VERTICALNET INC
Form S-3
September 17, 2004
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As filed with the Securities and Exchange Commission on September 17, 2004

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

VERTICALNET, INC.

(Exact name of Registrant as specified in its charter)

Pennsylvania	**7372**	**23-2815834**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code No.)**	**(I.R.S. Employer Identification No.)**

400 Chester Field Parkway

Malvern, Pennsylvania 19355

(610) 240-0600

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

Christopher G. Kuhn

Vice President, General Counsel and Secretary

400 Chester Field Parkway

Malvern, Pennsylvania 19355

(610) 240-0600

(Name and address, including zip code, and telephone number, including area code, of agent for service)

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

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

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

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

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

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CALCULATION OF REGISTRATION FEE

Title Of Each Class of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount Of Registration Fee
Common Stock	8,100,000	$1.18(1)	$9,558,000(1)	$1,211
Common Stock (2)	1,275,000	$1.25(3)	$1,593,750(3)	$202

(1) Estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices reported on the Nasdaq SmallCap Market on September 13, 2004.

(2) Issuable upon exercise of warrants together with such indeterminate number of shares as may be issuable pursuant to anti-dilution provisions contained therein.

(3) Estimated based on the exercise price of the warrants in accordance with Rule 457(g) under the Securities Act of 1933, as amended.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SECURITY HOLDERS MAY NOT SELL ANY OF THE SECURITIES DESCRIBED IN THIS PROSPECTUS UNTIL THE REGISTRATION STATEMENT THAT WE HAVE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION TO COVER THE SECURITIES IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED SEPTEMBER 17, 2004

PRELIMINARY PROSPECTUS

9,375,000 Shares

VERTICALNET, INC.

Common Stock

This prospectus relates to the public offering, which is not being underwritten, of 9,375,000 shares of common stock, 8,100,000 of which are outstanding and 1,275,000 of which may be issued as the result of the exercise of warrants held by selling shareholders.

The selling shareholders may offer for resale through this prospectus the shares of common stock at various times at market prices prevailing at the time of sale or at privately negotiated prices. The selling shareholders may resell the common stock to or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions. We will not receive any of the proceeds from the resale of the common stock offered through this prospectus. We will bear all costs, expenses and fees in connection with the registration of the shares. The selling shareholders will bear all commissions and discounts, if any, attributable to the sales of the shares.

Shares of our common stock are quoted on the Nasdaq SmallCap Market under the symbol VERT. The last reported sale price of the shares on September 13, 2004 was $1.20 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK.

<u>RISK FACTORS</u> BEGIN ON PAGE 2.

Neither the Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004

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SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus or incorporated by reference in this prospectus and may not contain all the information that is important to you.

Our Company

We are a provider of Supply Management solutions to Global 2000 companies. We provide a full scope of Supply Management software, services, and domain expertise in areas that include: Program Management, Spend Analysis, eSourcing, Contract Management, and Supplier Performance Management. Our solutions provide our clients with the visibility, insight, and control required to identify, realize, and sustain value from supply management initiatives.

In addition to traditional software installation and ASP hosting, we offer the majority of our software products in an On-Demand delivery model. On-Demand delivery enables our customers to pay a single annual fee that includes software license, maintenance, application hosting, customer/community support and training. We believe that our On-Demand delivery model mitigates the software implementation costs for our customers, and reduces the obstacles to a successful supply management initiative.

In addition to implementation services, we provide customers with supply management business process consulting, primarily in the areas of Spend Analysis and Advanced Sourcing. In addition to our packaged applications and implementation services, we offer custom software development for customers that desire to build additional supply management capabilities.

About Verticalnet

Principal Executive Offices:

Verticalnet, Inc.

400 Chester Field Parkway

Malvern, Pennsylvania 19355

Phone: (610) 240-0600

Internet Address:

www.verticalnet.com (Information contained on our Web site is not a part of this prospectus)

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RISK FACTORS

We may require additional capital for our operations and obligations, and, as a result, we are exploring alternatives to preserve and enhance value.

Although, based on our most recent projections, we believe our current level of liquid assets and the expected cash flows from contractual revenue arrangements will be sufficient to finance our capital requirements and anticipated operating losses through at least the next twelve months, any projection of future long-term cash needs and cash flows are inherently subject to uncertainty. There is no assurance that our resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements during this period. We may need, or find it advantageous, to raise additional funds in the future to fund our growth, pursue sales and licensing opportunities, develop new or enhanced products and services, respond to competitive pressures, or acquire complementary businesses, technologies, or services.

If we are ultimately unable, for any reason, to receive cash payments expected from our customers, our business, financial condition, and results of operations will be materially and adversely affected.

We may not generate an operating profit.

As of June 30, 2004, our accumulated deficit was approximately $1.2 billion. We may never again generate an operating profit or, even if we do become profitable from operations at some point, we may be unable to sustain that profitability.

We generate most of our revenues and accounts receivable from two customers.

For the six months ended June 30, 2004, two customers accounted for $7.0 million or 63% of our total revenues. Any termination of our professional services by either of these customers could have a material adverse effect on our business, operating results, and financial conditions.

As of June 30, 2004, these two customers accounted for $3.8 million of our accounts receivable balance. As of August 31, 2004, approximately $55,000 of the June 30, 2004 balance for these two customers remains outstanding. Although we have had a successful collection history with these two customers, and do not foresee any collection issues, there can be no assurance that we will be able to collect these outstanding balances.

We have contractual obligations to provide consulting services over many periods.

We maintain a professional services and consulting workforce to fulfill contracts that we enter into with our customers that may extend to multiple periods. Our profitability is largely a function of performing against customer contractual arrangements within the estimated costs to perform these obligations. If we exceed these estimated costs, our profitability under these contracts may be negatively impacted. In addition, if we are not able to obtain sufficient work to keep all of our professionals on revenue generating projects, our business, financial condition, and results of operations may be adversely affected.

If we fail to meet client expectations in the performance of our services, our business could suffer.

Our failure to meet client expectations in the performance of our services, including the quality, cost, and timeliness of our services, may adversely affect our ability to attract and retain clients. If a client is not satisfied with our services, we will generally spend additional human and other resources at our own expense to ensure client satisfaction. Such expenditures will typically result in a lower margin on such engagements and could materially adversely affect our business, financial condition, and results of operations.

We may be unable to maintain our listing on the Nasdaq Stock Market, which could cause our stock price to fall and decrease the liquidity of our common stock.

Our common stock is currently listed on the Nasdaq SmallCap Market. A continued listing on the Nasdaq SmallCap Market requires us to meet certain qualitative standards, including maintaining a certain number of independent Board members and independent Audit Committee members, and certain quantitative standards, including that we maintain $2.5 million in shareholders equity and that the closing price of our common stock not be less than $1.00 per share for 30 consecutive trading days. Our stock closed above $1.00 on September 13, 2004.

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We expect to remain in compliance with Nasdaq s listing qualifications for continued listing of our stock. However, there can be no assurance that we will continue to be able to meet the all qualitative and quantitative listing qualifications in the future. In the event we do not meet such listing qualifications, our common stock could be subject to delisting from the Nasdaq SmallCap Market.

If our stock is delisted from the Nasdaq Stock Market or our share price declines significantly, then our stock may be deemed to be penny stock.

If our common stock is considered penny stock, it would be subject to rules that impose additional sales practices on broker-dealers who sell our securities. Because of these additional obligations, some brokers may be unwilling to effect transactions in our stock. This could have an adverse effect on the liquidity of our common stock and the ability of investors to sell their stock. For example, broker-dealers must make a special suitability determination for the purchaser and have received the purchaser s written consent to the transaction prior to sale. Also, a disclosure schedule must be prepared prior to any transaction involving a penny stock and disclosure is required about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

If our stock is delisted from the Nasdaq Stock Market, we may be unable to license our products and sell our services to prospective or existing customers.

If our stock is delisted, our prospective and existing customers may lose confidence that we can continue as a viable business to provide support necessary to further develop our solution and provide ongoing maintenance and consulting services. Prospective and existing customers could consider alternative solutions or significantly reduce the value they are willing to pay for our solution to compensate for the potential added risk to their business. If our stock is delisted, our ability to meet our revenue goals could be adversely impacted, resulting in deterioration of the financial condition of our business.

Our success depends on our ability to retain key management and experienced software personnel, whom we may not be able to retain.

We believe that our success depends on the continued employment of our senior management team and on maintaining a highly trained staff. If one or more members of our senior management team were unable or unwilling to continue in their present positions, our success could be materially adversely affected. If we are unable to retain our personnel, it could limit our ability to service our customers and design and develop products, which could reduce our attractiveness to potential customers, investors, or acquirers.

We may not be able to hire or retain enough additional personnel to meet our hiring needs.

Our success also depends on having highly trained professional services and development personnel. We may need to hire additional personnel if our business grows. A shortage in the number of trained consultants and developers could limit our ability to implement our software if we are able to license software to new customers or if our present customers ask us to perform more services for them. Competition for personnel, particularly for employees with technical expertise, could be strong. Our business, financial condition, and operating results will be materially adversely affected if we cannot hire and retain suitable personnel.

Fluctuations in our quarterly operating results may cause our stock price to decline.

Our quarterly operating results are difficult to forecast and could vary significantly. If our operating results in a future quarter or quarters do not meet the expectations of securities analysts or investors, the price of our common stock may fall. Our quarterly operating results will be substantially dependent on software licenses and professional services booked and delivered in that quarter. Any delay in the recognition of revenue for any of our license transactions or professional services could cause significant variations in our quarterly operating results and could cause our revenues to fall significantly short of anticipated levels. We also expect that our quarterly operating results will fluctuate significantly due to other factors, many of which are beyond our control, including:

anticipated lengthy sales cycle for our products;

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- the size and timing of individual license transactions;
- intense and increased competition in our target markets;
- our ability to develop, introduce, and bring to market new products and services, or enhancements to our existing products and services, on a timely basis; and
- risks associated with past acquisitions.

If we are able to grow our business, we may not be able to manage the growth successfully.

If we are able to grow our business, such growth could place a significant strain on our resources and systems. To manage our growth, we must implement systems and train and manage our employees. In addition, we may not be able to limit our exposure to non-creditworthy customers.

We may seek to acquire another business or raise additional capital, which could dilute the ownership of our existing shareholders.

We may seek to grow our business by acquiring another business. In addition, we may seek to raise additional capital. We may incur debt or issue equity securities to pay for acquisitions or to raise additional capital, which may be dilutive to our existing shareholders.

New versions and releases of our products may contain errors or defects.

Our enterprise software products may contain undetected errors or failures when first introduced or as new versions are released. This may result in loss of, or delay in, market acceptance of our products. Errors in new releases and new products after their introduction could result in delays in release, lost revenues, and customer frustration during the period required to correct these errors. We may in the future discover errors and defects in new releases or new products after they are shipped or released.

We utilize third-party software that we incorporate into and include with our products and solutions, and impaired relations with these third-parties, defects in third-party software, or their inability or failure to enhance their software over time could have a material adverse effect on our operating performance and financial condition.

We incorporate and include third-party software into and with our products and solutions. We are likely to incorporate and include additional third-party software into and with our products and solutions as we expand our product offerings. If our relations with any of these third-party software providers become impaired, and if we are unable to obtain or develop a replacement for the software, our business could be harmed. Our products may be impacted if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third-parties will continue to invest the appropriate levels of resources in their products and services to maintain and enhance the capabilities of their software.

We have begun to shift a significant portion of our product development operations to India, which poses significant risks.

Since September 2003, an unrelated third-party has provided us with software development services in Bangalore, India. We have continued to increase the proportion of our product development work being performed by contractors in India in order to take advantage of cost efficiencies associated with India s lower wage scale. However, we may not achieve the cost savings and other benefits we anticipate from this program and we may not be able to find sufficient numbers of developers with the necessary skill sets in India to meet our needs. We have a heightened risk exposure to changes in the economic, security, and political conditions of India. Economic and political instability, military actions, and other unforeseen occurrences in India could impair our ability to develop and introduce new software applications and functionality in a timely manner, which could put our products at a competitive disadvantage whereby we lose existing customers and fail to attract new customers.

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Our target markets are evolving and characterized by rapid technological change, which we may not be able to keep pace with.

The markets for our products and services are evolving and characterized by rapid technological change, changing customer needs, evolving industry standards, and frequent new product and service announcements. The introduction of products employing new technologies and emerging industry standards could render our existing products or services obsolete or unmarketable. If we are unable to respond to these developments successfully or do not respond in a cost-effective way, our business, financial condition, and operating results will suffer. To be successful, we must continually improve and enhance the responsiveness, services, and features of our enterprise software products and introduce and deliver new product and service offerings and new releases of existing products. We may fail to improve or enhance our software products or introduce and deliver new releases or new offerings on a timely and cost-effective basis or at all. If we experience delays in the future with respect to our software products, or if our improvements, enhancements, offerings, or releases to these products do not achieve market acceptance, we could experience a delay or loss of revenues and customer dissatisfaction. Our success will also depend in part on our ability to acquire or license third-party technologies that are useful in our business, which we may not be able to do.

We may ultimately be unable to compete in the markets for the products and services we offer.

The markets for our enterprise software products and services are intensely competitive, which may result in low or negative profit margins and difficulty in achieving market share, either of which could seriously harm our business. We expect the intensity of competition to increase. Our enterprise software products and services face competition from software companies whose products or services compete with a particular aspect of the solution we provide, as well as several major enterprise software developers and consulting firms. Many of our competitors have longer operating histories, greater brand recognition, and greater financial, technical, marketing, and other resources than we do, and may have well-established relationships with our existing and prospective customers. This may place us at a disadvantage in responding to our competitors pricing strategies, technological advances, advertising campaigns, strategic partnerships, and other initiatives. Our competitors may also develop products or services that are superior to or have greater market acceptance than ours. If we are unable to compete successfully against our competitors, our business, financial condition, and operating results would be negatively impacted.

We have had decreases in the fair value, and in some cases a complete loss, of our equity investments.

As of June 30, 2004 and December 31, 2003, we held cost method investments with a carrying value of $606,000. We may never realize any return on our equity interests that we continue to hold, and we may suffer a complete loss on these interests, which could materially and adversely affect our business, financial condition, and operating results.

If we do not develop the Verticalnet brand in the supply management solution industry, our revenues might not increase.

We must establish and continuously strengthen the awareness of the Verticalnet brand in the supply management solution industry. If our brand awareness as a maker of supply management solution software does not develop, or if developed, is not sustained as a respected brand, it could decrease the attractiveness of our products and services to potential customers, which could result in decreased revenues.

We may not be able to protect our proprietary rights and may infringe the proprietary rights of others.

Proprietary rights are important to our success and our competitive position. We may be unable to register, maintain, and protect our proprietary rights adequately or to prevent others from claiming violations of their proprietary rights. Although we file copyright registrations for the source code underlying our software, enforcement of our rights might be too difficult and costly for us to pursue effectively. We have filed patent applications for the proprietary technology underlying our software, but our ability to fully protect this technology is contingent upon the ultimate issuance of the corresponding patents. Effective patent, copyright, and trade secret protection of our software may be unavailable or limited in certain countries.

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Several lawsuits have been brought against us and the outcome of these lawsuits is uncertain.

Several lawsuits have been brought against us and the underwriters of our stock in our initial public offering. These lawsuits allege, among other things, that the underwriters engaged in sales practices that had the effect of inflating our stock price, and that our prospectus for that offering was materially misleading because it did not disclose these sales practices. We intend to vigorously defend against these lawsuits. No assurance can be given as to the outcome of these lawsuits.

Shares eligible for future sale by our current or future shareholders may cause our stock price to decline.

If our shareholders or option and warrant holders sell substantial amounts of our common stock in the public market, including shares issued in completed or future acquisitions or upon the exercise of outstanding options and warrants, then the market price of our common stock could fall. In addition to the shares of common stock covered by this registration statement, as of June 30, 2004, the holders of 2,476,192 shares of common stock and warrants to purchase 62,703 shares of common stock have demand and/or piggyback registration rights. The exercise of such rights could adversely affect the market price of our common stock. We also have filed a shelf registration statement to facilitate our acquisition strategy, as well as registration statements to register shares of common stock under our stock option and employee stock purchase plans. Shares issued pursuant to existing or future shelf registration statements, upon exercise of stock options and warrants, and in connection with our employee stock purchase plan will be eligible for resale in the public market without restriction.

Anti-takeover provisions and our right to issue preferred stock could make a third-party acquisition of us difficult.

Verticalnet is a Pennsylvania corporation. Anti-takeover provisions of Pennsylvania law could make it more difficult for a third party to acquire control of us, even if such change in control would be beneficial to our shareholders. Our articles of incorporation provide that our Board of Directors may issue preferred stock without shareholder approval. In addition, our bylaws provide for a classified board, with each board member serving a staggered three-year term. The issuance of preferred stock and the existence of a classified board could make it more difficult for a third party to acquire us.

Our common stock price is likely to remain highly volatile.

The market for stocks of technology companies has been highly volatile since our initial public offering in 1999. Throughout this period, the market price of our common stock has reached extreme highs and lows, and our daily trading volume has been, and will likely continue to be, highly volatile. Investors may not be able to resell their shares of our common stock following periods of price or trading volume volatility because of the market s adverse reaction to such volatility. Factors that could cause volatility in our stock price and trading volume, in some cases regardless of our operating performance, include, among other things:

- general economic conditions, including suppressed demand for technology products and services;
- actual or anticipated variations in quarterly operating results;

announcements of technological innovations;

new products or services;

changes in the market valuations of other software or technology companies;

failure to meet analysts   or investors   expectations;

announcements by us or our competitors of significant acquisitions, strategic partnerships, or joint ventures;

our cash position and cash commitments;

- our prospects for enterprise software sales and new customers; and
- additions or departures of key personnel.

Acquisitions may disrupt or otherwise have a negative impact on our business.

We have made, and plan to continue to make, investments in complementary companies, technologies, and assets. Future and past acquisitions are subject to the following risks:

- acquisitions may cause a disruption in our ongoing business, distract our management and other resources, and make it difficult to maintain our standards, controls, and procedures;
- we may acquire companies in markets in which we have little experience;
- we may not be able to successfully integrate the services, products, and personnel of any acquisition into our operations;
- we may be required to incur debt or issue equity securities, which may be dilutive to existing shareholders, to pay for the acquisitions; and
- our acquisitions may not result in any return on our investment and we may lose our entire investment.

Interruptions or delays in service from our third-party Web hosting facility could impair the delivery of our service and harm our business.

We provide our service through computer hardware that is currently located in a third-party Web hosting facility in Dulles, Virginia operated by ServerVault, Inc. We do not control the operation of this facility, and it may be subject to damage or interruption from floods, fires, power loss, telecommunications failures and similar events. It may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at the facility, the occurrence of a natural disaster, a decision to close the facility without adequate notice or other unanticipated problems at the facility could result in lengthy interruptions in our service. In addition, the failure by ServerVault to provide our required data communications capacity could result in interruptions in our service.

If our security measures are breached and unauthorized access is obtained to a customer s data, our on-demand applications may be perceived as not being secure and customers may curtail or stop using our service.

Our on-demand supply management application model involves the storage, analysis and transmission of customers proprietary information, and security breaches could expose us to a risk of loss or corruption of this information, litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, an unauthorized party obtains access to one or more of our customers data, our reputation could be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage computer systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. While we are not aware of any such breach, if an actual or perceived breach of our security occurs, the perception by existing or potential customers of the effectiveness of our security measures could be harmed and we could lose sales and customers.

