

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2020  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from to .  
Commission File Number: 001-33155



**IPG PHOTONICS CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**50 Old Webster Road, Oxford, Massachusetts**

*(Address of principal executive offices)*

**04-3444218**

*(IRS Employer  
Identification No.)*

**01540**

*(Zip Code)*

Registrant's telephone number, including area code: **(508) 373-1100**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Class</u>	<u>Trading Symbol</u>	<u>Name of Exchange on Which Registered</u>
<b>Common Stock, Par Value \$0.0001 per share</b>	<b>IPGP</b>	<b>The Nasdaq Stock Market LLC</b>

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$5.7 billion, calculated based upon the closing price as reported by the Nasdaq Global Select Market on June 30, 2020. For purposes of this disclosure, shares of common stock held by persons who own 5% or more of the outstanding common stock and shares of common stock held by each officer and director have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the Rules and Regulations of the Exchange Act. This determination of affiliate status is not necessarily conclusive.

As of February 19, 2021, 53,533,592 shares of the registrant's common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2021 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days of the end of the registrant's fiscal year ended December 31, 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein.

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*This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we intend that such forward-looking statements be subject to the safe harbors created thereby. For this purpose, any statements contained in this Annual Report on Form 10-K except for historical information are forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "target," "project," "intend," "plan," "seek," "strive," endeavor, "goal," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements.*

*The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to accurately predict and many of which are beyond our control. As such, our actual results may differ significantly from those expressed in any forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail in Item 1 (Business) and Item 1A (Risk Factors) of Part I and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of Part II of this Annual Report on Form 10-K. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission (the "SEC"). In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to rely on such forward-looking information. We undertake no obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*

## PART I

### ITEM 1. BUSINESS

#### Our Company

IPG Photonics Corporation ("IPG", the "Company", the "Registrant", "we", "us" or "our") develops, manufactures and sells high-performance fiber lasers, fiber amplifiers and diode lasers that are used for diverse applications, primarily in materials processing. Fiber lasers are a type of laser that combine 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.

Our portfolio of laser solutions are used in materials processing, communications, medical and advanced applications. 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. Our major manufacturing facilities are located in the United States, Germany, Russia and Belarus. We have sales service offices and applications laboratories worldwide.

We are vertically integrated. We design and manufacture most of the key components used in our finished products, from semiconductor diodes to optical fiber preforms, finished fiber lasers and amplifiers. We manufacture complementary products used with our lasers including optical delivery cables, fiber couplers, beam switches, optical processing heads, in-line sensors and chillers. We offer laser-based and non-laser based systems for certain markets and applications. Our vertically integrated operations allow us to reduce manufacturing costs, control quality, rapidly develop and integrate advanced products and protect our proprietary technology.

We are listed on the Nasdaq Global Select Market (ticker: IPGP). We began operations in 1990, and we 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.

#### Industry Overview

Laser technology has revolutionized a broad range of applications and products in manufacturing, automotive, aerospace, medical, research, consumer electronics, semiconductors and communications. A laser converts electrical energy to optical energy that can be focused and shaped, creating a powerful, concentrated beam that causes materials to melt, vaporize or change their character. In a laser, an energy source excites or pumps a gain medium, which converts the energy from the source into an emission consisting of particles of light, called photons, at particular wavelengths. Lasers provide flexible, non-contact and high-speed ways to process and treat various materials and enable automated production, miniaturization and increasing product complexity.

Lasers are utilized in materials processing applications requiring very high power densities, such as cutting, welding, marking, engraving, additive manufacturing, ablation and cleaning, printing, drilling and cladding. Historically, machine tools such as grinding machines, mechanical saws, milling machines, lathes, presses, water jet cutters, plasma cutters and welding machines have been used to cut, combine, form or otherwise process metal in the production of finished goods such as automobiles, consumer appliances, electronics and heavy machinery. Laser-based systems are increasingly gaining share within the materials processing market because of the greater precision, processing speeds and flexibility enabled by this technology. Beyond materials processing, lasers are well-suited for imaging and inspection applications and the ability to confine laser light to narrow wavelengths makes them particularly effective in medical, non-destructive inspection and sensing applications.

#### Fiber Lasers

Fiber lasers use semiconductor diodes as the energy source to pump a gain medium consisting of specialty optical fibers, which are infused with rare earth ions. These fibers are called active fibers and are comparable in diameter to a human hair. The laser emission is created within optical fibers and delivered through a flexible optical fiber cable. As a result of their different design and components, fiber lasers are more reliable, efficient, robust, compact and easier to operate than gas, crystal and solid state lasers that were initially used in industrial applications. In addition, fiber lasers free the end users from fine mechanical adjustments and the high maintenance costs that are typical for other laser technologies.

Although low power fiber lasers were introduced four decades ago, their increased adoption in the last twenty years has been driven primarily by our improvements in their output power levels and cost, as well as their superior performance, lower cost of ownership and greater reliability compared with other laser and non-laser technologies. We successfully increased output power levels, efficiency and reliability by improving optical components such as diodes and active fibers that increased their power capacities and improved their performance. Fiber lasers now offer output powers that exceed those of other laser technologies in many categories. Our substantial advancements in diode technology, packaging design and other optical

components together with increased production volumes over the last two decades reduced the cost and increased the reliability of our products. As a result, the average cost per watt of output power has decreased dramatically and our fiber lasers effectively compete in many applications that used other laser technologies and non-laser solutions historically. We believe that fiber lasers provide a combination of benefits that include: superior performance; enhanced end user productivity; lower cost of ownership; greater ease of use; a more compact footprint; and greater choice of wavelengths and more precise beam control. There remain applications and processes where other laser and non-laser technologies may provide superior performance with respect to particular features or applications notwithstanding the benefits offered by fiber lasers.

### **Our Competitive Strengths**

Our key strengths and competitive advantages include the following:

*World's Leading Producer of Fiber Laser Technology.* As a pioneer and technology leader in fiber lasers, we are able to leverage our scale to reduce 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 most of our key high-volume specialty components, along with optical heads and other products used in conjunction with our lasers, which we believe enhances our ability to meet customer requirements, reduce costs and accelerate product development.

*Manufacturing Scale.* We have invested extensively in our production capabilities allowing us to efficiently manufacture and deliver large volumes of fiber lasers in short delivery cycles which provide us with a competitive advantage.

*Breadth and Depth of Expertise.* Our extensive know-how in materials sciences and experience in optical, electrical, mechanical and semiconductor engineering enable us to develop and manufacture proprietary components, products, accessories and systems and assist customers in improving their manufacturing using our fiber lasers.

*Broad Product Portfolio and Ability to Meet Customer Requirements.* Our broad range of standard and custom fiber lasers operating at various wavelengths and pulse durations allow us to meet varied customer requirements. Further, our vertically integrated manufacturing and broad technology expertise allow us to design, prototype and commence high-volume production of our products rapidly.

*Diverse Customer Base, End Markets and Applications.* Our diverse customer base, end markets and applications provide us with many growth opportunities. In 2020, we shipped products to thousands of customers worldwide. Our principal end markets and representative applications within those markets include:

**Materials Processing Markets**

<b><u>End Market</u></b>	<b><u>Applications</u></b>	<b><u>Principal Products</u></b>
General manufacturing	Flat sheet, tube and 3D cutting Welding, brazing and hardening Marking, engraving and printing 3D printing Ablation and cleaning	Continuous Wave ("CW") lasers (1-20 kW) CW lasers (1-100 kW) Nanosecond ("NS") pulsed lasers (10-100 W) CW lasers (200-1,000 W) NS pulsed lasers (100-2000 W)
Automotive	Cutting of high-strength steel and aluminum Welding tailored blanks, frames and auto parts Seam welding and brazing Electric vehicle battery processing	CW lasers (1-20 kW) CW lasers (1-50 kW) CW lasers and IPG systems CW lasers and NS pulsed lasers
Consumer goods	Micro welding, cutting and marking Marking of plastic and non-metal material	Quasi-CW ("QCW") lasers and NS pulsed lasers Ultraviolet pulsed lasers
Medical devices	Stent, pacemaker and device manufacturing	CW lasers and NS pulsed lasers
Energy and Renewable Energy	Hardening and welding of pipes Cladding of turbine blades and drill bits Solar cell processing	CW lasers (4-50 kW) CW lasers (1-20 kW) and IPG systems Green pulsed lasers
Aerospace, rail and shipbuilding	Welding titanium, welding/cutting thick plates Percussion drilling of parts Non-destructive inspection	CW lasers (1-50 kW) and IPG systems QCW lasers Genesis systems
Micro electronics	Wafer inspection and annealing Processing of glass, ceramics, sapphire, silicon	CW lasers and NS pulsed lasers Picosecond ("PS") pulsed lasers

**Other Markets**

<b><u>End Market</u></b>	<b><u>Applications</u></b>	<b><u>Principal Products</u></b>
Aerospace and defense	Directed energy	Single-Mode CW lasers, amplifiers and diodes
Entertainment	Laser cinema projection	RGB luminaire laser system
Scientific	Sensing, spectroscopy and research	Mid-infrared and other lasers
Medical procedures	General surgery, urology and soft tissue Skin, wrinkle/hair removal, dental	Thulium lasers Erbium and diode lasers
Communications	Datacom and telecom network infrastructure Terrestrial and satellite broadband	Optical transceivers Optical amplifiers and raman lasers

**Products**

We design and manufacture a broad range of high-performance fiber lasers and amplifiers. We also make packaged diodes, direct diode lasers, laser and non-laser systems and communications components and systems. Many of our products are designed to be used as general-purpose energy or light sources, making them useful in diverse applications and markets.

Our laser products are based on a common proprietary technology platform using many of the same core components, such as semiconductor diodes and specialty fibers, which we configure to our customers' specifications. Our engineers and scientists work closely with OEMs, system integrators and end users to develop and customize our products for their needs. Because of our flexible and modular product architecture, we offer products in different configurations according to the desired application, including modules, rack-mounted units and tabletop units. Our engineers and other technical experts work directly with the customer in our application and development centers to develop and configure the optimal solution for each customer's requirements. We also manufacture certain complementary products that are used with our lasers, such as optical delivery cables, fiber couplers, beam switches, optical processing heads and chillers.

### ***Lasers***

Our laser products include medium (1 to 999 watts) and high (1,000 watts and above) output power lasers from 0.3 to 4.5 microns in wavelength. These lasers may be CW, QCW or pulsed. Our pulsed line includes NS, PS and femtosecond lasers. We offer lasers with different gain mediums and wavelengths. The gain mediums are ytterbium, erbium and thulium, as well as Raman and hybrid fiber-solid state lasers using our crystal technology. We produce hybrid fiber-solid state lasers at green and ultraviolet wavelengths for a range of micro processing applications and in the mid-IR spectrum for sensing, imaging and spectroscopy applications. We also sell fiber pigtailed packaged diodes and fiber coupled direct diode laser systems that use semiconductor diodes rather than optical fibers as their gain medium. In addition, we offer high-energy pulsed lasers, multi-wavelength lasers, tunable lasers, single-polarization and single-frequency lasers, as well as other versions of our products.

We believe that we produce the highest power solid-state lasers in the industry. Our ytterbium fiber lasers reach power levels of up to 120,000 watts. We also make single-mode and low-mode output ytterbium fiber lasers with power levels of up to 20,000 watts and single-mode, erbium and thulium fiber lasers with power levels of up to 1,000 watts.

For 2020 fiscal year, high power continuous wave ("CW") lasers accounted for 54% of revenue and were 56% and 62% of revenue, in 2019 and 2018, respectively. Pulsed lasers accounted for 13%, 11%, and 11% of revenue in 2020, 2019 and 2018, respectively.

### ***Accessories***

We manufacture and sell accessories that include high power optical fiber delivery cables, fiber couplers, beam switches, chillers and scanners for our fiber lasers. We are expanding our line of cutting and welding optical processing heads for use with our fiber lasers and sell devices for in-line coherent monitoring for welding.

### ***Systems***

Besides selling laser sources, we also offer integrated laser systems for particular geographic markets or custom-developed for a customer's manufacturing requirements. We offer 2D compact flat sheet cutter systems and multi-axis systems for fine welding, cutting and drilling. We produce high precision laser systems for the medical device industry. We also offer a welding seam stepper and picker, which is an automated fiber laser welding tool providing customers increased processing speeds, better quality and the elimination of certain clamping tools. In 2018, we acquired Genesis Systems Group LLC (United States), a leader in the integration of laser and non-laser robotic welding and automation solutions, and Robot Concept GmbH (Germany), an integrator of laser-based systems. IPG also develops and sells specialized fiber laser systems for unique material processing applications as requested by customers desiring a complete laser-based solution, including orbital welding, pipe welding and remote welding. The platforms include robotic and multi-axis workstations for welding, cutting and cladding, flatbed cutting systems, and diode markers. For the 2020, 2019 and 2018 fiscal years, laser and non-laser systems accounted for 8%, 11%, and 4%, respectively, of revenues.

### ***Other Products***

We produce optical amplifiers, which are predominantly deployed in broadband networks, ranging from milliwatts to up to 1,500 watts of output power from 1 to 2 microns in wavelength. We offer erbium-doped fiber amplifiers ("EDFAs"), Raman amplifiers and integrated communications systems that incorporate our amplifiers. We also offer ytterbium and thulium specialty fiber amplifiers and broadband light sources that are used in advanced applications. Our fiber amplifiers offer some of the highest output power levels and highest number of optical outputs in the industry.

We also sell optical transceiver and transponder modules for communications applications. These optical subsystems provide the interface for interconnecting electronic equipment including Ethernet switches, IP routers and SONET/SDH optical transport modules within telecommunications, cable multi-system operator ("MSO") and data center networking applications.

### ***Our Markets***

We broadly classify our principal end markets as material processing, advanced applications, communications and medical procedures. The following table shows the allocation of our net sales (in thousands) among our principal markets:

	Year Ended December 31,					
	2020		2019		2018	
		% of Total		% of Total		% of Total
Materials processing	\$ 1,082,478	90.2 %	\$ 1,229,211	93.5 %	\$ 1,374,448	94.1 %
Advanced applications	63,859	5.3 %	40,779	3.1 %	43,469	3.0 %
Communications	23,144	1.9 %	30,111	2.3 %	34,397	2.4 %
Medical procedures	31,243	2.6 %	14,480	1.1 %	7,560	0.5 %
Total	\$ 1,200,724	100.0 %	\$ 1,314,581	100.0 %	\$ 1,459,874	100.0 %

These estimates are based upon customer information and when customer information has not been provided, upon our best information and belief.

**Materials Processing**

The most significant materials processing applications for fiber lasers are cutting, welding and brazing, marking and engraving, additive manufacturing such as 3D printing and ablation. Other applications include precision processing, surface treatment, drilling and annealing.

*Cutting and Welding Applications.* Laser-based cutting technology has several advantages compared to alternative technologies. Laser cutting is fast, flexible and highly precise and can be used to cut complex contours on flat, tubular or three-dimensional materials. The laser source can be programmed to process many different kinds of materials such as steel, aluminum, brass, copper, glass, ceramic and plastic at various thicknesses. Laser cutting technology is a non-contact process that is easy to integrate into an automated production line and is not subject to wear of the cutting medium. We sell low, mid and high power ytterbium fiber lasers for laser cutting. High electrical efficiency, low maintenance and operating cost, high beam quality, wide operating power range, power stability and small spot size are some of the qualities offered by IPG fiber lasers for many cutting applications, which enable customers to cut a variety of materials faster.

Laser welding offers several important advantages compared to conventional welding technology as it is non-contact, precise, easy to automate, provides high process speed and results in narrow-seamed, high-quality welds that generally require little or no post-processing machining. The high beam quality of our fiber lasers coupled with high CW power offer deep penetration welding as well as shallow conduction mode welding. Lasers allow for precise welding required in battery manufacturing or the small components used in consumer electronics. In addition, fiber lasers enable remote welding "on the fly," a flexible method of three-dimensional welding in which the laser beam is positioned by a robot-guided scanner. Remote welding stations equipped with fiber lasers are used for welding door panels, seat backs, spot and lap welds over the entire auto body frame ("body-in-white") and tailor welded blanks for automotive applications. Our products are used also for laser brazing of visible joints in automobiles such as tailgates, roof joints and columns. Brazing is a method of joining sheet metal by using a melted filler material similar to soldering but requiring higher temperatures.

*3D Printing.* Historically, metalworking has been performed with processes that remove material to produce component parts. The development of 3D printing technology enables the production of three-dimensional objects from digital design data through an additive manufacturing process, which builds up components in layers using materials that are available in fine powder form. 3D printers take advantage of improvements in computing power and motion and process control to deposit a range of materials, including metals, plastics and composite materials, accurately at high speed. Within metal-based 3D printing processes that include laser metal deposition (LMD) and selective laser melting (SLM), a laser beam is used to fuse metallic powder at points defined by computer-generated design data. 3D printing permits highly complex structures, with a high degree of customization capability and significantly less waste than subtractive manufacturing processes.

*Marking and Engraving.* With the increasing need for source traceability, component identification and product tracking as a means of reducing product liability and preventing falsification, as well as the demand for modern robotic production systems, manufacturers increasingly demand laser marking systems capable of applying serialized alphanumeric, graphic or bar code identifications directly onto their manufactured components. Laser engraving is similar to marking but forms deeper grooves in the material. In contrast to conventional acid etching and ink-based technologies, lasers can mark a wide variety of metal and non-metal materials, such as ceramic, glass and plastic surfaces, at high speeds and without contact by changing the surface structure of the material or by engraving. Laser marking systems can be easily integrated into a customer's production process and do not subject the item being marked to mechanical stress. In addition, we make high powered lasers for ablation and cleaning applications.

*Micro-materials processing.* In the semiconductor industry, lasers typically are used as the light source in microlithography and for annealing, dicing, drilling, lift-off and marking of wafers. In the electronics industry, lasers typically are used to cut, join, mark, scribe or otherwise process a variety of materials that include ceramics, metals, plastics, silicon, and



sapphire among others. Consumer electronic devices such as mobile phones, computers and handheld computers contain many parts that are laser-cut, marked or welded. In the photovoltaic or solar panel industry, pulsed lasers are used to remove materials and to scribe, or cut, solar cells. The high beam quality, increased peak output powers, flexible fiber delivery and competitive price of fiber lasers have accelerated the adoption of fiber lasers in these low power applications.

**Precision Processing.** The trend toward miniaturization in numerous industries such as consumer electronics, as well as innovations in materials and structures, is driving end users to utilize lasers in processing and fabrication. The ability of lasers to cut, weld, drill, ablate, etch and add materials on a fine scale is enabling new technologies and products across many industries. Our low power CW and QCW lasers are used to cut medical stents and weld medical batteries. In photovoltaic manufacturing, our lasers etch and perform edge isolation processes. The aerospace industry requires precise manufacturing of engine parts so that cooling is effective and aerospace manufacturers use lasers to conduct percussion drilling. Processing of plastics and semi-conductors require short pulse and high energy lasers, in the green, UV and mid-IR wavelengths.

#### ***Advanced Applications***

Our fiber lasers and amplifiers are utilized by commercial firms and by academic and government institutions worldwide for advanced and scientific applications. These markets may sell specialty products developed by us or our commercial products. Representative applications include directed energy, spectroscopy, optical trapping, remote sensing, LIDAR and materials characterization. Our visible lasers can be used in cinema projection, amusement parks, planetariums and light shows.

#### ***Communications***

We design and manufacture optical amplifiers and optical transceiver and transponder modules for communications applications. IPG's fiber amplifiers are deployed in some of the world's largest broadband networks, supporting high speed data, voice, video on demand and high definition television applications. We provide a broad range of high power products for these applications including erbium doped fiber amplifiers and Raman lasers. We also produce optical transceiver and transponder modules based upon proprietary tunable lasers, photonic integrated circuits and mixed signal coherent DSP-ASIC designs, intended to simplify optical networks and reduce customer capital costs. These configurable modules are designed to operate at 10G and 100G coherent transmission rates, with higher speed modules under development. These products are deployed in data center operations and optical network systems.

#### ***Medical Procedures***

We sell our commercial fiber and diode laser modules, subassemblies and complete systems to OEMs that incorporate our products into their medical products. Our ultrafast, CW and QCW ytterbium, erbium, thulium fiber lasers and hybrid lasers with power from 1 to 200 watts and diode laser systems can be used in various medical and biomedical applications. We have also developed and are now selling medical laser systems and fibers for surgical applications, including benign prostatic hyperplasia and lithotripsy, as an OEM and, in certain territories, as an IPG-branded product. Aesthetic applications addressed by IPG lasers include skin rejuvenation, hair removal, and treatment of pigmented and vascular lesions.

### **Technology**

Our products are based on our proprietary technology platform that we have developed and refined since our formation. The following technologies are key elements in our products.

#### ***Specialty Optical Fibers***

We have extensive expertise in the disciplines and techniques that form the basis for the multi-clad active and passive optical fibers used in our products. We believe that our large portfolio of specialty active and passive optical fibers has a number of advantages as compared to other commercially available optical fibers.

#### ***Semiconductor Diode Laser Processing and Packaging Technologies***

We use multiple multi-mode, or broad area, single-emitter diodes rather than diode bars or stacks as a pump source. We believe that multi-mode single-emitter diodes are the most efficient and reliable pumping source presently available, surpassing diode bars and stacks in efficiency, brightness and reliability. Single-emitter diodes have substantially reduced cooling requirements and typically have long lifetimes at high operating currents, compared to typical lifetimes of diode bars.

We developed advanced molecular beam epitaxy techniques to grow alumina indium gallium arsenide wafers for our diodes. This method yields high-quality optoelectronic material for low-defect density and high uniformity of optoelectronic parameters. In addition, we have developed numerous proprietary wafer processes and testing and qualification procedures in order to create a high energy output in a reliable and high power diode. Our diode is packaged to dissipate heat produced by the

diode and withstands vibration, shock, high temperature, humidity and other environmental conditions, enabling world-class reliability and efficiency of the products.

#### ***Specialty Components and Combining Techniques***

We developed a wide range of advanced optical components that are capable of handling high optical power levels and contribute to the superior performance, efficiency and reliability of our products. In addition to fibers and diodes, our optical component portfolio includes fiber gratings, couplers, isolators, combiners, and crystals. We also developed special methods and expertise in splicing fibers together with low optical energy loss and on-line loss testing. We believe that our internal development and manufacturing of key optical components allows us to lower our manufacturing costs and improve product performance and reliability.

#### ***Side Pumping of Fibers and Fiber Block Technologies***

Our technology platform allows us to efficiently combine a large number of multi-mode single-emitter semiconductor diodes with our active optical fibers that are used in all of our products. A key element of this technology is that we pump our fiber lasers through the cladding surrounding the active core. We splice our specialty active optical fibers with other optical components and package them in a sealed box, which we call a fiber block. The fiber blocks are compact and are designed to eliminate the risk of contamination or misalignment due to mechanical vibrations and shocks as well as temperature or humidity variations. Our design is scalable and modular, permitting us to make products with high output power by coupling a large number of diodes with fiber blocks, which can be combined in parallel and serially.

#### ***High-Stress Testing***

We employ high-stress techniques in testing components and final products that help increase reliability and accelerate product development. For example, we test all of our diodes with high current and temperatures to identify and eliminate potentially unreliable diodes. We also have built a large database of diode test results that allows us to predict the estimated lifetime of our diodes. This testing allows us to eliminate defective diodes prior to further assembly and thus increase reliability.

#### **Research and Development**

We perform research and development to develop new products or components, improve existing products or components, develop new applications for our products and improve our manufacturing processes.

We research, develop and manufacture most of the key components of our lasers. In addition to our cladding-pumped specialty fiber platform, we have core competencies in high power multi-mode and single-mode semiconductor laser diodes, diode packaging, specialty active and passive optical fibers, high-performance optical components, crystal growth and processing, fiber gain blocks and fiber modules, thin film optical coatings, as well as splicing and combining techniques and high-stress test methods. The strategy of developing our proprietary components has allowed us to leverage our optical experience and large volume requirements to lower the cost of our products.

Our research and development supports expanding and improving our product line by increasing power levels, improving beam quality and electrical efficiency, decreasing the size of our products and lowering the cost per watt. We are engaged in research projects to expand the spectral range of products that we offer. We are investing our research and development funds on laser systems, products for medical applications, and telecommunications products and components.

We have assembled a team of scientists and engineers with specialized experience and knowledge in fiber lasers and amplifiers, materials science, optics, critical components, testing and manufacturing process design, and laser application development. Our team of experienced scientists and engineers works closely with many of our customers to develop and introduce custom products and laser processing that address specific applications and performance requirements.

We incurred research and development costs of approximately \$126.9 million, \$130.0 million and \$122.8 million for the years ended December 31, 2020, 2019 and 2018, respectively. We expect to continue our commitment to research and development and to introduce new products, systems and complementary products. See Item 7, "Management's Discussion and Analysis of Financial Condition of Results of Operations."

#### **Intellectual Property**

We rely on the technical expertise, creativity, and knowledge of our personnel, and therefore, we utilize trade secret, patent, trademark, copyright and contractual protections to maintain our competitive position and protect our proprietary rights in our products and technology. While our intellectual property rights are important to our success, we believe that our business as a whole is not materially dependent on any particular patent, trademark, copyright or other intellectual property right. IPG has used, registered or applied to register a number of trademark registrations in the United States and in other countries.

As of December 31, 2020, we have over 500 patents issued and over 475 pending patent applications worldwide. Intellectual property rights, including those that we own, those that we license and those of others, involve significant risks. See Item 1A, "Risk Factors — In the past, we were subject to litigation alleging that we infringed third-party intellectual property rights. Intellectual property claims could result in costly litigation and harm our business" and "Risk Factors — 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."

### **Manufacturing**

Vertical integration is one of our core business strategies through which we control our proprietary processes and technologies as well as the supply of key components and assemblies. Our vertically integrated manufacturing operations include the manufacturing or assembly of optical preforms, specialty fiber, semiconductor wafers, laser diodes and packaged laser diodes, specialty optical components, fiber blocks, fiber laser modules, power supplies, circuit boards, electronics and control systems and software, crystals, chillers, housings and cabinets and final assembly of finished product. In addition, we make some of the automated production systems, tools and fixtures and testing systems that we use in our own manufacturing processes. Over the last several years, we added additional production capabilities, including multi-wafer growth reactors, diode test stations, fiber preform and fiber drawing equipment and low, mid and high power laser production and testing, in order to increase our capacity as well as reduce the risks associated with our production processes.

We operate our own semiconductor foundry for the production of the multi-mode single-emitter diodes. We also process, package and extensively test all of our diodes. We developed proprietary components and accessories, manufacturing tools, equipment and techniques over many years in an effort to address the major issues that had been inhibiting the development of fiber laser technology and to provide products that differentiate us from our competitors. In addition, we have acquired the technology to produce additional components, such as volume Bragg gratings and crystals. Using our technology platform, we configure standard laser and amplifier products based upon each customer's specifications. We have developed proprietary testing methodologies that allow us to develop higher power components and products in short periods of time, enable us to introduce products to the market more quickly, capitalize on new opportunities and provide superior service to our customers. In our materials processing systems business, we manufacture standard configuration systems and also systems customized for specific customer requirements. We purchase common and specialized mechanical, electrical and optical parts and raw materials from vendors.

