IPG PHOTONICS CORP
Form S-1/A
November 24, 2006

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As filed with the Securities and Exchange Commission on November 24, 2006

Registration No. 333-136521

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

Amendment No. 4
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

IPG Photonics Corporation
(Exact name of Registrant as specified in its charter)

Delaware	**3674**	**04-3444218**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. employer identification number)*

50 Old Webster Road
Oxford, Massachusetts 01540
(508) 373-1100

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Valentin P. Gapontsev, Ph.D.
Chief Executive Officer and Chairman of the Board
IPG Photonics Corporation
50 Old Webster Road
Oxford, Massachusetts 01540
(508) 373-1100
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Subject to Completion
Preliminary Prospectus dated , 2006

PROSPECTUS

9,000,000 Shares
Common Stock

This is IPG Photonics Corporation s initial public offering of its common stock. We are offering 6,241,379 shares of common stock. The selling stockholders named in this prospectus, including our chairman and chief executive officer, two other members of our board of directors and entities affiliated with Merrill Lynch & Co., one of the underwriters participating in this offering, are offering an additional 2,758,621 shares of common stock. We expect the public offering price to be between $13.50 and $15.50 per share.

Currently, no public market exists for our common stock. After pricing of the offering, we expect that our common stock will be quoted on the Nasdaq Global Market under the symbol IPGP.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 7 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to IPG Photonics	$	$
Proceeds, before expenses, to selling stockholders	$	$

The underwriters may also purchase up to an additional 1,350,000 shares of common stock from the selling stockholders at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

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

The shares will be ready for delivery on or about , 2006.

Merrill Lynch & Co. **Lehman Brothers**

Needham & Company, LLC
Jefferies & Company
Thomas Weisel Partners LLC

The date of this prospectus is , 2006.

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You should rely only on the information contained in this prospectus or any free writing prospectus prepared by or on behalf of us. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

In this prospectus, 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.

The market and industry data and forecasts included in this prospectus are based upon independent industry sources, including Strategies Unlimited and Frost & Sullivan. Although we believe that these independent sources are reliable, we have not independently verified the accuracy and completeness of this information, nor have we independently verified the underlying economic assumptions relied upon in preparing any data or forecasts.

Through and including , 2006 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including our financial statements and the related notes and the risks of investing in our common stock discussed under Risk Factors before making an investment decision.

IPG Photonics Corporation

Overview

We are the leading developer and manufacturer of a broad line of high-performance fiber lasers for diverse applications in numerous markets. Since our founding in 1990, we have pioneered the development and commercialization of optical fiber-based lasers. Fiber lasers are a new generation of lasers that combine the advantages of semiconductor diodes, such as their 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 total cost of ownership compared to CO_2 and crystal lasers. Our products are displacing traditional lasers in many current applications and enabling new applications for lasers. Our vertically integrated operations allow us to rapidly develop and integrate advanced products, protect our proprietary technology and ensure access to critical components while reducing manufacturing costs.

Our diverse lines of low, mid and high-power lasers and amplifiers are used in materials processing, communications, medical and advanced applications. For the year ended December 31, 2005, we reported net sales of $96.4 million and net income of $7.4 million. For the nine months ended September 30, 2006, we reported net sales of $101.1 million and net income of $12.6 million.

Our headquarters and manufacturing facilities are located in Oxford, Massachusetts. We have additional manufacturing facilities in Germany, Russia and Italy, and regional sales offices in the United States, Japan, South Korea, India and the United Kingdom.

Industry Background

Historically, CO_2 gas lasers and crystal lasers have been the two principal laser types used in materials processing and many other applications. A CO_2 laser produces light by electrically stimulating a gas-filled tube, while a crystal laser uses a lamp, diode stack or array to optically pump a special crystal. 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 has the potential to displace traditional laser technologies and processes because it constitutes a fundamental shift, not merely an incremental advance, in laser technology. Fiber lasers use semiconductor diodes as the light source to pump specialty optical fibers, which are infused with rare earth ions. The laser emission is created within optical fibers and delivered through a flexible cable. Over the last several years, 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. 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 Total Cost of Ownership.*** Fiber lasers offer strong value to customers because of their generally lower total operating costs due to their lower required maintenance costs, high reliability and energy efficiency.

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.

Notwithstanding the benefits offered by fiber lasers, there remain applications and processes where traditional laser technologies may provide superior performance with respect to particular features. For example, crystal lasers can provide higher peak power pulses and fiber lasers do not generate the deep ultraviolet light that is used for photolithography in many semiconductor applications.