If the third-party software we use to support and enable our applications is subject to intrusion or corruption by third parties, our applications could become unstable or unavailable to our customers.

We use third-party software to support or enable our applications which may be subject to intrusion or corruption by third parties, which may render our on-demand applications unstable or unavailable to our customers. While we are not aware of any such intrusion, if an actual or perceived intrusion or corruption of our applications or third-party software which we use to support or enable our applications occurs, and our applications become unstable or unavailable, the perception by existing or potential customers of our applications could be harmed and we could lose sales and customers.

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If our on-demand application model is not widely accepted, our operating results will be harmed.

We expect to derive a portion of our revenue from subscriptions to our on-demand applications. As a result, widespread acceptance of our on-demand supply management applications is critical to our future success. Factors that may affect market acceptance of our on-demand applications include:

- potential reluctance by enterprises to migrate to an on-demand application model;
- the price and performance of our on-demand applications;
- the level of customization we can offer;
- the availability, performance and price of competing products and services; and
- potential reluctance by enterprises to trust third parties to store and manage their internal data.

Many of these factors are beyond our control. The inability of our on-demand applications model to achieve widespread market acceptance would harm our business.

Because we will recognize revenue from subscriptions for our applications over the term of the subscription, downturns or upturns in sales may not be immediately reflected in our operating results.

We will recognize a portion of our revenue from subscription customers monthly over the terms of their subscription agreements, which are typically 12 to 24 months, although terms can range from one to 60 months. As a result, a portion of the revenue we report in each quarter will be deferred revenue from subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter and will negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect these reduced revenues. Accordingly, the effect of significant downturns in sales and market acceptance of our service may not be fully reflected in our results of operations until future periods. Our subscription model will also make it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

We do not have an adequate history with our subscription model to predict the rate of customer subscription renewals and the impact these renewals will have on our revenue or operating results.

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period and some customers have elected not to do so. In addition, our customers may not renew unless we offer lower prices or agree to reduce the number of users. We have limited historical data with respect to rates of customer subscription renewals, so we cannot accurately predict customer renewal rates. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our applications or the customers ability to continue their operations and spending levels. If our customers do not renew their subscriptions for our supply management applications, our revenue may decline and our business will suffer.

Our future success also depends in part on our ability to sell additional modules, additional applications, or additional services to our current customers. This may require increasingly sophisticated and costly sales efforts that are targeted at our customers senior management. If these efforts are not successful, our business may suffer.

Any failure to adequately expand our direct sales force will impede our growth.

We expect to be substantially dependent on our direct sales force to obtain new customers, particularly large enterprise customers, and to manage our customer base. We believe that there is significant competition for direct sales personnel with the advanced sales skills and technical knowledge we need. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training and retaining sufficient direct sales personnel. New hires require significant training and may, in some cases, take more

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than a year before they achieve full productivity. Our recent hires and planned hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. If we are unable to hire and develop sufficient numbers of productive sales personnel, sales of our products and services will suffer.

FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this prospectus contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate, estimate, expect, project, intend, plan, believe and other words and terms meaning in connection with any discussion of future operating or financial performance.

Any or all of our forward-looking statements in this prospectus may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this prospectus will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our reports to the SEC on Forms 10-K, 10-Q and 8-K and amendments thereto. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors on page 2 of this prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

USE OF PROCEEDS

We will not receive any proceeds from the resale of the common stock offered through this prospectus.

SELLING SHAREHOLDERS

Verticalnet issued 3,000,000 shares of its common stock and warrants to purchase 1,200,000 shares of common stock in a private placement of securities that closed on August 5, 2004. Messrs. Corbett, Shemano and Cush received warrants to purchase an aggregate of 75,000 shares of common stock as consideration for acting as placement agent in the private placement. On July 19, 2004, B2eMarkets, Inc. merged with and into Popcorn Acquisition Sub, Inc., a wholly-owned direct subsidiary of Verticalnet, pursuant to an agreement and plan of merger by and among Verticalnet, B2eMarkets, Inc. and Popcorn Acquisition Sub, Inc. Pursuant to the terms of the merger agreement, Verticalnet issued to the former holders of preferred stock of B2eMarkets, Inc. an aggregate of 5,100,000 shares of Verticalnet common stock which are being registered hereunder. Each transaction was exempt from the registration requirements of the Securities Act of 1933, as amended. Verticalnet has agreed with each selling shareholder to file a registration statement to register for resale the shares of common stock set forth below. Except as noted in the footnotes below, none of the selling shareholders has held any position or office with Verticalnet or any of its predecessors or affiliates within the last three years or has had a material relationship with Verticalnet or any of its predecessors or affiliates within the past three years other than as a result of the ownership of our shares or other securities. Shares may also be sold by donees, pledgees and other transferees or successors in interest of the selling shareholders.

The following table sets forth information, as of August 31, 2004, with respect to each selling shareholder. The information below is based on information provided by or on behalf of the selling shareholders. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. The percentage of ownership for the selling security holders disclosed in this table is based on 33,959,550 shares of common stock outstanding as of August 31, 2004, which includes the 5,100,000 shares of common stock issued to the former holders of preferred stock of B2eMarkets, Inc. in connection with the merger of B2eMarkets, Inc. with and into Popcorn Acquisition Sub, Inc., a wholly-owned subsidiary of Verticalnet. Both the number of shares listed as being offered by the selling security holders in the table and the holders respective percentages of share ownership after the offering are based on the assumptions that all of the shares being offered

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are sold pursuant to this offering, and that no other shares of common stock are acquired or disposed of by the selling security holders prior to the termination of this offering. Because the selling security holders may sell all, some or none of their shares or may acquire or dispose of other shares of common stock, we cannot estimate the aggregate number of shares that will be sold in this offering or the number or percentage of shares of common stock that the selling security holders will own upon completion of this offering.

	Shares Beneficially Owned Before Offering			Shares Beneficially Owned After Offering		Warrant Shares
Name	Number	Percentage	Shares Offered Hereby	Number	Percentage	Offered Hereby[1]
Former B2e Shareholders						
Anthony Abrahams	320	*	320			
Adaptive Trade, Inc.	97,785	*	66,570	31,215	*	
Ascend Ventures, LP (2)	547,425	1.62%	547,425			
Orville A. Bailey (3)	11,976	*	11,976			
Michael Bajit	2	*	2			
BBC Group, LLC (4)	13,989	*	13,989			
Jean Carroll	31	*	31			
Carthage B2E, LLC (5)	49,756	*	49,756			
Carthage EPG, LLC (5)	383	*	383			
Carthage Venture Fund LP (5)	312,478	*	312,478			
CIBC WMC, Inc. (6)	1,056,530	3.12%	1,056,530			
CIBC Capital Partners Technology Ventures, LLC (6)	679,034	2.00%	679,034			
Concord Ventures II (Cayman), L.P.	132,822	*	132,822			
Concord Ventures II (Israel), L.P.	33,373	*	33,373			
Concord Ventures Advisors II (Cayman), L.P.	4,139	*	4,139			
Concord Ventures Advisors II (Israel), L.P.	2,139	*	2,139			
George Csefai	314	*	314			
FBR Technology Venture Partners II, L.P. (7)	190,044	*	190,044			
FBR Technology Venture Partners II (QP), L.P. (7)	763,680	2.25%	763,680			
FBR TVP II Employees Fund, L.P. (7)	11,619	*	11,619			
FBR TVP II Employees Fund II, L.P. (7)	16,431	*	16,431			
FBR TVP II Employees Fund III, L.P. (7)	32,987	*	32,987			
Halo-B2eMarkets, LLC (8)	59,011	*	59,011			
Hogan & Hartson, L.L.P.	3,788	*	3,788		*	
Steve Socolof	98	*	98			
Syndicated Communications, Inc. (9)	614,644	1.81%	614,644			
Syndicated Communications Venture Partners IV	447,263	1.32%	447,263			
Bill Van Etten	382	*	382			
Richard M. Waugh	4,826	*	4,826		*	
Other Selling Shareholders (10)	43,946	*	43,946			
Subtotal	5,131,215	15.11%	5,100,000	31,215	*	
Private Placement Investors						
Castle Creek Technology Partners LLC (11)	897,127(12)	2.62%	450,000	447,127(12)	1.31%	180,000
William Corbett (13)						35,000

Terrence Cush (13)						5,000
Cranshire Capital L.P. (14)	617,388(15)	1.82%	500,000	117,388(15)	*	200,000
Greenwich Growth Fund Limited (16)	150,000	*	150,000			60,000
RHP Master Fund, Ltd. (17)	248,078(18)	*	200,000	48,078(18)	*	80,000
Gary Shemano (13)						35,000
Whalehaven Capital LP (19)	100,000	*	100,000			40,000
Whalehaven Fund Limited (19)	100,000	*	100,000			40,000
WPG Select Technology Fund, L.P. (20)	164,984	*	164,984			65,994
WPG Select Technology Overseas Fund, Ltd. (20)	656,698	1.94%	656,698			262,679
WPG Select Technology QP Fund, L.P. (20)	678,318	2.00%	678,318			271,327
Subtotal	3,612,593(21)	10.51%	3,000,000	612,593(21)	1.78%	1,275,000
Total	8,743,808(21)	25.45%	8,100,000	643,808(21)	1.87%	1,275,000

* Less than 1 percent.

(1) The warrants have an exercise price of $1.25 per share. These warrants may be exercised at any time after 185 days after August 5, 2004 and before five (5) years after such initial exercise date.

(2) Darryl E. Wash is the managing partner of Ascend Venture Group, LLC, the general partner of Ascend Ventures, LP. Mr. Wash became a member of the Board of Directors of Verticalnet, Inc. in August 2004.

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(3) Orville A. Bailey became the Executive Vice President, Corporate Strategy and Business Development of Verticalnet, Inc. on July 19, 2004.

(4) Anthony D. Abrahams has voting and investment control over the securities held by BBC Group, LLC.

(5) A. Anthony Gee, Steve Sallion and Charles Sheffield have voting and investment control over the securities held by Carthage B2E, LLC, Carthage EPG, LLC and Carthage Venture Fund LP.

(6) An affiliate of CIBC WMC, Inc. and CIBC Capital Partners Technology Ventures, LLC acted as a financial advisor to B2eMarkets, Inc. in connection with the merger of B2eMarkets, Inc. with and into Popcorn Acquisition Sub, Inc., a wholly-owned direct subsidiary of Verticalnet, Inc.

(7) Friedman, Billings, Ramsey Investment Management, Inc., a wholly-owned subsidiary of Friedman, Billings, Ramsey Group, Inc., a publicly-held company and registered broker-dealer, is the general partner of FBR Technology Venture Partners II, L.P., FBR Technology Venture Partners II (QP), L.P., FBR TVP II Employees Fund, L.P., FBR TVP II Employees Fund II, L.P. and FBR TVP II Employees Fund III, L.P. and has voting and investment control over the securities held by such entities.

(8) Darryl E. Wash is the managing member of Halo-B2eMarkets, LLC. He became a member of the Board of Directors of Verticalnet, Inc. in August 2004.

(9) Herbert P. Wilkins, Sr., Terry L. Jones and Duane C. McKnight have voting and investment control over the securities held by Syndicated Communications, Inc.

(10) We have not identified the selling shareholders relating to these shares at this time. All of the shares held by these selling shareholders were issued in connection with the merger of B2eMarkets, Inc. with and into Popcorn Acquisition Sub, Inc., a wholly-owned direct subsidiary of Verticalnet, Inc. We intend to file a supplement to this prospectus to identify these selling shareholders prior to the sale of their shares.

(11) As investment manager under a management agreement, Castle Creek Partners, LLC may exercise dispositive and voting power with respect to the shares owned by Castle Creek Technology Partners LLC. Castle Creek Partners, LLC disclaims beneficial ownership of such shares. Daniel Asher is the managing member of Castle Creek Partners, LLC. Mr. Asher disclaims beneficial ownership of the shares owned by Castle Creek Technology Partners LLC.

(12) Includes warrants to purchase 200,000 shares of common stock at an exercise price of $1.35 per share, which expire on October 14, 2008. Also includes warrants to purchase 40,391 shares of common stock at an exercise price of $3.72 per share, which expire on January 23, 2009.

(13) William Corbett is the Chief Executive Officer of the Shemano Group, a registered broker-dealer. Terrence Cush is an associate at the Shemano Group. Gary Shemano is the Chairman of the Shemano Group. The Shemano Group acted as placement agent in connection with Verticalnet s sale of 3,000,000 shares of its common stock and warrants to purchase 1,200,000 shares of common stock in a private placement of securities that closed on August 5, 2004. Messrs. Corbett, Cush and Shemano each received warrants to purchase shares of common stock as consideration for acting as placement agent in the private placement.

(14) Mitchell P. Kopin, the President of Downview Capital, Inc., the general partner of Cranshire Capital L.P., has voting and investment control over the securities held by Cranshire Capital L.P.

(15) Includes warrants to purchase 96,000 shares of common stock at an exercise price of $1.20 per share, which expire on August 12, 2008. Also includes warrants to purchase 19,388 shares of common stock at an exercise price of $3.72 per share, which expire on January 23, 2009.

(16) Evan Schemenauer, Jonathan Walk and Don Dunstan have voting and investment control over the securities held by Greenwich Growth Fund Limited.

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(17) RHP Master Fund, Ltd. is a party to an investment management agreement with Rock Hill Investment Management, L.P., a limited partnership of which the general partner is RHP General Partner, LLC. Pursuant to such agreement, Rock Hill Investment Management directs the voting and disposition of shares owned by RHP Master Fund. Messrs. Wayne Bloch, Gary Kaminsky and Peter Lockhart own all of the interests in RHP General Partner. The aforementioned entities and individuals disclaim beneficial ownership of Verticalnet s common stock owned by the RHP Master Fund.

(18) Includes warrants to purchase 40,000 shares of common stock at an exercise price of $1.35 per share, which expire on April 15, 2009. Also includes warrants to purchase 8,078 shares of common stock at an exercise price of $3.72 per share, which expire on January 23, 2009.

(19) Evan Schemenauer, Arthur Jones and Jennifer Kelly have voting and investment control over the securities held by Whalehaven Capital LP and Whalehaven Fund Limited.

(20) Ben Taylor and George Boyd have voting and investment control over the securities held by WPG Select Technology Fund, L.P., WPG Select Technology Overseas Fund, Ltd. and WPG Select Technology QP Fund, L.P.

(21) Includes warrants to purchase an aggregate of 403,857 shares of common stock.

PLAN OF DISTRIBUTION

The selling shareholders of our common stock registered under this registration statement and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling shareholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales;
- broker-dealers may agree with the selling shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale;
- through the writing or settlement of options or other hedging transactions, whether through an option exchange or otherwise; or
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended, if available, rather than under this prospectus.

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Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling shareholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

In connection with the sale of our common stock or interests therein, the selling shareholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling shareholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling shareholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling shareholder has informed us that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the shares of common stock registered hereunder.

We are required to pay certain fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the securities offered by this prospectus will be passed upon for us by Morgan, Lewis & Bockius LLP, Philadelphia, Pennsylvania.

EXPERTS

The consolidated financial statements and schedule of Verticalnet, Inc. as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003, have been incorporated by reference herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The audit report covering the consolidated financial statements and schedule refers to the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002.

The consolidated financial statements of Tigris Corp. as of December 31, 2003 and 2002, and for each of the years then ended, have been incorporated by reference herein and in the registration statement in reliance upon the report of Goldstein Golub Kessler LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

ABOUT THIS PROSPECTUS

No person has been authorized to give any information or to make any representations other than those contained in this prospectus in connection with the offering made hereby, and if given or made, such information or representations must not be relied upon as having been authorized by Verticalnet, Inc., any selling shareholder or by any other person. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that information herein is correct as of any time subsequent to the date hereof. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities covered by this prospectus, nor does it constitute an offer to or solicitation of any person in any jurisdiction in which such offer or solicitation may not lawfully be made.

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WHERE YOU CAN FIND MORE INFORMATION

The SEC permits us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file with the SEC after the date of this prospectus will automatically update and supersede this information. However, any information contained herein shall modify or supersede information contained in documents we filed with the SEC before the date of this prospectus.

We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the offering is completed:

(a) Our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as amended.

(b) Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004.

(c) Our Current Reports on Form 8-K, filed with the SEC on January 23, 2004, February 4, 2004 (other than information furnished pursuant to Item 12 of such Form 8-K and the related exhibit), February 17, 2004 (as amended April 13, 2004), April 7, 2004, July 21, 2004 (other than information furnished pursuant to Item 12 of such Form 8-K and the related exhibit), August 3, 2004 and August 6, 2004.

(d) The description of our common stock contained in a registration statement filed on Form 8-A under the Securities Exchange Act of 1934 filed on January 19, 1999, including any amendment or report filed for the purpose of updating such description.

If you request a copy of any or all of the documents incorporated by reference by written or oral request, then we will send to you the copies you requested at no charge. However, we will not send exhibits to such documents, unless such exhibits are specifically incorporated by reference in such documents. You should direct requests for such copies to Verticalnet, Inc., 400 Chester Field Parkway, Malvern, Pennsylvania 19355, Attention: Christopher G. Kuhn, (610) 240-0600.

In addition, we file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934. You may read and copy this information at the following locations of the SEC: (1) Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and (2) Midwest Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511.

You may also obtain copies of this information by mail from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC s Public Reference Room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330.

Our common stock is quoted on The Nasdaq SmallCap Market. Reports, proxy statements and other information concerning Verticalnet can be inspected at the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006. The SEC maintains a Web site that contains all information filed electronically by us. The address of the SEC s Web site is *http://www.sec.gov*.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the estimated expenses of the issuance and distribution of the securities offered hereby, all of which will be paid by Verticalnet, Inc.

Registration fee	$ 1,413
Printing fees	3,000
Legal fees	5,000
Accounting fees	10,000
Miscellaneous	2,000
Total	$ 21,413

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Company s Amended and Restated Articles of Incorporation provide that pursuant to and to the extent permitted by Pennsylvania law, the Company s directors shall not be personally liable for monetary damages for breach of any duty owed to the Company and its shareholders. This provision does not eliminate the duty of care, and, in appropriate circumstances, equitable remedies such as an injunction or other forms of non-monetary relief would remain available under Pennsylvania law. In addition, each director will continue to be subject to liability for breach of the director s duty of loyalty to the Company, for acts or omissions not in good faith or involving knowing violations of law, or for actions resulting in improper personal benefit to the director, the provision also does not affect a director s responsibilities under any other law, such as federal securities laws or state or federal environmental laws. The Company s Amended and Restated Bylaws provide that the Company shall indemnify its officers and directors to the fullest extent permitted by Pennsylvania law, including some instances in which indemnification is otherwise discretionary under Pennsylvania law. Pennsylvania law permits the Company to provide similar indemnification to employees and agents who are not directors or officers. The determination of whether an individual meets the applicable standard of conduct may be made by the disinterested directors, independent legal counsel or the shareholders. Pennsylvania law also permits indemnification in connection with a proceeding brought by or in the right of the Company to procure a judgment in its favor. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in that Act and is therefore unenforceable.

In general, any officer or director of the Company shall be indemnified by the Company against expenses including attorneys fees, judgments, fines and settlements actually and reasonably incurred by that person in connection with a legal proceeding as a result of such relationship, whether or not the indemnified liability arises from an action by or in the right of the Company, if the officer or director acted in good faith, and in a manner believed to be in or not opposed to the Company s best interest, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. Such indemnity is limited to the extent that (i) such person is not otherwise indemnified and (ii) such indemnification is not prohibited by Pennsylvania law or any other applicable law.