### **Sales, Marketing and Support**

We market our products internationally primarily through our direct sales force. Our direct sales force sells to end users, OEMs and systems integrators. Once our fiber laser products are designed into an OEM system, the OEM's sales force markets its systems, allowing us to leverage our sales capability through the OEM sales channels and because the OEM's typically having several sales persons in locations other than where our sales offices are located. We have sales offices in the countries in which we have major manufacturing: United States, Germany and Russia. We have sales and service offices and application development centers in the Americas, Europe and Asia. To a lesser extent, we market through agreements with independent sales representatives and distributors. We typically provide one to five-year parts and service warranties on lasers and amplifiers. Most of the Company's sales offices provide support to customers in their respective geographic areas.

### **Customers**

We sell our products globally to OEMs, system integrators and end users in a wide range of diverse markets who have the in-house engineering capability to integrate our products into their own systems. We also sell complete laser and non-laser solutions to end users for their production needs. We have thousands of customers worldwide. One of our customers, Han's Laser, headquartered in China, accounted for 8%, 9% and 12% of our net sales in 2020, 2019 and 2018, respectively. No other customer accounted for 10% or more of our net sales in 2020, 2019 or 2018.

### **Competition**

Our markets are highly competitive and characterized by rapidly changing technology, continuously evolving customer requirements and reduced average selling prices over time. In the materials processing market, we compete with makers of fiber lasers and other lasers, such as Coherent, Inc., Laserline GmbH, Lumentum Holdings Inc., Maxphotonics Co., Ltd., nLight, Inc., Trumpf GmbH + Co. KG and Wuhan Raycus Fiber Laser Technologies Co. Ltd., as well as other smaller competitors. Our current or potential customers may develop and produce products for their own use which are competitive to our products. Such vertical integration could reduce the market opportunity for our products. Many of our fiber laser competitors are increasing the output powers of their fiber lasers to compete with our products.

We also compete with end users that produce their own laser technology as well as with manufacturers of non-laser methods and tools, such as traditional non-laser welding, cutting dies, mechanical cutters and plasma cutters in the materials

processing market. Some of our competitors are larger than we are 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.

### **Backlog**

At December 31, 2020, our backlog of orders (generally scheduled for shipment within one year) was approximately \$673.7 million compared to \$693.4 million at December 31, 2019. At December 31, 2020, our backlog included \$376.0 million of orders with firm shipment dates and \$297.6 million of frame agreements that we expect to ship within one year, compared to \$285.1 million of orders with firm shipment dates and \$408.3 million of frame agreements at December 31, 2019. Frame agreements are non-binding indications of customer pricing and volume levels but are not firm customer purchase obligations. Orders used to compute backlog are generally cancellable without substantial penalties or any penalties. We anticipate shipping a substantial majority of the present backlog during fiscal year 2021. However, our backlog at any given date is not necessarily indicative of actual sales for any future period.

### **Employees and Human Capital Management**

Our employees are our most valuable assets. They contribute to IPG's success and, in particular, the skilled and experienced employees within our manufacturing, sales, service, research and development and quality assurance departments are instrumental in driving operational execution and strong financial performance, advancing innovation and maintaining a strong quality and compliance program.

As of December 31, 2020, we had approximately 6,060 full-time employees, including 660 in research and development, 4,550 in manufacturing and service operations, 350 in sales and marketing, and 500 in general and administrative functions. As a global company, our employees are distributed throughout our more than thirty locations in twenty-four countries. Of our total full-time employees at our principal facilities, approximately 2,150 were in the United States, 1,200 were in Germany, 1,740 were in Russia, 210 were in Belarus and 230 were in China. We have never experienced a work stoppage, and none of our employees at our principal manufacturing facilities are subject to a collective bargaining agreement.

The success and growth of IPG's business is dependent in large part on our ability to attract, retain and develop a diverse population of talented and high-performing employees at all levels of our organization. For our research, engineering and production management positions, we require employees with university and graduate-level degrees in physics, optics, electrical, mechanical and software engineering. Globally, the demand for employees with such levels of education is high and competitive.

To succeed in these conditions, IPG implements key recruitment and retention strategies, objectives and effectiveness measures as part of the overall management of our business. These core strategies are advanced through the following programs, policies and initiatives:

*Competitive Pay and Benefits.* IPG's compensation programs are designed to align the compensation of our employees, who operate in a highly competitive and technologically challenging environment, with IPG's business performance and to provide the proper incentives to attract, retain and motivate employees to achieve superior performance. The structure of our compensation programs balances incentive earnings for both short-term and long-term performance. Specifically:

- We provide employee wages that are competitive and consistent with employee's positions, skill levels, experience, knowledge and geographic location.
- All employees participate in our annual cash bonus program, allowing them to share in the profitability and business performance of IPG. We also generally provide equity grants and an employee stock purchase plan to salaried employees consistent with geographic compensation practices and subject to regulatory compliance. These programs each further align our employees' financial interests with the performance of the business and the interests of our stockholders.
- We generally provide annual increases and incentive compensation based on merit.
- We purchase compensation data from a compensation and benefits consulting firm to allow us to ensure we provide competitive compensation in each of the geographic locations in which we operate.
- We align our executives' annual and long-term equity compensation with our stockholders' interests by linking realizable pay with stock performance and operating metrics.
- We provide comprehensive benefit options designed to retain our employees and support their families in living healthier and more secure lives.

*Employee recruitment, retention and development.* IPG works diligently to attract the best talent from a broad array of sources to meet the current and future demands of our business. We have established relationships with trade schools, world-

class universities, professional associations and industry groups to proactively attract talented and capable new hires. We also utilize social media, local job fairs and educational organizations to find diverse, motivated and responsible employees. IPG has made strides to increase diversity in management positions, building internal resources for potential future leadership openings. IPG has a strong employee value proposition that leverages our technology leadership, unique culture, collaborative working environment, shared sense of purpose, and desire to do the right thing to attract talent to our company. In 2020, we hired approximately 719 new employees.

We monitor employee turnover rates as our success depends upon retaining and investing in our highly trained manufacturing and technical staff. IPG strives to decrease voluntary turnover rates and thereby increase employee tenure by ensuring a combination of competitive compensation, individual developmental opportunities and personal career enrichment and growth. Our retention at the technical, professional and levels is high. In 2020, amidst global uncertainty and turmoil resulting from the COVID-19 pandemic, we introduced a number of special initiatives to minimize the impact upon our employees to safeguard the health and safety of them and their communities. These initiatives included compensation programs designed to provide a source of income to employees who needed to be absent from work as a result of the pandemic and enhanced “appreciation pay” to recognize the significant contributions of hourly employees who continued to work on-site. Throughout the crisis, we believe our employees took immense pride in the shared purpose of making products that supported the world’s critical supply chains within a wide range of essential businesses and services including medical devices, transportation, communications, packaging and agriculture.

### Executive Officers of the Registrant

The following table sets forth certain information regarding our executive officers as of February 20, 2021:

Name	Age	Position with the Company
Valentin P. Gapontsev, Ph.D.	81	Chief Executive Officer and Chairman of the Board
Eugene A. Scherbakov, Ph.D.	73	Chief Operating Officer, Managing Director of IPG Laser GmbH, Senior Vice President, Europe, and Director
Timothy P.V. Mammen	51	Chief Financial Officer and Senior Vice President
Angelo P. Lopresti	57	General Counsel, Secretary and Senior Vice President
Alexander Ovtchinnikov, Ph.D.	60	Senior Vice President, Components
Trevor D. Ness	48	Senior Vice President, World Wide Sales and Marketing
Igor Samartsev	56	Chief Technology Officer
Felix Stukalin	59	Senior Vice President, North America Operations

*Valentin P. Gapontsev, Ph.D.* has been the Chief Executive Officer and Chairman of the Board of IPG since our inception. Prior to founding the company in 1990, Dr. Gapontsev served as senior scientist in laser material physics and head of the laboratory at the Soviet Academy of Science's Institute of Radio Engineering and Electronics in Moscow. In 2006 he was awarded the Ernst & Young® Entrepreneur of the Year Award for Industrial Products and Services in New England and in 2009, he was awarded the Arthur L. Schawlow Award by the Laser Institute of America. In 2011 he received the Russian Federation National Award in Science and Technology, and he was selected as a Fellow of the Optical Society of America. Dr. Gapontsev holds a Ph.D. in Laser Materials from the Moscow Institute of Physics and Technology.

*Eugene A. Scherbakov, Ph.D.* has served as Chief Operating Officer since February 2017, Managing Director of IPG Laser GmbH, our German subsidiary, since August 2000 and Senior Vice President, Europe, since 2013. He served as the Technical Director of IPG Laser from 1995 to August 2000. From 1983 to 1995, Dr. Scherbakov was a senior scientist in fiber optics and head of the optical communications laboratory at the General Physics Institute, Russian Academy of Science in Moscow. Dr. Scherbakov graduated from the Moscow Physics and Technology Institute with an M.S. in Physics. In addition, Dr. Scherbakov attended the Russian Academy of Science in Moscow, where he received a Ph.D. in Quantum Electronics from its Lebedev Physics Institute and a Dr.Sci. degree in Laser Physics from its General Physics Institute.

*Igor Samartsev* has served as our Chief Technology Officer since 2011. Prior to that, he was the Deputy General Manager of our Russian subsidiary, NTO IRE-Polus since 2005 and after having served in technical leadership roles at NTO IRE-Polus. Mr. Samartsev holds an M.S. in Physics from the Moscow Institute of Physics and Technology.

*Timothy P.V. Mammen* has served as our Chief Financial Officer since July 2000 and as Vice President since November 2000. He was promoted to Senior Vice President in February 2013. Between May 1999 and July 2000, Mr. Mammen served as the Group Finance Director and General Manager of the United Kingdom operations for IPFD. Mr. Mammen was Finance Director and General Manager of United Partners Plc, a commodities trading firm, from 1995 to 1999 and, prior to that, he worked in the finance department of E.I. du Pont de Nemours and Company. Mr. Mammen holds an Upper Second B.Sc. Honours degree in International Trade and Development from the London School of Economics and Political Science. He is a Chartered Accountant and a member of the Institute of Chartered Accountants of Scotland.

*Angelo P. Lopresti* has served as our General Counsel, Secretary and Vice President since February 2001. He was promoted to Senior Vice President in February 2013. Prior to joining us, Mr. Lopresti was a partner at the law firm of Winston & Strawn LLP from 1999 to 2001. He was a partner at the law firm of Hertzog, Calamari & Gleason from 1998 to 1999 and an associate there from 1991 to 1998. He served on the board of Coastway Bancorp, Inc. from 2016 to 2018, prior to its acquisition by HarborOne Bancorp, Inc. Mr. Lopresti holds a B.A. in Economics from Trinity College and a J.D. from the New York University School of Law.

*Alexander Ovtchinnikov, Ph.D.*, has served as our Vice President, Components, since September 2005 and as Director of Material Sciences from October 2001 to September 2005. He was promoted to Senior Vice President in February 2013. Prior to joining us, Dr. Ovtchinnikov was Material Science Manager of Lasertel, Inc., a maker of high-power semiconductor lasers, from 1999 to 2001. For 15 years prior to joining Lasertel, Inc., he worked on the development and commercialization of high power diode pump technology at the Ioffe Institute, Tampere University of Technology, Coherent, Inc. and Spectra-Physics Corporation. He holds an M.S. in Electrical Engineering from the Electrotechnical University of St. Petersburg, Russia, and a Ph.D. from Ioffe Institute of the Russian Academy of Sciences.

*Trevor D. Ness* has served as our Senior Vice President, World Wide Sales and Marketing, since February 2013. From January 2011 until February 2013, he served as our Vice President-Asian Operations. Prior to joining us, Mr. Ness was Director of GSI Precision Technologies China from May 2005 to December 2010 and prior to that he held technical sales management roles with GSI Group, Inc. and Cobham Plc, located in UK, Japan and Taiwan. Mr. Ness holds a B.S. in Geology from Imperial College, a H.N.C. from Bournemouth University and an M.B.A. from The Open University.

*Felix Stukalin* has served as our Senior Vice President, North America Operations, since February 2013. From March 2009 until February 2013, he served as our Vice President, Devices. Prior to joining us, he was Vice President, Business Development of GSI Group Inc. from April 2002 to September 2008, and from March 2000 to April 2002 he was Vice President of Components and President of the Wave Precision divisions of GSI Lumonics. Mr. Stukalin holds a B.S. in Mechanical Engineering from the University of Rochester and he is a graduate of the Harvard Business School General Management Program.

## **Seasonality**

Our net sales can fluctuate from quarter to quarter with general economic trends, specific industry cycles, holidays in foreign countries such as Lunar New Year in the first quarter of our fiscal year and the timing of capital expenditures by our customers. Historically, our net sales have been higher in the second half of the year than in the first half of the year, although that trend did not occur in 2018 and 2019 due to a decrease in capital equipment spending in Europe and China caused by slower macro-economic growth and uncertainty caused by the trade war between the United States and China.

## **Government Regulation**

### ***Regulatory Compliance***

The majority of our laser and amplifier products sold in the United States are classified as Class IV Laser Products under the applicable rules and regulations of the Center for Devices and Radiological Health ("CDRH") of the U.S. Food and Drug Administration ("FDA"). The same classification system is applied in the European markets. Safety rules are formulated with "Deutsche Industrie Norm" (i.e., German Industrial Standards) or International Organization for Standardization ("ISO") standards, which are internationally harmonized. CDRH regulations generally require a self-certification procedure pursuant to which a manufacturer must submit a filing to the CDRH with respect to each product incorporating a laser device, make periodic reports of sales and purchases and comply with product labeling standards, product safety and design features and informational requirements.

Our business activities are subject to various export controls and trade and economic sanctions laws and regulations, including, without limitation, the U.S. Commerce Department's Export Administration Regulations, the U.S. Treasury Department's Office of Foreign Assets Control's trade and economic sanctions programs, the U.S. Department of State's Nonproliferation Sanctions and International Traffic in Arms Regulations, as well as those of the European Community and Germany, which we collectively refer to as Trade Controls. We further discuss the impact of such Trade Controls under "Risk Factors" in Item 1A "*We must comply with and could be impacted by various export controls and trade and economic sanctions laws and regulations that are fluid and may change due to diplomatic and political considerations outside of our control.*"

### ***Environmental Regulation***

Our operations are subject to various federal, state, local and international laws governing the environment, including those relating to the storage, use, discharge, disposal, product composition and labeling of, human exposure to and hazardous and toxic materials. In the event of an accident involving such materials, we could be liable for damages and such liability could exceed the amount of our liability insurance coverage and the resources of our business.

We face increasing complexity in our product design and procurement operations due to the evolving nature of environmental compliance regulations and standards, as well as specific customer compliance requirements. These regulations and standards have an impact on the material composition of our products entering specific markets. For example, the European Union ("EU") adopted the Restriction of the use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), and China enacted the Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation (China-RoHS). In addition to these regulations and directives, we may face costs and liabilities in connection with product take-back legislation.

For further discussion of risks relating to the regulations to which we are subject, see Item 1A. Risk Factors.

### **Availability of Reports**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports are available free of charge on our web site at [www.ipgphotonics.com](http://www.ipgphotonics.com) as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). We will also provide electronic or paper copies of such reports free of charge, upon request made to our Corporate Secretary. The information included on our website is not a part of, nor is it incorporated by reference into, this annual report on Form 10-K.

### **ITEM 1A. RISK FACTORS**

*The factors described below are the principal risks that could materially adversely affect our operating results and financial condition. Other factors may exist that we do not consider significant based on information that is currently available. In addition, new risks may emerge at any time and we cannot predict those risks or estimate the extent to which they may affect us.*

#### **Risks Relating to the COVID-19 Pandemic**

*The COVID-19 pandemic, including private and public sector responses, could materially adversely affect our business, financial condition, results of operations and/or cash flows.*

As a result of the ongoing COVID-19 pandemic, governmental authorities where we produce and sell our products implemented and are continuing to implement numerous and evolving measures to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders and guidance and business shutdowns. We have significant manufacturing operations in the U.S., Europe and Russia, and a material portion of our sales are in China, the U.S. and Europe. Each of these countries and regions has been affected by the pandemic and has taken measures to try to contain it. While our main production facilities currently remain operational, these measures have impacted and may further impact our workforce and operations, as well as those of our customers, vendors and suppliers. There is considerable uncertainty regarding such measures and potential future measures. In addition to reduced productivity, the constraints and limits implemented in our operations in response to COVID-19 may slow or diminish our research and development activities and qualification activities with our customers. Restrictive governmental measures had specific expiration dates and some of those measures have been extended in response to increases in infection rates. As a result, there is considerable uncertainty regarding the duration of such measures and potential future measures. Restrictions on our manufacturing, support operations or workforce, or similar limitations for our vendors and suppliers could limit our ability to meet customer demand, testing, installation and acceptance of our equipment or delays for orders, deliveries and payments, and could have a material adverse effect on our financial condition, cash flows and results of operations. In addition, restrictions or disruptions of transportation, such as reduced availability of air transport, port closures and increased border controls or closures, could limit our ability to manufacture, deliver or install products and generate sales, or could result in higher costs and could have a material adverse effect on our financial condition, cash flows and results of operations.

In response to these developments, we and our suppliers and customers modified business practices, including restricting employee travel, modifying employee work locations, implementing social distancing and enhanced sanitary measures, and cancelling attendance at events and conferences. We experienced and may experience increased absenteeism and reduced levels

of productivity and efficiency, even with the rollout of vaccination programs. The COVID-19 pandemic has also disrupted our internal operations, including by exposing us to cyber and other data security risks associated with the increased number of our employees working remotely, as well as increased dependence on internet and telecommunications access and capabilities. There is no certainty that measures implemented by governmental authorities or by us in our operations will be sufficient to mitigate the risks posed by the COVID-19 virus, including risk of infection of our senior management, scientific staff or a significant number of employees or the ability of the healthcare system to treat them, and our ability to perform critical functions or respond to the needs of our customers could be impeded. The resumption of normal business operations after such interruptions may be delayed or constrained by lingering effects of COVID-19 on our suppliers, third-party service providers, and/or customers.

The impact of COVID-19, including changes in customer demand, pandemic fears and market downturns, and restrictions on business and individual activities has created significant economic and demand uncertainty. We have experienced and expect to continue to experience unpredictable volatility in demand in several of our end-markets. In addition to the economic slowdown caused by the COVID-19 pandemic, we anticipate that it could cause regional recessions and/or a global recession. The COVID-19 pandemic also may exacerbate other risks disclosed herein, including but not limited to downturns in our markets, uncertainty and adverse changes in general economic conditions, highly competitive markets and declining average selling prices, price decreases, and international operations and customers.

The degree to which COVID-19 impacts our financial condition, cash flows and results of operations depends upon future developments, which are highly uncertain and cannot be predicted, including but not limited to the duration, location and spread of the outbreak, its severity, governmental and business measures to contain the virus and address its impact, and how quickly and to what extent normal economic and operating conditions can resume. We cannot at this time predict the many potential impacts of the COVID-19 pandemic, but it could have a material adverse effect on our business, prospects, financial condition, cash flows and results of operations. Furthermore, the COVID-19 pandemic makes it more difficult for us to forecast demand and provide guidance for 2021.

Accordingly, while IPG provided and may provide quarterly guidance during the COVID-19 pandemic, any such guidance we provide is subject to greater risks and uncertainty than in the past and actual results may be more likely to ultimately vary a greater degree from actual results than guidance we provided in the past. In light of the foregoing, investors are urged to put the guidance we provide and may provide in context and not to place undue reliance on it.

### **Risks Relating to the Macroeconomic Environment**

#### ***Uncertainty and adverse changes in the general economic conditions of markets in which we participate negatively affect our business.***

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. A significant portion of our sales are to customers in China, which accounted for 42%, 37% and 43% in 2020, 2019 and 2018, respectively. Slowing economic growth or recession, tariff-trade wars or other adverse economic developments or uncertainty in any of our key markets, including in China, may result in a decrease in our sales. 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 products, 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. An economic downturn could have a material adverse effect on our business, financial condition and results of operations.

#### ***Downturns in the 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 manufacturers in the materials processing market, which includes general manufacturing, automotive, aerospace, other transportation, heavy industry, electronics and photovoltaic industries. Approximately 90% of our revenues in 2020 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, our sales decreased by 25% in the materials processing market in 2009 as a result of the global economic recession, our material processing sales declined 10% in the second half of 2018 and 11% in the 2019 fiscal year, in part due to decreased capital equipment demand stemming from adverse changes to U.S.-China relations, including rounds of tariff increases and retaliations and 12% in the 2020 fiscal year, in part due to decreased capital equipment demand attributed to the COVID-19 pandemic. For the foreseeable future, our operations will continue to depend upon capital expenditures by customers in these industries or markets, which, in turn, depend upon the demand, as well as forecasted demand, for their products or services. A softening of demand for our customers' products and services, whether caused by a weakening of the U.S. or global economies or other factors, may result in decreased revenue or growth for our customers and 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 or sufficiently, due in part, to our fixed overhead structure related to our vertically integrated operations and our commitments to continuing investment in research and development and infrastructure for long term growth.

### **Risks Relating to Industry Dynamics and Competition**

***The markets for our products are highly competitive and increased competition could result in reduced sales, reduced gross margins or the loss of market share.***

The industries in which we operate are characterized by significant price and technological competition. We compete with makers of fiber lasers, solid-state lasers, direct diode lasers, high power CO<sub>2</sub>, YAG and disc lasers. These include public and private companies such as Coherent, Inc., Laserline GmbH, Lumentum Holdings Inc., Maxphotonics Co., Ltd., nLight, Inc., Trumpf GmbH + Co. KG, and Wuhan Raycus Fiber Laser Technologies Co. Ltd., as well as other smaller competitors. Several of these 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. Many of our fiber laser competitors are increasing the output powers, improving the quality of their fiber lasers and decreasing prices to compete with our products. Our current or potential customers may determine to develop and produce products for their own use which are competitive to our products. Such vertical integration could reduce the market opportunity for our products. We also compete in the materials processing, advanced and medical applications markets with end users that produce their own solid-state and gas lasers as well as with manufacturers of non-laser methods and tools, such as traditional non-laser welding, cutting dies mechanical cutters and plasma cutters in the materials processing market and scalpels in the medical market.

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, manufacturing facilities and customer service and support, and to react to market pricing conditions. As a result of the foregoing factors, competitive pressures have resulted in price reductions, reduced margins, loss of sales and loss of market share.

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

Our products are experiencing and may in the future continue to experience a significant decline in average selling prices ("ASPs") as a result of new product and technology introductions, increased competition and price pressures from significant customers. Newer market participants, particularly in China, have reduced and may continue to reduce, prices of competing products to gain market share. 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.

***Our ability to maintain or increase sales depends upon our ability to develop new products, penetrate new applications and end markets for fiber lasers and maintain or increase our market share in existing applications.***

Our level of sales will depend on our ability to generate sales of fiber lasers in new and developing markets and applications for lasers where they have not been used previously and in applications in which other lasers, such as CO<sub>2</sub> and YAG lasers, have been used. To date, a significant portion of our revenue growth has been derived from sales of fiber lasers

primarily for applications where CO<sub>2</sub> and YAG lasers historically have been used. We have made significant sales into the cutting, welding and marking and engraving applications, large applications where the use of other laser technologies was well established. As fiber lasers reach higher levels of penetration in core materials processing applications and there is higher levels of competition in these core material processing application, the development of new applications, end markets and products outside our core applications becomes more important to our ability to generate sales. In order to maintain or increase market demand for our products, we will need to devote substantial resources to:

- demonstrate the effectiveness of fiber lasers in new applications for materials processing, medical, communications or other applications such as cinema and projection;
- successfully develop new product lines, such as UV, visible and ultrafast fiber lasers, with competitive features that extend our product line;
- increase our direct and indirect sales efforts;
- effectively meet growing competition and pricing pressures; and
- continue to reduce our manufacturing costs and enhance our competitive position.

Potential customers may have substantial investments and know-how related to their existing laser and non-laser technologies. They may perceive risks relating to the reliability, quality, usefulness and profitability of integrating of fiber lasers in their systems when compared to other laser or non-laser technologies available in the market or that they manufacture themselves. Despite fiber lasers having better performance and prices compared to other lasers or tools, OEM customers may be reluctant to switch incumbent suppliers or we may miss the design cycles of our customers. 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.

If we are unable to successfully implement our strategy to develop new applications and end markets for our products or develop new products, our revenues, operating results and financial condition could be adversely affected. In addition, any 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.

***We depend on our OEM customers and system integrators 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 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 or if they perceive us to be an actual or potential competitor, then the opportunities to increase our revenues and profitability may be severely limited or delayed. In addition, some of our OEM customers are developing their own fiber laser sources. If they are successful, this may reduce our sales to these customers. 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.

**Risks Relating to Our Operations**

***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. Approximately 75% of our approximately 6,060 employees as of December 31, 2020 were employed in our manufacturing operations. We may not adjust these fixed costs quickly enough or sufficiently 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, 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 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. Decreases in inventory may decrease our overhead absorption and decrease our gross margins and profitability.

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

We have added and are continuing to add substantial manufacturing capacity at our facilities in the United States, Germany, Russia and Belarus. 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 if our revenue 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 and to meet anticipated demand for our products, we invest significantly in the expansion of our manufacturing and operations throughout the world and may do so in the future. We had capital expenditures of \$88 million and \$134 million in 2020 and 2019, respectively, and we expect to incur approximately \$150 million to \$160 million in capital expenditures, excluding acquisitions, in 2021. In connection with these projects, we may incur cost overruns, construction delays, project cancellations, 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.

***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 24%, 21% and 26% of our consolidated net sales in 2020, 2019 and 2018, respectively. Our largest customer is located in China and accounted for 8%, 9% and 12% of sales in 2020, 2019 and 2018, respectively. A few of our larger customers, including our largest customer, are making fiber lasers or announced plans to develop fiber lasers. 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.

***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 canceled or delayed without significant penalty or any 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 addition, provisions have been recorded as a result of changes in market prices of certain components, the value of those inventories that was realizable through finished product sales due to declines in certain end market demand and uncertainties related to the recoverability of the value of inventories due to technological and product changes, and excess quantities. In this regard, we recorded provisions for slow-moving, obsolete or excess inventory totaling \$45.4 million, \$38.9 million and \$13.0 million in 2020, 2019 and 2018, respectively. 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 depend upon internal production and on outside single or limited-source suppliers for many of our key components and raw materials, including cutting-edge optics and materials. Any interruption in the supply or availability 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 are not readily available from other sources at our current costs and may not be available at all. If our manufacturing activities were obstructed or hampered significantly, it could take a considerable length of time, or it could increase our costs, 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 four major manufacturing facilities are located in Massachusetts, Germany, Russia and Belarus. Despite our efforts to mitigate the impact of any flood, fire, natural disaster, political unrest, act of terrorism, war, outbreak of disease or other similar event, our business could be adversely affected to the extent that we do not have redundant production capabilities if any of our major manufacturing facilities or equipment should become inoperable, inaccessible, damaged or destroyed.