According to Strategies Unlimited, sales of fiber lasers are estimated to grow at a compound annual growth rate of approximately 39%, from $131 million in 2005 to $674 million by 2010. Strategies Unlimited also estimates the total available market for fiber lasers to be growing at 9% annually from $1.8 billion in 2005 to $2.8 billion by 2010. The penetration of fiber lasers is estimated to grow from 7% to 24% of the total available market for fiber lasers during that time period.

Our Strengths

Our key strengths and competitive advantages include:

Differentiated Proprietary Technology Platform. Our proprietary technology platform allows our products to have higher output powers and superior beam quality than are achievable through traditional techniques. In addition, we have developed a wide range of advanced proprietary optical components that contribute to the superior performance and reliability of our products.

Leading Market Position. 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.

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 products.

Vertically Integrated Development and Manufacturing. We believe that we are the only fiber laser manufacturer that is vertically integrated. We develop and manufacture all of the key components of our fiber lasers, including semiconductor diodes, specialty optical fibers and other advanced optical components. We believe our vertical integration enhances our ability to meet customer requirements, accelerate development, manage costs and improve component yields, while maintaining high performance and quality standards.

Diverse Customer Base, End Markets and Applications. Our diverse customer base, end markets and applications provide us with many growth opportunities. We have shipped more than 21,000 units and, in 2005, we shipped to more than 300 customers worldwide.

Broad Product Portfolio and Ability to Meet Customer Requirements. We offer a broad range of standard and custom fiber lasers and amplifiers ranging in power from one watt to 50 kilowatts. As a result of our modular, scalable technology platform, we are able to easily customize and upgrade our products to meet customer requirements.

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Our Strategy

We intend to maintain and extend our leadership position by pursuing the following key elements of our strategy:

Leverage Our Technology to Gain Market Share. We plan to leverage our brand and position as the leader in developing and commercializing fiber lasers to increase our market share in the broader 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. We intend to continue to enable and penetrate additional applications where lasers have not traditionally been used. We believe that fiber laser technology can overcome many of the limitations that have slowed the adoption of traditional lasers.

Expand Our Product Portfolio. We plan to continue to invest in research and development to add additional wavelengths, power levels and other parameters, improve beam quality and develop new products.

Optimize Our Manufacturing Capabilities. We plan to seek further increases in the automation of our component manufacturing processes and device assembly to improve component yields and increase the power outputs and capacities of the various components that we make.

Expand Global Reach to Attract Customers Worldwide. We intend to capitalize on and grow our global customer base by opening new application development centers as well as sales and service offices in Asia, Europe and the United States.

Risk Factors

Our business is subject to numerous risks and uncertainties, including those highlighted in the section entitled Risk Factors immediately following this prospectus summary. The principal risks that we face relate to the following factors:

Application Penetration and Increasing Market Share. Our future growth depends upon our ability to penetrate new applications for fiber lasers and increase our market share in existing applications.

Acceptance and Rate of Penetration. If fiber lasers do not achieve broader market acceptance or if market penetration occurs more slowly than we expect, prospects for our growth and profitability may be negatively impacted.

Effectively Managing Our Growth. We may not be able to effectively manage our growth, which may harm our business and operating results.

High Levels of Fixed Costs. Our vertical integration strategy results in high levels of fixed costs, and our manufacturing capacity may not be at the appropriate size for future levels of demand.

Intellectual Property Infringement Claims. We are currently subject to claims that we are infringing third-party intellectual property rights and other claims may arise in the future, which could result in costly and lengthy litigation, the outcome of which is unknown.

Corporate Information

We began our operations in Russia in 1990 and were incorporated in Delaware in 1998. Our principal executive offices are located at 50 Old Webster Road, Oxford, Massachusetts 01540, and our telephone number is (508) 373-1100. Our website is located at *www.ipgphotonics.com*. Information on our website should not be considered part of this prospectus.

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THE OFFERING

Common stock offered by IPG Photonics	6,241,379 shares
Common stock offered by the selling stockholders	2,758,621 shares
Common stock to be outstanding after the offering	43,498,926 shares
Use of proceeds	We expect to receive net proceeds from the offering of approximately $81.8 million. We expect to use the net proceeds from the offering to repurchase our series B warrants, to repay certain of our outstanding indebtedness and for general corporate purposes, which may include working capital, expansion of our manufacturing facilities, purchases of equipment and expansion of our applications development and service capabilities. We will not receive any proceeds from the shares sold by the selling stockholders. The selling stockholders include our chairman and chief executive officer and two other members of our board of directors. See Principal and Selling Stockholders. Entities that are affiliates of Merrill Lynch & Co., one of the underwriters in this offering, will also be selling stock in this offering and will receive a portion of the proceeds of this offering as a result of our repurchase of series B warrants held by them. See Principal and Selling Stockholders and Underwriting Certain Relationships; NASD Conduct Rules. One of our directors, Michael C. Child, is a managing director of TA Associates, Inc., which will receive a portion of the proceeds of this offering as a result of our repurchase of the series B warrants held by it. See Use of Proceeds.
Nasdaq Global Market Symbol	IPGP

The number of shares of common stock to be outstanding after the offering is based on 27,343,330 shares outstanding as of September 30, 2006 and includes 9,914,217 shares that we will issue upon conversion of our outstanding preferred stock upon completion of the offering assuming an initial public offering price of $14.50 per share, which is the midpoint of the range set forth on the cover page of this prospectus.