Any indemnification under the previous paragraph (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon the determination that indemnification of the director or officer is proper in the circumstances because that person has met the applicable standard of conduct set forth above. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum of disinterested directors who are not parties to such action or (ii) if such quorum is not obtainable or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion. To the extent that a director or officer of the Company shall be successful in prosecuting an indemnity claim, the reasonable expenses of any such person and the fees and expenses of any special legal counsel engaged to determine the possibility of indemnification shall be borne by the Company.

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Expenses incurred by a director or officer of the Company in defending a civil or criminal action, suit or proceeding shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that person is not entitled to be indemnified by the Company as authorized by our Bylaws.

The indemnification and advancement of expenses provided by, or granted pursuant to, Article 8 of our Bylaws is not deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled, both as to action in that person s official capacity and as to action in another capacity while holding such office.

The Board of Directors has the power to authorize the Company to purchase and maintain insurance on behalf of the Company and others to the extent that power to do so has not been prohibited by Pennsylvania law, create any fund to secure any of its indemnification obligations and give other indemnification to the extent permitted by law. The obligations of the Company to indemnify a director or officer under Article 8 of our Bylaws is a contract between the Company and such director or officer and no modification or repeal of our Bylaws shall detrimentally affect such officer or director with regard to that person s acts or omissions prior to such amendment or repeal.

The Company has also purchased insurance for its directors and officers for certain losses arising from claims or charges made against them in their capacities as directors and officers of the Company.

ITEM 16. EXHIBITS.

(a) The following exhibits filed as part of this registration statement are as follows:

EXHIBITS

Exhibit Number	Description
4.1	Securities Purchase Agreement, dated as of August 4, 2004, among Verticalnet, Inc. and certain selling shareholders.
4.2	Registration Rights Agreement, dated as of August 4, 2004, among Verticalnet, Inc. and certain selling shareholders.
4.3	Form of Common Stock Purchase Warrant.
4.4	Registration Rights Agreement, dated as of July 16, 2004, among Verticalnet, Inc. and certain selling shareholders.
5.1	Opinion of Morgan, Lewis & Bockius LLP regarding the legality of the securities being registered.*
23.1	Consent of KPMG LLP.
23.2	Consent of Goldstein Golub Kessler LLP.
23.3	Consent of Morgan, Lewis & Bockius LLP (included in its opinion filed as Exhibit 5.1 hereto).
24.1	Power of Attorney (included on signature page to this registration statement).

* To be filed.

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ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which any offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment hereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any other material change to such information in the registration statement.

(2) That for the purpose of determining any liability under the Securities Act of 1933, as amended, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities being offered therein and the offering of such securities at the time may be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities which are being registered which remain unsold at the termination of the offering.

(4) That for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(5) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed by the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such

director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Malvern, Pennsylvania as of September 17, 2004.

VERTICALNET, INC.

By: /s/ NATHANAEL V. LENTZ

Nathanael V. Lentz
President and Chief Executive Officer

POWER OF ATTORNEY

Each person in so signing below also makes, constitutes and appoints Gene S. Godick and Christopher G. Kuhn and each of them acting alone, his true and lawful attorney-in-fact, with full power of substitution, to execute and cause to be filed with the Securities and Exchange Commission pursuant to the requirements of the Securities Act of 1933, as amended, any and all amendments and post-effective amendments to this Registration Statement, and including any Registration Statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, with exhibits thereto and other documents in connection therewith, and hereby ratifies and confirms all that said attorney-in-fact or his substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael J. Hagan Michael J. Hagan	Chairman of the Board and Director	September 17, 2004
/s/ Nathanael V. Lentz Nathanael V. Lentz	President, Chief Executive Officer and Director (principal executive officer)	September 17, 2004
/s/ Gene S. Godick Gene S. Godick	Executive Vice President and Chief Financial Officer (principal financial officer and accounting officer)	September 17, 2004
/s/ Jeffrey C. Ballowe Jeffrey C. Ballowe	Director	September 17, 2004

/s/ Robert F. Bernstock	Director	September 17, 2004
Robert F. Bernstock		
/s/ Walter W. Buckley, III	Director	September 17, 2004
Walter W. Buckley, III		

Signature	Title	Date
/s/ Vincent J. Milano Vincent J. Milano	Director	September 17, 2004
/s/ John N. Nickolas John N. Nickolas	Director	September 17, 2004
/s/ Gregory G. Schott Gregory G. Schott	Director	September 17, 2004
/s/ Mark L. Walsh Mark L. Walsh	Director	September 17, 2004
/s/ Darryl E. Wash Darryl E. Wash	Director	September 17, 2004

vorable than could have been obtained from unaffiliated third parties. All future transactions between us and any director or executive officer will be subject to approval by a majority of the disinterested members of our board of directors. History of IPG Photonics and Restructuring In November 1994, our founding shareholder, Dr. Valentin Gapontsev, formed a new company in Germany, IPG Laser GmbH. He also subsequently formed IPG Fibertech S.r.l. in Italy. We were incorporated as a Delaware corporation on December 2, 1998 and began operations in the United States in 1999. Prior to August 2000, IPG Laser, IPG Fibertech and our company were operated under the common control and management of Dr. Gapontsev. Fifty-percent of IPG Laser was owned by IP Fibre Devices, an affiliate of Dr. Valentin Gapontsev, and 50% was owned directly by Dr. Gapontsev. IPG Laser owned 80% of IPG Fibertech. We entered into three agreements as of August 24, 2000 in connection with the restructuring of IPG Laser and IPG Fibertech. The restructuring was undertaken to streamline and simplify our organizational structure, to make our operations more easily financeable and to consolidate the ownership of our material property and technology under our direct control. The restructuring was also a condition to the Series B preferred stock financing. As a result of the restructuring, IPG Laser and IPG Fibertech became our subsidiaries under our direct control. The first agreement relating to the restructuring was between IPG Photonics and IP Fibre Devices, in which IP Fibre Devices sold 50% of the total issued and outstanding shares of IPG Laser to IPG Photonics in exchange for $7.5 million in cash and 2,300,000 shares of our common stock. Dr. Gapontsev is the Managing Director and majority shareholder of IP Fibre Devices. The second agreement was between IPG Photonics and Dr. Gapontsev, in which Dr. Gapontsev sold 4% of the total issued and outstanding shares of IPG Laser to IPG Photonics in exchange for $2.4 million in cash. The third agreement was an option agreement in which Dr. Gapontsev granted IPG Photonics the option to purchase the remaining 46% of the total issued and outstanding share capital of IPG Laser from Dr. Gapontsev in exchange for 2,806,000 shares of our common stock. On October 4, 2000, we exercised this option and now own 100% of the issued and outstanding shares of IPG Laser. We also indirectly control IPG Laser's 80%-held subsidiary, IPG Fibertech. The remaining 20% of IPG Fibertech is owned by Stefano Cecchi, its Managing Director. IPG Photonics and IPG Laser, focus on the design, manufacture and sale of high performance fiber amplifiers, Raman pump lasers and fiber lasers for telecommunications and industrial applications. IP Fibre Devices is a holding company with no significant operations and served as a distributor of our products in the United Kingdom until December 31, 2000. Our operations have remained substantially unchanged as a result of the restructuring, however, the expansion of our U.S. operations since 1999 has helped expand our sales and customer base. Following the restructuring, IPG Laser reached an agreement in principle to acquire a 51% interest in NTO IRE-POLUS, a Russian affiliate of Dr. Gapontsev that provides us with research and development services. NTO IRE- POLUS is expected to add to our research and development capabilities. See "-- Other Transactions with NTO IRE-POLUS." 57 Dr. Valentin Gapontsev is our Chairman of the Board and Chief Executive Officer and, as of December 31, 2000, directly owned 45.6% of our common stock. As of this date, IP Fibre Devices directly owned 28.1% of our common stock and Dr. Valentin Gapontsev directly owned 53.0% of IP Fibre Devices' ordinary shares. Based on these shareholdings, Dr. Gapontsev beneficially owned in the aggregate 72.5% of our shares of common stock directly through his ownership of IPG Photonics and indirectly through his control of IP Fibre Devices, excluding shares held by his son, Dr. Denis Gapontsev. The following chart presents the overlap in ownership of IPG Photonics, its subsidiaries and affiliated parties by common members of management at December 31, 2000, without giving effect to the offering, and giving effect to the closing of the proposed investment by IPG Laser in NTO IRE-POLUS: [FLOW CHART] -------------------------------- --------------------------------- Dr. Valentin Gapontsev 47.6% Dr. Valentin Gapontsev 53.0% Dr. Denis Gapontsev 6.3% Dr. Denis Gapontsev 15.0% Dr. Eugene Shcherbakov 0.8% Dr. Eugene Shcherbakov 8.0% Dr. Valentin Fomine 0.8% Dr. Igor Samartsev 8.0% Dr. Igor Samartsev 1.3% Dr. Nikolai Platonov 8.0% Dr. Nikolai Platonov 0.8% Others 8.0% -------------------------------- --------------------------------- | |100.0% | | ------------------------ ---------- | IP Fibre Devices Ltd. Others 57.6% 28.1% 14.3% -- ---------------------------- ---------------------------- Dr. Valentin Gapontsev 27.0% IPG Photonics Corporation Dr. Igor Samartsev 5.0% ---------------------------- Dr. Nikolai Platonov 1.0% Others 17.0% -------------------------------- | 49% 100% 51% ------------------------ ------------------- IPG Laser GmbH NTO IRE-PLOUS ------------------------ ------------------- 80% ------------------------ IPG Fibertech S.R.L. ------------------------ Intercompany Transactions Prior to the restructuring, we entered into various transactions with other companies under the common control and management of Dr. Valentin Gapontsev. These companies included IP Fibre Devices, IPC Inc., IP Fibre Optics Ltd., VPG Laser Components GmbH and NTO IRE-POLUS. Historically, our transactions with these companies occurred in the ordinary course of business and consisted primarily of intercompany sales and purchases of raw materials and components included in our cost of sales. The following is a table summarizing these transactions for the years ended December 31, 1997, 1998 and 1999, and for the nine months ended September 30, 2000 (in thousands). Amounts reported as operating expenses represent management charges from IP Fibre Devices. Interest expense represents amounts incurred on intercompany borrowings. 58 Years ended December 31, --------------------------- Nine months ended 1997 1998 1999 September 30, 2000 -------- -------- -------- ----------------- Net sales.............. $ 811 $ 1,103 $ 655 $ 789 Purchases.............. 1,533 2,133 2,095 3,108 Operating expenses...... -- 32 106 138 Interest income (expense), net......... (10) (10) (17) -- Other Transactions with NTO IRE-POLUS In connection with our restructuring in August 2000, we entered into an agreement regarding intellectual property with NTO IRE-POLUS. Pursuant to the agreement, NTO IRE-POLUS has agreed to provide us and our subsidiaries, on an exclusive basis, with research and development services relating to fiber amplifiers, fiber lasers and other associated products as well as all intellectual property incorporated in or relating to these products. Under this agreement, we are required to pay NTO IRE-POLUS's direct and overhead costs, plus a fee of 10%, for its research and development services. For a complete description of this arrangement, see "Business--Research and Development." On October 3, 2000, we agreed to loan $1,000,000 to NTO IRE-POLUS. These funds will be used for working capital and capital expenditures to assist NTO IRE-POLUS in providing us components and equipment. This loan bears interest at an annual rate of 7.0% and has a term of six months from the date the money is transferred to NTO IRE-POLUS. IPG Laser has agreed in principle to acquire a 51% interest in NTO IRE- POLUS in exchange for IPG's commitment to invest up to $5.0 million in NTO IRE- POLUS, subject to and in accordance with NTO IRE-POLUS's future business plans. The proceeds of the investment are to be used by NTO IRE-POLUS solely for equipment purchases and the development of additional manufacturing capacity. The transaction is subject to satisfaction of usual and customary closing conditions, as well as the approval of the Russian Ministry for Anti-Monopoly Policy. While we believe that these conditions will be satisfied and the acquisition will be consummated in the first half of 2001, we cannot assure you that the acquisition will be completed on the terms currently contemplated or at all. Other Transactions with IP Fibre Devices In the past, we have sold products to IP

Fibre Devices which resells those products to its customers in the United Kingdom. Effective January 1, 2001, we terminated our distribution relationship with IP Fibre Devices and we now sell our products directly to customers in the United Kingdom through a wholly-owned subsidiary that was recently formed. Currently, we sublease office space from, and share general and administrative expenses with, IP Fibre Devices at an aggregate estimated annual expense to us of approximately $250,000. TeraBeam Agreements We sell a significant amount of our products to TeraBeam. In April 1998, IP Fibre Devices entered into an agreement with TeraBeam providing for the sale of free-space optical point-to-multipoint fiber amplifiers with an output power of one Watt or greater. From July 1998 to August 1998, IPG Laser sold $185,370 worth of products to TeraBeam in exchange for $135,370 in cash and 571,428 shares of TeraBeam common stock. Pursuant to a partnering agreement executed with TeraBeam in April 1998, TeraBeam issued in August 1998 1,561,144 shares of its common stock to IP Fibre Devices in consideration of a discount on products sold to TeraBeam. This partnering agreement terminated in 1999. From November 1999 to February 2000, we sold an aggregate of $2.0 million of our products to TeraBeam. TeraBeam paid us $1.6 million in cash and issued 865,924 shares of TeraBeam common stock to IP Fibre Devices. In connection with this transaction, IP Fibre Devices issued a note to us in the principal amount of $396,656. This note was repaid with accrued interest, totaling $32,000, in October 2000. In connection with the 1998 agreement with TeraBeam, TeraBeam granted 59 Dr. Valentin Gapontsev options to purchase 100,000 shares of common stock of TeraBeam for his services on the Technical Advisory Board of TeraBeam. All of such options have been exercised. In February 2000, Peter V. Mammen, our treasurer, purchased 120,000 shares of TeraBeam at an aggregate purchase price of $60,000. We and our affiliates own approximately 2.1% of the outstanding common stock TeraBeam. Intercompany Loans In January 1999, we issued IP Fibre Devices a note in the principal amount of $175,000 that accrued interest at the rate of 5% per annum. IPG Photonics entered into an agreement with IP Fibre Devices in which IP Fibre Devices agreed to pay an additional $18,000 to us and convert the note and accrued interest, totaling $182,000, into 20,000,000 shares of our common stock. The total consideration paid by IP Fibre Devices was $200,000, or approximately $0.01 per common share. The common stock was issued to IP Fibre Devices in January 2000. Because of the elements of common control, the shares of common stock were not recorded at fair value and have been treated as founders shares. In November 1997, IPG Laser issued IP Fibre Devices a note in the principal amount of DM 156,000, or $70,100, which accrued interest at 5% per annum. The note and accrued interest were repaid in full to IP Fibre Devices in March 2000. Dr. Valentin Gapontsev On August 13, 2000, Dr. Valentin Gapontsev borrowed DM 200,000, or approximately $94,000, from IPG Laser, at an annual interest rate of 8%. This loan was repaid in full on November 30, 2000. Dr. Gapontsev has personally guaranteed $5.2 million of our outstanding obligations as of September 30, 2000. In connection with one guaranty, Dr. Gapontsev granted a security interest in all of his securities and accounts held by one of the lenders. Dr. Gapontsev, as our principal stockholder, provided these guarantees without any compensation. Dr. Denis Gapontsev On May 30, 2000, IPG Laser agreed to purchase land and a house adjacent to our Burbach facility from Dr. Denis Gapontsev, one of our directors and our Vice President of Research and Development. IPG Laser assumed the mortgages on the land having a value of DM 900,000, or $404,500, and paid Dr. Gapontsev DM 184,000, or $82,700. Prior to the sale, IPG Laser had been leasing the land and house from Dr. Gapontsev since December 28, 1998 for DM 9,000, or $4,000, per month. Robert A. Blair As of October 4, 1999, we entered into an agreement with Robert A. Blair, our Vice Chairman of the Board of Directors, for legal services and non-legal consulting services in connection with strategic business advice and other matters. Pursuant to this agreement, Mr. Blair received options to purchase 400,000 shares of our common stock at an exercise price of $0.50 per share and the right to purchase, as of March 2000, 500,000 shares of our common stock at a price of $0.50 per share. We also entered into an agreement with Mr. Blair as of February 3, 2000 for him to serve as Chairman of our National Advisory Board. Pursuant to this agreement, he received options to purchase 100,000 shares of our common stock at a price of $0.50 per share. In March 2000, Mr. Blair transferred options to purchase 20,000 shares to family members and exercised the remainder of his 480,000 options. He subsequently also acquired the 500,000 shares of our common stock at a purchase price of $0.50 per share. He purchased these shares by payment of $50,000 cash and promissory notes with face amounts totaling $440,000. The first note bears interest at an annual rate of 6.8% and the second note bears interest at 6.01%. These notes become payable in March 2005 and November 2005, respectively. 60 Series A and Series B Stock Purchase Agreements On March 30, 2000, Hon. John Dalton, our President, purchased an aggregate of 10,000 shares of our Series A preferred stock for an aggregate purchase price of $100,000. Mr. Dalton purchased these shares prior to becoming our president and on the same terms as other unrelated parties. Holders of Series A preferred stock are entitled to certain registration rights. See "Description of Capital Stock--Preferred Stock" and "Description of Capital Stock--Registration Rights" for a description of our Series A preferred stock and its rights and preferences. Upon completion of this offering, the 10,000 shares of Series A preferred stock held by Mr. Dalton will convert into 20,000 shares of our common stock. On August 30, 2000 and August 31, 2000, TA Associates Inc., together with affiliated entities, purchased an aggregate of 2,000,000 shares of our Series B preferred stock and related warrants to purchase 1,666,667 shares of our common stock at an exercise price of $7.50 per share the aggregate purchase price for the warrants and shares was $50,000,000. Holders of Series B preferred stock are entitled to elect a director to our board of directors as well as redemption rights not enjoyed by holders of common stock or Series A preferred stock. Mr. Child, one of our directors, is Managing Director of TA Associates, Inc. Please see "Description of Capital Stock--Preferred Stock" and "Description of Capital Stock--Registration Rights" for a description of our Series B preferred stock and its rights. For a description of the warrants we sold to TA Associates and its affiliates, please see "Description of Capital Stock--Warrants." Upon completion of this offering, the 2,000,000 shares of Series B preferred stock held by TA Associates and its affiliates will convert into 5,833,333 shares of our common stock, assuming an offering price of $15.00 per share. Indemnification We have entered into indemnification agreements with each of our directors. Such indemnification agreements require us to indemnify our directors to the fullest extent permitted by Delaware law. For a description of the limitation of our directors' liability and our indemnification of officers, see "Indemnification of Directors and Executive Officers and Limitation of Liability." Employment Agreements We have entered into employment arrangements, compensation arrangements and severance arrangements with certain of our executive officers. For more information regarding these arrangements, see "Management--Employment Agreements" and "--Executive Compensation." For information regarding stock options, see "Management--Stock Option Plan." 61 INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY As permitted by the Delaware General Corporation Law, we have adopted provisions in our certificate of incorporation which provide that our directors shall not be personally liable for monetary damages to IPG Photonics or its stockholders for a breach of fiduciary duty as a director, except liability for: . a breach of the director's duty of loyalty to us or our stockholders; . acts or omissions not in good faith or which involve intentional misconduct or a known violation of law; . an act related to our unlawful stock repurchase or payment of a dividend under Section 174 of the Delaware General Corporation Law; or . transactions from which the director derived an improper personal benefit. These limitations of liability do not apply to liabilities arising under the federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission. Our certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under the Delaware General Corporation Law. As permitted by the Delaware General Corporation Law, our bylaws provide that: . we are required to indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; . we are required to advance expenses, as incurred, to our directors and officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and . the rights provided in the bylaws are not exclusive. We have entered into separate indemnification agreements with each of our directors which are broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements require us, among other things, to indemnify our directors against liabilities that may arise by reason of their status or service as directors, other than liabilities arising from willful misconduct. These indemnification agreements also require us to advance any expenses incurred by the directors as a result of any proceeding against them as to which they could be indemnified and to obtain directors' and officers' insurance. At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification by us is sought. In addition, we are not aware of any threatened litigation or proceeding which may result in a claim for indemnification. We intend to maintain directors' and officers' liability insurance if available on reasonable terms. 62 PRINCIPAL STOCKHOLDERS The following table sets forth information known to us regarding the beneficial ownership of our common stock as of December 31, 2000, and as adjusted to reflect the sale of the common stock offered hereby, by: . each stockholder who is known by us to beneficially own more than 5% of common stock; . our Chairman and our four other most highly compensated executive officers; . each of our directors; and . all of our executive officers and directors as a group. Percent Beneficial Percent Owned Ownership Prior Owned Prior After Stockholder to Offering(1) to Offering Offering ----------- -------------- ---------- -------- Dr. Valentin P. Gapontsev (2)............ 60,106,000 73% 66% Hon. John H. Dalton..................... 270,000 * * Dr. Eugene Shcherbakov