Also, we purchase certain raw materials used to manufacture our products and other components, such as semiconductor wafer substrates, diode packages, modulators, micro-optics, bulk optics and high power beam delivery products, from single or limited-source suppliers. We typically purchase our components and materials through purchase orders or agreed-upon terms and conditions and we do not have guaranteed supply arrangements with many of these suppliers. These suppliers are relatively small private companies that may discontinue their operations at any time and may be particularly susceptible to prevailing economic conditions. Some of our suppliers are also our competitors. Some of our suppliers may not be able to meet demand from our growing business or because of global demand for their components. 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 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 and new equipment. If we do not achieve planned yields, our product costs could increase resulting in lower gross margins, and key component availability would decrease.

***We are highly dependent on the significant experience and specialized expertise of our CEO, COO and other senior management and scientific staff. The unavailability or loss of one or more of these key employees or our failure to attract other highly skilled personnel necessary to compete successfully could harm our business and results of operations.***

Our future success is substantially dependent on the continued service and performance of our executive officers, particularly our founder and chief executive officer, Dr. Valentin P. Gapontsev, age 81, and our chief operating officer, Dr. Eugene Scherbakov, age 73. They play key roles setting our strategic direction, directing the development of new technologies and maintaining our culture. The unavailability of either key executive could have a material impact on our business. Although the board engages in executive succession planning, our inability to effectively and immediately transition knowledge or responsibilities to their successors in the event of an unexpected absence or departure could harm our business and disrupt our operations. We also rely on 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 depart for a variety of reasons, 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. We will need to continue to recruit and retain highly skilled scientists and engineers for certain functions. Competition for qualified personnel in our industry is intense, particularly for physicists, software engineers and other technical staff. If we fail to attract, integrate and retain the necessary personnel, it could

delay the development or introduction of new products, negatively impact our ability to market, sell or support our products, and significantly harm our business.

### **Risks Relating to Intellectual Property, Litigation, Information Systems and Regulations**

***In the past, we were subject to litigation alleging that we infringed third-party intellectual property rights. Intellectual property claims could result in costly litigation and harm our business.***

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. 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. We have defended against several patent infringement claims in the past and we engage in patent office opposition proceedings internationally for patents owned by others.

There can be no assurance that we will be able to dispose without a material effect any claims or other allegations made or asserted in the future. 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.

If we do not prevail in any intellectual property litigation brought against us, 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, 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; and
- attempt to license the relevant intellectual property which may not be available on reasonable terms.

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. 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 have significant international operations and 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. However, there can be no assurance that confidentiality agreements we enter into with consultants, suppliers, employees and

others 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 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.

***Our information systems are subject to cyber-attacks, interruptions and failures. If unauthorized access is obtained to our information systems, we may incur significant legal and financial exposure and liabilities.***

Like many multinational corporations, we maintain several information technology systems, including software products licensed from third parties. These systems vary from country to country. Any system, network or internet failures, misuse by system users, the hacking into or disruption caused by the unauthorized access by third parties or loss of license rights could disrupt our ability to timely and accurately manufacture and ship products or to report our financial information in compliance with the timelines mandated by the SEC. Any such failure, misuse, hacking, disruptions or loss would likely cause a diversion of management's attention from the underlying business and could harm our operations. In addition, a significant failure of our various information technology systems could adversely affect our ability to complete an evaluation of our internal controls and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 under the updated framework issued in 2013.

As part of our day-to-day business, we store our data and certain data about our customers, employees and service providers in our information technology system. While our system is designed with access security, if a third party gains unauthorized access to our data or technology, including information regarding our customers, employees and service providers, such security breach could expose us to a risk of loss of this information, loss of business, litigation and possible liability. Our security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, employee information or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate or detect these techniques or to implement adequate preventative measures. Any unauthorized access could negatively impact our customers' products, result in a loss of confidence by our customers, damage our reputation, disrupt our business, result in a misappropriation of our assets (including cash), lead to legal liability and negatively impact our future sales. Additionally, such actions could result in significant costs associated with loss of our intellectual property, impairment of our ability to conduct our operations, rebuilding our network and systems, prosecuting and defending litigation, responding to regulatory inquiries or actions, paying damages or taking other remedial steps. In addition, we may incur significant costs designed to prevent or mitigate the damage related to cybersecurity incidents. For instance, we may retain additional employees or consultants, implement new policies and procedures, and install information technology to detect and prevent identity theft, data breaches, or system disruptions. We would incur any such costs with the intent that proactively preventing a cybersecurity incident ultimately helps to mitigate potential cybersecurity liability. As previously disclosed, on September 14, 2020, the Company detected a ransomware attack impacting certain of our operational and information technology systems that did not have a material impact on the Company's business, operations or financial condition.

The costs to address the foregoing security problems and security vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays, a cessation of service, and a loss of existing or potential customers, impeding our sales, manufacturing, distribution, and other critical functions.

***We may face particular privacy, data security and data protection risks due to laws and regulations regulating the protection or security of personal and other sensitive data.***

We may face particular privacy, data security and data protection risks due to laws and regulations regulating the protection or security of personal and other sensitive data, including in particular several laws and regulations that have recently been enacted or adopted or are likely to be enacted or adopted in the future. For instance, effective May 25, 2018, the European General Data Protection Regulation ("GDPR") imposed additional obligations and risk upon our business and substantially increased the penalties to which we could be subject in the event of any non-compliance. GDPR requires companies to satisfy

new requirements regarding the handling of personal data (generally, of EU residents), including its use, protection and the rights of affected persons regarding their data. Failure to comply with GDPR requirements could result in penalties of up to 4% of worldwide revenue. In addition, several other jurisdictions around the world have recently enacted privacy laws or regulations similar to GDPR. For instance, California enacted the California Consumer Privacy Act (“CCPA”), which became effective January 1, 2020, and which gives consumers many of the same rights as those available under GDPR. Several laws similar to the CCPA have been proposed in the United States at both the federal and state level. GDPR and other similar laws and regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business. We are evaluating its processes and taking measures to ensure compliance with all applicable privacy and data protection-related laws and regulations. Due to the lack of experience with the interpretation and enforcement of many of these laws and regulations, some measures initially might not satisfy standard or best practices that will be established in the coming years.

***Changes in tax rates, tax liabilities or tax accounting rules could affect future results.***

As a global company, we are subject to taxation in the United States and various other countries and jurisdictions. Significant judgment is required to determine worldwide tax liabilities. Our future tax rates could be affected by changes in the composition of earnings in countries or states with differing tax rates, transfer pricing rules, changes in the valuation of our deferred tax assets and liabilities, or changes in the tax laws. In addition, we are subject to regular examination of our income tax returns by the Internal Revenue Service (“IRS”) and other tax authorities. From time to time the United States, foreign and state governments make substantive changes to tax rules and the application of rules to companies, including various announcements from the United States government potentially impacting our ability to defer taxes on international earnings. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different than the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our operating results and financial condition.

***If we or our third-party vendors fail to comply with FDA regulations or similar legal requirements in foreign jurisdictions relating to the manufacturing of our products or any component part, we may be subject to fines, injunctions and penalties, and our ability to commercially distribute and sell our products may be negatively impacted.***

We now make fiber laser systems and accessories targeted at specific medical applications. In addition, we sell our commercial fiber and diode laser modules, subassemblies and systems to OEMs that incorporate them into their medical products. With respect to such products, some of our manufacturing facilities, and the manufacturing facilities of any of our third-party component manufacturers or critical suppliers, are required to comply with the FDA’s Quality System Regulation and those of other countries (“QSR”), which sets forth minimum standards for the procedures, execution and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage, and shipping of the products we sell in the medical industry, and related regulations, including Medical Device Reporting (“MDR”) regulations regarding reporting of certain malfunctions and adverse events potentially associated with our products. The FDA and other regulatory agencies may evaluate our compliance with the QSR, MDR and other regulations, among other ways, through periodic announced or unannounced inspections which could disrupt our operations and interrupt our manufacturing. If in conducting an inspection of our manufacturing facilities, or the manufacturing facilities of any of our third-party component manufacturers or critical suppliers, an investigator from the FDA observes conditions or practices believed to violate the QSR, the investigator may document their observations on a Form FDA 483 that is issued at the conclusion of the inspection. A manufacturer that receives an FDA 483 may respond in writing and explain any corrective actions taken in response to the inspectional observations. The FDA will typically review the facility’s written response and may re-inspect to determine the facility’s compliance with the QSR and other applicable regulatory requirements. Failure to take adequate and timely corrective actions to remedy objectionable conditions listed on an FDA 483 could result in the FDA taking administrative or enforcement actions. Among these may be the FDA’s issuance of a Warning Letter to a manufacturer, which informs it that the FDA considers the observed violations to be of “regulatory significance” that, if not corrected, could result in further enforcement action.

FDA enforcement actions, which include seizure, injunction, criminal prosecution, and civil penalties, could result in total or partial suspension of a facility’s production and/or distribution, product recalls, fines, suspension of the FDA’s review of product applications, and/or the FDA’s issuance of adverse publicity. Thus, an adverse inspection could force a shutdown of our manufacturing operations for products servicing the medical industry or a recall of such products. Adverse inspections could also delay FDA approval of our products for the medical industry.

***Failure to maintain effective internal controls may cause a loss of investor confidence in the reliability of our financial statements or to cause us to delay filing our periodic reports with the SEC and adversely affect our stock price.***

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K that contain an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. We have experienced rapid growth and have extensive and complex international manufacturing and sales and service locations which may make us more vulnerable to weaknesses in our internal controls. Although we test our internal control over financial reporting in order to ensure compliance with the Section 404 requirements, our failure to maintain adequate internal controls over financial reporting could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements or a delay in our ability to timely file our periodic reports with the SEC, which ultimately could negatively impact our stock price.

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

The manufacture of our products 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. Additionally, a recall, particularly in our products used or incorporated in medical devices, could result in significant costs and lost sales and customers, enforcement actions and/or investigations by state and federal governments or other enforcement bodies, as well as negative publicity and damage to our reputation that could reduce future demand for our products. The development and sale of medical devices and component products involves an inherent risk of product liability claims. Defects, integration issues or other performance problems in our fiber laser and other 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 and result in significant product liability claims being brought against us. A product liability claim brought against us, even if unsuccessful, could be time-consuming and costly to defend. If a product liability action were determined against us, it could result in significant damages, including punitive damages, and our consolidated financial position, results of operations or cash flows could be materially adversely affected.

***We are subject to government regulations, including tariffs and duties that could restrict our international sales and negatively affect our business.***

The United States, Germany, the European Union, China, Japan, South Korea and many other foreign governments impose tariffs and duties on the import of products, including some of those which we sell. In recent years, the U.S. instituted and proposed changes in trade policies that included the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the United States, including, in particular, on Chinese goods, economic sanctions on individuals, corporations or countries and other government regulations affecting trade between the United States and other countries where we conduct our business.

Policy changes and proposals could require time-consuming and expensive alterations to our business operations and may result in greater restrictions and economic uncertainty and disincentives on international trade, which could negatively impact our competitiveness in jurisdictions around the world as well as lead to an increase in costs in our supply chain. We are a multinational corporation, with manufacturing located both in the United States and internationally and with approximately 80% of our net sales arising from foreign customers. As such, we may be more susceptible to negative impacts from these tariffs or change in trade policies than other less internationally focused enterprises. In addition, new tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments, including the Chinese government (which has imposed retaliatory tariffs on a range of U.S. goods including certain optical and electronic products and components), may impose trade sanctions on certain U.S. manufactured goods. Such changes by the United States and other countries have the potential to adversely impact U.S. and worldwide economic conditions, our industry and the global demand for our products, and as a result, could negatively affect our business, financial condition and results of operations.

***We must comply with and could be impacted by various export controls and trade and economic sanctions laws and regulations that could negatively affect our business and may change due to diplomatic and political considerations outside of our control.***



A significant part of our business involves the export and import of components and products among many countries, including the U.S., Germany, Russia and China. The U.S. government and governments of other countries in which we do business have Trade Controls that impact our ability to export, re-export or transfer products, software and technology originating in those countries. Trade Controls may require that we obtain a license before we can export, re-export or transfer certain products, software or technology. The requirement to obtain a license could put us at a competitive disadvantage by restricting our ability to sell products to customers in certain countries or by giving rise to delays or expenses related to obtaining a license. 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. 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.

We have a large manufacturing facility and research and development operations in Russia which supplies components to our U.S. and German manufacturing facilities. In addition, we supply components from our U.S. and German manufacturing facilities to our Russian facility. Also, all three such facilities provide finished products to China, our largest market. Should there be any disruption of our supplies from or to our Russian operations, should the United States, the European Union or Russia implement new or broad-based Trade Controls, including those directed at China, our production and/or deliveries as well as results of operations would be affected. Although we have implemented compliance measures designed to prevent transactions prohibited by current or future Trade Controls, our failure to successfully comply with applicable Trade Controls may expose us to negative legal and business consequences, including civil or criminal penalties, government investigations, and reputational harm.

In addition, Trade Controls and their implementation are fluid and may change due to diplomatic and political considerations outside of our control. Such changes, including the potential expansion of sanctions and sanctions designations, as well as public statements by government officials, could be significant, require us to take certain actions to be in compliance, adversely affect prevailing market prices of our common stock, have a reputational impact, or otherwise have a material adverse impact on us, our business, and our ability to raise capital.

***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. 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. 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.

### **Risks Relating to Our Common Stock**

***Dr. Valentin P. Gapontsev, our Chairman and Chief Executive Officer, and three trusts he created collectively control approximately 31% of our voting power and have a significant influence on the outcome of director elections and other matters requiring stockholder approval, including a change in corporate control.***

Dr. Valentin P. Gapontsev, our Chairman and Chief Executive Officer, and IP Fibre Devices (UK) Ltd., of which Dr. Gapontsev is the managing director, together with three trusts he created beneficially own approximately 31% 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, stockholder proposals and approval of significant corporate transactions. Dr. Gapontsev and the trusts may vote their shares of our common stock in ways that other stockholders may consider would be adverse to the interests of the other stockholders. These significant ownership interests could delay, prevent or cause a change in control of the Company and might affect the market price of our common stock.

***Provisions in our charter documents and Delaware law, and our severance arrangements, 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 and providing that directors thereon may only be removed for cause;
- providing that directors fill board vacancies;
- prohibiting stockholder action by written consent;
- limiting the ability of stockholders to 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;
- supermajority stockholder approval to change certificate of incorporation and by-laws and
- lack of cumulative voting for director elections.

Section 203 of the Delaware General Corporation Law, which will apply to the 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. The terms of our employment agreements and severance plan with executives include change-of-control severance provisions which provide for the payment of cash following a termination of employment following a change of control. These provisions may discourage, delay or prevent a merger or acquisition, make a merger or acquisition costlier for a potential acquirer, or make removal of incumbent directors or officers more difficult.

### **General Risk Factors**

***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 and may be difficult to predict.***

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 those below and others included in the Risk Factors:

- the increase, decrease, cancellation or rescheduling of significant customer orders;
- the timing of revenue recognition based on the installation or acceptance of certain products shipped to our customers;
- the timing of customer qualification of our products and commencement of volume sales of systems that include our products;
- the gain or loss of a key customer;
- product or customer mix;
- competitive pricing pressures and new market entrants;
- our ability to design, manufacture and introduce new products on a cost-effective and timely basis;
- our ability to manage our inventory levels and any provisions for excess or obsolete inventory;
- our ability to collect outstanding accounts receivable balances;
- incurring expenses to develop and improve application and support capabilities, the benefits of which may not be realized until future periods, if at all;
- incurring expenses related to impairment of values for goodwill, intangibles and other long-lived assets;
- different capital expenditure and budget cycles for our customers, which affect the timing of their spending;

- expenses associated with acquisition-related activities;
- health pandemic; 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 or more. Once a sale is made, our delivery schedule typically ranges from 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.

***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. Our principal markets include China, the United States, Germany, Switzerland, Japan, Italy, Korea, Turkey and Russia. A substantial majority of our revenues are derived from customers outside the United States. In addition, 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 the following and others mentioned in the Risk Factors:

- fluctuations in the values of foreign currencies;
- changes, including recession, and other general economic uncertainties affecting the macroeconomic and local economic communities in which we and our customers operate or serve;
- longer accounts receivable collection periods and less developed credit assessment and collection procedures;
- compliance with domestic and foreign laws and regulations, unexpected changes in those laws and regulatory requirements, including uncertainties regarding taxes, tariffs, quotas, export controls, export licenses, trade sanctions and other trade barriers, and any corresponding retaliatory actions by affected countries, including China and Russia;
- certification requirements;
- 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, labor unrest 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;
- fluctuations in freight rates and transportation disruptions;
- investment restrictions or requirements;
- repatriation restrictions or requirements;
- export and import restrictions; and
- limitations on the ability of our employees to travel without restriction to certain countries in which we operate.

Political, economic and monetary instability and changes in governmental regulations or policies, including trade tariffs and protectionism, 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 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 as well as finished lasers to China. Further, approximately 42% of our sales in 2020 were to customers in China. We have also invested in manufacturing facilities in Belarus. The results of our operations, business prospects and facilities in these three countries are subject to the economic and political environment in Russia, China and Belarus. In recent years, these countries have undergone substantial political, economic and social change. As is typical of an emerging economy, none of these three countries possess a well-developed business, financial, legal and regulatory infrastructure that would generally exist in a more mature free market economy. In addition, tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The future economic direction of these emerging market countries 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 our operations in Russia, China and Belarus and our other existing and potential future international business operations could have a material adverse effect upon our results of operations.

***Foreign currency 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 2020 our net sales outside the United States represented a substantial majority 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 operates or holds assets or liabilities in currencies different than their functional currency. Changes in exchange rates can also affect our results of operations when the value of sales and expenses of foreign subsidiaries are translated to U.S. dollars. 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 risks, and any volatility in currency exchange rates may increase the price of our products in local currency to our foreign customers or increase the manufacturing cost of our products, which may have an adverse effect on our financial condition, cash flows and profitability.

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

We make acquisitions of and investments in new businesses, products, patents and technologies and expand into new geographic areas, or we may acquire operations, products or technologies that expand our current capabilities. Although we have pursued relatively small acquisitions in the past, we may pursue larger transactions in the future. Acquisitions present a number of potential risks and challenges that could, if not met, disrupt our business operations, increase our operating costs, reduce consolidated margins, cause us to incur impairment charges and reduce the value of the acquired company, asset or technology to us. We may not be able to effectively integrate acquired businesses, business cultures, products, patents or technologies into our existing business and products, or retain key employees. As a result of the rapid pace of technological change in our industry, we may misjudge the long-term potential of an acquired business, product, patent or technology, or the acquisition may not be complementary to our existing business. Furthermore, potential acquisitions and investments, whether or not consummated, may divert our management's attention, require considerable cash outlays at the expense of our existing operations, incur unanticipated costs or liabilities, including the costs associated with improving the internal controls of the acquired company. In addition, 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.

***We may incur impairments to goodwill or long-lived assets, which would negatively affect our results of operations.***

We review our goodwill for impairment annually and other long-lived assets, including intangible assets identified in business combinations whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Negative industry or economic trends, including reduced estimates of future cash flows, disruptions to our business, slower growth rates, lack of growth in our relevant business units or differences in the estimated product acceptance rates could lead to impairment charges against our long-lived assets, including goodwill and other intangible assets. For example, we recorded a non-cash impairment charge of \$44.6 million in 2020.

Our valuation methodology for assessing impairment requires management to make significant judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance at many points

during the analysis. Also, the process of evaluating the potential impairment of goodwill is subjective. We operate in a highly competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis indicates potential impairment to goodwill in one or more of our business units, we may be required to record additional charges to earnings in our financial statements, which could negatively affect our results of operations.

***We are exposed to credit risk and fluctuations in the market values of our cash, cash equivalents and marketable securities.***

Given the global nature of our business, we have both domestic and international investments. At December 31, 2020, 74% of our cash, cash equivalents and marketable securities were in the United States and 26% were outside the United States. Credit ratings and pricing of our investments can be negatively affected by liquidity, credit deterioration, prevailing interest rates, financial results, economic risk, political risk, sovereign risk or other factors. Also, our investments may be negatively affected by events that impact the banks or depositories that hold our investments. As a result, the value and liquidity of our cash, cash equivalents and marketable securities may fluctuate substantially. Therefore, although we have not realized any significant losses on our cash, cash equivalents and marketable securities, future fluctuations in their value could result in a significant realized loss.

***Our ability to access financial markets to raise capital or 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, implement our operating strategy or complete acquisitions.***

We occasionally borrow under our existing credit facilities to fund operations, including working capital investments. Our major credit lines in the United States and Germany expire in April 2025 and July 2023, respectively. Uncertainty or disruptions in 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, changes in reference rates for interest such as the scheduled discontinuation of LIBOR in 2021 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. We also 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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our significant facilities at December 31, 2020 include the following:

Location	Owned or Leased	Lease Expiration	Approximate Size (sq. ft.)	Primary Activity
Oxford, Massachusetts	Owned		502,300	Diodes, components, complete device manufacturing, R&D, administration
Burbach, Germany	Owned		499,500	Optical fiber, components, final assembly, complete device manufacturing, R&D administration
Fryazino, Russia	Owned		473,700	Manufacturing, R&D, administration
	Leased	June 2021 - August 2022	80,500	Components, complete device manufacturing
Minsk, Belarus	Owned		271,500	Manufacturing
Marlborough, Massachusetts	Owned		243,000	Components, manufacturing, applications, sales, R&D, administration
Davenport, Iowa	Owned		160,300	Systems integration, administration
	Leased	March 2022	46,500	Systems integration, sales, administration

Our corporate headquarters is in Oxford, Massachusetts. As of December 31, 2020, we occupied more than 3.0 million square feet of facilities worldwide. Of this we own 2.5 million square feet and lease 0.5 million square feet of building space, of which the majority is used for manufacturing. We operate four principal manufacturing facilities for fiber lasers, laser systems, fiber amplifiers, and related optical and mechanical components, which are located in the United States, Germany, Russia and Belarus. We conduct our major research and development activities in Oxford and Marlborough, Massachusetts; Burbach, Germany; and Fryazino, Russia.

We own additional facilities and land for various purposes, such as sales and support and applications labs. We believe the existing facilities are in good operating condition and are suitable for the conduct of our operations. The productive capacity at our current facilities is substantially utilized. We plan to continue the expansion of our operations and build manufacturing in Germany, the United States and Belarus to meet the demand for our products and our sales and support needs.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are party to various legal claims and legal proceedings and other disputes incidental to our business, such as employment, intellectual property or product issues. For a discussion of the risks associated with intellectual property legal proceedings and other disputes, see Item 1A. "Risk Factors — In the past, we were subject to litigation alleging that we infringed third-party intellectual property rights. Intellectual property claims could result in costly litigation and harm our business."

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

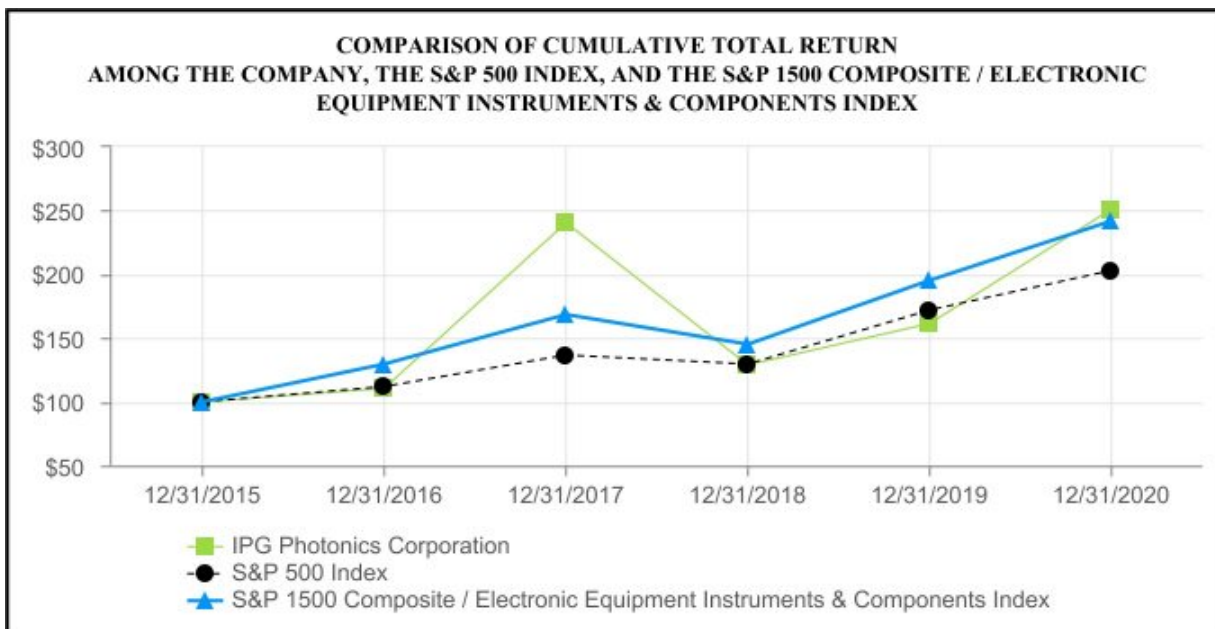
**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is quoted on the Nasdaq Global Select Market under the symbol "IPGP". As of February 19, 2021, there were 53,533,592 shares of our common stock outstanding held by approximately 31 holders of record, which does not include beneficial owners of common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies.

**Stock Price Performance Graph**

The following Stock Price Performance Graph and related information includes comparisons required by the SEC. The graph does not constitute "soliciting material" and should not be deemed "filed" or incorporated by reference into any other filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this information by reference into such filing.

The following graph presents the cumulative shareholder returns for our Common Stock compared with the S&P 500 Index and the S&P 1500 Composite 1500 / Electronic Equipment Instruments & Components Index. We include the S&P 500 Index because we became a member of this index in 2018. We include the S&P Composite 1500 / Electronic Equipment Instruments & Components Index because outstanding performance stock units awarded to executive officers use this index when comparing total shareholder return and due to our being an index member, industry similarities, our internal use to monitor executive compensation, and the fact that it contains several direct competitors.



	Base Period	5-Year Cumulative Total Return				
	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
IPG Photonics Corporation	\$ 100.00	\$ 110.71	\$ 240.16	\$ 128.98	\$ 161.42	\$ 251.00
S&P 500 Index	\$ 100.00	\$ 111.96	\$ 136.40	\$ 129.31	\$ 171.94	\$ 203.04
S&P 1500 Composite / Electronic Equipment Instruments & Components Index	\$ 100.00	\$ 129.69	\$ 168.06	\$ 144.95	\$ 195.01	\$ 241.56

The above graph represents and compares the value, through December 31, 2020, of a hypothetical investment of \$100 made at the closing price on December 31, 2015 in each of (i) our common stock, (ii) S&P 500 Index, and (iii) the S&P 1500 Composite / Electronic Equipment Instruments & Components Index, in each case assuming the reinvestment of dividends. The stock price performance shown in this graph is not necessarily indicative of, and not is intended to suggest, future stock price performance.

**Dividends**

We anticipate that we will retain future earnings to support operations, fund acquisitions 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, growth plans and other factors. In addition, a current agreement with one lender contains a restrictive covenant that prohibits us from paying cash dividends, making any distribution on any class of stock or making stock repurchases if a breach of a financial covenant or an event of default exists or would result from the dividend, distribution or repurchase.

**Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities**

There have been no sales of unregistered securities during the past year.