The number of shares of common stock to be outstanding after the offering excludes:

- 4,411,923 shares issuable upon exercise of stock options outstanding as of September 30, 2006, which have a weighted average exercise price of $2.68 per share;
- 3,131,384 additional shares reserved as of September 30, 2006 for future issuance under our stock-based compensation plans;
- warrants to purchase shares of our common stock that will be repurchased at the closing of this offering; and
- 17,746 shares issued upon the exercise of options after September 30, 2006.

Unless otherwise stated, all information contained in this prospectus:

- gives effect to the conversion of our outstanding preferred stock into a combination of common stock and subordinated notes;
- gives effect to a 2-for-3 reverse stock split to be effective prior to the pricing of this offering;

gives effect to amendments to our certificate of incorporation and by-laws that will become effective upon completion of this offering; and

assumes no exercise of the option to purchase up to 1,350,000 additional shares of common stock from the selling stockholders that has been granted to the underwriters.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data should be read together with the more detailed information contained in Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. The data for the years ended December 31, 2003, 2004 and 2005, and the nine months ended September 30, 2006 is derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. The data for the years ended December 31, 2001 and 2002, is derived from our audited consolidated financial statements and related notes not included in this prospectus. The summary interim consolidated financial data for the nine months ended September 30, 2005 is derived from our unaudited consolidated financial statements and related notes included elsewhere in this prospectus. We have prepared our unaudited interim consolidated financial data on a basis consistent with our audited consolidated financial statements except that, effective January 1, 2006, we were required to begin accounting for stock-based payments at fair value, as discussed in note 2 to the consolidated financial statements. In the opinion of our management, our unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position. Our historical results are not necessarily indicative of the results for any future period.

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:(1)							
Net sales	$ 26,490	$ 22,180	$ 33,740	$ 60,707	$ 96,385	$ 62,238	$ 101,128
Cost of sales	26,223	23,277	38,583	42,274	62,481	41,763	57,983
Gross profit (loss)	267	(1,097)	(4,843)	18,433	33,904	20,475	43,145
Operating expenses:							
Sales and marketing	21,240	19,910	2,110	2,363	3,236	2,354	4,111
Research and development	8,407	8,383	10,063	4,831	5,788	4,177	4,314
General and administrative	18,875	13,354	9,998	8,179	10,598	6,689	9,352
Other operating expenses	15,042	9,474					
Total operating expenses	63,564	51,121	22,171	15,373	19,622	13,220	17,777
Operating (loss) income	(63,297)	(52,218)	(27,014)	3,060	14,282	7,255	25,368
Interest income (expense), net	1,857	(1,089)	(1,505)	(2,150)	(1,840)	(1,410)	(1,051)
Fair value adjustment to series B warrants(2)	6,862	2,518	(3,664)	(615)	(745)	(477)	(4,356)
Other income, net	975	2,414	1,647	196	236	196	143
(Loss) income before benefit from (provision	(53,603)	(48,375)	(30,536)	491	11,933	5,564	20,104

for) income taxes and minority interests in consolidated subsidiaries							
Benefit from (provision for) income taxes	3,985	(1,175)	2,205	1,601	(4,080)	(2,037)	(6,597)
Minority interests in consolidated subsidiaries	(4)	165	121	(80)	(426)	(25)	(910)
Net (loss) income	$ (49,622)	$ (49,385)	$ (28,210)	$ 2,012	$ 7,427	$ 3,502	$ 12,597
Net (loss) income per share:							
Basic	$ (2.17)	$ (2.13)	$ (1.40)	$ (0.01)	$ 0.16	$ 0.06	$ 0.34
Diluted	$ (2.17)	$ (2.13)	$ (1.40)	$ (0.01)	$ 0.16	$ 0.06	$ 0.31
Weighted average shares outstanding:							
Basic	23,973	24,317	25,534	25,698	26,232	26,105	27,052
Diluted	23,973	24,317	25,534	25,698	30,167	30,040	32,987
Supplementary pro forma net income per share(3)					$ 0.21		$ 0.42

(footnotes on following page)

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(1) Due primarily to certain stock-based compensation awarded primarily in 2000 and 2001, we have recorded significant stock-based compensation during the years ended December 31, 2001, 2002 and 2003. Those awards became fully vested during the year ended December 31, 2004. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Stock-Based Compensation.