(3)............... 600,000 * * Timothy P. V. Mammen (4)................ 125,500 * * John Geagea............................. 0 * * Dr. Denis Gapontsev (5).................. 5,000,000 6 5 Dr. William F. Krupke (6)................ 25,000 * * Robert A. Blair.......................... 980,000 1 1 Michael C. Child (7).................... 13,087 * * Vincent Au-Yeung......................... IP Fibre Devices Ltd.................... 22,300,000 27 24 Entities affiliated with TA Associates, Inc (8)................................ 7,499,987 9 8 All directors and executive officers as a group (9 persons)....................... 76,619,877 90 80 -------- * represents less than 1% (1) The number of shares beneficially owned and the percentage of share outstanding are based on (a) 82,884,201 shares outstanding as of December 31, 2000 and assuming the conversion of 4,300,000 shares of our Series A and Series B preferred stock based upon an assumed offering price of $15.00 and (b) 91,084,201 shares outstanding after completion of this offering, assuming no exercise of the underwriters' over-allotment option. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. All shares of common stock subject to options and warrants exercisable within 60 days following December 31, 2000 are deemed to be outstanding and beneficially owned by the person holding those options for the purpose of computing the number of shares beneficially owned and the percentage of ownership of that person. They are not, however, deemed to be outstanding and beneficially owned for the purpose of computing the percentage ownership of any other person. Except as indicated in the other footnotes to the table and subject to applicable community property laws, based on information provided by the persons named in the table, these persons have sole voting and investment power with respect to all shares of the common stock shown as beneficially owned by them. Unless otherwise noted below, the address of each of the individuals named above is c/o IPG Photonics Corporation, P.O. Box 519, 660 Main Street, Sturbridge, MA 01566. (2) Excludes shares beneficially owned by Dr. Denis Gapontsev, for which Dr. Valentin Gapontsev disclaims beneficial ownership. Includes all shares beneficially owned by IP Fibre Devices, of which Dr. Valentin Gapontsev owns 53% of its ordinary shares. (3) Excludes shares beneficially owned by IP Fibre Devices of which Dr. Shcherbakov owns 8% of its ordinary shares, for which he disclaims beneficial ownership. 63 (4) Includes 125,000 shares of common stock issuable upon exercise of options that are exercisable within sixty days of September 30, 2000. Excludes shares beneficially owned by Peter Mammen, for which Timothy Mammen disclaims beneficial ownership. (5) Excludes shares beneficially owned by Dr. Valentin Gapontsev, for which Dr. Denis Gapontsev disclaims beneficial ownership. Excludes shares beneficially owned by IP Fibre Devices of which Dr. Denis Gapontsev owns 15% of its ordinary shares, for which he disclaims beneficial ownership. (6) Includes 25,000 shares of common stock beneficially owned by Dr. Krupke under a stock option granted to him for service as a member of our National Advisory Board. (7) Mr. Child disclaims beneficial ownership of all shares held by affiliates of TA Associates, Inc. of which Mr. Child is a Managing Director, except to the extent of 13,086 shares of common stock in which he has an ownership interest through TA Investors LLC. (8) Includes 2,998,326 shares held, and 856,667 shares beneficially owned under a warrant issued to, by TA IX, L.P., 1,399,997 shares held, and 400,000 shares beneficially owned under a warrant issued to, by TA/Advent VIII L.P., 1,296,397 shares, and 370,400 shares of common stock beneficially owned under a warranted issued to, held by TA/Atlantic and Pacific IV L.P., 50,633 shares held, and 14,467 shares beneficially owned under a warrant issued to, by TA Executives Fund, LLC and 87,966 shares held, and 25,133 shares beneficially owned under a warrant issued to, by TA Investors LLC. TA IX, L.P., TA/Advent VIII L.P., TA/Atlantic and Pacific IV L.P., TA Executives Fund LLC and TA Investors LLC are part of an affiliated group of investment partnerships. The general partner of TA/Advent VIII L.P. is TA Associates VIII LLC. In such capacity, TA Associates, Inc., through an executive committee, exercises sole voting and investment power with respect to all shares held of record by the named investment partnerships; individually, no stockholder, director or officer of TA Associates, Inc., is deemed to have or share such voting or investment power. The address of TA Associates, Inc. is 125 High Street, High Street Tower, Suite 2500, Boston, MA 02110. 64 DESCRIPTION OF CAPITAL STOCK Presently we are authorized to issue 100,000,000 shares of common stock and 5,000,000 shares of preferred stock. Upon the commencement of this offering, we will be authorized to issue 505,000,000 shares, $0.0001 par value per share comprised of 500,000,000 shares of common stock and 5,000,000 shares of preferred stock. The following description of the material terms of our capital stock is only a summary. You should refer to our certificate of incorporation and bylaws as in effect upon the closing of this offering, which are included as exhibits to the registration statement of which this prospectus forms a part. Common Stock As of December 31, 2000, and assuming the conversion of all outstanding shares of preferred stock into common stock, there were 82,884,201 shares of common stock outstanding which were held of record by approximately 80 stockholders. There will be 91,084,201 shares of common stock outstanding (assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options after September 30, 2000) after giving effect to the sale of our common stock in this offering. We currently have reserved 15,000,000 shares of stock under our 2000 stock incentive plan of which there were outstanding options to purchase 5,126,532 shares of common stock as of December 31, 2000. See "Management--Stock Option Plan" for a description of our stock plan. The holders of our common stock are entitled to one vote per share held of record on matters submitted to a vote of the stockholders. Our amended and restated certificate of incorporation does not provide for cumulative voting in the election of directors. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of our common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event of our liquidation, holders of our common stock are entitled to share ratably in our remaining net assets, subject to payment or provision for payment of our debts and other liabilities and prior distribution rights of preferred stock, if any, then outstanding. Holders of our common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to our common stock. All outstanding shares of common stock are fully paid and non-assessable and the shares of common stock to be issued upon the completion of this offering will be fully paid and non-assessable. Preferred Stock Upon the closing of this offering, all 500,000 shares of our Series A preferred stock outstanding will be converted on a two-for-one basis into an aggregate of 1,000,000 shares of common stock. Upon the closing of this offering, all 3,800,000 shares of our Series B preferred stock will convert into common stock at a conversion price based upon the initial public offering price (after underwriting commissions and discounts) in the offering. If such price meets or exceeds (i) $21.88 per share, in the case of an offering which closes on or after January 1, 2001 and prior to March 31, 2001, (ii) $25.00 per share, in the case of an offering which closes after April 1, 2001 and prior to December 31, 2001, (iii) $28.13 per share, in the case of an offering which closes after January 1, 2002 and prior to August 31, 2002 or (iv) $31.25 per share in the case of an offering which closes after August 31, 2002, each share of Series B preferred stock converts into two shares of common stock. If the initial offering price (after underwriting commissions and discounts) is less than the amounts specified above, then the Series B preferred stock will convert at a conversion price equal to the initial public offering price divided by (i) 1.75, in the case of an offering which closes on or after January 1, 2001 and prior to March 31, 2001, (ii) 2.00, in the case of an offering which closes after April 1, 2001 and prior to December 31, 2001, and (iii) 2.25, in the case of an offering which closes after August 31, 2002; provided that in no event will the conversion price be reduced to less than $5.00 per share. Based upon an assumed offering price of $15.00 per share, the 3,800,000 shares of Series B preferred stock convert into 11,083,333 shares of common stock. 65 Our board of directors has the authority, without action by the stockholders, to provide for the designation and issuance of preferred stock in one or more series, to establish the number of shares to be included in each such series and to fix the designations, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions of each such series. The rights, preferences and privileges of each series of preferred stock may be greater than the rights of our common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of our common stock until the board of directors determines the specific rights of the holders of any preferred stock that may be issued. However, the effects might include, among other things: . restricting dividends on the common stock; . diluting the voting power of the common stock; . impairing the liquidation rights of the common stock; and . delaying or preventing a change in our control without further action by the stockholders. We have no present plans to issue any additional shares of preferred stock. Warrants There are outstanding warrants to purchase an aggregate of 3,166,667 shares of common stock assuming an offering price of $15.00 per share. These warrants were granted in August, October and December 2000 to a group of private investors in connection with the sale of our Series B preferred stock. These warrants entitle the holders to purchase an aggregate of $23.8 million worth of our common stock. The exercise price will equal 50% of the public offering price or $7.50, assuming an offering price of $15.00. They are exercisable upon the sale of all of our assets or stock or an underwritten initial public offering of our common stock. The warrants expire on August 30, 2007, unless earlier exercised. Registration Rights Under our two agreements regarding registration rights with holders of shares of our convertible preferred stock (12,083,333 shares assuming conversion of all outstanding shares of Series A and Series B preferred stock), the holders of these shares are entitled to certain registration rights regarding these shares. The registration rights provide that if we propose to register any securities under the Securities Act of 1933, either for our own account or for the account of other security holders exercising registration rights, such holders are entitled to notice of the registration and are entitled to include shares of their common stock in the registration. This right is subject to conditions and limitations, including the right of the underwriters in an offering to limit the number of shares included in the registration. The holders of Series A preferred stock may require us to file one, and holders of Series B preferred stock may require us to file up to two, registration statements under the Securities Act at our expense with respect to their shares. We are required to use our commercially reasonable best efforts to effect the registrations, subject to conditions and limitations. Furthermore, the holders of shares of our Series B preferred stock that will convert into common stock upon completion of the offering may require us to file additional registration statements on Form S-3, subject to conditions and limitations. Delaware Anti-Takeover Law And Certain Charter And Bylaw Provisions Certain provisions of Delaware law and our amended and restated certificate of incorporation and bylaws could make more difficult the acquisition of our company by means of a tender offer, a proxy contest or otherwise and the removal of incumbent officers and directors. These provisions, summarized below, may discourage certain types of coercive takeover practices and inadequate takeover bids and encourage persons seeking to acquire control of our company to first negotiate with our company. We believe that the benefits of increased protection of our company's potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company outweigh the disadvantages of discouraging such 66 proposals because, among other things, negotiation of such proposals could result in an improvement of their terms. We will be subject to Section 203 of the Delaware General Corporation Law regulating corporate takeovers which prohibits a Delaware corporation from engaging in any business combination with an "interested stockholder," unless: . prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; . the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or . on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. Except as otherwise specified in Section 203, an "interested stockholder" is defined to include (a) any person that is the owner of 15% or more of the outstanding voting securities of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the date of determination and (b) the affiliates and associates of any such person. Our certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors. The authorization of undesignated preferred stock makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company. These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of our company. Transfer Agent And Registrar The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company. SHARES ELIGIBLE FOR FUTURE SALE Prior to this offering, there has not been a public market for our common stock. Future sales of substantial amounts of our common stock in the public market, or the possibility of these sales could adversely affect the trading price of the common stock. Upon completion of this offering, we will have outstanding 92,084,201 shares of common stock, assuming no exercise of the underwriters' over- allotment option and no exercise of outstanding options to purchase common stock after September 30, 2000. Of these shares, the 8,200,000 shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as defined in Rule 144 under the Securities Act, which would be subject to the limitations and restrictions described below. 67 The remaining 83,884,201 shares of common stock outstanding upon completion of this offering will be "restricted securities" as defined in Rule 144. These securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below. Sales of these restricted securities in the public market, or the availability of these shares for sale, could adversely affect the trading price of our common stock. Holders of approximately of these restricted securities, including all of our officers and directors and the entities affiliated with them and all of our significant stockholders, have entered into lock-up agreements providing that, subject to limited exceptions, they will not sell, directly or indirectly, any common stock without the prior consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated for a period of 180 days from the date of this prospectus. All of these restricted securities will be eligible for sale in the public market, subject in some cases to the volume limitations and other restrictions of Rule 144, beginning 180 days after the date of this prospectus upon expiration of the lock-up agreements described above. Shares issued upon exercise of options granted by us prior to the date of this prospectus will be available for sale in the public market under Rule 701 of the Securities Act. Rule 701 permits resales of these shares in reliance upon Rule 144 but without compliance with various restrictions, including the holding period requirement, imposed under Rule 144. In general, under Rule 144, beginning 90 days after the date of this prospectus, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year would be entitled to sell within any three-month period a number of shares not to exceed the greater of (1) one percent of the then outstanding shares of common stock or (2) the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a Form 144 with respect to the sale. Sales under Rule 144 are also subject to manner of sale and notice requirements, as well as to the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been an affiliate at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Upon consummation of this offering, we will have reserved an aggregate of 15,000,000 shares of common stock for issuance pursuant to our 2000 stock incentive plan. As of December 31, 2000, options to purchase an aggregate of 5,126,532 shares of common stock were outstanding under our stock option plan. We intend to file registration statements on Form S-8 under the Securities Act approximately 90 days after the date of this prospectus to register all of such reserved shares of common stock issued or reserved for issuance under our stock option plan. Such common stock issued under the foregoing plans, after the filing of related registration statements, will be freely tradable in the public market, subject in the case of the holders to the Rule 144 limitations applicable to our affiliates, lock-up agreements with the underwriters and vesting restrictions imposed by us. 68 SUMMARY OF FEDERAL INCOME AND ESTATE TAX CONSEQUENCES OF OWNERSHIP AND DISPOSITION OF COMMON STOCK BY NON-U.S. HOLDERS The following is a summary of certain United States federal income and estate tax consequences of the ownership and disposition of our common stock by non-U.S. holders. As used herein, "non-U.S. holder" means any person or entity that holds our common stock, other than: . an individual citizen or resident of the U.S.; . a corporation or partnership created or organized in or under the laws of the U.S., or of any state of the U.S. or the District of Columbia, other than any partnership treated as foreign under U.S. Treasury Regulations; . an estate the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or . in general, a trust if a court within the U.S. is able to exercise primary supervision over the administration of the trust and if one or more U.S. persons have the authority to control all substantial decisions of the trust. The summary is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, existing, temporary and proposed U.S. Treasury Regulations promulgated thereunder and administrative and judicial interpretations of each, all as of the date hereof and all of which are subject to change, possibly on a retroactive basis. This summary is for general information only. It does not address aspects of U.S. federal taxation other than income and estate taxation. This summary does not discuss all the tax consequences that may be relevant to a non-U.S. holder in light of the holder's particular circumstances, for instance, insurance companies, tax-exempt organizations, pension funds, broker- dealers, and financial institutions. In addition, this summary does not address any state, local, or foreign tax considerations that may be relevant to a non- U.S. holder's decision to purchase shares of our common stock. PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE PARTICULAR U.S. FEDERAL INCOME AND ESTATE TAX CONSEQUENCES, AS WELL AS OTHER U.S. FEDERAL, STATE, AND LOCAL TAX CONSEQUENCES, AND THE NON-U.S. TAX CONSEQUENCES, TO THEM OF OWNING AND DISPOSING OF SHARES OF OUR COMMON STOCK. Income Tax Dividends We do not have a present intention to pay dividends on shares of our common stock. If we were to pay dividends, however, dividends paid to a non- U.S. holder generally will be subject to withholding of U.S. income tax at the rate of 30% of the gross amount of the dividend, or such lower rate as may be prescribed by an applicable income tax treaty. If dividends we pay are effectively connected with a non-U.S. holder's conduct of a trade or business in the U.S., the 30% withholding tax generally will not apply, and the non-U.S. holder generally will be subject to tax on such dividends on a net basis (the gross amount less allowable deductions) in the same manner as holders who are U.S. persons, provided the non-U.S. holder files appropriate IRS forms with us. If an income tax treaty applies, dividends which are effectively connected with the holder's conduct of a U.S. trade or business must also be attributable to such holder's U.S. permanent establishment or fixed base in order to be taxable on a net basis. An additional branch profits tax of 30%, or such lower rate as may be prescribed by an applicable income tax treaty, may apply if the non-U.S. holder is a corporation. 69 Under current U.S. Treasury Regulations, in determining whether a holder is eligible for the benefits of an income tax treaty, dividends paid to an address in a foreign country are presumed to be paid to a resident of that country, absent knowledge to the contrary. However, under new U.S. Treasury Regulations generally effective for dividend payments made after December 31, 2000, a non-U.S. holder desiring to claim the benefits of an applicable tax treaty must satisfy certification and other requirements and must provide us with a taxpayer identification number unless an exception applies. In addition, under these new Treasury Regulations, in the case of common stock held by a foreign partnership, this certification requirement may be applied to the partners, and not the partnership, and the partnership must provide certain information, including a U.S. taxpayer identification number. These new regulations also provide look-through rules for tiered partnerships. A non-U.S. holder that is eligible for a reduced rate of U.S. withholding tax pursuant to a tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS. Disposition of Our Common Stock Generally, non-U.S. holders will not be subject to U.S. federal income tax, or withholding thereof, in respect of gain recognized on a disposition of our common stock unless: . the gain is effectively connected with the holder's conduct of a trade or business within the U.S., or if a tax treaty applies, is attributable to a permanent establishment or fixed base of the holder in the U.S.; in any such case gain will be subject to regular graduated U.S. income tax rates and the branch profits tax described above may also apply if the non-U.S. holder is a corporation; . in the case of a non-U.S. holder who is a non-resident alien individual and holds our common stock as a capital asset, the holder is present in the U.S. for 183 or more days in the taxable year of the sale and other conditions are met; . we are or have been a "United States real property holding corporation" for U.S. federal income tax purposes and certain other conditions are met; we do not believe we are or have been a United States real property holding corporation and do not expect to become one in the future; or . the holder is subject to tax pursuant to U.S. federal income tax provisions applicable to certain U.S. expatriates. Estate Tax If an individual non-U.S. holder owns, or is treated as owning, our common stock at the time of his or her death, such stock would generally be includable in the individual's gross estate for U.S. federal estate tax purposes. In such case, our common stock may be subject to U.S. federal estate tax imposed on the estates of nonresident aliens, in the absence of a contrary provision contained in an applicable estate tax treaty. Backup Withholding and Information Reporting Dividends Generally, we must report annually to the IRS and to each non-U.S. holder the amount of dividends that we paid to a holder, and the amount of tax that we withheld on those dividends. This information may also be made available to the tax authorities of a country in which the non-U.S. holder resides or is established. Under current law, dividends paid on our common stock to a non-U.S. holder at an address outside the U.S. are generally exempt from backup withholding tax, imposed at a 31% rate, and U.S. information reporting requirements, but not from regular withholding tax as discussed above. Backup withholding tax and information reporting generally will apply to dividends paid to a non-U.S. holder at an address in the U.S. if the holder fails to establish an exemption or to furnish other information. Under the Treasury Regulations that are applicable to dividends paid after December 31, 2000, a non-U.S. person must generally provide proper 70 documentation establishing the person's non-U.S. status to a withholding agent in order to avoid backup withholding tax. Broker Sales Payments of proceeds from the sale of our common stock by a non-U.S. holder made to or through a U.S. office of a broker are generally subject to both information reporting and backup withholding tax unless the holder certifies its non-U.S. status under penalties of perjury or otherwise establishes entitlement to an exemption. Payments of proceeds from the sale of our common stock by a non-U.S. holder made to or through a non-U.S. office of a broker generally will not be subject to information reporting or backup withholding. However, payments made to or through certain non-U.S. offices, including the non-U.S. offices of a U.S. broker and foreign brokers with certain types of relationships to the U.S., are generally subject to information reporting, but not backup withholding, unless the holder certifies its non-U.S. status under penalties of perjury or otherwise establishes entitlement to an exemption. Backup withholding is not an additional tax. A non-U.S. holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS. Non-U.S. holders should consult their tax advisors regarding the application of information reporting and backup withholding in their particular situation, including the availability of an exemption from such requirements and the procedures for obtaining such an exemption, as well as the effect of the new Treasury Regulations generally effective for payments made after December 31, 2000. 71 UNDERWRITING General We intend to offer the shares in the U.S. and Canada through the