**Issuer Purchases of Equity Securities**

The following table shows repurchases of our common stock in the fiscal quarter ended December 31, 2020:

Date	Total Number of Shares (or Units) Purchased		Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2020 — October 31, 2020	63	(1), (2), (3)	\$ 195.33	—	\$ 246,386
November 1, 2020 — November 30, 2020	545	(1), (2), (3)	188.43	—	246,386
December 1, 2020 — December 31, 2020	53	(1), (2), (3)	209.03	—	246,386
<b>Total</b>	<b>661</b>		<b>\$ 190.74</b>	<b>—</b>	<b>\$ 246,386</b>

- (1) In 2012, our Board of Directors approved "withhold to cover" as a tax payment method for vesting of restricted stock awards for certain employees. Pursuant to the "withhold to cover" method, we withheld from such employees the shares noted in the table above to cover tax withholding related to the vesting of their awards. For the fourth quarter of 2020, the Company withheld 661 shares at an average price of \$190.74.
- (2) On February 12, 2019, we announced that our Board of Directors authorized the purchase of up to \$125 million of IPG common stock (the "February 2019 program") following the completion of our \$125 million repurchase program authorized in July 2018. Under the February 2019 program, we are authorized to repurchase shares of common stock in an amount not to exceed the lesser of (a) the number of shares issued to employees and directors under the Company's various employee and director equity compensation and employee stock purchase plans from January 1, 2019 through December 31, 2020 and (b) \$125 million, exclusive of any fees, commissions or other expenses. There were no shares purchased in the fourth quarter of 2020 under the February 2019 program.
- (3) On May 5, 2020, we announced that our Board of Directors authorized the purchase of up to \$200 million of IPG common stock (the "May 2020 program"), exclusive of any fees, commissions or other expenses. The May 2020 program is separate from, and in addition to, the repurchases authorized under the February 2019 program. There were no shares purchased in the fourth quarter of 2020 under the May 2020 program.

**ITEM 6. RESERVED****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed under Item 1A, "Risk Factors."*

**Overview**



We develop, manufacture and sell high-performance fiber lasers, fiber amplifiers and diode lasers that are used for diverse applications, primarily in materials processing. We also manufacture and sell complementary products used with our lasers including optical delivery cables, fiber couplers, beam switches, optical processing heads, in-line sensors and chillers. In addition, we offer laser-based and non-laser based systems for certain markets and applications. Our portfolio of laser solutions are used in materials processing, communications, medical and advanced applications. 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. Our major manufacturing facilities are located in the United States, Germany, Russia and Belarus. We have sales service offices and applications laboratories worldwide.

We are vertically integrated such that we design and manufacture most of the key components used in our finished products, from semiconductor diodes to optical fiber preforms, finished fiber lasers, amplifiers and complementary products. Our vertically integrated operations allow us to reduce manufacturing costs, control quality, rapidly develop and integrate advanced products and protect our proprietary technology.

### **Description of Our Net Sales, Costs and Expenses**

*Net sales.* We derive net sales primarily from the sale of fiber lasers, diode lasers, laser and non-laser based systems, amplifiers and complementary products. We sell our products to OEMs that supply materials processing laser systems, communications systems, medical laser systems and other laser systems to end users. We also sell our laser products and laser and non-laser based systems to end users. Our scientists and engineers work closely with OEMs, systems integrators and end users to analyze their system requirements and match appropriate fiber laser, amplifier or system specifications to those requirements. Our sales cycle varies substantially, ranging from a period of a few weeks to as long as one year or more, but is typically several months.

Sales of our products are generally recognized upon shipment, provided that no obligations remain and collection of the receivable is reasonably assured. Sales of customized robotic systems are recognized over time. Our sales typically are made on a purchase order basis rather than through long-term purchase commitments.

We develop our products to standard specifications and use a common set of components within our product architectures. Our major products are based upon a common technology platform. We continually enhance these and other products by improving their components and developing new components and new product designs.

*Cost of sales.* Our cost of sales consists primarily of the cost of raw materials and components, direct labor expenses and manufacturing overhead. We are vertically integrated and currently manufacture all critical components for our products as well as assemble finished products. We believe our vertical integration allows us to increase efficiencies, leverage our scale and lower our cost of sales. Cost of sales also includes personnel costs and overhead related to our manufacturing, engineering and service operations, related occupancy and equipment costs, shipping costs and reserves for inventory obsolescence and for warranty obligations. Inventories are written off and charged to cost of sales when identified as excess or obsolete.

Due to our vertical integration strategy and ongoing investment in plant and machinery, we maintain a relatively high fixed manufacturing overhead. We may not be able to or choose not to adjust these fixed costs to adapt to rapidly changing market conditions. Our gross margin is therefore significantly affected by our sales volume and the corresponding utilization of capacity and absorption of fixed manufacturing overhead expenses.

*Sales and marketing.* Our sales and marketing expense consists primarily of costs related to compensation, trade shows, professional and technical conferences, travel, facilities, depreciation of equipment used for demonstration purposes and other marketing costs.

*Research and development.* Our research and development expense consists primarily of compensation, development expenses related to the design of our products and certain components, the cost of materials and components to build prototype devices for testing and facilities costs. Costs related to product development are recorded as research and development expenses in the period in which they are incurred.

*General and administrative.* Our general and administrative expense consists primarily of compensation and associated costs for executive management, finance, legal, human resources, information technology and other administrative personnel, outside legal and professional fees, insurance premiums and fees, allocated facilities costs and other corporate expenses such as charges and benefits related to the change in allowance for doubtful debt.

## Factors and Trends That Affect Our Operations and Financial Results

In reading our financial statements, you should be aware of the following factors and trends that our management believes are important in understanding our financial performance.

*COVID-19 Update.* Global demand trends have been impacted adversely by the ongoing COVID-19 pandemic and therefore remain uncertain at this time. Economic indicators show some improvement from the severe contraction experienced earlier in 2020, which has led to an improvement in the recent demand environment in certain regions. It is difficult to predict whether the improvement in some macro-economic indicators will be sustained if there are additional restrictions imposed as a result of a resurgence in COVID-19 infections. This uncertainty continues to make forecasting our business challenging in the near to medium-term.

Currently, our four major production facilities in United States, Germany, Russia and Belarus remain open and are operating normally. We have implemented employee safety and sanitization protocols that have impacted productivity and efficiency. We have vertically integrated manufacturing, and many of the components one facility supplies to another facility are single sourced internally and not available from third party suppliers, for example our semiconductor diodes manufactured in Oxford, Massachusetts. While we have attempted to build safety stock of critical components at our various locations, if government restrictions to address COVID-19 become more severe than we have experienced to date or if there was significant absenteeism as a result of COVID-19 or resurgence in the places where we operate, it could impact our internal supply chain. If our revenues are reduced for an extended period or if our production output falls because of government restrictions or absenteeism, we may be required to reduce payroll-related costs and other expenses in the future through layoffs, furloughs or reduced hours, even though we have not done so to date.

We have not experienced significant supply disruption from third party component suppliers; however, we may face some supply chain restraints related to logistics, including available air cargo space and higher freight rates if there is a COVID-19 resurgence. We may experience delays in the future if resurgences are experienced and governments implement new restrictions. We believe we have the ability to meet the near-term demand for our products, but the situation is fluid and subject to change.

We continue to monitor the rapidly evolving conditions and circumstances as well as guidance from international and domestic authorities, including public health authorities, and we may need to take additional actions based on their recommendations. The measures implemented by various authorities related to the COVID-19 outbreak have caused us to change our business practices including those related to where employees work, the distance between employees in our facilities, limitations on in-person meetings between employees and with customers, suppliers, service providers, and stakeholders as well as restrictions on business travel to domestic and international locations or to attend trade shows, investor conferences and other events. To date, we have been able to accommodate these changes to our business operations and continue to meet customer demand. If guidelines from relevant authorities becomes more restrictive due to a resurgence of COVID-19 in a particular region, the effect on our operations could be more significant.

The COVID-19 pandemic has increased economic uncertainty and decreased demand for our products in many markets we serve and could continue for an unknown period of time. In these circumstances, there may be developments outside of our control, including the length and extent of the COVID-19 outbreak and government-imposed measures that may require us to adjust our operating plans. As such, given the dynamic nature of this situation, we cannot reasonably estimate the future impacts of COVID-19 on our financial condition, results of operations or cash flows.

*Net sales.* Our annual revenue growth rates have varied from year to year. Net sales decreased by 9% and 10% in 2020 and 2019, respectively, and increased by 4% in 2018. In 2020, the decline in net sales was driven by decreased demand for our products related to the COVID-19 pandemic that extended and deepened the weak macroeconomic environment prevailing at the end of 2019. In 2019, the decline in net sales was driven by decreased demand for our products related to the trade war between the U.S. and China that weakened macroeconomic conditions in the second half of 2019. In addition to these factors, sales were affected by declines in average sales prices related to competition. These reductions in sales were partially offset by the introduction of new products, including high power and ultra-fast pulsed lasers, optical heads and other accessories and the development of new applications for our products some of which displace non-laser technologies.

Our business depends substantially upon capital expenditures by end users, particularly by manufacturers using our products for materials processing, which includes general manufacturing, automotive, other transportation, aerospace, heavy industry, consumer, semiconductor and electronics. Approximately 90% of our revenues in 2020 were from customers using our products for materials processing. Although applications within materials processing are broad, the capital equipment market in general is cyclical and historically has experienced sudden and severe downturns. For the foreseeable future, our operations will continue to depend upon capital expenditures by end users of materials processing equipment and will be subject to the broader fluctuations of capital equipment spending.

Our net sales have historically fluctuated from quarter to quarter. The increase or decrease in sales from a prior quarter can be affected by the timing of orders received from customers, the shipment, installation and acceptance of products at our customers' facilities, the mix of OEM orders and one-time orders for products with large purchase prices, competitive pressures, acquisitions, economic and political conditions in a certain country or region and seasonal factors such as the purchasing patterns and levels of activity throughout the year in the regions where we operate. Net sales can be affected by the time taken to qualify our products for use in new applications in the end markets that we serve. Our sales cycle varies substantially, ranging from a period of a few weeks to as long as one year or more, but is typically several months. The adoption of our products by a new customer or qualification in a new application can lead to an increase in net sales for a period, which may then slow until we penetrate new markets or obtain new customers.

In the recent years, our net sales have been negatively impacted by tariffs and trade policies. New tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments.

We are also susceptible to global or regional disruptions such as political instability, geopolitical conflicts, acts of terrorism, significant fluctuations in currency values, natural disasters, macroeconomic concerns and particularly the impact of the COVID-19 outbreak that affect the level of capital expenditures or global commerce. With respect to the COVID-19 outbreak specifically, our 2020 financial results were negatively impacted. In addition, as of the time of this Annual Report on Form 10-K, we expect that COVID-19 could continue to negatively impact our businesses beyond 2020, but the extent and duration of such impacts over the longer term remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the coronavirus, the extent and effectiveness of containment actions taken, the approval, effectiveness, timing and widespread inoculation of the global population with new vaccines, and the impact of these and other factors on our customer base and general commercial activity.

The average selling prices of our products generally decrease as the products mature. These decreases result from factors such as increased competition, decreased manufacturing costs and increases in unit volumes. We may also reduce selling prices in order to penetrate new markets and applications. Furthermore, we may negotiate discounted selling prices from time to time with certain customers that place high unit volume orders.

The secular shift to fiber laser technology in large materials processing applications, such as cutting applications, had a positive effect on our sales trends in the past such that our sales trends were often better than other capital equipment manufacturers in both positive and negative economic cycles. As the secular shift to fiber laser technology matures in such applications, our sales trends are more susceptible to economic cycles which affect other capital equipment manufacturers.

*Gross margin.* Our total gross margin in any period can be significantly affected by total net sales in any period, by competitive factors, by product mix, and by other factors such as changes in foreign exchange rates relative to the U.S. Dollar, some of which are not under our control. For instance,

- As our products mature, we can experience additional competition which tends to decrease average selling prices and affects gross margin;
- Our gross margin can be significantly affected by product mix. Within each of our product categories, the gross margin is generally higher for devices with greater average power. These higher power products often have better performance, more difficult specifications to attain and fewer competing products in the marketplace;
- Higher power lasers also use a greater number of optical components, improving absorption of fixed overhead costs and enabling economies of scale in manufacturing;
- The gross margin for certain specialty products may be higher because there are fewer or sometimes no equivalent competing products;
- Customers that purchase devices in greater unit volumes generally are provided lower prices per device than customers that purchase fewer units. In general, lower selling prices to high unit volume customers reduce gross margin although this may be partially offset by improved absorption of fixed overhead costs associated with larger product volumes, which drive economies of scale in manufacturing; and finally,
- Gross margin on systems and communication components can be lower than margins for our laser and amplifier sources, depending on the configuration, volume and competitive forces, among other factors.

We expect that some new technologies, products and systems will have returns above our cost of capital but may have gross margins below our corporate average. If we are able to develop opportunities that are significant in size, competitively advantageous or leverage our existing technology base and leadership, our current gross margin levels may not be maintained. Instead, we aim to deliver industry-leading levels of gross margins by growing sales, by taking market share in existing

markets, or by developing new applications and markets we address, by reducing the cost of our products and by optimizing the efficiency of our manufacturing operations. For instance, despite the decreases in sales in 2020 and 2019, manufacturing levels remained high and our facilities increased production as we manufactured more optical power products at lower average selling prices.

We invested \$87.7 million, \$133.5 million and \$160.3 million in capital expenditures in 2020, 2019 and 2018, respectively. Most of this investment relates to expansion of our manufacturing capacity and, to a lesser extent, research and development and sales-related facilities.

A high proportion of our costs is fixed so costs are generally difficult to adjust or may take time to adjust in response to changes in demand. In addition, our fixed costs increase as we expand our capacity. If we expand capacity faster than is required by sales growth, gross margins could be negatively affected. Gross margins generally decline if production volumes are lower as a result of a decrease in sales or a reduction in inventory because the absorption of fixed manufacturing costs will be reduced. Gross margins generally improve when the opposite occurs. If both sales and inventory decrease in the same period, the decline in gross margin may be greater if we cannot reduce fixed costs or choose not to reduce fixed costs to match the decrease in the level of production. If we experience a decline in sales that reduces absorption of our fixed costs, or if we have production issues, our gross margins will be negatively affected.

We also regularly review our inventory for items that are slow-moving, have been rendered obsolete or are determined to be excess. Any provision for such slow-moving, obsolete or excess inventory affects our gross margins. For example, we recorded provisions for slow-moving, obsolete or excess inventory totaling \$45.4 million, \$38.9 million and \$13.0 million in 2020, 2019 and 2018, respectively.

*Selling and general and administrative expenses.* In the past, the Company has invested in selling and general and administrative costs in order to support continued growth in the company. As the secular shift to fiber laser technology matures, our sales growth becomes more susceptible to the cyclical trends typical of capital equipment manufacturers. Accordingly, our future management of and investments in selling and general and administrative expenses will also be influenced by these trends, although we may still invest in selling or general and administrative functions to support certain initiatives even in economic down cycles. Certain general and administrative expenses are not related to the level of sales and may vary quarter to quarter based primarily upon the level of acquisitions and litigation.

*Research and development expenses.* We plan to continue to invest in research and development to improve our existing components and products and develop new components, products, systems and applications technology. We believe that these investments will sustain our position as a leader in the fiber laser industry and will support development of new products that can address new markets and growth opportunities. The amount of research and development expense we incur may vary from period to period.

*Goodwill and long-lived assets impairments.* We review our intangible assets and property, plant and equipment for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Negative industry or economic trends, including reduced estimates of future cash flows, disruptions to our business, slower growth rates, lack of growth in our relevant business units or differences in the estimated product acceptance rates could lead to impairment charges against our long-lived assets, including goodwill and other intangible assets. We incurred \$0.7 million and \$2.5 million of non-cash impairment charges related to long-lived assets during the years ended December 31, 2020 and 2019, respectively. There were no impairment charges recognized during the year ended December 31, 2018.

Our valuation methodology for assessing impairment requires management to make significant judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance at many points during the analysis. Also, the process of evaluating the potential impairment of goodwill is subjective. We operate in a highly competitive environment and projections of future operating results and cash flows may vary significantly from actual results. If our analysis indicates potential impairment to goodwill in one or more of our reporting units, we may be required to record charges to earnings in our financial statements, which could negatively affect our results of operations.

As a result of the continued negative impact of COVID-19 on order flow for our Genesis custom system business, we performed an impairment analysis of the goodwill during the third quarter of 2020. We performed a quantitative assessment using the discounted cash flow method under the income approach as well as the guideline public company analysis and guideline transaction analysis under the market approach to estimate the fair value of the custom systems business. As a result of this and to a lesser extent the overall performance of the business since its acquisition in 2018, we recognized a non-cash impairment loss of \$44.6 million, which was equal to the carrying amount of goodwill prior to its impairment. The analysis considered internal forecasts of sales, profitability and capital expenditures, as well as valuation multiples of comparable public companies and valuation multiples of transactions of comparable companies. If the business impacts of COVID-19 carry on for

an extended period, it could cause us to recognize additional impairments for goodwill and certain long-lived assets, including amortizable intangible assets or right-of-use assets in one or more of our reporting units, which would negatively affect our results of operations.

*Foreign exchange.* Because we are a U.S. based company doing business globally, we have both translational and transactional exposure to fluctuations in foreign currency exchange rates. Changes in the relative exchange rate between the U.S. dollar and the foreign currencies in which our subsidiaries operate directly affects our sales, costs and earnings. Differences in the relative exchange rates between where we sell our products and where we incur manufacturing and other operating costs (primarily in the U.S., Germany and Russia) also affects our costs and earnings. Certain currencies experiencing significant exchange rate fluctuations like the Euro, the Russian Ruble, the Japanese Yen and Chinese Yuan have had and could have an additional significant impact on our sales, costs and earnings. Our ability to adjust the foreign currency selling prices of products in response to changes in exchange rates is limited and may not offset the impact of the changes in exchange rates on the translated value of sales or costs. In addition, if we increase the selling price of our products in local currencies, this could have a negative impact on the demand for our products.

*Major customers.* While we have historically depended on a few customers for a large percentage of our annual net sales, the composition of this group can change from year to year. Net sales derived from our five largest customers as a percentage of our annual net sales were 24%, 21% and 26% in 2020, 2019 and 2018, respectively. Our largest customer accounted for 8%, 9% and 12% of our net sales in 2020, 2019 and 2018, respectively. The same customer accounted for 21% and 24% of our net accounts receivable as of December 31, 2020 and 2019, respectively. We seek to add new customers and to expand our relationships with existing customers. We anticipate that the composition of our significant customers will continue to change. We generally do not enter into agreements with our customers obligating them to purchase a fixed number or large volume of our fiber lasers or amplifiers. If any of our significant customers were to substantially reduce their purchases from us, our results would be adversely affected.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. We base our estimates and judgments on our historical experience and on other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates, which may materially affect our operating results and financial position. We have identified the following items that require the most significant judgment and often involve complex estimation: revenue recognition, inventory valuation, warranty, accounting for income taxes and goodwill and long-lived asset impairment.

*Revenue Recognition.* Revenue is recognized when transfer of control to the customer occurs in an amount reflecting the consideration that we expect to be entitled. In order to achieve this core principle, we apply the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

We allocate the transaction price to each distinct product based on its relative standalone selling price, as more fully described in Note 1, "Nature of Business and Summary of Significant Accounting Policies - Revenue Recognition," in our consolidated financial statements. Revenue is generally recognized when control of the product is transferred to the customer (i.e., when our performance obligation is satisfied), which typically occurs at shipment, but which can occur over time for certain of our systems contracts. We also recognize revenue over time for sales of extended warranties. When goods or services have been delivered to the customer, but all conditions for revenue recognition have not been met, deferred revenue and deferred costs are recorded on our consolidated balance sheet. We enter into contracts to sell customized robotic systems, for which revenue is generally recognized over time, depending on the terms of the contract. Recognizing revenue over time for these contracts is based on our judgment that the customized robotic system does not have an alternative use and we have an enforceable right to payment for performance completed to date. Recognizing revenue over time also requires estimation of the progress towards completion based on the projected costs for the contract.

*Inventory.* Inventory is stated at the lower of cost (first-in, first-out method) or market value. Inventory includes parts and components that may be specialized in nature and subject to rapid obsolescence. We maintain a reserve for excess or obsolete inventory items. The reserve is based upon a review of inventory materials on hand, which we compare with historic usage, estimated future usage and age. In addition, we review the inventory and compare recorded costs with estimates of current

market value. Write-downs are recorded to reduce the carrying value to the net realizable value with respect to any part with costs in excess of current market value. Estimating demand and current market values is inherently difficult, particularly given that we make highly specialized components and products. We determine the valuation of excess and obsolete inventory by making our best estimate considering the current quantities of inventory on hand and our forecast of the need for this inventory to support future sales of our products. We often have limited information on which to base our forecasts. If future sales differ from these forecasts, the valuation of excess and obsolete inventory may change and additional inventory provisions may be required. Because of our vertical integration, a significant or sudden decrease in sales could result in a significant change in the estimates of excess or obsolete inventory valuation.

*Warranty.* We maintain an accrual for warranty claims for units sold that are subject to warranty. We estimate this accrual considering past claims experience, the number of units still carrying warranty coverage and the average life of the remaining warranty period. A change in the rate of warranty repairs or when warranty is generally incurred during the warranty period could change our estimated warranty accrual and associated warranty expense.

*Income Taxes and Deferred Taxes.* Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. We file federal and state income tax returns in the United States and tax returns in numerous international jurisdictions. We must estimate our income tax expense after considering, among other factors, if inter-company transactions have been made on an arm's length basis, differing tax rates between jurisdictions, allocation factors, tax credits, nondeductible items and changes in enacted tax rates. Significant judgment is required in determining our annual tax expense and in evaluating our tax positions. As we continue to expand globally, there is a risk that, due to complexity within and diversity among the various jurisdictions in which we do business, a governmental agency may disagree with the manner in which we have computed our taxes. Additionally, due to the lack of uniformity among all of the foreign and domestic taxing authorities, there may be situations where the tax treatment of an item in one jurisdiction is different from the tax treatment in another jurisdiction or that the transaction causes a tax liability to arise in another jurisdiction.

We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions and other issues. Reserves recorded are based on a determination of whether and how much of a tax benefit taken by us in our tax filings or positions is "more likely than not" to be realized following resolution of any potential contingencies present related to the tax benefit, assuming that the matter in question will be raised by the tax authorities. Potential interest and penalties associated with such uncertain tax positions is recorded as a component of income tax expense.

*Goodwill and Long-lived Asset Impairment.* We perform our annual goodwill impairment review as of the first day of our fourth quarter, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Such events and circumstances could include significant and sustained reductions in sales volume, margin, profitability or cash flows of the reporting unit or changes in market dynamics, including technology or product changes. We test reporting units for impairment by comparing the estimated fair value of each reporting unit with its carrying amount. Intangible assets and other long-lived assets are also subject to an impairment test if there is an indicator of impairment.

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions, estimates, and market factors. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, as well as industry, economic, and regulatory conditions. These assumptions and estimates include estimated future annual net cash flows, income tax considerations, discount rates, growth rates, royalty rates, contributory asset charges, and other market factors. Assumptions used in impairment testing are made at a point in time and require significant judgment; therefore, they are subject to change based on the facts and circumstances present at each annual and interim impairment test date. Additionally, these assumptions are generally interdependent and do not change in isolation. If current expectations of future growth rates and margins are not met, if market factors outside of our control, such as discount rates, change, or if management's expectations or plans otherwise change, then one or more of our reporting units might become impaired in the future.

Definite-lived intangible assets are amortized on a straight-line basis over the estimated useful life. We review definite-lived intangible assets for impairment when conditions exist that indicate the carrying amount of the assets may not be recoverable. Such conditions could include significant adverse changes in the business climate, current-period operating or cash flow losses, significant declines in forecasted operations, or a current expectation that an asset group will be disposed of before the end of its useful life. We perform undiscounted operating cash flow analyses to determine if an impairment exists. When testing for impairment of definite-lived intangible assets held for use, we group assets at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, the loss is calculated based on estimated fair value.

## Results of Operations

The following table sets forth selected statement of operations data for the periods indicated in dollar amounts and expressed as a percentage of net sales:

	Year Ended December 31,					
	2020		2019		2018	
	(In thousands, except percentages and per share data)					
Net sales	\$ 1,200,724	100.0 %	\$ 1,314,581	100.0 %	\$ 1,459,874	100.0 %
Cost of sales	661,728	55.1	708,372	53.9	659,606	45.2
Gross profit	538,996	44.9	606,209	46.1	800,268	54.8
Operating expenses:						
Sales and marketing	70,583	5.9	77,745	5.9	57,815	4.0
Research and development	126,898	10.6	129,997	9.9	122,769	8.4
General and administrative	110,005	9.2	107,597	8.2	102,429	7.0
Goodwill impairment	44,589	3.7	37,120	2.8	—	—
Impairment of long-lived assets and other restructuring charges	1,177	0.1	7,130	0.5	—	—
Loss (gain) on foreign exchange	(12,915)	(1.1)	12,827	1.0	(6,150)	(0.4)
Total operating expenses	340,337	28.4	372,416	28.3	276,863	19.0
Operating income	198,659	16.5	233,793	17.8	523,405	35.9
Interest income, net	6,270	0.5	14,238	1.1	9,057	0.6
Other income, net	763	0.1	345	—	1,933	0.1
Income before provision for income taxes	205,692	17.1	248,376	18.9	534,395	36.6
Provision for income taxes	45,354	3.8	68,115	5.2	130,226	(8.9)
Net income	160,338	13.3	180,261	13.7	404,169	27.7
Less: net income attributable to non-controlling interest	766	0.1	27	—	142	—
Net income attributable to IPG Photonics Corporation	\$ 159,572	13.2 %	\$ 180,234	13.7 %	\$ 404,027	27.7 %
Net income attributable to IPG Photonics Corporation per share:						
Basic	\$ 3.00		\$ 3.40		\$ 7.55	
Diluted	\$ 2.97		\$ 3.35		\$ 7.38	
Weighted average shares outstanding:						
Basic	53,186		53,061		53,522	
Diluted	53,785		53,839		54,726	

## Comparison of Year Ended December 31, 2020 to Year Ended December 31, 2019

*Net sales.* Net sales decreased by \$113.9 million, or 8.7%, to \$1,200.7 million in 2020 from \$1,314.6 million in 2019. The table below sets forth sales by application:

	Year Ended December 31,					
	2020		2019		Change	
	(In thousands, except for percentages)					
<b>Sales by Application</b>	<b>% of Total</b>		<b>% of Total</b>			
Materials Processing	\$ 1,082,478	90.2 %	\$ 1,229,211	93.5 %	\$ (146,733)	(11.9)%
Other Applications	118,246	9.8 %	85,370	6.5 %	32,876	38.5 %
Total	\$ 1,200,724	100.0 %	\$ 1,314,581	100.0 %	\$ (113,857)	(8.7)%

The table below sets forth sales by type of product and other revenue:

	Year Ended December 31,				Change	
	2020		2019			
	(In thousands, except for percentages)					
<b>Sales by Product</b>		% of Total		% of Total		
High Power Continuous Wave ("CW") Lasers	\$ 646,062	53.8 %	\$ 734,745	55.9 %	\$ (88,683)	(12.1)%
Medium Power CW Lasers	50,796	4.2 %	56,625	4.3 %	(5,829)	(10.3)%
Pulsed Lasers	158,448	13.2 %	137,675	10.5 %	20,773	15.1 %
Quasi-Continuous Wave ("QCW") Lasers	50,333	4.2 %	56,440	4.3 %	(6,107)	(10.8)%
Laser and Non-Laser Systems	93,727	7.8 %	141,647	10.8 %	(47,920)	(33.8)%
Other Revenue including Amplifiers, Service, Parts, Accessories and Change in Deferred Revenue	201,358	16.8 %	187,449	14.2 %	13,909	7.4 %
<b>Total</b>	<b>\$ 1,200,724</b>	<b>100.0 %</b>	<b>\$ 1,314,581</b>	<b>100.0 %</b>	<b>\$ (113,857)</b>	<b>(8.7)%</b>

**Materials processing**

Sales for materials processing applications decreased due to lower sales of high power lasers, laser and non-laser systems, QCW lasers and medium power lasers, partially offset by increased sales in pulsed lasers.