(2) The change in value of the series B warrants is a non-cash charge related to recording the increase or decrease in the fair value of the warrants. The change in fair value for this derivative instrument is directly related to the probability that the warrants will be exercised prior to their expiration in April 2008. We intend to use a portion of the net proceeds from this offering to repurchase the series B warrants. See Management s Discussion and Analysis of Financial Condition and Results of Operations Factors and Trends That Affect our Operations and Financial Results Effect of Preferred Stock On Net Income and Net Income Per Share.

(3) The supplemental pro forma disclosures are intended to demonstrate the effects on net income per share of the completion of this offering and the related impacts of the conversion of our preferred stock and the repurchase of the series B warrants with a portion of the net proceeds of this offering. The number of shares used in the calculation of supplementary pro forma net income per common share includes (a) the basic weighted average common stock outstanding, (b) 9,914,217 shares of common stock, which will be issued upon completion of this offering upon the conversion of our preferred stock, assuming an offering price of $14.50 per share, the midpoint of the range set forth on the cover page of this prospectus and (c) 3,407,383 shares related to the additional dilutive impact of existing assuming options assuming that the fair value of the common stock increases to $14.50. Supplementary pro forma net income used in the calculation of supplementary pro forma net income per share reflects the elimination of the increase in value of the series B warrants, which will be repurchased upon the completion of this offering, totaling $745,000 for the year ended December 31, 2005 and $4.4 million for the nine months ended September 30, 2006. In addition, all accretion of preferred stock has been eliminated in the determination of net income attributable to common stockholders. See Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Fair Value Adjustment of Warrants and Certain Relationships and Related Party Transactions.

The table below summarizes our consolidated balance sheet as of September 30, 2006 on an actual basis, on a pro forma basis to give effect to the conversion of all outstanding shares of preferred stock as of that date into common stock and the issuance of subordinated notes totaling $20.0 million, which will occur upon closing of this offering, and on a pro forma as adjusted basis to reflect the transactions described above as well as the sale of 6,241,379 shares of our common stock in this offering at an assumed offering price of $14.50 per share and the application of the estimated net proceeds therefrom as described in Use of Proceeds.

	As of September 30, 2006		
	Actual	**Pro Forma**	**Pro Forma as Adjusted**
		(unaudited)	
		(in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 11,357	$ 11,357	$ 40,652
Working capital	37,994	37,994	85,200
Total assets	141,401	141,401	170,041
Long-term debt, including current portion	23,151	43,151	20,000
Series B warrants	19,000	19,000	

Convertible redeemable preferred stock	97,902		
Preferred stock	4,880		
Stockholders (deficit) equity	(31,411)	46,491	125,168

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks and uncertainties below, together with the financial and other information contained in this prospectus, before you decide to buy our common stock. If any of the following risks and uncertainties actually occur, our business, prospects, financial condition and results of operations would likely suffer. In these circumstances, the market price of our common stock could decline, and you could lose all or part of your investment in our common stock.

Risks Related To Our Business

Our future growth depends upon our ability to penetrate new applications for fiber lasers and increase our market share in existing applications.

Our future growth will depend on our ability to generate sales of fiber lasers in applications where traditional lasers, such as CO_2 and yttrium aluminum garnet (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 CO_2 and YAG lasers historically have been used. In order to 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;
- extend our product line to address new applications for our products;
- continue to reduce our manufacturing costs and enhance our competitive position; and
- effectively service and support our installed product base.

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.

If fiber lasers do not achieve broader market acceptance or if market penetration occurs more slowly than we expect, prospects for our growth and profitability may be negatively impacted.

The fiber laser market is relatively new when compared to the conventional laser market and our future success depends on the development and broader market acceptance of fiber lasers. Potential customers may be reluctant to adopt fiber lasers as an alternative to traditional lasers, such as CO_2 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. Many of our target markets, such as the automotive, machine tool and other manufacturing, communications and medical industries, have historically adopted new technologies slowly. These markets often require long test and qualification periods or lengthy government approval processes before adopting new technologies. As a result, we may expend significant resources and time to qualify our products for a new customer application, and we cannot assure that our products will be qualified or approved for such markets. If acceptance of fiber laser technology, and of our fiber lasers in particular, does not continue to grow within the markets that we serve, then the opportunities to increase our revenues and profitability may be severely limited.