontsev has a 5% economic interest in IPFD.

CERTAIN MATERIAL U.S. FEDERAL INCOME TAX**CONSEQUENCES TO NON-U.S. HOLDERS**

The following summary describes certain material U.S. federal income tax consequences of the ownership and disposition of our common stock by a Non-U.S. Holder (as defined below) holding shares of our common stock as capital assets (i.e., generally for investment) as of the date of this prospectus supplement. This discussion does not address all aspects of U.S. federal income taxation and does not deal with estate, gift, foreign, state and local tax consequences that may be relevant to such Non-U.S. Holders in light of their personal circumstances. Special U.S. tax rules may apply to certain Non-U.S. Holders, such as controlled foreign corporations,