- High power laser sales for metal cutting and welding applications declined due to the impact of COVID-19 on end market demand, continued reductions of average selling prices and increased competition. Part of the decline in average selling prices for high power lasers is due to the adoption of more compact or rack mounted "YLR" series lasers which are displacing 1 to 3 kilowatt "YLS" series lasers, which are larger, more complex and more expensive. These more compact YLR lasers are less expensive to manufacture and are sold at prices lower than the YLS series lasers they are displacing.
- Medium power laser sales decreased due to decreased demand in laser sintering for metal-based additive manufacturing and ongoing transition to kilowatt scale cutting lasers.
- Pulsed laser sales increased due to growth in sales of high power pulsed lasers used for battery processing, ablative processing and solar cell manufacturing applications, partially offset by decreased demand of pulsed lasers used for marking and engraving applications.
- QCW laser sales decreased due to lower demand for fine processing and consumer electronics applications.
- Laser and non-laser systems sales decreased due to lower demand primarily as a result of COVID-19. The reduction of revenue in laser systems was attributable to lower demand for cutting and welding applications. The reduction of revenue in non-laser systems was attributable to lower demand in the transportation and aerospace sectors.
- Other Revenue for materials processing decreased due to lower parts and service revenue.

**Other Applications**

Sales from other applications increased due to increased demand for lasers used for directed energy, semiconductor, scientific and instrument applications, as well as lasers used in medical procedures, partially offset by lower sales of telecom products.



Our net sales were derived from customers in the following geographic regions:

	Year Ended December 31,				Change	
	2020	2019				
(In thousands, except for percentages)						
<b>Sales by Geography</b>		% of Total		% of Total		
North America <sup>(1)</sup>	\$ 246,189	20.5 %	\$ 280,886	21.4 %	\$ (34,697)	(12.4)%
Europe:						
Germany	65,646	5.5 %	81,365	6.2 %	(15,719)	(19.3)%
Other including Eastern Europe/CIS	219,540	18.3 %	249,871	19.0 %	(30,331)	(12.1)%
Asia and Australia:						
China	502,278	41.8 %	491,890	37.4 %	10,388	2.1 %
Japan	53,180	4.4 %	71,757	5.5 %	(18,577)	(25.9)%
Other	103,785	8.6 %	121,586	9.2 %	(17,801)	(14.6)%
Rest of World	10,106	0.9 %	17,226	1.3 %	(7,120)	(41.3)%
Total	\$ 1,200,724	100.0 %	\$ 1,314,581	100.0 %	\$ (113,857)	(8.7)%

(1) The substantial majority of sales in North America are to customers in the United States.

*Cost of sales and gross margin.* Cost of sales decreased by \$46.7 million, or 6.6%, to \$661.7 million in 2020 from \$708.4 million in 2019. Our gross margin decreased to 44.9% in 2020 from 46.1% in 2019. Gross margin decreased mainly due to increased manufacturing costs as a percentage of sales due to lower sales, particularly in the first half of the year resulting from the impact of the COVID-19 pandemic. In addition, provisions for inventory reserves and freight costs were higher. The increase in freight costs is also primarily attributable to COVID-19. Expenses related to provisions for excess or obsolete inventory and other valuation adjustments increased by \$6.5 million to \$45.4 million, or 3.8% of sales, for the year ended December 31, 2020, as compared to \$38.9 million, or 3.0% of sales, for the year ended December 31, 2019.

*Sales and marketing expense.* Sales and marketing expense decreased by \$7.1 million, or 9.1%, to \$70.6 million in 2020 from \$77.7 million in 2019. This change was primarily a result of decreased spending on trade fairs and exhibits, travel and personnel costs partially offset by an increase in depreciation. As a percentage of sales, sales and marketing expense was 5.9% in 2020, unchanged from 2019.

*Research and development expense.* Research and development expense decreased by \$3.1 million, or 2.4%, to \$126.9 million in 2020 from \$130.0 million in 2019. This change was primarily a result of decreases in R&D materials, consultants and travel partially offset by increases in personnel costs. As a percentage of sales, research and development expense increased to 10.6% in 2020 from 9.9% in 2019. We expect to continue to invest in research and development and that research and development expense will increase in the aggregate.

*General and administrative expense.* General and administrative expense increased by \$2.4 million, or 2.2%, to \$110.0 million in 2020 from \$107.6 million in 2019. This change was primarily a result of increases in personnel costs, loss on disposal of fixed assets, insurance, information systems, and premises partially offset by decreases in expense for travel, bad debt provision, legal, and consultants. As a percentage of sales, general and administrative expense increased to 9.2% in 2020 from 8.2% in 2019.

*Goodwill impairment, impairment of long-lived assets and other restructuring charges.* During the third quarter of 2020, we concluded that declines in revenue and order flow for the Genesis custom systems business caused by pandemic-related decreases in capital spending in the aerospace and transportation industries were a triggering event requiring a goodwill impairment evaluation. As a result of the analysis, we incurred a non-cash goodwill impairment loss of \$44.6 million in 2020. In 2019, we incurred non-cash goodwill impairment losses of \$37.1 million related to impairments of our transceivers reporting unit and our submarine network division.

We incurred impairment of long-lived assets and other restructuring charges of \$1.2 million in 2020, of which \$0.4 million related to severance and \$0.1 million related to lease termination costs that resulted from the restructuring of our submarine network division. We also incurred \$0.7 million of non-cash long-lived impairments related to machinery and equipment. In 2019, we incurred impairment of long-lived assets and other restructuring charges of \$7.1 million, of which \$5.3 million related to non-cash impairment losses of long-lived assets and \$1.8 million were charges related to global restructuring programs.

*Effect of exchange rates on sales, gross margin and operating expenses.* We estimate that if exchange rates had been the same as one year ago, sales in 2020 would have been \$2.5 million lower, gross margin would have been \$3.7 million lower and

operating expenses in total would have been \$6.2 million higher. These estimates assume constant exchange rates between fiscal year 2020 and fiscal year 2019 and are calculated using the average exchange rates for the twelve-month period ended December 31, 2019 for the respective currencies, which were US\$1=Euro 0.89, US\$1=Japanese Yen 109, US\$1=Chinese Yuan 6.91 and US\$1=Russian Ruble 65.

*Loss (gain) on foreign exchange.* We incurred a foreign exchange gain of \$12.9 million in 2020 as compared to a loss of \$12.8 million in 2019. The gain was primarily attributable to the depreciation of the Russian Ruble and the appreciation of the Chinese Yuan as compared to the U.S. Dollar, which was partially offset by a loss attributed to the appreciation of the Euro and depreciation of the Brazilian Real as compared to the U.S. Dollar.

*Interest income, net.* Interest income, net decreased to \$6.3 million of income in 2020 compared to \$14.2 million of income in 2019. The reduction in interest income, net, is primarily due to a decrease in yields on shorter duration investments that resulted in lower market interest rates as compared to rates last year. In addition, our initial response to the COVID-19 pandemic included holding shorter duration investments to increase liquidity, which also reduced yields.

*Provision for income taxes.* Provision for income taxes was \$45.4 million in 2020 compared to \$68.1 million in 2019, representing an effective tax rate of 22.0% in 2020 and 27.4% in 2019. The lower effective tax rate was primarily due to increased benefit from discrete adjustments. Discrete adjustments in 2020 resulted in a \$10.6 million reduction in tax expense, which includes (i) \$9.7 million for equity-based compensation deductions for tax in excess of the deductions reflected in book income, (ii) \$3.2 million for an investment credit in Russia requested in amended returns filed for prior years and (iii) \$1.2 million for prior year provision to return adjustments, offset by an increase to tax expense for a \$3.6 million impact of losses in subsidiaries for which no tax benefit was taken. Discrete adjustments in 2019 were \$1.3 million and include a decrease to tax expense for (i) \$5.1 million related to equity-based compensation deductions for tax in excess of the deductions reflected in book income and (ii) \$4.8 million for prior year provision to return adjustments, offset by an increase to tax expense of \$10.0 million for goodwill impairments losses which were not deductible for tax.

*Net income attributed to IPG Photonics Corporation.* Net income attributable to IPG Photonics Corporation decreased by \$20.6 million to \$159.6 million in 2020 from \$180.2 million in 2019. Net income attributable to IPG Photonics Corporation as a percentage of our net sales decreased by 0.4% to 13.3% in 2020 from 13.7% in 2019 due to the factors described above.

## Liquidity and Capital Resources

The following table presents our principal sources of liquidity:

	As of December 31,	
	2020	2019
	(In thousands)	
Cash and cash equivalents	\$ 876,231	\$ 680,070
Short-term investments	514,835	502,546
Unused credit lines and overdraft facilities	132,048	105,469
Working capital (excluding cash and cash equivalents and short-term investments)	542,433	522,114

Short-term investments at December 31, 2020 consist of liquid investments including corporate bonds, commercial paper, U.S. Treasury and agency obligations and municipal bonds with original maturities of greater than three months but less than one year. See Note 3, "Fair Value Measurements" in the notes to the consolidated financial statements for further information about our short-term investments.

We expect to continue investments in capital expenditures, to assess acquisition opportunities and to repurchase shares of our stock in accordance with our repurchase program. The extent and timing of such expenditures may vary from period to period. Our future long-term capital requirements will depend on many factors including our level of sales, the impact of the economic environment on our growth including any ongoing impact of the COVID-19 pandemic on certain global or regional economies, global or regional recessions, the timing and extent of spending to support development efforts, expansion of global sales and marketing activities, government regulation including trade sanctions, the timing and introductions of new products, the need to ensure access to adequate manufacturing capacity and the continuing market acceptance of our products.

The following table details our line-of-credit facilities and long-term notes as of December 31, 2020:

Description	Total Facility/ Note	Interest Rate	Maturity	Security
U.S. Revolving Line of Credit <sup>(1)</sup>	\$75.0 million	LIBOR plus 0.80% to 1.20%, depending on our performance	April 2025	Unsecured
Euro Credit Facility (Germany) <sup>(2)</sup>	Euro 50.0 million (\$61.3 million)	Euribor plus 0.75% or EONIA plus 1.00%	July 2023	Unsecured, guaranteed by parent company and German subsidiary
Other Euro Facilities <sup>(3)</sup>	Euro 2.0 million (\$2.5 million)	Euribor plus 0.94% to 2.02%	March 2021	Common pool of assets of Italian subsidiary
Long-term Secured Note <sup>(4)</sup>	\$19.6 million	Fixed at 2.74%	July 2022	Secured by the corporate aircraft
Long-term Unsecured Note <sup>(5)</sup>	\$18.4 million	1.20% above LIBOR, fixed using an interest rate swap at 2.85% per annum	May 2023	Unsecured

<sup>(1)</sup> This facility is available to certain foreign subsidiaries in their respective local currencies. At December 31, 2020, there were no amounts drawn on this line, however, there were \$3.3 million of guarantees issued against the line which reduces total availability.

<sup>(2)</sup> This facility is available to certain foreign subsidiaries in their respective local currencies. At December 31, 2020, there were no drawings, however, there were \$3.4 million of guarantees issued against the line which reduces total availability.

<sup>(3)</sup> At December 31, 2020, there were no drawings. This facility renews annually.

<sup>(4)</sup> At maturity, the outstanding note balance will be \$15.4 million.

<sup>(5)</sup> At maturity, the outstanding note balance will be \$15.4 million.

Our largest committed credit lines are with Bank of America N.A. and Deutsche Bank AG in the amounts of \$75.0 million and \$61.3 million (or €50,000 as described above), respectively, and neither of them is syndicated. We plan to seek amendments of our credit agreements and notes to modify LIBOR and Euribor reference rates as these rates are phased out as borrowing rates.

We are required to meet certain financial covenants associated with our U.S. revolving line of credit and long-term debt facility. These covenants, tested quarterly, include an interest coverage ratio and a funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio. The interest coverage covenant requires that we maintain a trailing twelve-month ratio of EBITDA to interest on all obligations that is at least 3.0:1.0. The funded debt to EBITDA covenant requires that the sum of all indebtedness for borrowed money on a consolidated basis be less than three times our trailing twelve months EBITDA. Funded debt is decreased by our cash and available marketable securities not classified as long-term investments in the U.S. in excess of \$50 million up to a maximum of \$500 million. We were in compliance with all such financial covenants as of and for the three months ended December 31, 2020.

The financial covenants in our loan documents may cause us to not take or to delay investments and actions that we might otherwise undertake because of limits on capital expenditures and amounts that we can borrow or lease. In the event that we do not comply with any one of these covenants, we would be in default under the loan agreement or loan agreements, which may result in acceleration of the debt, cross-defaults on other debt or a reduction in available liquidity, any of which could harm our results of operations and financial condition.

See Note 11, "Financing Arrangements" in the notes to the consolidated financial statements for further information about our facilities and term debt.

The following table presents cash flow activities:

	As of December 31,	
	2020	2019
	(In thousands)	
Cash provided by operating activities	\$ 285,335	\$ 323,521
Cash used by investing activities	(99,574)	(139,975)
Cash used by financing activities	(10,080)	(37,067)

*Operating activities.* Net cash provided by operating activities decreased by \$38.2 million to \$285.3 million in 2020 from \$323.5 million in 2019. In 2020, net sales and net income decreased by 9% and 11%, respectively. Our largest working capital items typically are inventory and accounts receivable. Items such as accounts payable to third parties, prepaid expenses and other current assets and accrued expenses and other liabilities are not as significant as our working capital investment in

accounts receivable and inventory because of the amount of value added within IPG due to our vertically integrated structure. Accruals and payables for personnel costs including bonuses and income and other taxes payable are largely dependent on the timing of payments for those items. The decrease in cash flow from operating activities in 2020 primarily resulted from a decrease in cash provided by net income after adding back non-cash charges, an increase in cash used by accounts receivable, an increase in cash used by prepaid expenses and an increase in cash used by inventory; partially offset by a decrease in cash used for accrued expenses, a decrease in cash used by income and other taxes payable and a decrease in cash used by accounts payable.

*Investing activities.* Net cash used in investing activities was \$99.6 million and \$140.0 million in 2020 and 2019, respectively. The cash used in investing activities in 2020 related to \$87.7 million for property, plant and equipment, \$12.3 million of net purchases of investments and \$0.4 million for the acquisition of a business during 2020, net of cash acquired. The cash used in investing activities in 2019 related to \$133.5 million for property, plant and equipment, and \$15.1 million for the acquisition of a business during 2019, net of cash acquired; partially offset by \$7.8 million of net proceeds of investments.

In 2021, we expect to incur approximately \$150 million to \$160 million in capital expenditures, excluding acquisitions. Capital expenditures include investments in property, facilities and equipment to add capacity worldwide to support anticipated revenue growth, increase vertical integration, increase redundant manufacturing capacity for critical components and enhance research and development capabilities. The timing and extent of any capital expenditures in and between periods can have a significant effect on our cash flow. If we obtain financing for certain projects, our cash expenditures would be reduced in the year of expenditure. Many of the capital expenditure projects that we undertake have long lead times and are difficult to cancel or defer to a later period.

*Financing activities.* Net cash used in financing activities was \$10.1 million and \$37.1 million in 2020 and 2019, respectively. The cash used in financing activities in 2020 was primarily related to the purchase of treasury stock of \$37.9 million, payments on our long-term borrowings of \$3.7 million, and \$1.7 million of payment of a purchase price holdback from a business combination. These uses of cash were partially offset by net proceeds from the exercise of stock options net of amounts disbursed in relation to shares withheld to cover employee income taxes due upon the vesting and release of restricted stock units and shares issued under our employee stock purchase plan of \$33.2 million. The cash used in financing activities in 2019 was primarily related to the purchase of treasury stock of \$40.7 million and payments on our long-term borrowings of \$3.7 million. These cash uses were partially offset by net proceeds of \$7.3 million from the exercise of stock options net of amounts disbursed in relation to shares withheld to cover employee income taxes due upon the vesting and release of restricted stock units and shares issued under our employee stock purchase plan.

#### Contractual Obligations and Off-Balance Sheet Arrangements

As of December 31, 2020, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources. The following summarizes our contractual obligations at December 31, 2020 and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments Due in				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Operating lease obligations	\$ 27,517	\$ 6,452	\$ 8,427	\$ 4,327	\$ 8,311
Purchase obligations	51,730	51,730	—	—	—
Long-term debt obligations (including interest) <sup>(1)</sup>	39,899	4,821	35,078	—	—
Contingent consideration	1,963	491	1,472	—	—
Total <sup>(2)</sup>	<u>\$ 121,109</u>	<u>\$ 63,494</u>	<u>\$ 44,977</u>	<u>\$ 4,327</u>	<u>\$ 8,311</u>

<sup>(1)</sup> Interest for long-term debt obligations was calculated including the effect of our fixed rate amounts. The weighted average fixed rate amount was 2.79%.

<sup>(2)</sup> Excludes obligations related to ASC 740, reserves for uncertain tax positions, because we are unable to provide a reasonable estimate of the timing of future payments relating to the remainder of these obligations. See Note 17, "Income Taxes" to the consolidated financial statements.

## Recent Accounting Pronouncements

See Note 1, "Nature of Business and Summary of Significant Accounting Policies" in the notes to the consolidated financial statements for a full description of recent accounting pronouncements, including the respective dates of adoption or expected adoption and effects on our consolidated financial statements contained in Part IV of this Annual Report.

## ITEM 7A. **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk in the ordinary course of business, which consists primarily of interest rate risk associated with our cash and cash equivalents and our debt and foreign exchange rate risk.

*Interest rate risk.* Certain interest rates are variable and fluctuate with current market conditions. Our investments have limited exposure to market risk. We maintain a portfolio of cash, cash equivalents and short-term investments, consisting primarily of bank deposits, money market funds, certificates of deposit, commercial paper, corporate notes and government and agency securities. None of these investments have a maturity date in excess of one year. Because of the short-term nature of these instruments, a sudden change in market interest rates would not be expected to have a material impact on our financial condition or results of operations.

We are also exposed to market risk as a result of increases or decreases in the amount of interest expense we must pay on our bank debt and borrowings on our bank credit facilities. Our interest obligations on our long-term debt are fixed. Although our U.S. revolving line of credit and our Euro credit facility have variable rates, we do not believe that a 10% change in market interest rates would have a material impact on our financial position or results of operations.

*Exchange rates.* Due to our international operations, a significant portion of our net sales, cost of sales and operating expenses are denominated in currencies other than the U.S. Dollar, principally the Euro, the Russian Ruble, the Chinese Yuan and the Japanese Yen. As a result, our international operations give rise to transactional market risk associated with exchange rate movements of the U.S. Dollar, the Euro, the Chinese Yuan, the Japanese Yen, and the Russian Ruble. In 2020 we incurred a gain on foreign exchange transactions of \$12.9 million as compared to a loss of \$12.8 million in 2019. As our Russian subsidiary has net U.S. dollar denominated assets, the depreciation of the Russian Ruble contributed to most of the foreign exchange gain in 2020. Management attempts to minimize these exposures by partially or fully off-setting foreign currency denominated assets and liabilities at our subsidiaries that operate in different functional currencies. The effectiveness of this strategy can be limited by the volume of underlying transactions at various subsidiaries and by our ability to accelerate or delay inter-company cash settlements. As a result, we are unable to create a perfect offset of the foreign currency denominated assets and liabilities. Furthermore, if we expect a currency movement to be beneficial to us in the short or medium term, we have, on occasions, chosen not to hedge or otherwise offset the underlying assets or liabilities. However, it is difficult to predict foreign currency movements accurately.

At December 31, 2020, our material foreign currency exposure is net U.S. Dollar denominated assets at subsidiaries where the Euro or the Russian Ruble is the functional currency and U.S. Dollar denominated liabilities where the Chinese Yuan is the functional currency. The net U.S. Dollar denominated assets are comprised of cash, third party receivables and inter-company receivables offset by third party and inter-company U.S. Dollar denominated payables. The U.S. Dollar denominated liabilities are comprised of inter-company payables. A 5% change in the relative exchange rate of the U.S. Dollar to the Euro applied to the net U.S. Dollar asset balances as of December 31, 2020, would result in a foreign exchange gain of \$8.9 million if the U.S. Dollar appreciated and a \$8.9 million foreign exchange loss if the U.S. Dollar depreciated. A 5% change in the relative exchange rate of the U.S. Dollar to the Ruble applied to the net U.S. Dollar asset balances as of December 31, 2020, would result in a foreign exchange gain of \$3.3 million if the U.S. Dollar appreciated and a \$3.3 million foreign exchange loss if the U.S. Dollar depreciated. A 5% change in the relative exchange rate of the U.S. Dollar to the Yuan applied to the net U.S. Dollar liability balances as of December 31, 2020, would result in a foreign exchange loss of \$5.8 million if the U.S. Dollar appreciated and a \$5.8 million foreign exchange gain if the U.S. Dollar depreciated. It is possible that the COVID-19 pandemic may create additional volatility in exchange rates going forward.

In addition, we are exposed to foreign currency translation risk for those subsidiaries whose functional currency is not the U.S. Dollar as changes in the value of their functional currency relative to the U.S. Dollar can adversely affect the translated amounts of our revenue, expenses, net income, assets and liabilities. As discussed in our Results of Operations, this can, in turn, affect the reported value and relative growth of sales and net income from one period to the next. In addition changes in the translated value of assets and liabilities due to changes in functional currency exchange rates relative to the U.S. Dollar result in foreign currency translation adjustments that are a component of other comprehensive income or loss.

Foreign currency derivative instruments can also be used to hedge exposures and reduce the risks of certain foreign currency transactions; however, these instruments provide only limited protection and can carry significant cost. We have no foreign currency derivative instrument hedges as of December 31, 2020. We will continue to analyze our exposure to currency

exchange rate fluctuations and may engage in financial hedging techniques in the future to attempt to minimize the effect of these potential fluctuations. Exchange rate fluctuations may adversely affect our financial results in the future.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

This information is incorporated by reference from pages F-1 through F-33 of this report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, our management has evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date") utilizing the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control - Integrated Framework ("COSO") Updated Framework issued in 2013. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and its subsidiaries. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of the Evaluation Date based on criteria established in COSO utilizing the Updated Framework issued in 2013. Based on this assessment, our management concluded that, as of the Evaluation Date, our internal control over financial reporting was effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited our internal control over financial reporting, as stated in their report below.

**Changes in Internal Controls**

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that the disclosure controls and procedures or internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, within the company have been or will be detected.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of  
IPG Photonics Corporation  
Oxford, Massachusetts

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of IPG Photonics Corporation and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 22, 2021, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts  
February 22, 2021

**ITEM 9B. CONTROLS AND PROCEDURES**

None.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain of the information required hereunder is incorporated herein by reference to our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the SEC within 120 days after December 31, 2020. Pursuant to General Instruction G(3) of Form 10-K, additional information required hereunder relating to our executive officers is contained in Part I of this Annual Report on Form 10-K under the caption "Executive Officers of the Registrant."

**ITEM 11. EXECUTIVE COMPENSATION**

The information required hereunder is incorporated herein by reference to our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the SEC within 120 days after December 31, 2020.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required hereunder is incorporated herein by reference to our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the SEC within 120 days after December 31, 2020, with the exception of the information regarding securities authorized for issuance under our equity compensation plans, which is set forth below.

**Information Regarding Equity Compensation Plans**

The following table sets forth information with respect to securities authorized for issuance under our equity compensation plans as of December 31, 2020:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, RSUs and PSUs (a)	Weighted-Average Exercise Price of Outstanding Options, RSUs and PSUs (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Security Holders <sup>1</sup>	1,685,235	\$ 136.17	3,145,972
Equity Compensation Plans Not Approved by Security Holders	—		—
<b>Total</b>	<b>1,685,235</b>		<b>3,145,972</b>

<sup>1</sup> As of December 31, 2020, there were 2,851,428 shares available for future issuance under the 2006 Incentive Compensation Plan and 294,544 shares available for future issuance under the employee stock purchase plan.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required hereunder is incorporated herein by reference to our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the SEC within 120 days after December 31, 2020.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required hereunder is incorporated herein by reference to our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the SEC within 120 days after December 31, 2020.

**PART IV**



**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

a. The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements.

See Index to Financial Statements on page F-1.

2. Financial Statement Schedules.

All schedules are omitted because they are not applicable or the required information is shown on the financial statements or notes thereto.