U.S. underwriters and elsewhere through the international managers. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Robertson Stephens, Inc., CIBC World Markets Corp., U.S. Bancorp Piper Jaffray Inc. and Wit SoundView Corporation are acting as U.S. representatives of the U.S. underwriters named below. Subject to the terms and conditions described in a U.S. purchase agreement among us and the U.S. underwriters, and concurrently with the sale of shares to the international managers, we have agreed to sell to the U.S. underwriters, and the U.S. underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below. Number of U.S. Underwriters Shares ---------------- ------ Merrill Lynch, Pierce, Fenner & Smith Incorporated... Robertson Stephens, Inc. .... CIBC World Markets Corp... U.S. Bancorp Piper Jaffray Inc.................................... Wit SoundView Corporation... ----- Total.. ===== We have also entered into an international purchase agreement with the international managers for sale of the shares outside the U.S. and Canada for whom Merrill Lynch International, Robertson Stephens, Inc., CIBC World Markets Corp., U.S. Bancorp Piper Jaffray Inc. and Wit SoundView Corporation are acting as lead managers. Subject to the terms and conditions in the international purchase agreement, and concurrently with the sale of shares to the U.S. underwriters pursuant to the U.S. purchase agreement, we have agreed to sell shares to the international managers, and the international managers severally have agreed to purchase shares from us. The initial public offering price per share and the total underwriting discount per share are identical under the U.S. purchase agreement and the international purchase agreement. The U.S. underwriters and the international managers have agreed to purchase all of the shares sold under the U.S. and international purchase agreements if any of these shares are purchased. If an underwriter defaults on its obligations under the U.S. or international purchase agreement, the U.S. and international purchase agreements provide that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreements may be terminated. The closings for the sale of shares to be purchased by the U.S. underwriters and the international managers are conditioned on one another. We have agreed to indemnify the U.S. underwriters and international managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the U.S. underwriters and international managers may be required to make in respect of those liabilities. The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreements, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. Commissions and Discounts The U.S. representatives have advised us that the U.S. underwriters propose initially to offer the shares to the public at the initial public offering price on the cover page of this prospectus and to dealers at that price 72 less a concession not in excess of $ per share. The U.S. underwriters may allow, and dealers may reallow, a discount not in excess of $ per share to other dealers. After the initial public offering, the public offering price, concession and discount may be changed. The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the U.S. underwriters and international managers of their over-allotment options. Per Share Without Option With Option --------- ------------- ----------- Public offering price.............. $ $ $ Underwriting discount.............. $ $ $ Proceeds, before expenses, to IPG Photonics......................... $ $ $ The expenses of the offering, not including the underwriting discount, are estimated at $1,000,000 and are payable by us. Over-Allotment Options We have granted options to the U.S. underwriters to purchase up to additional shares at the public offering price less the underwriting discount. The U.S. underwriters may exercise these options for 30 days from the date of this prospectus solely to cover any over-allotments. If the U.S. underwriters exercise these options, each will be obligated, subject to conditions contained in the purchase agreements, to purchase a number of additional shares proportionate to that U.S. underwriter's initial amount reflected in the above table. We have also granted options to the international managers, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares to cover any over-allotments on terms similar to those granted to the U.S. underwriters. Intersyndicate Agreement The U.S. underwriters and the international managers have entered into an intersyndicate agreement that provides for the coordination of their activities. Under the intersyndicate agreement, the U.S. underwriters and the international managers may sell shares to each other for purposes of resale at the initial public offering price, less an amount not greater than the selling concession. Under the intersyndicate agreement, the U.S. underwriters and any dealer to whom they sell shares will not offer to sell or sell shares to persons who are non-U.S. or non-Canadian persons or to persons they believe intend to resell to persons who are non-U.S. or non-Canadian persons, except in the case of transactions under the intersyndicate agreement. Similarly, the international managers and any dealer to whom they sell shares will not offer to sell or sell shares to U.S. persons or Canadian persons or to persons they believe intend to resell to U.S. or Canadian persons, except in the case of transactions under the intersyndicate agreement. Reserved Shares At our request, the underwriters have reserved for sale, at the initial public offering price, up to ten percent of the shares offered by this prospectus for sale to some of our employees and business associates. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of this offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus. 73 No Sales of Similar Securities We and our executive officers and directors and all of our significant stockholders have agreed, with exceptions, not to sell or transfer any common stock for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other individuals have agreed not to directly or indirectly: . offer, pledge, sell or contract to sell any common stock; . sell any option or contract to purchase any common stock; . purchase any option or contract to sell any common stock; . grant any option, right or warrant for the sale of any common stock; . lend or otherwise dispose of or transfer any common stock; . request or demand that we file a registration statement related to the common stock; or . enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock, whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise. This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. Quotation on the Nasdaq National Market We expect the shares to be approved for quotation on the Nasdaq National Market, subject to notice of issuance, under the symbol "IPGP." Before this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations between us and the U.S. representatives and lead managers. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are: . the valuation multiples of publicly traded companies that the U.S. representatives and the lead managers believe to be comparable to us; . our financial information; . the history of, and the prospects for, our company and the industry in which we compete; . an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues; . the present state of our development; and . the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours. An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price. 74 The underwriters do not expect to sell more than 5% of the shares being offered in this offering to accounts over which they exercise discretionary authority. Price Stabilization, Short Positions and Penalty Bids Until the distribution of the shares is completed, SEC rules may limit the underwriters and selling group members from bidding for or purchasing our common stock. However, the U.S. representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price. In connection with the offering, the underwriters may make short sales of the common stock. Short sales involve the sale by the underwriters at the time of the offering of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the over-allotment options. The U.S. representatives may close out any covered short position by either exercising the over-allotment options or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the U.S. representatives will consider, among other things, the price of shares available for purchase in the open market as compared to the public offering price at which they may purchase the shares through the over-allotment option. Naked short sales are sales in excess of the over-allotment option. The U.S. representatives must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the U.S. representatives are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Similar to other purchase transactions, the purchases by the U.S. representatives to cover syndicate short positions may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than it would otherwise be in the absence of these transactions. The U.S. representatives may also impose a penalty bid on underwriters and selling group members. This means that if the U.S. representatives purchase shares in the open market to reduce the underwriters' short position or to stabilize the price of such shares, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares. Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the U.S. representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. Electronic Distribution Neither we nor the U.S. underwriters will rely on third party providers to comply with the prospectus delivery requirements. All purchasers will receive a printed version of the final prospectus. Merrill Lynch will be facilitating Internet distribution for this offering to certain of its Internet subscription clients. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage clients. An electronic prospectus is available on the web site maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch web site relating to this offering is not a part of this prospectus. A prospectus in electronic format is being made available on an Internet web site maintained by Wit SoundView Corporation's strategic partner, E*Trade Securities, Inc. Other than the prospectus in electronic format, the information on any U.S. underwriter's web site and any information contained in any other web site 75 maintained by an U.S. underwriter is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any U.S. underwriter in its capacity as underwriter and should not be relied upon by investors. Other Relationships Merrill Lynch KECALP L.P. 1999, KECALP Inc., KECALP Inc., as Nominee for Merrill Lynch KECALP International L.P. 1999, ML IBK Positions, Inc. and Merrill Lynch Taurus 2000 Fund L.P., entities which are affiliated with Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the underwriters, beneficially own an aggregate of 600,000 shares of Series B preferred stock, which convert into 1,749,996 shares of common stock and warrants to purchase 500,000 shares of common stock assuming an offering price of $15.00. Bayview 2000, L.P., an entity which is affiliated with Robertson Stephens, one of the underwriters, beneficially owns an aggregate of 80,000 shares of Series B preferred stock, which convert into 233,333 shares of common stock, and warrants to purchase 66,667 shares of common stock assuming an offering price of $15.00. LEGAL MATTERS Selected legal matters in connection with the offering of common stock are being passed upon for us by Winston & Strawn, New York, New York. Selected legal matters in connection with the offering are being passed upon for the underwriters by Brown & Wood llp, New York, New York. EXPERTS The combined consolidated financial statements of IPG Photonics and related companies as of and for the year ended December 31, 1999, included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing in this prospectus and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. The consolidated financial statements of IPG Laser as of December 31, 1998 and for each of the two years in the period ended December 31, 1998, included in this prospectus have been audited by Deloitte & Touche GmbH, independent auditors, as stated in their report appearing in this prospectus and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. 76 WHERE YOU CAN FIND MORE INFORMATION We have filed with the SEC a registration statement on Form S-1 under the Securities Act, with respect to the shares to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. For further information about us and the shares to be sold in this offering, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to, are not necessarily complete, and in each instance please refer to the copy of the contract, agreement or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by this reference. You may read and copy all or any portion of the registration statement or any reports, statements or other information we file with the SEC at the public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, DC 20549, and at the Regional Offices of the SEC located at Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661-2551 and Room 1400, 13th Floor, 7 World Trade Center, New York, New York 10048. Copies of such material are also available by mail from the Public Reference Branch of the SEC at 450 Fifth Street, N.W., Washington, DC 20549 at prescribed rates. Please call the SEC at 1-800-SEC-0330 for more information on the public reference rooms. You can also find our SEC filings at the SEC's website at http://www.sec.gov. 77 INDEX TO

F-1 REPORT OF INDEPENDENT AUDITORS The accompanying combined consolidated financial statements give effect to the completion of a 2-for-1 stock split described in the last paragraph of Note 7 which will take place prior to the effective date of the offering. The following report is in the form which will be furnished by Deloitte & Touche LLP upon the completion of the stock split and assuming that no other material events have occurred that would affect the accompanying combined consolidated financial statements or require disclosure therein. "To the Board of Directors and Shareholders of IPG Photonics Corporation: We have audited the accompanying combined consolidated balance sheet of IPG Photonics Corporation and related companies as of December 31, 1999, and the related combined consolidated statements of operations, shareholders' equity and cash flows for the year then ended. The combined consolidated financial statements include the accounts of IPG Photonics Corporation and two related companies, IPG Laser GmbH and IPG Fibertech S.r.l. These companies are under common ownership and common management. These financial statements are the responsibility of the companies' management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the combined consolidated financial position of IPG Photonics Corporation and related companies as of December 31, 1999, and the results of their combined consolidated operations and their combined consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Boston, Massachusetts December 6, 2000 (, 2001 as to the last paragraph of Note 7)" Deloitte & Touche LLP Boston, Massachusetts January 24, 2001 F-2 REPORT OF INDEPENDENT AUDITORS The accompanying consolidated financial statements give effect to the completion of a 2-for-1 stock split described in the last paragraph of Note 7 which will take place prior to the effective date of the offering. The following report is in the form which will be furnished by Deloitte & Touche GmbH upon the completion of the stock split and assuming that no other material events have occurred that would affect the accompanying consolidated financial statements or require disclosure therein. "To the Board of Directors and Shareholders of IPG Laser GmbH: We have audited the accompanying consolidated balance sheet of IPG Laser GmbH and subsidiary (a German corporation) as of December 31, 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of IPG Laser GmbH and subsidiary as of December 31, 1998, and the results of their consolidated operations and their consolidated cash flows for each of the two years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. Duesseldorf, Germany December 6, 2000 (, 2001 as to the last paragraph of Note 7)" Deloitte & Touche GmbH Duesseldorf, Germany January 24, 2001 F-3 COMBINED CONSOLIDATED BALANCE SHEETS (In thousands, except share data) September 30, 2000 ------------------- December 31, December 31, 1998 1999 Actual Pro forma ------------ ----------- -------- --------- Predecessor (unaudited) ------------ ------------------- Assets: Current assets: Cash and cash equivalents.. $1,181 $ 706 $ 52,999 Accounts receivable, net of allowances of $18, $10 and $117................... 1,763 1,642 11,590 Due from affiliates... 463 221 753 Inventories.. 467 2,341 7,184 Deferred tax assets... -- 86 163 Prepaid expenses and other assets.. 355 332 1,212 ------ ------- -------- Total current assets... 4,229 5,328 73,901 Restricted cash... 12,560 Non-marketable investment securities... 50 43 38 Deferred tax assets... 52 -- 1,117 Property, plant and equipment, net.. 4,488 7,207 15,177 Other assets... -- 222 184 ------ ------- -------- Total assets... $8,819 $12,800 $102,977 ====== ======= ======== Liabilities and shareholders' equity: Current liabilities: Current portion of long-term debt.. $ 21 $ 225 $ 1,982 Accounts payable... 2,210 3,266 4,210 Due to affiliates.. 946 463 471 Accrued expenses and other liabilities....................................... 315 472 2,310 Income taxes payable.. 145 1,677 7,934 Deferred tax liabilities.. 45 -- -- ------ ------- -------- Total current liabilities.. 3,682 6,103 16,907 ------ ------- -------- Long-term debt.. 4,695 4,421 5,317 ------ ------- -------- Deferred income taxes... -- 50 -- ------ ------- -------- Commitments and contingencies (See Note 9).................................... -- -- -- Minority interest.. 7 10 10 ------ ------- -------- Convertible redeemable preferred stock--Series B, $0.0001 par value; 3,800,000 shares authorized, 3,000,000 shares issued and outstanding at September 30, 2000 actual; no shares issued or outstanding at September 30, 2000 pro forma... -- -- 62,389 $ -- ------ ------ -------- -------- Shareholders' equity: Preferred stock--$0.0001 par value; 700,000 shares authorized, no shares issued or outstanding... -- -- -- -- Convertible preferred stock--Series A, $0.0001 par value; 500,000 shares authorized, 500,000 shares issued and outstanding at September 30, 2000 actual; no shares issued or outstanding on a pro forma basis at September 30, 2000.. -- -- 4,954 -- Common stock, $.0001par value, 100,000,000 shares authorized, 43,600,000 shares issued and outstanding at December 31, 1999; 67,961,868 shares issued and outstanding at September 30, 2000 actual; 100,000,000 shares authorized, 77,711,868 shares issued and outstanding at September 30, 2000 pro forma...... -- 4 7 8 Additional paid-in capital.. 312 310 30,934 98,276 Warrants to issue common stock... -- -- 12,400 12,400 Notes receivable from shareholders... -- -- (440) (440) Deferred compensation... -- -- (17,452) (17,452) Retained earnings (accumulated deficit)...................................... 135 2,086 (11,362) (11,362) Accumulated other comprehensive (loss)....................................... (12) (184) (687) (687) ------ ------- -------- -------- Total shareholders' equity... 435 2,216 18,354 $ 80,743 ------ ------- -------- ======== Total liabilities and shareholders' equity................................ $8,819 $12,800 $102,977 -- ====== ======= ======== See notes to combined consolidated financial statements. F-4 COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except share and per share data) For the nine months For the year ended September ended December 31, 30, ---------------------- ---------------- 1997 1998 1999 1999 2000 ------ ------ ------- ------- ------- Predecessor (unaudited) ------------- ---------------- Net sales......................... $3,097 $8,263 $18,640 $14,823 $32,689 Cost of sales(1).................. 2,436 5,560 9,688 6,882 12,610 ------ ------ ------- ------- ------- Gross profit(1).................... 661 2,703 8,952 7,941 20,079 ------ ------ ------- ------- ------- Operating expenses: Sales and marketing(2)........... 219 374 677 619 1,049 Research and development(3)...... 127 682 1,477 1,036 1,127 General, administrative and other(4)........................ 276 1,000 2,712 2,006 3,946 Equity-based compensation........ -- -- -- -- 12,035 ------ ------ ------- ------- ------- Total operating expenses....... 622 2,056 4,866 3,661 18,157 ------ ------ ------- ------ ------- Operating income.................. 39 647 4,086 4,280 1,922 Interest income (expense), net..... (119) (208) (303) (231)