3. Exhibits.

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Form of Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement No. 333-136521 filed with the Securities and Exchange Commission (the "Commission") on August 11, 2006)</a>
3.2	<a href="#">Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Commission on August 24, 2020)</a>
4.1	<a href="#">Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement No. 333-136521 filed with the Commission on November 14, 2006)</a>
4.2	<a href="#">Description of the Registrant's Securities Registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 24, 2020)</a>
10.1 <sup>†</sup>	<a href="#">2006 Incentive Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A filed with the Commission on February 22, 2017)</a>
10.2 <sup>†</sup>	<a href="#">IPG Photonics Corporation Non-Employee Director Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 21, 2020)</a>
10.3 <sup>†</sup>	<a href="#">Senior Executive Annual Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K/A filed with the Commission on February 22, 2017)</a>
10.4 <sup>†</sup>	<a href="#">IPG Photonics Corporation 2008 Employee Stock Purchase Plan, as amended and restated effective December 1, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on June 3, 2019)</a>
10.5 <sup>†</sup>	<a href="#">Employment Agreement dated May 30, 2019 between the Registrant and Dr. Valentin P. Gapontsev (incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 24, 2020)</a>
10.6 <sup>†</sup>	<a href="#">Service Agreement dated May 30, 2019 between IPG Laser GmbH and Dr. Eugene Scherbakov (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 24, 2020)</a>
10.7 <sup>†</sup>	<a href="#">Form of Employment Agreement dated May 30, 2019 between the Registrant and each of Timothy P.V. Mammen, Angelo P. Lopresti and Alexander Ovtchinnikov (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report Form 10-K filed with the Commission on February 24, 2020)</a>
10.8 <sup>†</sup>	<a href="#">Form of Confidentiality, Non-Competition and Confirmatory Assignment Agreement between the Registrant and each of the named executive officers and certain other executive officers, (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Commission on October 15, 2013)</a>
10.9 <sup>†</sup>	<a href="#">Form of Letter amending Confidentiality, Non-Competition and Confirmatory Assignment Agreements between the Registrant and each of the named executive officers and certain other executive officers (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K/A filed with the Commission on February 22, 2017)</a>
10.10 <sup>†</sup>	<a href="#">Form of Indemnification Agreement between the Registrant and each of its Directors and Executive Officers (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K/A filed with the Commission on February 22, 2017)</a>
10.11	<a href="#">Second Amended and Restated Loan Agreement, between the Registrant and Bank of America, N.A. dated as of March 25, 2020 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on March 26, 2020)</a>
10.12	<a href="#">Revolving Credit Note, between the Registrant and Bank of America, N.A., dated March 25, 2020 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Commission on March 26, 2020)</a>
10.13	<a href="#">Credit Facility Agreement between IPG Laser GmbH and Deutsche Bank AG, dated July 27, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on August 1, 2017)</a>

<b>Exhibit Number</b>	<b>Description</b>
10.14	<a href="#">Annex I to Credit Facility Agreement between IPG Laser GmbH and Deutsche Bank AG, dated July 27, 2017 (incorporated by reference to Exhibit 10.2 on Current Report on Form 8-K filed with the Commission on August 1, 2017)</a>
10.15	<a href="#">Guarantee of the Registrant to Deutsche Bank dated July 27, 2017 (incorporated by reference to Exhibit 10.3 on Current Report on Form 8-K filed with the Commission on August 1, 2017)</a>
10.16	<a href="#">First Amendment to Credit Facility Agreement between IPG Laser GmbH and Deutsche Bank AG, dated April 20, 2020 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 23, 2020)</a>
10.17	<a href="#">Loan and Aircraft Security Agreement between TVPX Aircraft Solutions, as Trustee under the Trust Pledge Agreement between Registrant and Trustee dated July 27, 2017, and Banc of America Leasing &amp; Capital, LLC dated July 27, 2017 (incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 28, 2018)</a>
10.18	<a href="#">Promissory Note between TVPX Aircraft Solutions dated July 27, 2017, as Trustee under the Trust Pledge Agreement between Registrant and Trustee dated July 27, 2017, and Banc of America Leasing &amp; Capital, LLC dated July 27, 2017 (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 28, 2018)</a>
10.19	<a href="#">Guaranty of the Registrant to Banc of America Lease &amp; Capital, LLC, dated July 27, 2017 (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 28, 2018)</a>
21.1	<a href="#">List of Subsidiaries</a>
23.1	<a href="#">Consent of Deloitte &amp; Touche LLP</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</a>
32.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

† Identifies management contract or compensatory plans or arrangements required to be filed as an exhibit.

b. Exhibits.

See (a)(3) above.

c. Additional Financial Statement Schedules.

All schedules are omitted because they are not applicable or the required information is shown on the financial statements or notes thereto.

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 22, 2021.

IPG PHOTONICS CORPORATION

By: /s/ Valentin P. Gapontsev  
Valentin P. Gapontsev  
*Chief Executive Officer and  
Chairman of the Board*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	
<u>/s/ Valentin P. Gapontsev</u> Valentin P. Gapontsev	Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	February 22, 2021
<u>/s/ Timothy P.V. Mammen</u> Timothy P.V. Mammen	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	February 22, 2021
<u>/s/ Thomas J. Burgomaster</u> Thomas J. Burgomaster	Vice President, Corporate Controller (Principal Accounting Officer)	February 22, 2021
<u>/s/ Michael C. Child</u> Michael C. Child	Director	February 22, 2021
<u>/s/ Jeanmarie F. Desmond</u> Jeanmarie F. Desmond	Director	February 22, 2021
<u>/s/ Gregory P. Dougherty</u> Gregory P. Dougherty	Director	February 22, 2021
<u>/s/ Catherine P. Lego</u> Catherine P. Lego	Director	February 22, 2021
<u>/s/ Eric Meurice</u> Eric Meurice	Director	February 22, 2021
<u>/s/ Natalia Pavlova</u> Natalia Pavlova	Director	February 22, 2021
<u>/s/ John R. Peeler</u> John Peeler	Director	February 22, 2021
<u>/s/ Eugene A. Scherbakov</u> Eugene Scherbakov	Director	February 22, 2021

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of  
IPG Photonics Corporation  
Oxford, Massachusetts

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of IPG Photonics Corporation and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### Excess or Obsolete Inventory Reserve: Refer to Notes 1 and 4 to the Financial Statements

#### *Critical Audit Matter Description*

The Company evaluates inventory each reporting period for excess quantities and obsolescence, establishing reserves when necessary based upon historic usage, estimated future usage and age. Once recorded, these reserves are considered permanent adjustments to the carrying value of inventory. As of December 31, 2020, the Company has inventories of \$365.0 million, net of excess quantities and obsolescence reserves.

We identified the reserve for excess quantities and obsolete inventory as a critical audit matter because of the significant estimates and assumptions management makes to quantify and to record the reserve, including the determination of expected demand, especially when considering the vertically integrated nature of the Company as well as parts subject to technological obsolescence. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the methodology and the reasonableness of assumptions including expected demand.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to management's judgments underlying the calculation of excess or obsolete inventory reserve, included the following, among others:

- We tested the effectiveness of controls over inventory, including those over the estimation of reserves for excess quantities and obsolescence.
- We evaluated the reasonableness of the Company's excess and obsolete reserve policy, considering historical experience and the underlying assumptions.
- We tested the calculation of the excess and obsolete reserve pursuant to the Company's policy, including the completeness and accuracy of the data used in the calculation.
- We evaluated management's ability to accurately estimate future demand by comparing actual inventory usage, on a sample basis, to estimates made in prior years.
- We considered the existence of contradictory evidence based on consideration of internal communication to management and the board of directors, Company press releases, and analysts' reports, as well as any changes within the business.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts  
February 22, 2021

We have served as the Company's auditor since 1999.

**IPG PHOTONICS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2020	2019
(In thousands, except share and per share data)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 876,231	\$ 680,070
Short-term investments	514,835	502,546
Accounts receivable, net	264,321	238,479
Inventories	364,993	380,790
Prepaid income taxes	69,893	38,873
Prepaid expenses and other current assets	57,804	55,876
Total current assets	2,148,077	1,896,634
Deferred income taxes, net	43,197	31,395
Goodwill	41,366	82,092
Intangible assets, net	62,114	74,271
Property, plant and equipment, net	597,527	600,852
Other assets	43,419	45,192
Total assets	<u>\$ 2,935,700</u>	<u>\$ 2,730,436</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 3,810	\$ 3,740
Accounts payable	25,748	27,329
Accrued expenses and other liabilities	176,740	149,782
Income taxes payable	8,280	11,053
Total current liabilities	214,578	191,904
Deferred income taxes and other long-term liabilities	92,854	98,121
Long-term debt, net of current portion	34,157	37,968
Total liabilities	341,589	327,993
Commitments and contingencies (Note 14)		
IPG Photonics Corporation equity:		
Common stock, \$0.0001 par value, 175,000,000 shares authorized; 55,461,246 and 53,427,234 shares issued and outstanding, respectively, at December 31, 2020; 54,743,227 and 53,010,875 shares issued and outstanding, respectively, at December 31, 2019.	6	5
Treasury stock, at cost, 2,034,012 and 1,732,352 shares held at December 31, 2020 and December 31, 2019, respectively.	(303,614)	(265,730)
Additional paid-in capital	854,301	785,636
Retained earnings	2,188,191	2,028,734
Accumulated other comprehensive loss	(146,065)	(146,919)
Total IPG Photonics Corporation stockholders' equity	2,592,819	2,401,726
Non-controlling interests	1,292	717
Total equity	2,594,111	2,402,443
Total liabilities and equity	<u>\$ 2,935,700</u>	<u>\$ 2,730,436</u>

See notes to consolidated financial statements.



**IPG PHOTONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2020	2019	2018
	(In thousands, except per share data)		
Net sales	\$ 1,200,724	\$ 1,314,581	\$ 1,459,874
Cost of sales	661,728	708,372	659,606
Gross profit	538,996	606,209	800,268
Operating expenses:			
Sales and marketing	70,583	77,745	57,815
Research and development	126,898	129,997	122,769
General and administrative	110,005	107,597	102,429
Goodwill impairment	44,589	37,120	—
Impairment of long-lived assets and other restructuring charges	1,177	7,130	—
Loss (gain) on foreign exchange	(12,915)	12,827	(6,150)
Total operating expenses	340,337	372,416	276,863
Operating income	198,659	233,793	523,405
Other income, net:			
Interest income, net	6,270	14,238	9,057
Other income, net	763	345	1,933
Total other income	7,033	14,583	10,990
Income before provision for income taxes	205,692	248,376	534,395
Provision for income taxes	45,354	68,115	130,226
Net income	160,338	180,261	404,169
Less: net income attributable to non-controlling interests	766	27	142
Net income attributable to IPG Photonics Corporation	\$ 159,572	\$ 180,234	\$ 404,027
Net income attributable to IPG Photonics Corporation per share:			
Basic	\$ 3.00	\$ 3.40	\$ 7.55
Diluted	\$ 2.97	\$ 3.35	\$ 7.38
Weighted average shares outstanding:			
Basic	53,186	53,061	53,522
Diluted	53,785	53,839	54,726

See notes to consolidated financial statements.

**IPG PHOTONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Net income	\$ 160,338	\$ 180,261	\$ 404,169
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	1,367	15,997	(85,590)
Adjustment for net gain realized and included in net income	(232)	—	—
Unrealized (loss) gain on derivatives	(472)	(17)	15
Effect of adopted accounting standards	—	—	10
Total other comprehensive income (loss)	663	15,980	(85,565)
Comprehensive income	161,001	196,241	318,604
Less: comprehensive income attributable to non-controlling interest	575	30	129
Comprehensive income attributable to IPG Photonics Corporation	\$ 160,426	\$ 196,211	\$ 318,475

See notes to consolidated financial statements.

**IPG PHOTONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF EQUITY**

Year Ended December 31,

(In thousands, except share data)	Common Stock		Treasury Stock		Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
<b>Balance, January 1, 2018</b>	<b>53,629,439</b>	<b>\$ 5</b>	<b>(378,269)</b>	<b>\$ (48,933)</b>	<b>\$ 704,727</b>	<b>\$ 1,443,867</b>	<b>\$ (77,344)</b>	<b>\$ —</b>	<b>\$ 2,022,322</b>
Exercise of stock options and vesting of RSU's and PSU's	351,795	—	—	—	9,895	—	—	—	9,895
Common stock issued under employee stock purchase plan	12,198	—	—	—	2,288	—	—	—	2,288
Purchased common stock	(1,051,825)	—	(1,051,825)	(176,065)	—	—	—	—	(176,065)
Stock-based compensation	—	—	—	—	28,027	—	—	—	28,027
Recently adopted accounting standards	—	—	—	—	—	606	10	—	616
Purchase of non-controlling interest	—	—	—	—	—	—	—	558	558
Net income	—	—	—	—	—	404,027	—	142	404,169
Foreign currency translation adjustments	—	—	—	—	—	—	(85,577)	(13)	(85,590)
Unrealized gain on derivatives, net of tax	—	—	—	—	—	—	15	—	15
<b>Balance, December 31, 2018</b>	<b>52,941,607</b>	<b>5</b>	<b>(1,430,094)</b>	<b>(224,998)</b>	<b>744,937</b>	<b>1,848,500</b>	<b>(162,896)</b>	<b>687</b>	<b>2,206,235</b>
Exercise of stock options and vesting of RSU's and PSU's	319,211	—	—	—	805	—	—	—	805
Common stock issued under employee stock purchase plan	52,315	—	—	—	6,531	—	—	—	6,531
Purchased common stock	(302,258)	—	(302,258)	(40,732)	—	—	—	—	(40,732)
Stock-based compensation	—	—	—	—	33,363	—	—	—	33,363
Net income	—	—	—	—	—	180,234	—	27	180,261
Foreign currency translation adjustments	—	—	—	—	—	—	15,994	3	15,997
Unrealized loss on derivatives, net of tax	—	—	—	—	—	—	(17)	—	(17)
<b>Balance, December 31, 2019</b>	<b>53,010,875</b>	<b>5</b>	<b>(1,732,352)</b>	<b>(265,730)</b>	<b>785,636</b>	<b>2,028,734</b>	<b>(146,919)</b>	<b>717</b>	<b>2,402,443</b>
Exercise of stock options and vesting of RSU's and PSU's	677,076	1	—	—	27,934	—	—	—	27,935
Common stock issued under employee stock purchase plan	40,943	—	—	—	5,259	—	—	—	5,259
Purchased common stock	(301,660)	—	(301,660)	(37,884)	—	—	—	—	(37,884)
Stock-based compensation	—	—	—	—	35,472	—	—	—	35,472
Recently adopted accounting standards	—	—	—	—	—	(115)	—	—	(115)
Net income	—	—	—	—	—	159,572	—	766	160,338
Foreign currency translation adjustments	—	—	—	—	—	—	1,558	(191)	1,367
Unrealized gain on derivatives, net of tax	—	—	—	—	—	—	(472)	—	(472)
Adjustment for net gain realized and included in net income	—	—	—	—	—	—	(232)	—	(232)
<b>Balance, December 31, 2020</b>	<b>53,427,234</b>	<b>\$ 6</b>	<b>(2,034,012)</b>	<b>\$ (303,614)</b>	<b>\$ 854,301</b>	<b>\$ 2,188,191</b>	<b>\$ (146,065)</b>	<b>\$ 1,292</b>	<b>\$ 2,594,111</b>

See notes to consolidated financial statements.

**IPG PHOTONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net income	\$ 160,338	\$ 180,261	\$ 404,169
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Depreciation and amortization	94,554	96,268	80,271
Deferred income taxes	(12,813)	(15,489)	(4,576)
Stock-based compensation	35,472	33,363	28,027
Goodwill impairment	44,589	37,120	—
Impairment of long-lived assets	671	5,350	—
Unrealized losses (gains) on foreign currency transactions	(19,935)	11,004	(2,670)
Other	8,642	3,320	(3,586)
Provisions for inventory, warranty and bad debt	70,572	63,752	38,862
Changes in assets and liabilities that (used) provided cash, net of acquisitions:			
Accounts receivable	(13,022)	9,776	(18,814)
Inventories	(39,900)	(28,105)	(135,440)
Prepaid expenses and other current assets	(3,802)	18,405	(7,062)
Accounts payable	(1,942)	(10,257)	(1,426)
Accrued expenses and other liabilities	(14,752)	(37,310)	(19,666)
Income and other taxes payable	(23,337)	(43,937)	35,212
Net cash provided by operating activities	<u>285,335</u>	<u>323,521</u>	<u>393,301</u>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(87,696)	(133,536)	(160,343)
Proceeds from sales of property, plant and equipment	889	661	1,026
Proceeds from short-term investments	1,099,224	768,078	470,328
Purchases of short and long-term investments	(1,111,555)	(760,300)	(765,310)
Acquisitions of businesses, net of cash acquired	(429)	(15,115)	(109,115)
Other	(7)	237	415
Net cash used in investing activities	<u>(99,574)</u>	<u>(139,975)</u>	<u>(562,999)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from line-of-credit facilities	—	15	255
Payments on line-of-credit facilities	—	(15)	(255)
Principal payments on long-term borrowings	(3,740)	(3,671)	(3,604)
Proceeds from issuance of common stock under employee stock option and purchase plans less payments for taxes related to net share settlement of equity awards	33,194	7,336	12,183
Cash contributed by non-controlling interest	—	—	839
Purchase of treasury stock, at cost	(37,884)	(40,732)	(176,065)
Payment of purchase price holdback from business combination	(1,650)	—	—
Net cash used in financing activities	<u>(10,080)</u>	<u>(37,067)</u>	<u>(166,647)</u>
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	<u>19,888</u>	<u>(7,853)</u>	<u>(29,197)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	195,569	138,626	(365,542)
Cash, cash equivalents and restricted cash — Beginning of year	682,984	544,358	909,900
Cash, cash equivalents and restricted cash — End of year (Note 1)	<u>\$ 878,553</u>	<u>\$ 682,984</u>	<u>\$ 544,358</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 2,234	\$ 2,683	\$ 3,052
Cash paid for income taxes	\$ 85,861	\$ 116,951	\$ 112,762
Non-cash transactions:			
Demonstration units transferred from inventory to other assets	\$ 8,117	\$ 10,367	\$ 6,270
Property, plant and equipment transferred from inventory	\$ 4,243	\$ 7,659	\$ 2,535
Changes in accounts payable related to property, plant and equipment	\$ (75)	\$ 1,304	\$ (2,852)
Leased assets obtained in exchange for new operating lease liabilities	\$ 4,035	\$ 14,670	\$ —

See notes to consolidated financial statements.

**IPG PHOTONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands, except share and per share data)

**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business* — IPG Photonics Corporation (the "Company" or "IPG") develops, manufactures and sells high-performance fiber lasers, fiber amplifiers, diode lasers, laser systems, communications systems and optical accessories that are used for diverse applications, primarily in materials processing. The Company was incorporated as a Delaware corporation in December 1998. Its world headquarters are located in Oxford, Massachusetts. It also has facilities and sales offices elsewhere in North and South America, Europe and Asia.

*Principles of Consolidation* — The accompanying financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

*Use of Estimates* — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

*Foreign Currency* — The financial information for entities outside the United States is measured using local currencies as the functional currency. Assets and liabilities are translated into U.S. dollars at the exchange rate in effect on the respective balance sheet dates. Income and expenses are translated into U.S. dollars based on the average rate of exchange for the corresponding period. Exchange rate differences resulting from translation adjustments are accounted for directly as a component of accumulated other comprehensive loss.

*Cash and Cash Equivalents and Short-Term Investments* — Cash and cash equivalents consist primarily of highly liquid investments, such as bank deposits, mutual funds and marketable securities with maturities of three months or less at the date of purchase with insignificant interest rate risk. Short-term investments consist primarily of similar highly liquid investments and marketable securities with insignificant interest rate risks.

The reconciliation of the Company's cash and cash equivalents in the consolidated balance sheets to cash, cash equivalents and restricted cash in the consolidated statement of cash flows is as follows:

	<b>Balance at December 31, 2020</b>	<b>Balance at December 31, 2019</b>
Cash and cash equivalents	\$ 876,231	\$ 680,070
Restricted cash included in prepaid expenses and other current assets	2,322	—
Restricted cash included in other assets	—	2,914
Cash, cash equivalents and restricted cash	<u>\$ 878,553</u>	<u>\$ 682,984</u>

*Accounts Receivable and Allowance for Doubtful Accounts* — Accounts receivable include \$58,566 and \$16,484 of bank acceptance drafts at December 31, 2020 and 2019, respectively. Bank acceptance drafts are bank guarantees of payment on specified dates. The weighted average maturity of these bank acceptance drafts is approximately 130 days. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of accounts receivable that will not be collected. The allowance is based upon an estimate of expected credit losses over the life of outstanding receivables. The estimate involves an assessment of customer creditworthiness, historical payment experience, an assumption of future expected credit losses, and the age of outstanding receivables.

Activity related to the allowance for doubtful accounts was as follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 2,547	\$ 1,731	\$ 2,198
Provision for bad debts, net of recoveries	(156)	677	14
Uncollectable accounts written off	(114)	(111)	(198)
Foreign currency translation	(121)	102	(283)
Balance at December 31	<u>\$ 2,156</u>	<u>\$ 2,399</u>	<u>\$ 1,731</u>

**IPG PHOTONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per share data)**

*Inventories* — Inventories are stated at the lower of cost or market on a first-in, first-out basis. Inventories include parts and components that may be specialized in nature and subject to rapid obsolescence. The Company periodically reviews the quantities and carrying values of inventories to assess whether the inventories are recoverable. The costs associated with provisions for excess quantities, technological obsolescence, or component rejections are charged to cost of sales as incurred.

*Goodwill* — Goodwill is the amount by which the cost of the acquired net assets in a business acquisition exceeded the fair values of the net identifiable assets on the date of purchase. Goodwill is assessed for impairment at least annually, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess. The results of the goodwill assessments for the years ended December 31, 2020 and 2019 are discussed in Note 7.

*Intangible Assets* — Intangible assets result from the Company's various business acquisitions. Intangible assets are reported at cost, net of accumulated amortization, and are amortized on a straight-line basis either over their estimated useful lives of one year to thirteen years or over the period the economic benefits of the intangible asset are consumed.

*Property, Plant and Equipment* — Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is determined using the straight-line method based on the estimated useful lives of the related assets. In the case of leasehold improvements, the estimated useful lives of the related assets do not exceed the remaining terms of the corresponding leases. The following table presents the assigned economic useful lives of property, plant and equipment:

Category	Economic Useful Life
Buildings	20-30 years
Machinery and equipment	5-7 years
Office furniture and fixtures	5-7 years

Expenditures for maintenance and repairs are charged to operating expense.

*Long-Lived Assets* — Long-lived assets, which consist primarily of property, plant and equipment and identifiable intangible assets, are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recorded equal to the amount by which the carrying value exceeds the fair value of assets. The Company incurred \$671 and \$2,498 of non-cash impairment charges related to long-lived assets during the years ended December 31, 2020 and 2019. There were no impairment charges recognized during the year ended December 31, 2018.

Included in other long-term assets is certain demonstration equipment. The demonstration equipment is amortized over the respective estimated economic lives, generally 3 years. The carrying value of the demonstration equipment totaled \$6,506 and \$7,591 at December 31, 2020 and 2019, respectively. Amortization expense of demonstration equipment for the years ended December 31, 2020, 2019 and 2018, was \$4,166, \$4,364 and \$3,870, respectively.

*Authorized Capital* — The Company has authorized capital stock consisting of 175,000,000 shares of common stock, par value \$0.0001 per share, and 5,000,000 shares of preferred stock, par value \$0.0001 per share. There are no shares of preferred stock outstanding as of December 31, 2020.

*Revenue Recognition* — Revenue is recognized when transfer of control to the customer occurs in an amount reflecting the consideration that the Company expects to be entitled. In order to achieve this core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be contracts with a customer. As part of its consideration of the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promise to transfer products, each of which is distinct as the identified performance obligations. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. As

**IPG PHOTONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per share data)**

the Company's standard payment terms are less than one year, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product based on its relative standalone selling price. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment but which can occur over time for certain of the Company's systems contracts.

The Company often receives orders with multiple delivery dates that may extend across several reporting periods. The Company allocates the transaction price of the contract to each delivery based on the product standalone selling price. The Company invoices for each scheduled delivery upon shipment and recognizes revenues for such delivery at that point, assuming transfer of control has occurred. As scheduled delivery dates are generally within one year, under the optional exemption provided by ASC 606-10-50-14 revenues allocated to future shipments of partially completed contracts are not disclosed.

Rights of return are not generally included in customer contracts. Accordingly, upon application of steps one through five above, product revenue is recognized upon shipment and transfer of control. Returns are infrequent and are recorded as a reduction of revenue.

In certain subsidiaries the Company provides sales commissions to sales representatives based on sales volume. The Company has determined that the incentive portion of its sales commissions qualify as contract costs. The Company has elected the practical expedient in ASC 340-40-25-4 to expense sales commissions when incurred as the amortization period of the asset that would otherwise have been recognized is one year or less.

*Revenue Recognition at a Point in Time* — Revenues recognized at a point in time consist primarily of product, installation and service sales. The Company sells products to original equipment manufacturers ("OEMs") that supply materials processing laser systems, communications systems, medical laser systems and other laser systems for advanced applications to end users. The Company also sells products to end users that use IPG products directly to build their own systems, which incorporate or use IPG products as an energy or light source. The Company recognizes revenue for laser and spare part sales following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts. Installation revenue is recognized upon completion of the installation service, which typically occurs within 90 days of delivery. For laser systems that carry customer specific processing requirements, revenue is recognized at the latter of customer acceptance date or shipment date if the customer acceptance is made prior to shipment. When sales contracts contain multiple performance obligations, such as the shipment or delivery of products and installation, the Company allocates the transaction price to each performance obligation identified in the contract based on relative standalone selling prices and recognizes the related revenue as control of each individual product or service is transferred to the customer, in satisfaction of the corresponding performance obligations.

*Revenue Recognition over Time* — Warranties are limited and provide that the product meets specifications and is free from defects in materials and workmanship. The Company also offers extended warranty agreements, which extend the standard warranty periods. Extended warranties are sold separately from products and represent a distinct performance obligation. Revenue related to the performance obligation for extended warranties is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Company. The customer receives the assurance that the product will operate in accordance with agreed-upon specifications evenly during the extended warranty period regardless of whether they make a claim during that period, and therefore, revenue at time of sale is deferred and recognized over the time period of the extended warranty period.

With the acquisition of Genesis Systems Group, LLC in December 2018, the Company enters into contracts to sell customized robotic systems, for which revenue is generally recognized over time, depending on the terms of the contract. Recognizing revenue over time for these contracts is based on the Company's judgment that the customized robotic system does not have an alternative use and the Company has an enforceable right to payment for performance completed to date.

The determination of the revenue to be recognized in a given period for performance obligations over time is based on the input method. The Company generally uses the total cost-to-cost input method of progress because it best depicts the transfer of control to the customer that occurs as costs are incurred. Under the cost-to-cost method, the extent of progress towards completion is measured based on the proportion of costs incurred to date to the total estimated costs at completion of the performance obligation.

*Customer Deposits and Deferred Revenue* — When the Company receives consideration from a customer or such consideration is unconditionally due prior to transferring goods or services under the terms of a sales contract, the Company

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records customer deposits or deferred revenue, which represent contract liabilities. The Company recognizes deferred revenue as net sales after control of the goods or services has been transferred to the customer and all revenue recognition criteria are met.

*Warranties* — The Company typically provides one to five-year warranties on lasers and amplifiers. Most of the Company's sales offices provide support to customers in their respective geographic areas. The Company estimates the warranty accrual considering past claims experience, the number of units still covered by warranty and the average life of the remaining warranty period. The warranty accrual has generally been sufficient to cover product warranty repair and replacement costs.

*Stock-Based Compensation* — The Company accounts for stock-based compensation expense using the fair value of the awards granted. The Company estimates the fair value of stock options granted using the Black-Scholes model, it values restricted stock units ("RSUs") and certain performance stock units with operating cash flow targets ("OCF PSUs") using the intrinsic value method, and it uses a Monte Carlo simulation model to estimate the fair value of certain performance stock units with total stockholder return targets ("TSR PSUs"). The Company accounts for forfeitures as they occur. The Company amortizes the fair value of stock options and other equity awards on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. Stock options and RSUs generally vest annually on the anniversary of the grant date over a four-year period. TSR PSUs and OCF PSUs cliff-vest on March 1<sup>st</sup> following the third anniversary of the grant date based upon achievement of performance targets established at grant. The description of the Company's stock-based compensation plans and the assumptions it uses to calculate the fair value of stock-based compensation is more fully described in Note 15, "Stock-based Compensation."

*Advertising Expense* — The cost of advertising is expensed as incurred. The Company conducts substantially all of its sales and marketing efforts through trade shows, professional and technical conferences, direct sales and the Company's website. The Company's advertising costs were not material for the periods presented.

*Research and Development* — Research and development costs are expensed as incurred.

*Restructuring* — The Company records charges associated with approved restructuring plans to reorganize operations, to remove redundant headcount and infrastructure associated with business acquisitions or to improve the efficiency of business processes. Restructuring charges can include severance costs to eliminate a specific number of positions, infrastructure charges to vacate facilities and consolidate operations and contract cancellation costs. The Company records restructuring charges when they are probable and estimable. The Company accrues for severance and other employee separation costs under these plans when the employees accept the offer and the amount can be reasonably estimated.

*Income Taxes* — Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities and net operating loss and credit carryforwards using enacted rates in effect when those differences are expected to reverse. Valuation allowances are provided against deferred tax assets that are not deemed to be recoverable. The Company recognizes tax positions that are more likely than not to be sustained upon examination by relevant tax authorities. The tax positions are measured at the greatest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement.

The Company provides reserves for potential payments of tax to various tax authorities related to uncertain tax positions and other issues. The reserves are based on a determination of whether and how much of a tax benefit taken in its tax filings or positions is more likely than not to be realized following resolution of uncertainties related to the tax benefit, assuming that the matter in question will be raised by the tax authorities.

*Concentration of Credit Risk* — Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. The Company maintains substantially all of its cash and cash equivalents, short-term investments and marketable securities in various financial institutions, which it believes to be high-credit quality financial institutions. The Company grants credit to customers in the ordinary course of business and provides a reserve for potential credit losses. Such losses historically have been within management's expectations.

One customer comprised 8%, 9% and 12% of net sales during the years ended December 31, 2020, 2019 and 2018 respectively. The same customer accounted for 21% and 24% of our net accounts receivable as of December 31, 2020 and 2019, respectively. The Company has historically depended on a few customers for a significant percentage of its annual net



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sales. The composition of this group can change from year to year. Net sales derived from the Company's five largest customers as a percentage of its annual net sales were 24%, 21% and 26% in 2020, 2019 and 2018, respectively.

*Comprehensive Income* — Comprehensive income includes charges and credits to equity that are not the result of transactions with stockholders. Included within comprehensive income is the cumulative foreign currency translation adjustment, change in carrying value of auction rate securities, unrealized gains or losses on derivatives and unrealized gains or losses on available-for-sale investments. These adjustments are accumulated within the consolidated statements of comprehensive income.

Total components of accumulated other comprehensive loss were as follows:

	December 31,	
	2020	2019
Foreign currency translation adjustments	\$ (145,603)	\$ (147,161)
Unrealized gain on auction rate securities	—	232
Unrealized (loss) gain on derivatives, net of tax benefit of \$141 and tax of \$3, respectively	(462)	10
Accumulated other comprehensive loss	<u>\$ (146,065)</u>	<u>\$ (146,919)</u>

*Derivative Instruments* — The Company's primary market exposures are to interest rates and foreign exchange rates. The Company from time to time may use certain derivative financial instruments to help manage these exposures. The Company executes these instruments with financial institutions it judges to be credit-worthy. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company recognizes all derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheets.

*Business Segment Information* — The Company operates in one segment which involves the design, development, production and distribution of fiber lasers, laser and non-laser systems, fiber amplifiers, and related optical components. The Company has a single, company-wide management team that administers all properties as a whole rather than as discrete operating segments. The chief operating decision maker, who is the Company's chief executive officer, measures financial performance as a single enterprise, and not on geography, legal entity, or end market basis. Throughout the year, the chief operating decision maker allocates capital resources on a project-by-project basis across the Company's entire asset base to maximize profitability without regard to geography, legal entity, or end market basis. The Company operates in a number of countries throughout the world in a variety of product lines. Information regarding product lines and geographic financial information is provided in Note 2, "Revenue from Contracts with Customers" and Note 8, "Property, Plant and Equipment."

*Earnings Per Share* — Basic net income per share is computed by dividing net income attributable to shareholders of the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed similarly to basic net income per share, except that it includes the potential dilution that could occur if dilutive securities were exercised. Information about potentially dilutive and antidilutive shares for the reporting period is provided in Note 18, "Net Income Attributable to IPG Photonics Corporation Per Share."

*Leases* — The Company determines if an arrangement is a lease at inception. Operating leases are included in other assets, other current liabilities, and other long-term liabilities on the Company's consolidated balance sheets.

Right of use ("ROU") assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, IPG uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The ROU assets also include any lease payments made and initial direct costs incurred and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component.

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*Recent Accounting Pronouncements*

*Adopted Pronouncements* — In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which adds an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance for its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity by decreasing the number of credit impairment models that entities use to account for debt instruments. The Company adopted ASU 2016-03, along with its subsequent clarifications, as of January 1, 2020. The cumulative effect of the changes made to the Company's consolidated January 1, 2020 balance sheet for the adoption of ASU 2016-13 was as follows:

	Balance at December 31, 2019	Adoption of ASU 2016-13	Balance at January 1, 2020
<b>Balance Sheet</b>			
Accounts receivable, net	\$ 238,479	\$ (148)	\$ 238,331
Deferred income taxes, net	31,395	33	31,428
Retained earnings	2,028,734	(115)	2,028,619

In February 2016, the Financial Accounting Standards Board ("FASB") issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. The Company adopted ASC 842, as of January 1, 2019, using the modified retrospective approach as of the date of adoption. Under this approach, comparative periods have not been restated. In addition, IPG elected the package of three practical expedients permitted under the transition guidance within the new standard, which among other things, allowed for the carry forward of the historical lease classification.

*Subsequent Events* — The Company has considered the impact of subsequent events through the filing date of these financial statements. There were no events through the filing date of these financial statements required to be disclosed.

**2. REVENUE FROM CONTRACTS WITH CUSTOMERS**

Sales are derived from products for different applications: fiber lasers, diode lasers, systems and accessories for materials processing, fiber lasers, amplifiers and diodes for advanced applications, fiber amplifiers and transceivers for communications applications, and fiber lasers, systems and fibers for medical applications. The following tables represent a disaggregation of revenue from contracts with customers for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
<b>Sales by Application</b>			
Materials processing	\$ 1,082,478	\$ 1,229,211	\$ 1,374,448
Other applications	118,246	85,370	85,426
Total	\$ 1,200,724	\$ 1,314,581	\$ 1,459,874

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	Year Ended December 31,		
	2020	2019	2018
<b>Sales by Product</b>			
High Power Continuous Wave ("CW") Lasers	\$ 646,062	\$ 734,745	\$ 909,726
Medium Power CW Lasers	50,796	56,625	95,764
Pulsed Lasers	158,448	137,675	162,048
Quasi-Continuous Wave ("QCW") Lasers	50,333	56,440	66,700
Laser and Non-Laser Systems	93,727	141,647	59,330
Other Revenue including Amplifiers, Service, Parts, Accessories and Change in Deferred Revenue	201,358	187,449	166,306
Total	<u>\$ 1,200,724</u>	<u>\$ 1,314,581</u>	<u>\$ 1,459,874</u>

<b>Sales by Geography</b>			
North America	\$ 246,189	\$ 280,886	\$ 202,743
Europe:			
Germany	65,646	81,365	111,259
Other including Eastern Europe/CIS	219,540	249,871	296,917
Asia and Australia:			
China	502,278	491,890	629,079
Japan	53,180	71,757	87,619
Other	103,785	121,586	127,251
Rest of World	10,106	17,226	5,006
Total	<u>\$ 1,200,724</u>	<u>\$ 1,314,581</u>	<u>\$ 1,459,874</u>

<b>Timing of Revenue Recognition</b>			
Goods and services transferred at a point in time	\$ 1,144,237	\$ 1,233,065	\$ 1,447,343
Goods and services transferred over time	56,487	81,516	12,531
Total	<u>\$ 1,200,724</u>	<u>\$ 1,314,581</u>	<u>\$ 1,459,874</u>

The Company enters into contracts to sell lasers and spare parts, for which revenue is generally recognized upon shipment or delivery, depending on the terms of the contract. The Company also provides installation services and extended warranties. The Company frequently receives consideration from a customer prior to transferring goods to the customer under the terms of a sales contract. The Company records customer deposits related to these prepayments, which represent a contract liability. The Company also records deferred revenue related to installation services when consideration is received before the services have been performed. The standalone selling price for installation services is determined based on the estimated number of days of service technician time required for installation at standard service rates. The Company recognizes customer deposits and deferred revenue as net sales after control of the goods or services has been transferred to the customer and all revenue recognition criteria is met. The Company bills customers for extended warranties upon entering into the agreement with the customer, resulting in deferred revenue. The timing of customer payments on contracts for the sale of customized robotic systems generally differs from the timing of revenue recognized, resulting in contract assets and liabilities. Contract assets are included within prepaid expense and other current assets on the consolidated balance sheets. Contract liabilities are included within accrued expenses and other current liabilities on the consolidated balance sheets.

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The following table reflects the changes in the Company's contract assets and liabilities for the years ended December 31, 2020 and 2019:

	December 31, 2020	January 1, 2020	Change	December 31, 2019	January 1, 2019	Change
<b>Contract assets</b>						
Contract assets	\$ 8,999	\$ 9,645	\$ (646)	\$ 9,645	\$ 10,102	\$ (457)
<b>Contract liabilities</b>						
Contract liabilities - current	71,246	59,531	11,715	59,531	52,606	6,925
Contract liabilities - long-term	2,189	1,820	369	1,820	1,413	407

During the year ended December 31, 2020 and 2019, the Company recognized revenue of \$48,738 and \$45,223, respectively, that was included in the contract liabilities at the beginning of the period.

The Company has elected the practical expedient in ASC 606-10-50-14, whereby the performance obligations for contracts with an original expected duration of one year or less are not disclosed. The following table represents the Company's remaining performance obligations from contracts that are recognized over time as of December 31, 2020:

	Remaining Performance Obligations						
	2021	2022	2023	2024	2025	Thereafter	Total
Revenue expected to be recognized for extended warranty agreements	\$ 3,795	\$ 996	\$ 675	\$ 381	\$ 113	\$ 11	\$ 5,971
Revenue to be earned over time from contracts to sell robotic systems	17,513	1,336	—	—	—	—	18,849
<b>Total</b>	<b>\$ 21,308</b>	<b>\$ 2,332</b>	<b>\$ 675</b>	<b>\$ 381</b>	<b>\$ 113</b>	<b>\$ 11</b>	<b>\$ 24,820</b>

### 3. FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash equivalents, short-term and long-term investments, accounts receivable, auction rate securities, accounts payable, drawings on revolving lines of credit, long-term debt, interest rate swaps and contingent purchase consideration.

The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company classifies its financial instruments according to the prescribed criteria.

The carrying amounts of money market fund deposits, term deposits, accounts receivable, accounts payable and drawings on revolving lines of credit are considered reasonable estimates of their fair market value due to the short maturity of most of these instruments or as a result of the competitive market interest rates, which have been negotiated. The fair value of the Company's bond securities is based upon quoted prices for instruments with identical terms in active markets. The Company's commercial paper securities reported at fair value are based upon model-driven valuations in which all significant inputs are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset or liability, and are therefore classified as Level 2.

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The following table presents fair value information related to the Company's assets and liabilities measured at amortized cost on the consolidated balance sheets with the exception of the interest rate swap, which is measured at fair value:

	Fair Value Measurements at December 31, 2020			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
<b>Cash equivalents:</b>				
Money market fund deposits and term deposits	\$ 218,984	\$ 218,984	\$ —	\$ —
U.S. Treasury and agency obligations	6,999	—	6,999	—
Commercial paper	162,749	—	162,749	—
Corporate bonds	29,010	—	29,010	—
<b>Short-term investments:</b>				
U.S. Treasury and agency obligations	49,996	—	49,996	—
Municipal bonds	7,997	—	7,997	—
Corporate bonds	88,171	—	88,171	—
Commercial paper	368,665	—	368,665	—
Total assets	<u>\$ 932,571</u>	<u>\$ 218,984</u>	<u>\$ 713,587</u>	<u>\$ —</u>
<b>Liabilities</b>				
Long-term notes	\$ 38,402	\$ —	\$ 38,402	\$ —
Contingent purchase consideration	1,963	—	—	1,963
Interest rate swap	603	—	603	—
Total liabilities	<u>\$ 40,968</u>	<u>\$ —</u>	<u>\$ 39,005</u>	<u>\$ 1,963</u>

	Fair Value Measurements at December 31, 2019			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
<b>Cash equivalents:</b>				
Money market fund deposits and term deposits	\$ 155,080	\$ 155,080	\$ —	\$ —
Commercial paper	54,712	—	54,712	—
<b>Short-term investments:</b>				
Corporate bonds	259,422	259,422	—	—
Commercial paper	236,752	—	236,752	—
Certificate of deposit	6,501	6,501	—	—
<b>Long-term investments and other assets:</b>				
Auction rate securities	592	—	—	592
Interest rate swap	13	—	13	—
Total assets	<u>\$ 713,072</u>	<u>\$ 421,003</u>	<u>\$ 291,477</u>	<u>\$ 592</u>
<b>Liabilities</b>				
Long-term notes	\$ 42,004	\$ —	\$ 42,004	\$ —
Contingent purchase consideration	273	—	—	273
Total liabilities	<u>\$ 42,277</u>	<u>\$ —</u>	<u>\$ 42,004</u>	<u>\$ 273</u>

Short-term investments consist of liquid investments including U.S. government and government agency notes, corporate bonds, commercial paper and certificates of deposit with original maturities of greater than three months but less than one year and are recorded at amortized cost. There were no impairments for the investments considered held-to-maturity at December 31, 2020 and December 31, 2019.

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The following table presents the effective maturity dates of debt investments, which are held-to-maturity:

	December 31, 2020		December 31, 2019	
	Book Value	Fair Value	Book Value	Fair Value
<b>Investment maturity</b>				
Less than 1 year	\$ 514,835	\$ 514,829	\$ 502,546	\$ 502,675

The Company entered into an interest rate swap that is designated as a cash flow hedge associated with a long-term note issued during the second quarter of 2016 that will terminate with the long-term note in May 2023. The fair value at December 31, 2020 for the interest rate swap considered pricing models whose inputs are observable for the securities held by the Company.

At December 31, 2020 and December 31, 2019, the Company's long-term notes consisted of a variable rate note and a fixed rate note, and are reported at amortized cost on the consolidated balance sheets. For disclosure purposes, the fair value of the long-term notes was estimated using a discounted cash flow model using observable market interest rates and are classified as a level 2. Based on the discounted cash flow model, the fair values of the long-term notes at December 31, 2020 and 2019 were \$38,402 and \$42,004, respectively, as compared to the book value of \$37,967 and \$41,708, respectively.

The fair value of contingent consideration was determined using an income approach at the respective business combination date and at the reporting date. That approach is based on significant inputs that are not observable in the market and include key assumptions such as assessing the probability of meeting certain milestones required to earn the contingent consideration.

The following table presents information about the Company's movement in Level 3 assets and liabilities measured at fair value:

	2020	2019	2018
<b>Auction rate securities</b>			
Balance, January 1	\$ 592	\$ 847	\$ 1,016
Redemptions	(596)	(264)	(207)
Change in fair value	4	9	38
Balance, December 31	\$ —	\$ 592	\$ 847
<b>Contingent purchase consideration</b>			
Balance, January 1	\$ 273	\$ 898	\$ 902
Period transactions	1,963	—	—
Cash payments	(272)	(632)	—
Change in fair value	—	(29)	48
Foreign exchange adjustment	(1)	36	(52)
Balance, December 31	\$ 1,963	\$ 273	\$ 898

The auction rate securities were called during the year ended December 31, 2020. The net gain previously included in accumulated other comprehensive income was released and included in net income, in the amount of \$232.

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#### 4. INVENTORIES

Inventories consist of the following:

	December 31,	
	2020	2019
Components and raw materials	\$ 190,775	\$ 200,390
Work-in-process	47,251	49,620
Finished goods	126,967	130,780
Total	<u>\$ 364,993</u>	<u>\$ 380,790</u>

The Company recorded inventory provisions totaling \$45,375, \$38,902 and \$12,981 for the years ended December 31, 2020, 2019 and 2018, respectively. These provisions relate to the recoverability of the value of inventories due to technological changes and excess quantities. These provisions are reported as a reduction to components and raw materials and finished goods.

#### 5. BUSINESS COMBINATIONS

During the fourth quarter of 2020, the Company acquired Pi-Tecnologia S.A. ("PiTec"), which is located in Brazil, to support development in advanced photonics. The acquisition price was \$2,717, of which \$906 was paid at closing and the remainder of which may be earned over three years based on reaching certain financial targets. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill, which amounted to \$3,211. The goodwill arising from this acquisition will not be deductible for tax purposes. The purchase price allocations related to the PiTec acquisition included in the Company's consolidated financial statements are not complete. They represent the preliminary fair value estimates as of December 31, 2020 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in changes to the amounts and allocations recorded.

During the first quarter of 2019, the Company acquired the submarine networks division (SND) of Padtec SA, a communications equipment company based in Brazil. SND is a provider of submarine networking technology and systems. The Company paid \$19,560 to acquire SND, which represents the fair value on that date. Of the purchase price, \$2,322 at December 31, 2020 (\$2,914 at December 31, 2019) was held back in a restricted bank account for potential post-closing adjustments related to indemnities provided by the seller. The restricted cash balance is recorded in the consolidated balance sheets as presented in Note 1. The liability related to the amount due to the seller if the indemnities are satisfied is included within accrued expenses and other current liabilities as of December 31, 2020 on the consolidated balance sheets. Any excess of the purchase price was allocated to goodwill.

During the fourth quarter of 2018, the Company acquired 100% of the membership units of Genesis System Group, LLC ("Genesis Systems"). Genesis Systems is based in Davenport, Iowa, and has production facilities in the United States, Mexico, and Japan. Genesis Systems develops innovative robotic system solutions for applications that include welding, non-destructive inspection, machine vision, materials handling, removal and dispensing. The Company paid \$107,987 to acquire Genesis Systems, which represents the fair value on that date. The purchase price includes \$448, which was paid for the working capital adjustment finalized in the first quarter of 2019. As a result of the acquisition, the Company recorded intangible assets of \$32,350 related to customer relationships with a weighted-average estimated useful life of 11 years and \$11,350 related to technology, trademark and tradename with a weighted-average estimated useful life of 6 years. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill, which amounted to \$45,684, most of which will be deductible for tax purposes.

During the second quarter of 2018, the Company acquired 100% of the shares of robot concept GmbH ("RC"). RC is located near Munich, Germany, designs and manufactures customized laser systems. The purchase price was \$4,453, which represents the fair value on that date. As a result of the acquisition, the Company recorded intangible assets of \$111 related to customer relationships with a weighted-average estimated useful life of 1 year and \$594 related to technology, trademark and tradename with a weighted-average estimated useful life of 10 years. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill, which amounted to \$4,072. The goodwill arising from this acquisition will not be deductible for tax purposes.

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The fair values of net tangible assets and intangible assets acquired were based upon the Company's estimates and assumptions at the acquisition dates. The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition dates for the year ended December 31, 2018:

	Genesis Systems	RC	Total
Cash and cash equivalents	\$ 2,847	\$ 30	\$ 2,877
Assets acquired excluding cash and cash equivalents and deferred tax assets	39,262	2,151	41,413
Liabilities assumed excluding deferred tax liabilities	(23,506)	(1,932)	(25,438)
Deferred tax liabilities, net	—	(573)	(573)
Intangible assets	43,700	705	44,405
Total identifiable net assets	62,303	381	62,684
Goodwill	45,684	4,072	49,756
Total purchase price	\$ 107,987	\$ 4,453	\$ 112,440

The operating results of Genesis Systems and RC are included in the consolidated results of operations from the date of acquisition. The impact of earnings from Genesis Systems and RC from January 1, 2018 to the date of acquisition were not material to the Company. If the Genesis Systems acquisition had occurred on January 1, 2018, the unaudited consolidated pro forma net sales would have been \$1,551,373 for the year ended December 31, 2018.

**6. RESTRUCTURING**

In the second half of 2019, the Company implemented restructuring programs globally, which were primarily focused on workforce reduction, facility consolidation and ceasing investment in the submarine telecommunications industry.

Activity related to the restructuring accrual was as follows:

	Severance and Employee Benefit Costs	Contract Cancellations	Total
Balance at January 1, 2019	\$ —	\$ —	\$ —
Charges	1,466	314	1,780
Cash payments	(1,317)	(275)	(1,592)
Balance at December 31, 2019	149	39	188
Charges	417	89	506
Cash payments	(560)	(128)	(688)
Foreign exchange adjustment	(6)	—	(6)
Balance at December 31, 2020	\$ —	\$ —	\$ —

**7. GOODWILL AND INTANGIBLE ASSETS**

The following table sets forth the changes in the carrying amount of goodwill for the years ended December 31, 2020 and 2019:

	2020	2019
Balance at January 1	\$ 82,092	\$ 100,722
Adjustments to goodwill during the measurement period	—	448
Goodwill arising from business combinations	3,211	19,076
Impairment losses	(44,589)	(37,120)
Foreign exchange adjustment	652	(1,034)
Balance at December 31	\$ 41,366	\$ 82,092



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The Company tests its reporting units for goodwill impairment annually as of the first day of the fourth quarter, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount. For certain reporting units, the Company performed a quantitative assessment using the discounted cash flow method under the income approach to estimate the fair value.

During the third quarter of 2020, the Company concluded that declines in revenue and order flow for the Genesis custom systems business caused by pandemic-related decreases in capital spending in the aerospace and transportation industries were a triggering event requiring a goodwill impairment evaluation. The Company performed a quantitative assessment using the discounted cash flow method under the income approach as well as the guideline public company analysis and guideline transaction analysis under the market approach to estimate the fair value of the custom systems business. As a result, the Company recognized a non-cash impairment loss of \$44,589, which was equal to the carrying amount of goodwill prior to its impairment. The analysis considered internal forecasts of sales, profitability and capital expenditures, as well as valuation multiples of comparable public companies and valuation multiples of transactions of comparable companies. The Company performed the 2020 annual impairment test as of October 1, 2020, and no additional impairments were recorded as a result of this test. The carrying balance of goodwill at December 31, 2020 was net of accumulated impairments of \$81,709.

As a result of the 2019 annual impairment test for the transceivers reporting unit, the Company recognized a non-cash impairment loss of \$19,325, which was equal to the goodwill carrying amount prior to its impairment. The analysis considered lower than forecasted sales and profitability, as well as the impact of delays in new product launches. Additionally, in 2019 the Company decided that it would not make further investments required to obtain the necessary market share in the submarine telecommunications industry and commenced efforts to sell the submarine networks reporting unit. As a result that decision, the Company recognized a non-cash impairment loss of \$17,795, which decreased the net assets to the estimated net realizable value as of December 31, 2019. The Company sold the submarine networks reporting unit in the third quarter of 2020. The carrying balance of goodwill at December 31, 2019 was net of accumulated impairments of \$37,120.

Intangible assets, subject to amortization, consisted of the following:

	December 31, 2020				December 31, 2019			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Lives	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Lives
Customer relationships	\$ 58,041	\$ (17,674)	\$ 40,367	11 years	\$ 57,866	\$ (11,993)	\$ 45,873	11 years
Technology, trademark and trade name	40,518	(20,949)	19,569	7 years	41,297	(16,128)	25,169	7 years
Production know-how	9,325	(8,167)	1,158	7 years	9,180	(7,415)	1,765	7 years
Patents	8,036	(7,016)	1,020	8 years	8,036	(6,572)	1,464	8 years
Total	\$ 115,920	\$ (53,806)	\$ 62,114		\$ 116,379	\$ (42,108)	\$ 74,271	

Amortization expense for the years ended December 31, 2020, 2019 and 2018 was \$11,974, \$12,945 and \$8,170, respectively.

The estimated future amortization expense for intangibles as of December 31, 2020 is as follows:

2021	2022	2023	2024	2025	Thereafter	Total
\$ 11,591	\$ 10,761	\$ 9,861	\$ 7,522	\$ 6,311	\$ 16,068	\$ 62,114

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**8. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	December 31,	
	2020	2019
Land	\$ 51,454	\$ 45,676
Buildings	412,725	400,617
Machinery and equipment	473,420	449,783
Office furniture and fixtures	77,196	70,001
Construction-in-progress	70,341	44,201
Total property, plant and equipment	1,085,136	1,010,278
Accumulated depreciation	(487,609)	(409,426)
Total property, plant and equipment — net	\$ 597,527	\$ 600,852

The Company recorded depreciation expense of \$78,414, \$78,959 and \$68,231 for the years ended December 31, 2020, 2019 and 2018, respectively.

Long-lived assets include property, plant and equipment, related deposits on such assets and demonstration equipment. The geographic locations of the Company's long-lived assets, net, based on physical location of the assets, as of December 31, 2020 and 2019 are as follows:

	December 31,	
	2020	2019
United States	\$ 362,395	\$ 366,059
Germany	86,980	86,881
Russia	66,924	84,471
Belarus	38,304	28,361
China	8,175	8,933
Other	49,170	43,255
Total	\$ 611,948	\$ 617,960

**9. ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following:

	December 31,	
	2020	2019
Contract liabilities	\$ 71,246	\$ 59,531
Accrued compensation	62,785	48,881
Current portion of accrued warranty	24,345	23,114
Short-term lease liabilities	5,778	5,300
Other	12,586	12,956
Total	\$ 176,740	\$ 149,782

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**10. PRODUCT WARRANTIES**

Activity related to the warranty accrual was as follows:

	2020	2019	2018
Balance at January 1	\$ 48,866	\$ 51,422	\$ 47,517
Provision for warranty accrual	24,555	22,613	24,948
Warranty claims	(30,002)	(24,826)	(18,922)
Foreign currency translation and other	2,250	(343)	(2,121)
Balance at December 31	<u>\$ 45,669</u>	<u>\$ 48,866</u>	<u>\$ 51,422</u>

Accrued warranty reported in the accompanying consolidated financial statements as of December 31, 2020 and December 31, 2019 consists of \$24,345 and \$23,114 in accrued expenses and other liabilities and \$21,324 and \$25,752 in other long-term liabilities, respectively.

**11. FINANCING ARRANGEMENTS**

The Company's borrowings under existing financing arrangements consist of the following:

	December 31,	
	2020	2019
Total notes payable	\$ 37,967	\$ 41,708
Less: current portion	(3,810)	(3,740)
Total long-term debt	<u>\$ 34,157</u>	<u>\$ 37,968</u>

**Term Debt:**

*Long-Term Notes* — At December 31, 2020, the outstanding principal balance on the long-term notes was \$37,967 of which \$3,810 is the current portion. The Company has an unsecured long-term note of \$18,406 of which \$1,187 is the current portion. The interest on this unsecured long-term note is variable at 1.20% above LIBOR and is fixed using an interest rate swap at 2.85% per annum. The unsecured long-term note matures in May 2023, at which time the outstanding principal balance will be \$15,438. The Company has another note that is secured by the corporate aircraft with an outstanding principal balance of \$19,561 of which \$2,623 is the current portion. The interest on this collateralized long-term note is fixed at 2.74% per annum. The collateralized long-term note matures in July 2022, at which time the outstanding principal balance will be \$15,375.

The future principal payments for the Company's notes as of December 31, 2020 are as follows:

2021	\$ 3,810
2022	18,126
2023	16,031
Total	<u>\$ 37,967</u>

**Revolving Line of Credit Facilities:**

*U.S. Line of Credit* — The Company maintains an unsecured revolving line of credit with a principal amount of \$75,000, expiring in April 2025. The line of credit bears interest at a variable rate of LIBOR plus 0.80% to 1.20% depending on the Company's financial performance. Part of this credit facility is available to the Company's foreign subsidiaries including those in India, China, Japan and Brazil based on management discretion. At December 31, 2020, there were no outstanding drawings, however, there were \$3,300 of guarantees issued against the line which reduced the total availability. At December 31, 2020, the remaining availability under this line was \$71,700.