(77) Other income (expense), net........ 108 (47) 273 40 475 ------ ------ ------- ------- ------- Income before provision for income taxes and minority interests...... 28 392 4,056 4,089 2,320 Provision for income taxes......... 22 234 2,102 2,178 5,828 Minority interest................. -- (4) (3) (5) -- ------ ------ ------- ------- ------- Net income (loss)................. 6 154 1,951 1,906 (3,508) Accretion of preferred stock....... -- -- -- -- (169) ------ ------ ------- ------- ------- Net income (loss) available to common shareholders.............. $ 6 $ 154 $ 1,951 $ 1,906 $(3,677) ====== ====== ======= ======= ======= Net income (loss) per share: Basic........................... -- -- $ 0.03 $ 0.03 $ (0.06) ======= ======= ======= Diluted......................... -- -- $ 0.03 $ 0.03 $ (0.06) ======= ======= ======= Pro forma net loss per share--basic and diluted...................... -- -- -- -- $ (0.05) ======= -------- (1) Excludes $677 of equity-based compensation for the nine months ended September 30, 2000. (2) Excludes $166 of equity-based compensation for the nine months ended September 30, 2000. (3) Excludes $184 of equity-based compensation for the nine months ended September 30, 2000. (4) Excludes $11,008 of equity-based compensation for the nine months ended September 30, 2000. See notes to combined consolidated financial statements. F-5 COMBINED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (In thousands, except share and per share data) Convertible Preferred Stock Series A Common Stock Warrants Notes Retained Accumulated --------------- --------------- Additional to Issue Receivable Earnings Other Number of Number of Par Paid-in Common from Deferred (Accumulated Comprehensive Shares Value Shares Value Capital Stock Shareholders Compensation Deficit) (Loss) --------- ------ ---------- ----- ---------- -------- ------------ ------------ ------------ ------------- Balance at January 1, 1997 (Predecessor)... -- $ -- -- $-- $ 183 $ -- $ -- $ -- $ (25) $ (13) Contributions from shareholders.... -- -- -- -- 129 -- -- -- -- -- Comprehensive income: Net income...... -- -- -- -- -- -- -- -- 6 -- Translation adjustments..... -- -- -- -- -- -- -- -- -- (24) Total comprehensive loss............ -- -- -- -- -- -- -- -- -- -- ------- ------ ---------- ---- ------- ------- ----- -------- -------- ----- Balance at December 31, 1997 (Predecessor)... -- -- -- -- 312 -- -- -- (19) (37) Comprehensive income: Net income...... -- -- -- -- -- -- -- -- 154 -- Translation adjustments..... -- -- -- -- -- -- -- -- -- 25 Total comprehensive income .... -- -- -- -- -- -- -- -- -- -- ------- ------ ---------- ---- ------- ------- ----- -------- -------- ----- Balance at December 31, 1998 (Predecessor)... -- -- -- -- 312 -- -- -- 135 (12) Comprehensive income: Net income...... -- -- -- -- -- -- -- -- 1,951 -- Translation adjustments..... -- -- -- -- -- -- -- -- -- (172) Total comprehensive income.......... -- -- -- -- -- -- -- -- -- -- Common stock issued.......... -- -- 43,600,000 4 (2) -- -- -- -- -- ------- ------ ---------- ---- ------- ------- ----- -------- -------- ----- Balance at December 31, 1999............ -- -- 43,600,000 4 310 -- -- -- 2,086 (184) Comprehensive income: Net loss........ -- -- -- -- -- -- -- -- (3,508) -- Translation adjustments..... -- -- -- -- -- -- -- -- -- (503) Total comprehensive loss............ -- -- -- -- -- -- -- -- -- -- Common stock issued to IP Fibre Devices Ltd. In satisfaction of $200,000 note payable and accrued interest........ -- -- 20,000,000 2 198 -- -- -- -- -- Common stock issued for notes receivable from stockholders at $0.50 per share........... -- -- 880,000 1 439 -- (440) -- -- -- Issuance of Series A shares at $10.00 per share, net of issuance costs totaling $63.... 500,000 4,937 -- -- -- -- -- -- -- -- Warrants to issue common stock attached to Series B preferred stock........... -- -- -- -- -- 12,400 -- -- -- -- Accretion of Series A Preferred Stock........... -- 17 -- -- (17) -- -- -- -- -- Accretion of Series B Preferred Stock........... -- -- -- -- (152) -- -- -- -- -- Distributions to shareholders.... -- -- 2,300,000 -- -- -- -- -- (9,940) -- Equity-based compensation awarded......... -- -- -- -- 29,487 -- -- (29,487) -- -- Amortization of equity-based compensation.... -- -- -- -- -- -- -- 12,035 -- -- Cash proceeds from exercise of stock options... -- -- 1,181,868 -- 669 -- -- -- -- -- ------- ------ ---------- ---- ------- ------ ----- -------- -------- ----- Balance at September 30, 2000 (unaudited)..... 500,000 $4,954 67,961,868 $ 7 $30,934 $12,400 $(440) $(17,452) $(11,362) $(687) ======= ====== ========== ==== ======= ======= ===== ======== ======== ===== Other Comprehensive Total Income (Loss) -------- ------------ Balance at January 1, 1997 (Predecessor)... $ 145 Contributions from shareholders.... 129 Comprehensive income: Net income...... 6 $ 6 Translation adjustments..... (24) (24) ------------ Total comprehensive loss............ -- $ (18) -------- ============ Balance at December 31, 1997 (Predecessor)... 256 Comprehensive income: Net income...... 154 $ 154 Translation adjustments..... 25 25 ------------ Total comprehensive income .... -- $ 179 -------- ============ Balance at December 31, 1998 (Predecessor)... 435 Comprehensive income: Net income...... 1,951 $ 1,951 Translation adjustments..... (172) (172) ------------ Total comprehensive income.......... -- $ 1,779 ============ Common stock issued.......... 2 -------- Balance at December 31, 1999............ 2,216 Comprehensive income: Net loss........ (3,508) $ (3,508) Translation adjustments..... (503) (503) ------------ Total comprehensive loss............ -- $ (4,011) ============ Common stock issued to IP Fibre Devices Ltd. In satisfaction of $200,000 note payable and accrued interest........ 200 Common stock issued for notes receivable from stockholders at $0.50 per share........... -- Issuance of Series A shares at $10.00 per share, net of issuance costs totaling $63.... 4,937 Warrants to issue common stock attached to Series B preferred stock........... 12,400 Accretion of Series A Preferred Stock........... --

Accretion of Series B Preferred Stock........... (152) Distributions to shareholders.... (9,940) Equity-based compensation awarded......... -- Amortization of equity-based compensation.... 12,035 Cash proceeds from exercise of stock options... 669 -------- Balance at September 30, 2000 (unaudited)..... $18,354 ======== See notes to combined consolidated financial statements. F-6 COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands) For the year ended For the nine months December 31, ended September 30, ------------------------- --------------------- 1997 1998 1999 1999 2000 ------- ------- ------- --------- ---------- Predecessor (unaudited) --------------- -------------------- Cash flows from operating activities: Net income (loss)........... $ 6 $ 154 $ 1,951 $ 1,906 $ (3,508) Adjustment to reconcile net income (loss) to net cash provided by operating activities: Depreciation and amortization.............. 250 716 1,518 1,015 1,524 Deferred income taxes....... (4) 43 (29) (27) (1,244) Equity-based compensation... -- -- -- -- 12,035 Minority interest........... -- 4 3 5 -- Changes in assets and liabilities that provided (used) cash: Accounts receivable......... (751) (852) (55) (1,025) (10,568) Due to (from) affiliates, net....................... 483 234 (439) (374) (346) Inventories................ (19) (296) (1,982) (1,666) (5,427) Prepaid expenses and other assets..................... 83 (218) (20) (61) (1,088) Accounts payable............ 143 1,848 1,401 677 1,592 Accrued expenses and other liabilities................ (8) 268 211 581 1,568 Income taxes payable........ 8 109 1,645 2,096 7,219 ------- ------- ------- --------- ---------- Net cash provided by operating activities........ 191 2,010 4,204 3,127 1,757 ------- ------- ------- --------- ---------- Cash flows from investing activities: Purchase of property, plant and equipment.............. (1,292) (3,080) (5,135) (3,391) (9,898) Other...................... -- 2 -- -- -- ------- ------- ------- --------- ---------- Net cash used in investing activities................. (1,292) (3,078) (5,135) (3,391) (9,898) ------- ------- ------- --------- ---------- Cash flows from financing activities: Proceeds from long-term borrowings................ 1,151 2,049 600 -- 1,822 Principal payments on borrowings................ (13) (81) (15) (11) (832) Cash placed into restricted investment account......... -- -- -- -- (12,560) Net proceeds from line of credit agreements.......... -- -- -- -- 1,750 Capital contributions from shareholders.............. 129 -- -- -- -- Proceeds from Series A preferred stock, net....... -- -- -- -- 4,737 Proceeds from Series B preferred stock, net....... -- -- -- -- 74,635 Distributions to shareholders.............. -- -- -- -- (9,940) Proceeds from exercise of stock options............. -- -- -- -- 669 ------- ------- ------- --------- ---------- Net cash provided by (used in) financing activities.... 1,267 1,968 585 (11) 60,281 ------- ------- ------- --------- ---------- Effect of changes in exchange rates on cash.............. (16) 59 (129) (97) 153 ------- ------- ------- --------- ---------- Net increase (decrease) in cash and cash equivalents... 150 959 (475) (372) 52,293 Cash and cash equivalents, beginning of the year....... 72 222 1,181 1,181 706 ------- ------- ------- --------- ---------- Cash and cash equivalents, end of the year............ $ 222 $ 1,181 $ 706 $ 809 $ 52,999 ------- ------- ------- --------- ---------- Supplemental disclosures of cash flow information: Cash paid for interest, net of amounts capitalized..... $ 122 $ 195 $ 299 $ 177 $ 125 Cash paid for taxes......... $ 3 $ 69 $ 492 $ 134 $ 372 Noncash transactions: Conversion of payable to Fibre for 20,000,000 shares of common stock........... -- -- -- -- $ 200 Accounts receivable paid with nonmarketable securities................ -- $ 46 -- -- -- Common stock issued for notes receivable from shareholders.............. -- -- $ 2 $ 2 $ 440 Preferred stock issued for property, plant and equipment................. -- -- -- -- $ 200 Real estate acquired from shareholder through assumption of mortgage payable................... -- -- -- -- $ 345 Common stock issued to Fibre in connection with the 2000 Reorganization, 2,300,000 shares at par value........ -- -- -- -- -- See notes to combined consolidated financial statements. F-7 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS (Information as of and for the nine months ended September 30, 1999 and 2000 is unaudited) 1. Description of Business and Basis of Presentation IPG Photonics Corporation (the "Company") was incorporated as a Delaware corporation in December 1998. Since inception, the Company has been affiliated by common ownership with several entities, including NTO IRE-POLUS, Russia; IPG Laser GmbH, Germany ("Laser"); IPG Fibertech S.r.l., Italy ("Fibertech"); and IP Fibre Devices Ltd., United Kingdom ("Fibre"). The accompanying combined consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company, Laser and Fibertech (collectively, "IPG"). For purposes of presentation of the accompanying combined financial statements for the years ended December 31, 1997 and 1998, Laser and Laser's 80% owned subsidiary, Fibertech, are referred to as the "Predecessor." All intercompany transactions and balances have been eliminated. Since inception of the entities comprising IPG, the Company's majority shareholder has maintained majority ownership of all these entities. During August 2000, the ownership of the Company and several affiliated companies was reorganized (the "2000 Reorganization"). The 2000 Reorganization was completed through several transactions. The Company initially purchased 50% of the shares of Laser from Fibre for $7.5 million in cash plus 2,300,000 common shares of the Company. In addition, the Company purchased an additional 4% of the shares of Laser from the Company's majority shareholder for $2.4 million in cash. Concurrently with these purchases, the Company was provided an option to purchase the remaining 46% of Laser from the Company's majority shareholder. On October 4, 2000, the Company exercised this option and obtained the remaining 46% ownership interest in Laser in exchange for 2,806,000 common shares of the Company. Through this series of transactions, Laser and its 80% owned subsidiary, Fibertech, became a wholly owned subsidiary of the Company. Because all of these entities have been under common managerial, operational and shareholder control since inception, the transfers of interest are accounted for in the combined consolidated financial statements as a reorganization of companies under common control in a manner similar to a pooling of interests. IPG has agreed in principle to invest $5.0 million in NTO IRE-POLUS for a 51% ownership interest subject to satisfaction of usual and customary closing conditions, as well as the approval of the Russian Ministry for Anti-Monopoly Policy. The Company anticipates that this transaction will close in the first quarter of 2001. The proceeds of the investment are to be used by NTO IRE-POLUS solely for equipment purchases and the development of additional manufacturing capacity. Similar to the 2000 Reorganization, NTO IRE-POLUS and the Company are under common control, and the transaction will be accounted for as a reorganization of companies under common control in a manner similar to a pooling of interests. This transaction will not have a significant impact upon IPG's financial condition or results of operations. IPG designs, manufactures and sells high-power fiber amplifiers, Raman pump lasers and fiber lasers for telecommunications and industrial applications. IPG's telecommunications products are used in the long-haul, metropolitan and access sectors of optical communications networks. IPG's industrial products are used for marking, printing, material processing, micro-machining, optical sensing and measurement and laboratory and medical equipment. IPG's administrative and manufacturing facilities in the United States are presently located in Sturbridge, Massachusetts, and European operations are located in Burbach, Germany, and Milan, Italy. Manufacturing activities and research and development are conducted by NTO IRE-POLUS in Fryazino, Russia. Interim financial data--The interim combined consolidated financial information at September 30, 2000 and for the nine months ended September 30, 1999 and 2000 is unaudited but, in the opinion of management, includes all adjustments, which management considers necessary for a fair presentation of the combined consolidated financial position and results of operations for the interim periods. The results of operations for the nine months ended September 30, 2000 are not necessarily indicative of the results to be expected for the full fiscal year. F-8 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) 2. Summary of Significant Accounting Policies Use of estimates--The preparation of the combined consolidated 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 and disclosure of contingent assets and liabilities at the date of the combined consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Foreign currency translation--The U.S. dollar has been adopted as the reporting currency for all periods presented. 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 income. Exchange rate differences due to transactions in foreign currencies are reflected in the consolidated statements of operations. Cash and cash equivalents--Cash and cash equivalents consist primarily of highly liquid investments, such as bank deposits, with insignificant interest rate risk and original maturities of three months or less at the date of acquisition. Restricted cash includes cash restricted under certain Company debt agreements (See Note 6). Inventories--Inventories are stated at the lower of cost or market on a first-in, first-out basis. IPG's inventories include parts and components that may be specialized in nature and subject to rapid obsolescence. Additionally, our quality assurance standards result in the rejection of a portion of our purchased components without recourse to the supplier. The costs associated with obsolescence or component rejection are charged to cost of sales as incurred. While IPG considers obsolescence and component rejection in estimating required allowances to reduce recorded amounts to the lower of cost or market values, such estimates could change in the future. Property, plant and equipment--Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated 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 term of the corresponding lease. The following table presents the assigned economic useful lives of IPG's property, plant and equipment: Category Economic useful life -------- -------------------- Buildings.......................... 30 years Machinery and equipment............ 3-5 years Office furniture and fixtures....... 3-5 years Other assets....................... 3-5 years Expenditures for maintenance and repairs are charged to operations. Cost includes capitalized interest associated with significant capital projects. For the years ended December 31, 1997, 1998 and 1999, IPG capitalized interest totaling $16,000, $70,000 and $0, respectively. For the nine months ended September 30, 1999 and 2000, IPG capitalized interest totaling $0 and $152,000, respectively. Revenue recognition--Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred and there is a reasonable assurance of collection of the sales proceeds. IPG generally obtains oral or written purchase authorizations from its customers for a specified amount of product at a specified price and considers delivery to have occurred at F-9 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) the point of shipment. IPG has no obligation to provide upgrades, enhancements or customer support subsequent to the sale. IPG's products carry a warranty against defect for a period of one or two years, depending upon the product type. The expected cost associated with these warranty obligations is recorded when the revenue is recognized. Impairment of long-lived assets--Long-lived assets, which are comprised primarily of property, plant and equipment, are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. No impairment provisions have been recognized to date. Advertising expense--The cost of advertising is expensed as incurred. IPG conducts substantially all of its sales and marketing efforts through trade shows and professional and technical conferences. IPG's advertising costs for the years ended December 31, 1997, 1998, and 1999, and for the nine months ended September 30, 1999 and 2000 were not significant. Research and development--Internal research and development costs are expensed as incurred. Income taxes--IPG accounts for income taxes under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities and net operating loss carryforwards using enacted rates. Valuation allowances are provided against assets that are not likely to be realized. Equity-based compensation--SFAS No. 123, Accounting for Stock-Based Compensation, encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. As permitted by SFAS No. 123, IPG has elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25, and has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, for financial reporting purposes, compensation cost for stock options is measured as the excess, if any, of the estimated fair market value of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Equity instruments issued to nonemployees are accounted for in accordance with SFAS No. 123 and EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services. Concentration of credit risk--Financial instruments that potentially subject IPG to credit risk consist primarily of cash and cash equivalents and accounts receivable. IPG maintains substantially all of its cash in a single financial institution, which is believed to be a high-credit, quality financial institution. IPG grants credit to customers in the ordinary course of business and provides a reserve for potential credit losses. Such losses have been within management's expectations. See discussion related to significant customers in Note 13. Fair value of financial instruments--IPG's financial instruments consist of accounts receivable, accounts payable, and notes payable. The current carrying amounts of such instruments are considered reasonable estimates of their fair market value, due to the short maturity of these instruments or as a result of the competitive market interest rates, which have been negotiated. The fair value ascribed to the warrants issued in connection with the Series B Preferred Stock has been determined from an independent appraisal. Comprehensive income--SFAS No. 130, Reporting Comprehensive Income, established standards for reporting and displaying comprehensive income and its components within the financial statements. Comprehensive income includes charges and credits to equity that are not the result of transactions with F-10 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) shareholders. Included in other comprehensive income for IPG is the cumulative translation adjustments related to the net assets of the operations in Germany and Italy. These adjustments are accumulated within the statement of shareholders' equity under the caption, accumulated other comprehensive income (loss). Segment information--SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, was adopted by IPG in 1998 and established standards for the reporting of information about operating segments in annual and interim financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position but did affect the disclosure of segment information. Recently issued accounting standards--In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities, Deferral of the Effective Date of FASB Statement No. 133, to defer the effective date of SFAS No. 133. SFAS No. 133, as amended, is effective for IPG beginning January 1, 2001. Because IPG has not utilized derivative instruments for hedging purposes or interest rate management, management does not believe that the adoption of this statement will have a significant impact on operations or financial condition. 3. Net Income (Loss) Per Share and Pro Forma Financial Data Net income (loss) per share--Basic net income (loss) per share amounts for the year ended December 31, 1999 and for the nine months ended September 30, 1999 and 2000 are computed by dividing net income (loss) available to common shareholders by the weighted-average common shares of the Company outstanding during those periods. For purposes of computing net income (loss) per share, the common stock that was issued to the founders, the common stock issued to Fibre in satisfaction of certain liabilities and the stock issued to Fibre in connection with the 2000 Reorganization are considered nominal issuances and have been treated in a manner similar to a stock split or stock dividend. Diluted net income per share reflects the potential dilution that could occur if (i) the Series A and Series B preferred stock is converted to common stock, and (ii) options issued under the Company's stock compensation plan and the common stock warrants attached to the Series B preferred stock were exercised. Due to the net loss recorded for the nine months ended September 30, 2000, the calculation of diluted net loss per share excludes 5,597,060 common equivalent shares as their effects would be antidilutive. Net income per share amounts for the Predecessor have not been reported for the years ended December 31, 1997 and 1998 due to the closely held nature of these entities, and as such, per share amounts would not be meaningful. A summary of the weighted-average number of common shares and weighted- average number of common shares and common equivalent shares follows: Nine months ended September 30, Year ended -------------------- December 31, 1999 1999 2000 ---------------- ---------- ---------- Basic weighted-average ordinary common shares outstanding...... 65,900,000 65,900,000 67,271,715 Weighted-average common equivalent shares.............. 1,595,000 1,450,000 -- ---------- ---------- ---------- Diluted weighted-average common shares outstanding............. 67,495,000 67,350,000 67,271,715 ========== ========== ========== F-11 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Pro forma financial data--The Board of Directors has authorized the filing of a registration statement with the Securities and Exchange Commission that would permit the Company to sell shares of the Company's common stock in connection with a proposed initial public offering ("IPO"). If the offering is consummated under the terms presently anticipated, the 500,000 outstanding shares of Series A Preferred Stock and the 3,000,000 outstanding shares of Series B Preferred Stock will automatically convert into 1,000,000 shares and 8,750,000 shares, respectively, of common stock upon the closing of the IPO. The conversion of the preferred stock has been reflected in the accompanying unaudited pro forma combined consolidated balance sheet. The Series B Preferred Stock convert to the Company's common stock subject to adjustment pursuant to the amended and restated certificate of incorporation as discussed in Note 7. Pro forma basic and diluted net loss per share data has been calculated assuming conversion of the Series A and Series B preferred stock into shares of common stock from the date of original issuance of the preferred stock. In addition, no effect is given to accretion of the preferred stock for purposes of this computation. Shares used in computing pro forma basic and diluted net loss per share aggregated 68,935,635 for the nine months ended September 30, 2000. 4. Inventories Inventories consist of the following (in thousands): December 31, ----------- September 30, 1998 1999 2000 ---- ------ ------------- Components and raw materials.................... $424 $2,116 $6,523 Work in process................................ 43 225 661