The Company is required to meet certain financial covenants associated with its U.S. revolving line of credit and long-term debt facility. These covenants, tested quarterly, include an interest coverage ratio and a funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio. The interest coverage covenant requires that the Company maintains a trailing twelve-month ratio of EBITDA to interest on all obligations that is at least 3.0:1.0. The funded debt to EBITDA covenant requires that the sum of all indebtedness for borrowed money on a consolidated basis be less than three

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times its trailing twelve months EBITDA. Funded debt is decreased by its cash and available marketable securities not classified as long-term investments in the U.S. in excess of \$50,000 up to a maximum of \$500,000.

*Euro Line of Credit* — The Company maintains an unsecured revolving line of credit with a principal amount of €50,000 (\$61,319 at December 31, 2020), expiring in July 2023. The line of credit bears interest at various rates based upon the type of loan. This credit facility is available to the Company's foreign subsidiaries including those in Germany, Russia, China and Italy based on management discretion. At December 31, 2020, there were no drawings, however, there were \$3,424 of guarantees issued against the line which reduced the total availability. At December 31, 2020, the remaining availability under this line was \$57,895.

*Other European Facilities* — The Company maintains two Euro credit lines in Italy with aggregate available principal of €2,000 (\$2,453 as of December 31, 2020), with no expiration date, which bear interest at market rates that reset at the beginning of each quarter. At December 31, 2020, there were no outstanding drawings and the aggregate remaining availability under these lines was \$2,453. These facilities are collateralized by a common pool of the assets of the Company's Italian subsidiary.

**12. DERIVATIVE INSTRUMENTS**

The Company's only outstanding derivative financial instrument is an interest rate swap that is classified as a cash flow hedge of its variable rate debt. The fair value amounts in the consolidated balance sheets were:

	December 31,	
	2020	2019
Notional amounts <sup>(1)</sup>	\$ 18,406	\$ 19,594
Fair values:		
Other assets	—	13
Deferred income taxes and other long-term liabilities	603	—

<sup>(1)</sup>Notional amounts represent the gross contract/notional amount of the derivative outstanding.

The derivative gains and losses in the consolidated financial statements for the years ended December 31, 2020, 2019 and 2018, related to the Company's current and previous interest rate swap contracts were as follows:

	Year Ended December 31,		
	2020	2019	2018
Effective portion recognized in other comprehensive income (loss), pretax:			
Interest rate swap	\$ (616)	\$ (18)	\$ 15

**13. LEASES**

The Company leases certain warehouses, office spaces, land, vehicles and equipment under operating lease agreements. The remaining terms of these leases range from less than 1 year to 44 years. The operating lease expense for the years ended December 31, 2020, 2019 and 2018, totaled \$7,797, \$8,800 and \$6,175, respectively. The cash paid for amounts included in the measurement of lease liabilities included in the operating cash flows from operating leases was \$6,634 and \$6,802 for the years ended December 31, 2020 and 2019, respectively. The Company does not have any finance lease arrangements.

The Company's operating lease assets and lease liabilities consist of the following as of December 31, 2020 and 2019:

Account	Classification	Year Ended December 31,	
		2020	2019
Right-of-use assets	Other assets	\$ 21,720	\$ 23,028
Short-term lease liabilities	Accrued expenses and other liabilities	5,778	5,300
Long-term lease liabilities	Deferred income taxes and other long-term liabilities	18,448	20,410
Total lease liabilities		\$ 24,226	\$ 25,710

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The table below presents the maturities of operating lease liabilities as of December 31, 2020:

2021	\$	6,452
2022		4,854
2023		3,573
2024		2,251
2025		2,076
Thereafter		8,311
Total future minimum lease payments		<u>27,517</u>
Less: imputed interest		<u>(3,291)</u>
Present value of lease liabilities	\$	<u><u>24,226</u></u>

Other information relevant to the Company's operating leases consist of the following as of December 31, 2020 and 2019:

	Year Ended December 31,	
	2020	2019
Weighted-average remaining lease term	9 years	9 years
Weighted-average discount rate	3.46 %	3.58 %

#### 14. COMMITMENTS AND CONTINGENCIES

*Employment Agreements* — The Company has entered into employment agreements with certain members of senior management. The terms of these agreements are up to three years and include non-competition, non-solicitation and nondisclosure provisions, as well as provisions for defined severance for terminations of employment under certain conditions and a change of control of the Company. The Company also maintains a severance plan for certain of its senior management providing for defined severance for terminations of employment under certain conditions and a change of control of the Company.

*Contractual Obligations* — The Company has entered into various purchase obligations that include agreements for construction of buildings, raw materials and equipment. Obligations under these agreements were \$51,730 and \$53,922 as of December 31, 2020 and 2019, respectively.

*Legal proceedings* — From time to time, the Company may be involved in disputes and legal proceedings in the ordinary course of its business. These proceedings may include allegations of infringement of intellectual property, commercial disputes and employment matters. As of December 31, 2020 and through the date of the Company's subsequent review period of February 22, 2021, the Company has no legal proceedings ongoing that management estimates could have a material effect on the Company's Consolidated Financial Statements.

#### 15. STOCK-BASED COMPENSATION

Stock-based compensation is included in the following financial statement captions:

	Year Ended December 31,		
	2020	2019	2018
Cost of sales	\$ 10,392	\$ 9,249	\$ 6,535
Sales and marketing	4,395	3,815	2,550
Research and development	9,122	7,690	6,410
General and administrative	11,749	12,824	12,532
Total stock-based compensation	<u>35,658</u>	<u>33,578</u>	<u>28,027</u>
Tax benefit recognized	(7,498)	(5,114)	(6,632)
Net stock-based compensation	<u>\$ 28,160</u>	<u>\$ 28,464</u>	<u>\$ 21,395</u>

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*Incentive Plans* — In February 2006, the Company's board of directors adopted the 2006 Incentive Compensation Plan (the "2006 Plan"), which provides for the issuance of stock options, performance stock units ("PSUs"), restricted stock units ("RSUs"), other equity-based awards and cash awards to the Company's directors, employees, consultants and advisors. In June 2006, the Company's board of directors adopted the Non-Employee Directors Stock Plan (the "Directors Plan") for non-employee directors, which was subsequently merged into the 2006 Plan. A total of 10,363,465 shares are reserved under the 2006 Plan. At December 31, 2020, 2,851,428 shares of the Company's stock were available for future grant under the 2006 Plan. The Company may grant stock options only at an exercise price equal to or greater than the fair market value of its common stock on the date of grant. Equity awards generally vest over periods of one to four years and generally expire ten years after the date of the grant. The vesting of awards under the 2006 Plan accelerate following the occurrence of certain change of control events, if the participant's employment is terminated within two years without cause or if the successor entity does not agree to assume existing awards or replace with equivalent value awards. Awards granted to non-employee directors automatically become exercisable upon a change of control. All shares issued under the 2006 Plan and Directors Plan are registered shares, newly issued by the Company.

The Company granted certain PSUs to executive officers and other senior managers. PSUs are based on relative total stockholder return ("TSR") and, starting in 2020, operating cash flow metrics ("OCF"). PSU agreements provide for the award of PSUs with each unit representing the right to receive one share of the Company's common stock to be issued after the applicable award vesting period. The final number of units awarded, if any, for these performance grants will be determined as of the vesting dates, based upon (i) in the case of TSR PSUs granted in 2020, the Company's total shareholder return over the performance period compared to the S&P 1500 Composite / Electronic Equipment Instruments & Components Index, and (ii) in the case of OCF PSUs, the ratios of the Company's operating cash flow to adjusted net income during three years in the performance period. The final number of units awarded under each of the TSR PSUs and OCF PSUs could range from between 0% and 200% of the amount of the target award.

During the year ended December 31, 2020, the Company did not grant stock options to employees, replacing them with a grant of RSUs. The assumptions used in the Black-Scholes model for the calculation of the options were as follows for the years ended December 31:

	2019	2018
Expected term	4.3 - 5.1 years	4.1 - 4.9 years
Volatility	37% - 38%	31% - 36%
Risk-free rate of return	1.66% - 2.55%	2.54% - 3.01%
Dividend yield	0.25%	0.25%
Forfeiture rate	—%	—%

The following table summarizes the option activity for the years ended December 31:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding — January 1, 2018	1,797,493	\$ 73.95		
Granted	257,111	232.26		
Exercised	(282,720)	58.94		
Forfeited	(24,810)	131.36		
Outstanding — December 31, 2018	1,747,074	98.93	5.80	\$ 58,084
Granted	334,740	153.78		
Exercised	(192,533)	56.58		
Forfeited	(46,839)	149.64		
Outstanding — December 31, 2019	1,842,442	112.03	5.73	\$ 85,110
Granted	—			
Exercised	(533,716)	70.17		
Forfeited	(36,103)	179.85		
Outstanding — December 31, 2020	1,272,623	\$ 127.74	5.47	\$ 125,550
Unvested — December 31, 2020	382,729	\$ 171.98	7.57	\$ 21,386
Exercisable — December 31, 2020	889,894	\$ 108.71	4.57	\$ 104,164

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The intrinsic value of the options exercised during the years ended December 31, 2020, 2019 and 2018, was \$52,868, \$17,891 and \$51,266, respectively. There were no options granted for the year ended December 31, 2020. The total compensation cost related to non-vested option awards not yet recorded at December 31, 2020 was \$13,522 which is expected to be recognized over a weighted-average of 1.9 years.

The following table summarizes the RSUs activity for the years ended December 31:

	Number of Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding — January 1, 2018	378,261	\$ 96.23		
Granted	80,254	227.45		
Vested	(97,997)	91.62		
Canceled	(9,497)	121.37		
Outstanding — December 31, 2018	351,021	126.93	2.62	\$ 39,767
Granted	120,090	151.94		
Vested	(147,606)	120.58		
Canceled	(16,667)	139.73		
Outstanding — December 31, 2019	306,838	139.09	2.57	\$ 44,467
Granted	198,606	145.10		
Vested	(168,733)	115.77		
Canceled	(16,025)	157.36		
Outstanding — December 31, 2020	320,686	\$ 154.29	1.33	\$ 71,766

The intrinsic value of the RSUs that vested during the years ended December 31, 2020, 2019 and 2018, was \$22,252, \$22,638 and \$22,978, respectively. The total compensation cost related to non-vested RSU awards not yet recorded at December 31, 2020 was \$35,060 which is expected to be recognized over a weighted-average of 2.7 years. The aggregate fair value of awards vested during the year ended December 31, 2020 was \$19,535.

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The weighted-average fair value of TSR PSUs was determined using the Monte Carlo simulation model incorporating the following weighted-average assumptions:

	2020	2019	2018
Performance term	3.0 years	3.0 years	3.0 years
Volatility	19% - 44%	18% - 40%	13% - 32%
Risk-free rate of return	1.39%	2.48%	2.41%
Dividend yield	—%	—%	—%
Weighted-average fair value per share	\$169.28	\$192.46	\$284.78

The following table summarizes TSR PSUs activity for the years ended December 31:

	Number of Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding — January 1, 2018	75,949	\$ 119.45		
Granted	33,706	238.12		
Vested	—			
Canceled	—			
Outstanding — December 31, 2018	109,655	146.96	1.77	\$ 12,423
Granted	34,989	190.83		
Vested	(43,594)	128.54		
Canceled	(1,208)	228.68		
Outstanding — December 31, 2019	99,842	162.34	1.84	\$ 14,469
Granted	18,411	170.42		
Vested	(48,659)	106.03		
Canceled	(1,769)	204.01		
Outstanding — December 31, 2020	67,825	\$ 206.21	1.28	\$ 15,179

TSR PSUs are included at 100% of target goal. The intrinsic value of the TSR PSUs vested during the year ended December 31, 2020 was \$6,211. The total compensation cost related to nonvested awards not yet recorded at December 31, 2020 was \$5,190 which is expected to be recognized over a weighted average of 1.8 years. The aggregate fair value of awards vested during the year ended December 31, 2020 was \$5,159.

The weighted-average fair value of the OCF PSUs was determined using the Black-Scholes model incorporating the following assumptions:

	2020
Performance term	3.0 years
Volatility	—%
Risk-free rate of return	1.39%
Dividend yield	0.10%
Weighted-average fair value per share	\$143.51



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The following table summarizes OCF PSUs activity for the year ended December 31:

	Number of Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding — January 1, 2020	\$ —			
Granted	24,817	\$ 143.51		
Vested	—			
Canceled	(716)	143.51		
Outstanding — December 31, 2020	24,101	\$ 143.51	2.16	\$ 5,394

OCF PSUs are included at 100% of target goal. The total compensation cost related to nonvested awards not yet recorded at December 31, 2020 was \$2,495 which is expected to be recognized over a weighted average of 2.3 years.

#### 16. EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution retirement plan offered to all of its U.S. employees, as well as plans at certain foreign and domestic subsidiaries. The Company makes matching contributions to each plan, which amounted to approximately \$6,253, \$6,005 and \$4,261, respectively for years ended December 31, 2020, 2019 and 2018.

The Company has an employee stock purchase plan offered to its U.S. and German employees. The plan allows employees who participate to purchase shares of common stock through payroll deductions at a 15% discount to the lower of the stock price on the first day or the last day of the six-month purchase period. Payroll deductions may not exceed 10% of the employee's compensation and are subject to other limitations. Compensation expense related to the employee stock purchase plan was \$2,033, \$2,254 and \$925 for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, there were 294,544 shares available for issuance under the employee stock purchase plan.

#### 17. INCOME TAXES

Income before the impact of income taxes for the years ended December 31 consisted of the following:

	2020	2019	2018
U.S.	\$ 5,490	\$ 59,790	\$ 146,855
Foreign	200,202	188,586	387,540
Total	\$ 205,692	\$ 248,376	\$ 534,395

The Company's provision for income taxes for the years ended December 31 consisted of the following:

	2020	2019	2018
Current:			
Federal	\$ 3,871	\$ 7,127	\$ 7,274
State	688	2,405	2,097
Foreign	53,608	74,072	125,431
Total current	58,167	83,604	134,802
Deferred:			
Federal	(10,300)	(4,896)	2,497
State	(1,594)	(1,658)	8,449
Foreign	(919)	(8,935)	(15,522)
Total deferred	(12,813)	(15,489)	(4,576)
Provision for income taxes	\$ 45,354	\$ 68,115	\$ 130,226

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A reconciliation of income tax expense at the U.S. federal statutory income tax rate to the recorded tax provision for the years ended December 31, were as follows:

	2020	2019	2018
Tax at statutory rate	\$ 43,201	\$ 52,159	\$ 112,223
Non-U.S. rate differential — net	10,968	14,958	26,985
State income taxes — net	697	2,362	3,367
Stock-based compensation - tax benefit	(9,664)	(5,114)	(13,298)
Foreign derived intangible income benefit ("FDII")	—	(4,763)	(7,930)
Global intangible low-taxed income taxed in the U.S. ("GILTI")	—	4,648	5,955
Goodwill impairment	—	10,009	—
Effect of 2017 U.S. Tax Cuts and Jobs Act	—	—	(4,747)
Withholding tax on intercompany dividend	2,193	3,122	—
Effect of changes in enacted tax rates on deferred tax assets and liabilities	(23)	(639)	8,007
Federal and state tax credits	(6,762)	(12,173)	(11,024)
Russia investment tax credit	(3,228)	—	—
Change in reserves, including interest and penalties	3,878	779	2,290
Change in valuation allowance	2,019	4,515	7,421
Other — net	2,075	(1,748)	977
Provision for income taxes	<u>\$ 45,354</u>	<u>\$ 68,115</u>	<u>\$ 130,226</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, were as follows:

	2020	2019
Inventory provisions	\$ 29,657	\$ 23,611
Allowances and accrued liabilities	12,719	10,502
Deferred compensation	3,256	9,428
Other tax credits	15,571	15,001
Net operating loss carryforwards	11,594	5,748
Property, plant and equipment	(7,401)	(18,607)
Withholding tax on intercompany dividend	(2,774)	(3,597)
Valuation allowance	(22,617)	(14,384)
Net deferred tax assets	<u>\$ 40,005</u>	<u>\$ 27,702</u>

The Company has recorded \$2,774 and \$3,597 as a deferred tax liability on December 31, 2020 and 2019, respectively, for certain withholding and dividend taxes related to possible future distributions from subsidiaries to their respective parent companies. The Company paid a dividend from its German subsidiary in 2020 of \$166,055 and continues to plan for future dividends to the extent the entity's cash exceeds its operational and investment needs. Since there is no federal or withholding tax on such distributions from Germany to the U.S., the Company has accrued only a state tax on future dividends from Germany. Also, the Company's subsidiary in Russia paid a dividend of \$50,000 to its parent company in Germany in 2019 and paid a 5% withholding tax on that dividend. In addition, the Company accrues taxes to the extent that foreign subsidiaries have cash in excess of their operational needs. The withholding tax liabilities at both December 31, 2020 and 2019 are primarily related to dividends out of the Company's Russian subsidiary. With regard to future repatriation of undistributed earnings of other non-U.S. subsidiaries, the Company continues to consider these earnings to be indefinitely reinvested to the extent the cash balance in each subsidiary is less than current needs for operations and expansion. At December 31, 2020 and 2019, the cumulative undistributed earnings in non-U.S. subsidiaries were approximately \$1,051,893 and \$1,078,879, respectively.

In determining the Company's 2020 and 2019 tax provisions, the Company calculated the deferred tax assets and liabilities for each separate tax entity. The Company then considered a number of factors including the positive and negative

**IPG PHOTONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
(In thousands, except share and per share data)

evidence regarding the realization of deferred tax assets to determine whether a valuation allowance should be recognized with respect to the deferred tax assets.

As of December 31, 2020 and 2019, the Company had state tax credit carryforwards (net of federal tax benefit) of \$15,571 and \$15,003, respectively. The state tax credit carryforwards begin expiring in 2021. The Company has determined that it is not more likely than not that some of the state credits will be used before the expiration date and has accrued a valuation allowance of \$12,414 and \$10,632 as of December 31, 2020 and 2019, respectively.

The Company has tax loss carryforwards in foreign jurisdictions totaling \$36,318 and \$13,218 as of December 31, 2020 and 2019, respectively. The Company does not believe it is more likely than not that any of the loss carryforwards can be used and has provided a valuation allowance against the tax benefit of the losses in foreign jurisdictions of \$10,210 and \$3,753 at December 31, 2020 and 2019, respectively. The Company's acquisition of Menara Networks, Inc. ("Menara") in 2016 included net operating loss carryforwards of \$22,242. As of December 31, 2020 and 2019, the Company had \$5,121 and \$8,953 of these net operating loss carryforwards remaining, respectively. No valuation allowance has been provided for these carryforwards as the Company expects to be able to fully utilize them to offset future income.

The Company provides reserves for potential payments of tax to various tax authorities related to uncertain tax positions and other issues. Reserves recorded are based on a determination of whether and how much of a tax benefit taken by the Company in the Company's tax filings or positions is "more likely than not" to be realized following resolution of any potential contingencies present related to the tax benefit, assuming that the matter in question will be raised by the tax authorities. The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

	2020	2019
Balance at January 1	\$ 11,416	\$ 11,206
Change in prior period positions	(427)	(1,776)
Settlement of prior period position	—	(230)
Additions for tax positions in current period	4,000	2,000
Foreign exchange adjustments	(283)	216
Balance at December 31	<u>\$ 14,706</u>	<u>\$ 11,416</u>

Substantially all of the liability for uncertain tax benefits related to various federal, state and foreign income tax matters, would benefit the Company's effective tax rate, if recognized.

Estimated penalties and interest related to the underpayment of income taxes were \$305, \$543 and \$631 for the years ended December 31, 2020, 2019 and 2018, respectively, and are included within the provision for income taxes. Total accrued penalties and interest related to the underpayment of income taxes were \$1,977 and \$1,672 at December 31, 2020 and 2019, respectively.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. The Company is currently under a tax audit in the U.S. for the years 2017 to 2018. Open tax years by major jurisdictions are:

United States	2017 - 2020
Germany	2017 - 2020
Russia	2016 - 2020

**IPG PHOTONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
(In thousands, except share and per share data)

**18. NET INCOME ATTRIBUTABLE TO IPG PHOTONICS CORPORATION PER SHARE**

The following table sets forth the computation of diluted net income attributable to IPG Photonics Corporation per share:

	Year Ended December 31,		
	2020	2019	2018
Net income attributable to IPG Photonics Corporation	\$ 159,572	\$ 180,234	\$ 404,027
Net income attributable to common stockholders	159,572	180,234	404,027
Basic weighted average shares	53,186	53,061	53,522
Dilutive effect of common stock equivalents	599	778	1,204
Diluted weighted average common shares	53,785	53,839	54,726
Basic net income attributable to IPG Photonics Corporation per share	\$ 3.00	\$ 3.40	\$ 7.55
Basic net income attributable to common stockholders	\$ 3.00	\$ 3.40	\$ 7.55
Diluted net income attributable to IPG Photonics Corporation per share	\$ 2.97	\$ 3.35	\$ 7.38
Diluted net income attributable to common stockholders	\$ 2.97	\$ 3.35	\$ 7.38

The computation of diluted weighted average common shares excludes certain common stock equivalents, including non-qualified stock options, PSUs, RSUs and the employee stock purchase plan because the effect of including them would be anti-dilutive. The weighted average anti-dilutive shares outstanding for the years ended December 31, 2020, 2019 and 2018, respectively, were as follows:

	Year Ended December 31,		
	2020	2019	2018
Non-qualified stock options	536,500	571,000	204,300
Restricted stock units	29,100	58,700	60,500
Performance stock units	—	40,900	14,900
Total weighed average anti-dilutive shares outstanding	565,600	670,600	279,700

On May 5, 2020, the Company announced that its Board of Directors authorized the purchase of up to \$200,000 of IPG common stock. This new authorization is separate from, and in addition to, the Company's \$125,000 stock repurchase program authorized in February 2019. Under the two share purchase authorizations, IPG may repurchase shares of common stock (a) in an amount not to exceed the lesser of the number of shares issued to employees and directors under the Company's various employee and director equity compensation and employee stock purchase plans in 2019 and 2020 or \$125,000 plus (b) \$200,000, in both cases exclusive of any fees, commissions or other expenses. Share repurchases may be made periodically in open-market transactions using the Company's working capital and are subject to market conditions, legal requirements and other factors. The share purchase program authorization does not obligate the Company to repurchase any dollar amount or number of its shares, and repurchases may be commenced or suspended from time to time without prior notice.

For the years ended December 31, 2020, 2019 and 2018, respectively, the Company repurchased 301,660 shares, 301,262 shares, and 1,051,825 shares of its common stock with an average price of \$125.58, \$135.21 and \$167.39 per share in the open market, respectively. As of December 31, 2020 the remaining amount authorized under the programs is up to \$246,000, but may be less depending upon the equity compensation and employee stock purchase plan dilution during the programs. The impact on the reduction of weighted average shares for years ended December 31, 2020, 2019 and 2018 was 201,953 shares, 97,054 shares and 363,936 shares, respectively.

**19. RELATED-PARTY TRANSACTIONS**

The Company's Chief Executive Officer ("CEO") leases the annual right to use 25% of the Company's corporate aircraft under a lease signed in July 2017. The lease expires July 2022. The annual lease rate is \$925 and future rent payments are adjusted annually. The Company invoiced the CEO \$937, \$924 and \$925 in 2020, 2019, and 2018, respectively, under the aircraft leases. There was \$154 due to the Company at December 31, 2020, and there were no amounts due at December 31, 2019. The CEO directly pays an unrelated flight management firm for the operating costs of his private use including pilot fees, fuel and other costs.

**IPG PHOTONICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
(In thousands, except share and per share data)

In 2020, 2019 and 2018, the Company purchased various equipment, parts and services from a company for which one of the Company's independent directors was chairman of its board of directors. The payments for 2020, 2019 and 2018 totaled \$760, \$51 and \$947, respectively. There was \$566 due to this company at December 31, 2020, and there were no amounts due at December 31, 2019.

The Company sold various equipment and parts to a different company for which one of the Company's independent directors is also an independent director. The sales totaled \$675 for 2020, and there were no sales for 2019 and 2018. There was \$334 due to the Company at December 31, 2020, and there were no amounts due at December 31, 2019.

**20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

<b>2020</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Net sales	\$ 249,242	\$ 296,411	\$ 318,441	\$ 336,630
Gross profit	102,876	136,449	152,792	146,879
Net income attributable to IPG Photonics Corporation	36,403	38,226	35,604	49,339
Net income per share, basic	0.69	0.72	0.67	0.92
Net income per share, diluted	0.68	0.71	0.66	0.92

Net income attributable to IPG Photonics Corporation as well as the basic and diluted income per share in the third quarter of the year ended December 31, 2020 were impacted by goodwill impairment discussed in Note 7.

<b>2019</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Net sales	\$ 315,047	\$ 363,769	\$ 329,138	\$ 306,627
Gross profit	148,911	180,237	152,858	124,203
Net income (loss) attributable to IPG Photonics Corporation	55,159	72,272	57,253	(4,450)
Net income (loss) per share, basic	1.04	1.36	1.08	(0.08)
Net income (loss) per share, diluted	1.02	1.34	1.07	(0.08)

Net income attributable to IPG Photonics Corporation as well as the basic and diluted loss per share in the fourth quarter of the year ended December 31, 2019 were impacted by goodwill impairment, impairment of long-lived assets and other restructuring charges discussed in Notes 6 and 7.

**Subsidiaries of Registrant**

<b>Name</b>	<b>State or Jurisdiction of Incorporation</b>	<b>Ownership by Registrant as of December 31, 2020</b>
IPG Laser GmbH	Germany	100%
NTO IRE-Polus	Russia	100%

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-139509, 333-151571, 333-167381, 333-177818, 333-206931, and 333-223045 each on Form S-8 of our reports dated February 22, 2021, relating to the consolidated financial statements of IPG Photonics Corporation and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of IPG Photonics Corporation for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts  
February 22, 2021

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Valentin P. Gapontsev, certify that:

1. I have reviewed this Annual Report on Form 10-K of IPG Photonics Corporation for the year ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2021

*/s/ Valentin P. Gapontsev*

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Valentin P. Gapontsev  
Chairman and Chief Executive Officer  
(Principal Executive Officer)



**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Timothy P.V. Mammen, certify that:

1. I have reviewed this Annual Report on Form 10-K of IPG Photonics Corporation for the year ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2021

*/s/ Timothy P.V. Mammen*

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Timothy P.V. Mammen  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the "Report") by IPG Photonics Corporation (the "Company"), Valentin P. Gapontsev, the Chief Executive Officer of the Company, and Timothy P.V. Mammen, the Chief Financial Officer of the Company, each hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1 the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

2 the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2021

**/s/ VALENTIN P. GAPONTSEV**

**Valentin P. Gapontsev  
Chairman and Chief Executive Officer**

**/s/ TIMOTHY P.V. MAMMEN**

**Timothy P.V. Mammen  
Senior Vice President and Chief Financial Officer**

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to IPG Photonics Corporation and will be retained by IPG Photonics Corporation and furnished to the Securities and Exchange Commission or its staff upon request.