---- ------ ------ Total.. $467 $2,341 $7,184 ==== ====== ====== 5. Property, Plant and Equipment Property, plant and equipment consists of the following (in thousands): December 31, ---------------- September 30, 1998 1999 2000 ------- ------- ------------ Land...................................... $ 72 $ 1,030 $ 1,184 Buildings................................. 2,618 2,490 2,452 Machinery and equipment................... 2,426 5,151 6,954 Office furniture and fixtures.............. 248 523 714 Construction in progress.................. 295 420 7,236 ------- ------- ------- 5,659 9,614 18,540 Accumulated depreciation.................. (1,171) (2,407) (3,363) ------- ------- ------- Total.................................. $ 4,488 $ 7,207 $15,177 ======= ======= ======= F-12 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) 6. Debt Debt consists of the following (in thousands): December 31, ------------- September 30, 1998 1999 2000 ------ ------ ------------ U.S. demand line of credit, collaterized by substantially all assets of the Company and the personal guarantee of the majority shareholder.................... $ -- $ -- $ 1,750 U.S. construction loan, collateralized by substantially all assets of the Company.. -- -- 531 U.S. dollar mortgage note payable, collateralized by land, 10% fixed rate, maturing November 2001 (paid in March 2000)................................... -- 600 -- Euro credit facility, collateralized by substantially all assets of Laser and the personal guaranty of the majority shareholder, 5.25% fixed rate, maturing September 2010.......................... -- -- 1,349 Deutsche mark note payable, collateralized by guaranty of majority shareholder, 6% adjustable not to exceed 10%, maturing September 2006.......................... 2,028 1,746 1,528 Deutsche mark note payable, collateralized by property, plant and equipment, 4.5% fixed rate, maturing semi-annually through March 2008...................... 2,147 1,848 1,517 Deutsche mark notes and mortgages payable, collateralized by property, plant and equipment ranging from 4.7% to 6.25% at fixed rates and variable rates, maturing monthly through January 2019............ 443 363 624 Deutsche mark overdraft facility.......... -- -- -- Related party note payable to Fibre, unsecured, 6.0% fixed rate, due March 2000.................................... 98 89 -- ------ ------ ------- Total debt............................... 4,716 4,646 7,299 Less current portion...................... (21) (225) (1,982) ------ ------ ------- Long-term debt......................... $4,695 $4,421 $ 5,317 ====== ====== ======= Principal maturities of long-term debt as of December 31, 1999 are as follows (in thousands): 2000.. $ 225 2001... 252 2002.. 254 2003... 256 2004.. 258 2005 and thereafter.. 3,401 ------ Total.. $4,646 ====== U.S. demand line of credit--In March 2000, the Company negotiated a demand line of credit facility with available principal totaling $4.0 million, expiring May 31, 2001. Outstanding principal on this facility bears interest at a monthly adjustable rate of London Interbank Offering Rate ("LIBOR") plus 2.75% (9.4% at September 30, 2000). This facility is collateralized by substantially all the assets of the Company, a guaranty from Fibre, and a personal guaranty of the Company's majority shareholder. F-13 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) U.S. construction loan--In April 2000, the Company entered into a $6.5 million construction loan facility to finance construction of new administrative and manufacturing facilities in Massachusetts. The construction loan has an initial term of nine months, during which time interest-only payments are due monthly. After the construction period, principal payments are due for five years, after which time the remaining outstanding balance is due. During the construction period the construction loan bears interest at LIBOR plus 3% (9.6% at September 30, 2000) and at a fixed rate equal to the Five-Year Treasury Rate plus 3% for the five-year term following the construction period. This facility is collateralized by substantially all the assets of the Company, including the related real estate and building construction. Subsequent to September 30, 2000, the Company placed $12,560,000 in a restricted overnight investment account which is available to the bank to offset the Company's obligations under the facilities. The demand line of credit and the construction loans contain cross- defaults and certain covenants, including maintenance of specific financial ratios which are not considered restrictive to the Company's operations. The most restrictive provisions of the Company's borrowing arrangements are as follows: a ratio of total debt to tangible capital of no more than 3.4 to 1 at December 31, 2000, and the debt service coverage ratio should not be below 2.0 to 1 for the year ending December 31, 2000. Euro construction loan--During 2000, Laser entered into a financing agreement with a syndicate of banks. The syndicate has provided available credit of (Euro)10.0 million (or $8.8 million) to finance construction of a new manufacturing facility in Germany and to meet the working capital needs of Laser. Principal payments are due semiannually beginning in September 2002 through September 2010. Interest accrues at 5.25%. A portion of this loan is personally guaranteed by IPG's majority shareholder. Deutsche mark ("DM") overdraft facility--In March 2000, Laser negotiated a syndicated overdraft facility with available principal of DM 4.7

million (or $2.1 million). This facility bears interest at market rates that vary depending upon the principal outstanding (from 9.125% to 10.5% at September 30, 2000). The facility is payable upon demand. No principal was outstanding at September 30, 2000. This facility and the Euro construction loan are collateralized by a common pool of the assets of Laser. A portion of this loan is partially guaranteed by IPG's majority shareholder. 7. Shareholders' Equity Predecessor equity Laser has authorized capital totaling DM 500,000, all of which was outstanding at December 31, 1998, 1999 and September 30, 2000. The equity of the Predecessor entities has been reported as additional paid-in capital in the combined consolidated financial statements. Common stock The Company was incorporated in December 1998 at which time 20,000 common shares (par value $0.01) were authorized. On December 28, 1999, total authorized shares were increased to 100 million and the par value was changed to $0.0001 per share. The founding shareholders subscribed for 43,600,000 shares for total consideration of $2,000, after giving effect to the increase in authorized shares. In January 2000, at the direction of the majority shareholder, Fibre paid $18,000 in cash to the Company and converted an intercompany note payable and related accrued interest totaling $182,000 into 20,000,000 shares of common stock. Reserved shares In addition to the shares of common stock reserved for issuance under the Company's stock option plan, the Company has reserved a sufficient number of shares of common stock for potential conversion of the Series A and Series B preferred stock and for the exercise of outstanding common stock warrants. F-14 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Preferred stock The Company has authorized 5,000,000 shares of preferred stock, par value of $0.0001, of which 500,000 shares have been designated as Series A convertible preferred stock (the "Series A Preferred Stock"); 3,800,000 shares have been designated as Series B redeemable convertible preferred stock (the "Series B Preferred Stock"). On March 31, 2000, the Company issued 500,000 shares of Series A Preferred Stock for total consideration of $5.0 million. Issuance costs of $63,000 are being accreted to the liquidation value of the Series A Preferred Stock through March 31, 2002, the first conversion date. In August 2000, the Company issued 3,000,000 shares of Series B Preferred Stock and warrants to purchase shares of the Company's common stock (the "Series B Warrants") for total consideration of $75.0 million. Issuance costs totaled $363,000. The Series B warrants issued in connection with the sale of the Series B preferred stock have been valued at $12.4 million. The Series B Preferred Stock is being accreted to redemption value over the period to the Series B Preferred Stock's scheduled redemption dates of August 25, 2006, 2007 and 2008. Subsequent to September 30, 2000, the Company issued an additional 800,000 shares of Series B Preferred Stock and Series B Warrants for total consideration of $20.0 million. The Series B Warrants have been valued at $3.3 million. Activity with respect to the Series B Preferred Stock through September 30, 2000 is as follows: Number of Shares Amount Outstanding (in thousands) ----------- ------------- Balance, January 1, 2000..................... -- -- Proceeds from sale of Series B Preferred Stock, net of issuance costs................ 3,000,000 $62,237 Accretion related to issuance cost and Series B Warrants.................................. 152 --------- ------- Balance, September 30, 2000.................. 3,000,000 $62,389 ========= ======= The rights and preferences of the Series A and Series B Preferred Stock are as follows: Dividends--The holders of the Series A and Series B Preferred Stock are entitled to receive cumulative dividends at the rate paid on the common shares. Liquidation--In the event of any voluntary or involuntary liquidation, dissolution or merger of the Company, each holder of the Series A and Series B Preferred Stock will be entitled to be paid, before any distributions are made to the common shareholders, a liquidation preference. The holders of the Series A Preferred Stock will be entitled to be paid an amount equal to the preference value of $10.00 per share plus accrued dividends, and the holders of the Series B Preferred Stock will be entitled to be paid an amount equal to the preference value of $12.50 per share plus accrued dividends. After such distributions, the holders of the Series A Preferred Stock do not participate in any further distributions. The holders of the Series B Preferred Stock participate in further available distributions in the amount that would have been payable per share if the holders of the Series B Preferred Stock had been converted to common shares. If the total payout under the investors participation rights exceeds $50.00 per share, the preference amount declines linearly from $12.50 per share to $0 as the participation amount payout increases from $50.00 to $62.50. If the assets are not sufficient to generate cash sufficient to pay in full the Series A and Series B Preferred Stock preference values, then the holders of the Series A and Series B Preferred Stock will be entitled to share ratably in any distribution of cash generated by assets in accordance with the respective amounts that would have been payable in such F-15 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) distribution if the amounts to which the holders of the Series A and Series B Preferred Stock are paid in full. All assets remaining after distribution to the holders of Series A and Series B Preferred Stock are available for distribution to the holders of the Company's common shares. Voting Rights--The holders of the

Series A Preferred Stock, except with respect to the matters regarding the rights and preferences of their own shares, are not entitled to vote on any matter. The holders of the Series B Preferred Stock are entitled to a number of votes equal to the number of shares of common stock into which such Series B Preferred Stock are then convertible, and voting together as a separate class, are entitled to elect one director of the Company. In addition, without approval of the majority of the Series B shareholders, the Company is restricted from issuing convertible debt, altering the Company's certificate of incorporation or bylaws with the effect of altering the rights of the Series B Preferred Stock, increasing the authorized shares of Series B Preferred Stock or, with certain exceptions, reclassifying and declaring or paying dividends or making distributions of the Company's property. Redemption--At the election of the holders of the Series B Preferred Stock, the Company is obligated to redeem up to 33.3% after August 25, 2006, up to 66.7% after August 25, 2007 and up to 100% after August 25, 2008 of the outstanding Series B Preferred Stock at a redemption price equal to $12.50 per share plus accrued and unpaid dividends. In the event that the Company has insufficient funds to redeem the shares, the Series B Preferred Stock will accrue interest at a rate equal to the prime rate plus 3%. Conversion--The Series A Preferred Stock has a preference value of $5.00 per share and is convertible at the option of the holder at any time subsequent to March 31, 2002 into the number of shares of common stock of the Company as is determined by dividing the preference value by the conversion price then in effect. Immediately following a qualifying initial public offering or consummation of a sale or merger of the Company, all Series A Preferred Stock shall automatically convert into the number of common shares of the Company as is determined by dividing the preference value by the conversion price then in effect. For the purposes of the conversion of the Series A preferred stock, a qualified public offering is the sale of the common stock of IPG to the public in a firm commitment public offering that generates gross proceeds to IPG of at least $35,000,000 at a pre-money valuation of at least $500,000,000. The Series B Preferred Stock has a preference value of $25.00 per share and is convertible at the option of the holder into the number of common shares of the Company as is determined by dividing the preference value by the conversion price then in effect. All Series B Preferred Stock automatically converts into the number of common shares of the Company as is determined by dividing the preference value by the conversion price then in effect upon the completion of a qualified public offering. A qualified public offering is defined as an offer of the Company's common stock (i) registered under the Securities Act of 1933, as amended, (ii) with net proceeds (after underwriting commissions and discounts) in excess of $100.0 million, (iii) in which such common stock is listed for trading on the New York Stock Exchange or the NASDAQ National Market, and (iv) at a specified offering price, after underwriting commissions and discounts, which graduates from (i) $21.88 per share, in the case of an offering which closes from January 1, 2001 to March 31, 2001, (ii) $25.00 per share in the case of an offering which closes from April 1, 2001 to December 31, 2001, (iii) $28.13 per share, in the case of an offering which closes from January 1, 2002 to August 31, 2002 or (iv) $31.25 per share in the case of an offering which closes after August 31, 2002. An offering which does not meet the offering price targets will continue to be a qualified offering, however, the conversion price will be adjusted downward such that the adjusted conversion price will be equal to the initial public offering price per share divided by a factor which increases from (i) 1.75, in the case of an offering which closes from January 1, 2001 to March 31, 2001, (ii) 2.00, in the case of an offering which closes from April 1, 2001 to December 31, 2001, (iii) 2.25, in the case of an offering which closes from January 1, 2002 to August 31, 2002 or (iv) 2.50, in the case of an offering which closes after August 31, 2002; provided that in no event will the conversion price be reduced to less than $5.00 per share. The conversion ratio was 1 for 1 on the date the Series B Preferred Stock was issued. F-16 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Assuming an offering price of $15.00 per common share in an offering completed prior to March 31, 2001 each share of Series B Preferred Stock will convert to 2.91666 shares of common stock. The holders of Series A and Series B Preferred Stock have certain tag-along and drag-along rights, as described in the articles of incorporation. Registration Rights--If the Company at any time proposes to register any of its common shares under the Securities Act of 1933, the holders of the Series B Preferred Stock are entitled to participate in such registration. In addition, the holders of the Series A Preferred Stock may require the Company to file one, and the holders of the Series B Preferred Stock may require the Company to file up to two, registration statements under the Securities Act of 1933 at the expense of the Company with respect to their shares (the "Demand Registration Rights"). These Demand Registration Rights become effective if a registration has not occurred prior to March 31, 2003 for the Series A Preferred Stock or August 31, 2003 for the Series B Preferred Stock. The holders of the Series B Preferred Stock who convert their preferred stock to common stock in connection with an IPO may also require the Company to file additional registration statements. Warrants In connection with the issuance of the Series B Preferred Stock, the Company issued Series B Warrants to purchase, in the aggregate, $18.8 million of the Company's common shares at an equivalent per share price of 50% of the fair value on the date of an initial public offering of such shares. The fair value of the Series B Warrants, approximating $12.4 million, was deducted from the proceeds of the Series B Preferred Stock and was allocated to the Series B Warrants. The Series B Warrants are exercisable upon the completion of an IPO or sale of a significant portion of the Company's assets and are being accreted to the carrying value of the Series B Preferred Stock through the scheduled redemption dates of the Series B Preferred Stock. These warrants expire in August 2007. In connection with the Series B Preferred Stock that was issued subsequent to September 30, 2000, the Company issued Series B Warrants to purchase, in the aggregate, $5.0 million of the Company's common stock at an equivalent per share price of 50% of the fair value of such shares. The fair value of the Series B Warrants related to the issuance of Series B Preferred Stock subsequent to September 30, 2000 approximates $3.3 million. Notes receivable from sales of shares The Company has received notes from an individual who subsequently became a Company director in connection with this individual's exercise of 380,000 nonqualified stock options in March 2000 as well as the issuance of 500,000 shares of common stock under a professional services contract. The notes receivable have principal balances of $190,000 and $250,000 and are full recourse promissory notes bearing interest at 6.8% and 6.0% and are collateralized by the shares of the Company's common stock held by this individual. Principal is due through November 2005. The notes receivable are presented on the combined consolidated balance sheet as a reduction to shareholders' equity. Additionally, the Company issued 43,600,000 shares of common stock to the founding shareholders in January 1999 in exchange for notes aggregating $2,000. These shares were fully paid in October 2000 and have been reported as current assets and shareholders' equity at December 31, 1999 and at September 30, 2000. Minority interest Minority interest reported in the accompanying combined consolidated financial statements consists of the 20% of Fibertech held by the management of Fibertech. F-17 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Stock Split On , 2001, the Company's board of directors declared a 2-for-1 split of the common shares of the Company. All share and per share amounts in the accompanying combined consolidated financial statements have been retroactively adjusted to reflect the stock split. 8. Related Party Transactions The Company and the other members comprising IPG have entered into certain transactions with other entities affiliated with IPG. These entities which have not been combined or consolidated in the accompanying financial statements include NTO IRE-POLUS, Fibre, IP Fibre Optics Ltd., IPC Inc., and VPG Laser Components GmbH (the "Non-Group Affiliates"). The related party transactions included in the accompanying financial statements are primarily comprised of intercompany sales of IPG's products in which the Non-Group Affiliates are acting as a distributor of IPG's products or IPG is purchasing raw materials and components from the Non-Group Affiliates. Additionally, effective January 1, 2000, the Company entered into a one year management agreement with Fibre, under which Fibre provides accounting advice and consulting services for a monthly fee of $7,500 plus expenses. Upon expiration, the agreement was not renewed. The transactions with Non-Group Affiliates are included in the combined consolidated statements of operations as follows (in thousands): Nine months ended Years ended December 31, September 30, --------------------------- ------------------ 1997 1998 1999 1999 2000 -------- -------- -------- -------- -------- Net sales............... $ 811 $ 1,103 $ 655 $ 524 $ 789 Purchases included in cost of sales.......... 1,533 2,133 2,095 1,610 3,108 Operating expenses...... -- 32 106 32 138 Interest income (expense), net......... (10) (10) (17) (7) -- Amounts included in the combined consolidated balance sheets are as follows (in thousands): December 31, --------- September 30, 1998 1999 2000 ---- ---- ------------ Amounts due from Non-Group Affiliates: IP Fibre Devices Ltd. .... $ 70 $221 $560 IPC Inc. .... 345 -- -- NTO IRE-POLUS.................................. 48 -- 193 ---- ---- ---- Total... $463 $221 $753 ==== ==== ==== Amounts due to Non-Group Affiliates: IP Fibre Devices Ltd. .... $-- $309 $-- IPC Inc. .... 665 12 -- VPG Laser Components GmbH........................ 70 33 -- NTO IRE-POLUS.................................. 211 109 471 ---- ---- ---- Total... $946 $463 $471 ==== ==== ==== In May 2000, Laser entered into an agreement with a shareholder holding more than 5% of the Company's common stock to purchase real estate located in Burbach, Germany, in exchange for assuming the outstanding mortgage on the real estate and a payment of approximately $84,000, which approximated the fair market value of the real estate. Prior to purchasing the real estate, Laser had been renting the Burbach real estate from the shareholder for approximately $4,000 per month. F-18 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) In October 1999, the Company awarded an individual who subsequently became a Company director 500,000 shares of the Company's common stock for a purchase price of $0.50 per share, its estimated fair value on the date of the award, in exchange for future legal and advisory services. In March 2000, such legal and advisory services had been performed and this individual purchased 500,000 shares of the Company's common stock with an estimated fair market value of $2.00 per share in exchange for a $250,000 note receivable. The Company has recognized $750,000 in equity-based compensation in respect of this agreement. This individual had also been granted options to purchase 400,000 shares of the Company's common stock at $0.50 per share in exchange for continued advisory services to the Company through January 1, 2002. These options have a term of ten years and vested upon issuance. The Company is accounting for these shares under variable plan accounting and, accordingly, recognized $3.3 million in equity-based compensation during the nine months ended September 30, 2000. The individual exercised the option in exchange for $10,000 in cash and a note receivable of $190,000, discussed in Note 7. In the event of nonperformance, these shares are subject to repurchase by the Company. In August 2000, a shareholder holding more than 5% of IPG's common stock borrowed approximately $90,000 from Laser, at an annual interest rate of 8%. This loan was repaid in full on November 30, 2000. This note is reported in other current assets at September 30, 2000. In connection with the 2000 Reorganization, IPG entered into an agreement with NTO IRE-POLUS regarding intellectual property. Under this agreement, NTO IRE-POLUS provides research and development exclusively for IPG in exchange for payment of all direct and overhead costs plus a fee of 10%. No amounts were incurred under this agreement during the nine months ended September 30, 2000. In October 2000, IPG agreed to loan $1.0 million to NTO IRE-POLUS. These funds will be used for working capital and capital expenditures. This loan bears interest at an annual rate of 7.0% and has a term of six months from the date the money is transferred to NTO IRE-POLUS. During 1999, IPG purchased capital equipment from NTO IRE-POLUS in the aggregate amounts of $176,000. For the nine-month period ended September 30, 2000, NTO IRE-POLUS purchased equipment from IPG in the aggregate amount of $187,000. IPG sells products to Fibre which resells those products to Fibre's customers in the United Kingdom. These sales are included in the table above. Effective January 1, 2001, IPG plans to terminate that distribution relationship and intends to sell directly to customers in the United Kingdom through a wholly-owned subsidiary to be formed. Consequently, IPG plans to sublease office space from, and share general and administrative expenses of, Fibre at an aggregate estimated annual amount of approximately $250,000. In 1998, Fibre entered into a supplier agreement to provide certain products to a significant customer for a period of 36 months. Pursuant to this agreement, the customer issued 1,561,144 shares of its common stock to Fibre in consideration of a discount on products to be delivered under the supply agreement. Additionally, a shareholder holding more than 5% of IPG's common stock was granted options to purchase 100,000 shares of the customer's common stock in exchange for serving on the customer's advisory board. All of such options have been exercised. During 1998, Laser sold amplifiers totaling approximately $185,000 to this customer in exchange for cash and 571,428 shares of this customer's common stock. The fair value of these shares, estimated to be approximately $46,000, became the cost basis of Laser's investment in these non-marketable securities, and Laser continues to carry this investment at cost. During 1999 and 2000, IPG sold approximately $2.0 million of products to this customer under the terms of the supplier agreement. The customer paid IPG approximately $1.6 million (or 75% of the invoice price) in cash and issued 865,924 shares of the customer's common stock, valued at approximately $400,000, to Fibre. In connection with this transaction, Fibre issued a note to IPG for approximately $400,000. This note along with accrued interest, totaling approximately $32,000, was repaid in October 2000. F-19 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) 9. Commitments and Contingencies Operating leases IPG leases its current facility in the United States under a noncancelable operating lease agreement which expires during 2001. Rental expense under this lease agreement for the year ended December 31, 1999, and for the nine months ended September 30, 1999 and 2000 was approximately $121,000, $60,000 and $172,000, respectively. Future minimum lease payments under noncancelable leases as of December 31, 1999 are approximately $225,000 and $113,000 for the years ending December 31, 2000 and 2001, respectively. Firm purchase commitments In December 2000, IPG entered into a purchase agreement with a component supplier requiring minimum purchases by IPG of approximately $66.7 million through December 31, 2002. IPG has a variety of commitments with suppliers for the purchase of raw materials and components for delivery in future years at prevailing market prices. Capital expenditures In 2000, the Board of Directors authorized expenditures on the construction of a new manufacturing and administrative facility in the United States with a total projected cost of $11.8 million, all of which has been contractually committed at September 30, 2000. As of September 30, 2000, approximately $3.2 million has been paid under these contracts. This project is expected to be completed in the first quarter of 2001. Employment agreements

IPG has entered into employment agreements with certain members of senior management. The terms of these agreements range from one to five years and include noncompete and nondisclosure provisions as well as provide for defined severance payments in the event of termination. Litigation IPG is not currently subject to any material legal proceedings, nor does IPG know of any pending material legal proceedings. 10. Employee Benefit Plans Profit Sharing Plan IPG maintains a 401(k) profit-sharing plan covering substantially all U.S. employees. Employees are eligible for a discretionary contribution from IPG based on each employee's total contribution, not to exceed 6% of an employee's compensation. Compensation expense related to this plan for the years ended December 31, 1999 and for the nine months ended September 30, 1999 and 2000 approximated $18,000, $9,000 and $46,000, respectively. Employee Stock Option Plan Beginning in 1999, IPG's majority shareholder and sole member of the Board of Directors, at that time, granted stock options to certain employees, officers and advisors. In March 2000, the shareholders approved the IPG 2000 Incentive Compensation Plan (the "Plan"). At September 30, 2000, 7,500,000 common F-20 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) shares had been reserved for grant under the Plan. Subsequent to September 30, 2000, the Board of Directors increased the number of shares reserved under the Plan to 15,000,000. At December 31, 2000, after giving effect to the increase in the number of reserved shares an additional 5,525,600 shares were issuable under the Plan. Options are subject to the vesting provisions associated with each grant, generally vesting on a straight-line basis over four years. All options expire ten years from the date of grant. In addition to the Plan, IPG has issued 700,000 options to purchase IPG's common stock to the members of its National Advisory Board and 400,000 options to an IPG director for legal and advisory services. These options were issued with an exercise price of $0.50 per share. A total of 900,000 of these options were exercised during 2000. These options have similar terms to those options issued under the terms of the Plan; however, these options generally vested immediately. In accordance with SFAS No. 123 and EITF 96-18, IPG measured these awards at fair value, using the Black-Scholes valuation model. These options provide IPG with the right to repurchase a specified amount of any shares acquired should the optionees not fulfill the terms of their contract. Under EITF 96-18, this creates variable plan accounting. As such, IPG will continue to remeasure the fair value of these options at each reporting date until a performance commitment date has been achieved or the right to repurchase the options has expired. The fair value of each option at September 30, 2000 was estimated at $12.06 per share. For the nine months ended September 30, 2000, IPG recognized approximately $8.7 million in respect of these options. The following table presents a summary of the share option activity and related information: Number of Weighted-Average Options Exercise Price ---------- --------------- Outstanding, January 1, 1999................. -- Granted.................................... 2,600,000 $0.50 Exercised.................................. -- Forfeited.................................. -- ---------- Outstanding, December 31, 1999................ 2,600,000 0.50 Granted.................................... 3,918,600 0.60 Exercised.................................. (1,561,868) 0.60 Forfeited.................................. (1,200) 0.50 ---------- Outstanding, September 30, 2000............... 4,955,532 $0.57 ========== The weighted-average minimum fair value of the options granted to employees was $0.08 in 1999 and $2.77 in 2000. Additional information regarding options outstanding at September 30, 2000 is as follows: Options Outstanding Number Exercisable -- Exercise Number Weighted-Average Remaining December 31, September 30, Price Outstanding Contractual Life (years) 1999 2000 -------- ----------- ------------------------- ------------ ------------- $0.50 4,363,632 9.02 -- 358,100 $1.00 500,500 9.84 -- -- $1.50 91,400 9.86 -- 10,000 --------- --- ------- 4,955,532 -- 368,100 ========= === ======= Compensation related to options awarded during the nine months ended September 30, 2000 (approximately $29.5 million) has been deferred for financial reporting purposes and is generally being amortized on a straight- line basis over the vesting period of the related options for fixed awards. Options which F-21 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) require variable plan accounting are being amortized using the methodologies prescribed by FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans. IPG has adopted the disclosure requirements of SFAS 123. SFAS 123 requires that the fair value of stock-based awards to employees be calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from IPG's stock option awards. These models also require subjective assumptions, which greatly affect the calculated values. IPG's calculations were made using the minimum value method with the following weighted average assumptions: expected life, 4 years; stock volatility of 0%; risk-free interest rate of 6.5%; and no dividend payments during the expected term. Forfeitures are recognized as they occur.

IPG has utilized the Black-Scholes option-pricing model in determining the fair value of the options granted to non-employees or outside of the Plan. In addition to the aforementioned assumptions, IPG used a volatility factor of 60% in the Black-Scholes option-pricing model. If the computed minimum values of the options awarded to employees had been amortized to expense over the vesting period of the awards, net income and related pro forma basic and diluted per share amounts would have been reduced to the pro forma amounts indicated below: For the nine For the year ended months ended December 31, 1999 September 30, 2000 ------------------ ------------------ Net income (loss) available to common shareholders (in thousands): As reported.................... $1,951 $(3,677) Pro forma...................... 1,906 (4,174) Basic and diluted net income (loss) per share: As reported.................... $ 0.03 $ (0.06) Pro forma...................... 0.03 (0.06) Subsequent to September 30, 2000, IPG entered into an employment agreement which granted an employee 1,000,000 shares of common stock at the price of $0.50 per share, subject to certain repurchase rights by IPG. IPG also granted this employee options to purchase (i) 500,000 shares of common stock at $1.50 per share, which will vest on the earlier of October 1, 2001 or the date that IPG first recognizes $200.0 million of gross sales at $1.50 per share, and (ii) 1,500,000 shares at $1.50 per share which vest monthly for thirty-six months and will all vest immediately on the date IPG first recognizes $400.0 million of gross sales. Additionally, subsequent to September 30, 2000, IPG issued options to purchase 1,607,000 shares of common stock to employees and members of the Board of Directors at a weighted-average exercise price of $3.25 per share. 11. Income Taxes Income before minority interest and income taxes consisted of (in thousands): Years ended December 31, --------------- 1997 1998 1999 ---- ---- ------ Domestic.. $-- $-- $ 375 Foreign.. 28 392 3,681 ---- ---- ------ Total.. $ 28 $392 $4,056 ==== ==== ====== F-22 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) IPG's provision for income taxes consisted of the following (in thousands): Years ended December 31, ---------------- 1997 1998 1999 ---- ---- ------ Current: Federal.. $-- $-- $ 151 State... -- -- 46 Foreign... 26 191 1,934 Deferred: Federal... -- -- (29) State... -- -- (9) Foreign... (4) 43 9 ---- ---- ------ Total... $ 22 $234 $2,102 ==== ==== ====== The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The principal items causing this difference are as follows (in thousands): Years ended December 31, September 30, ------------------------ -------------- 1997 1998 1999 1999 2000 ------------------------ ------ ------ Tax expense at statutory rate.. $ 10 $ 133 $ 1,379 $1,390 $ 789 State and local taxes.......... -- -- 23 (3) 253 Differences in federal and foreign tax rates............ 2 79 657 679 1,352 Nondeductible equity-based compensation................. -- -- -- -- 3,303 Tax credits................... -- -- -- -- (58) Nondeductible items and other.. 10 22 43 112 189 ------- ------- --------- ------ ------ Total....................... $ 22 $ 234 $ 2,102 $2,178 $5,828 ======= ======= ========= ====== ====== The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows (in thousands): December 31, September 30, 1998 1999 2000 ---- ----- ------------ Current deferred tax assets (liabilities): Deferred revenues.......................... $(45) $ -- $ -- Allowances and accrued liabilities.......... 86 163 ---- ----- ------ Net current deferred tax assets (liabilities)............................... $(45) $ 86 $ 163 ---- ----- ------ Long-term deferred tax assets (liabilities): Property, plant and equipment.............. $ 52 $ (50) $ (103) Deferred compensation...................... 1,220 ---- ----- ------ Net long-term deferred tax assets (liabilities)............................... $ 52 $ (50) $1,117 ==== ===== ====== F-23 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) 12. Geographic and Segment Information IPG markets and sells its products throughout the world through both direct sales and distribution channels. IPG has adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, and applies those criteria in reporting segment information. IPG currently manages its business as two segments: U.S.A. and Germany. The segments are considered to share similar economic characteristics and similarities in product, types of customers and methods of distribution. Accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in Note 2. All intercompany transactions between segments have been eliminated. The following table summarizes net sales, operating expenses, net income (loss), identifiable assets, current liabilities and capital expenditures of IPG in its segments (in thousands): Intercompany U.S.A. Germany Eliminations Total ------- ------- ----------- -------- September 30, 2000: Net revenues......................... $29,756 $21,149 $(18,216) $ 32,689 Operating expenses................... 15,333 2,824 -- 18,157 Net income (loss).................... (6,328) 3,245 (425) (3,508) Assets............................... 87,227 18,683 (2,933) 102,977

Current liabilities.................. 10,540 8,720 (2,353) 16,907 Capital expenditures................. 4,971 4,927 -- 9,898 December 31: 1999: Net revenues......................... $ 9,763 $16,535 $ (7,658) $ 18,640 Operating expenses................... 1,498 3,368 -- 4,866 Net income (loss).................... 215 1,898 (162) 1,951 Assets............................... 6,001 10,103 (3,304) 12,800 Current liabilities.................. 5,135 4,110 (3,142) 6,103 Capital expenditures................. 2,863 2,272 -- 5,135 1998: Net revenues......................... $ -- $ 8,263 $ -- $ 8,263 Operating expenses................... -- 2,056 -- 2,056 Net income........................... -- 154 -- 154 Assets............................... -- 8,819 -- 8,819 Current liabilities.................. -- 3,682 -- 3,682 Capital expenditures................. -- 3,080 -- 3,080 1997: Net revenues......................... $ -- $ 3,097 $ -- $ 3,097 Operating expenses................... -- 622 -- 622 Net income........................... -- 6 -- 6 Assets............................... -- 3,456 -- 3,456 Current liabilities.................. -- 801 -- 801 Capital expenditures................. -- 1,292 -- 1,292 F-24 NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The geographic sources of IPG's revenues, based on billing addresses of IPG's customers, are as follows (in thousands): Nine months Years ended December ended September 31, 30, -------------------- -------------- 1997 1998 1999 1999 2000 ------ ------ ------- ------- ------- United States and other North America.... $1,581 $5,369 $11,455 $ 9,219 $23,261 Europe: Germany................................ 260 853 3,796 2,865 3,518 United Kingdom......................... 798 769 564 449 672 Other.................................. 202 380 969 513 1,257 Asia: Japan.................................. 256 892 1,830 1,777 3,920 Other.................................. -- -- 26 -- 61 ------ ------ ------- ------- ------- Total................................ $3,097 $8,263 $18,640 $14,823 $32,689 ====== ====== ======= ======= ======= Through September 30, 2000, IPG has derived revenues from two product lines: fiber amplifiers and Raman pump lasers for telecommunications applications and fiber lasers for industrial applications. While complete financial information for these product lines is not available, IPG has identified its historic net sales for these product lines as follows (in thousands): Nine months Years ended December ended September 31, 30, -------------------- -------------- 1997 1998 1999 1999 2000 ------ ------ ------- ------- ------- Telecommunications.................. $1,898 $5,957 $14,383 $11,394 $25,106 Industrial applications............. 1,199 2,306 4,257 3,429 7,583 ------ ------ ------- ------- ------- Total............................. $3,097 $8,263 $18,640 $14,823 $32,689 ====== ====== ======= ======= ======= 13. Significant Customers IPG's largest customers are national and international telecommunications companies. IPG has five customers that individually comprised more than 10% of net sales. The following table presents the percentage of net sales that these customers represent during each period: Nine months ended Years ended September December 31, 30, -------------- --------- Customer 1997 1998 1999 1999 2000 -------- ---- ---- ---- ---- ---- A.. -- 2% 9% 2% 40% B.. 15% 43% 40% 50% 20% C.. 27% 2% -- -- -- D.. 25% 9% 2% 3% -- E.. -- -- 10% 12% 3% --- --- --- --- --- Total... 67% 56% 61% 67% 63% === === === === === Accounts receivable related to these five customers totaled approximately 69% of the September 30, 2000 accounts receivable balance. As discussed in Note 8, in September 1999, Fibre entered into a supplier agreement with Customer A. Fibre, Laser and certain shareholders maintain an insignificant ownership interest in Customer A. F-25 Inside Back Cover Page: Along the top edge of the page is the caption: "Fiber Lasers for Industrial Applications". Under the top edge caption and in the upper left-hand corner of the page is a photograph of medical professionals performing surgery with the word "Medical" above the photograph, illustrating the use of fiber lasers in medical applications. Under the top edge caption and in the upper right-hand corner of the page is a photograph of [an aerospace setting] with the word "Aerospace" above the photograph, illustrating the use of fiber lasers in aerospace applications. In the center of the page is a photograph of several of the registrant's fiber lasers for industrial applications. In the lower left-hand corner of the page is a photograph of [a product being micromachine] with the word "Micromachining" below the photograph, illustrating the use of fiber lasers in micromachining applications. In the lower right-hand corner of the page is a photograph of [a product being printed] with the word "Printing" below the photograph, illustrating the use of fiber lasers in printing applications. -- -- Through and including , 2001 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions. 8,200,000 Shares IPG Photonics Corporation [LOGO] Common Stock -------------- PROSPECTUS -------------- Merrill Lynch & Co. Robertson Stevens CIBC World Markets U.S. Bancorp Piper Jaffray Wit SoundView , 2001

++ +The information in this prospectus is not complete and may be changed. We may + +not sell these securities until the registration statement filed with the + +Securities and Exchange Commission is effective. This prospectus is not an + +offer to sell these securities and it is not soliciting an offer to buy these + +securities in any state where the offer or sale is not permitted. +
++ [ALTERNATE PAGE] Subject to Completion Preliminary Prospectus Dated February 2, 2001 PROSPECTUS 8,200,000 Shares [IPG LOGO] Common Stock ----------- This is IPG Photonics Corporation's initial public offering of common stock. IPG Photonics Corporation is selling all of the shares. The U.S. international managers are offering shares outside the U.S. and Canada and the U.S. underwriters are offering shares in the U.S. and Canada. We expect the public offering price to be between $14.00 and $16.00 per share. Currently, no public market exists for the shares. After pricing of this offering, we expect that the common stock will trade on the Nasdaq National Market under the symbol "IPGP." Investing in the common stock involves risks that are described in the "Risk Factors" section beginning on page 6 of this prospectus. ----------- Per Share Total --------- ----- Public offering price.................................... $ $ Underwriting discount.................................... $ $ Proceeds, before expenses, to IPG Photonics.............. $ $ The international managers may also purchase up to an additional shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments. The U.S. underwriters may similarly purchase up to an additional shares from us. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense. The shares will be ready for delivery in New York, New York on or about , 2001. ----------- Merrill Lynch International Robertson Stephens CIBC World Markets U.S. Bancorp Piper Jaffray Wit SoundView ----------- The date of this prospectus is , 2001. [ALTERNATE PAGE] UNDERWRITING General We intend to offer the shares outside the U.S. and Canada through the international managers and in the U.S. and Canada through the U.S. underwriters. Merrill Lynch International, Robertson Stephens, Inc., CIBC World Markets Corp., U.S. Bancorp Piper Jaffray Inc. and Wit SoundView Corporation, are acting as lead managers for the international managers named below. Subject to the terms and conditions described in an international purchase agreement among us and the international managers, and concurrently with the sale of shares to the U.S. underwriters, we have agreed to sell to the international managers, and the international managers severally have agreed to purchase from us, the number of shares listed opposite its name below. International Managers Number of Shares --------------------- ---------------- Merrill Lynch International................................ Robertson Stephens, Inc.................................... CIBC World Markets Corp. .... U.S. Bancorp Piper Jaffray Inc. .... Wit SoundView Corporation.................................. Total.. We have also entered into a U.S. purchase agreement with the U.S. underwriters for sale of the shares in the U.S. and Canada for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, Robertson Stephens, Inc., CIBC World Markets Corp., U.S. Bancorp Piper Jaffray Inc. and Wit SoundView Corporation are acting as U.S. representatives. Subject to the terms and conditions in the U.S. purchase agreement, and concurrently with the sale of shares to the international managers pursuant to the international purchase agreement, we have agreed to sell shares to the U.S. underwriters, and the U.S. underwriters severally have agreed to purchase shares from us. The initial public offering price per share and the total underwriting discount per share are identical under the international purchase agreement and the U.S. purchase agreement. The international managers and the U.S. underwriters have agreed to purchase all of the shares sold under the international and U.S. purchase agreements if any of these shares are purchased. If an underwriter defaults on its obligations under the international or U.S. purchase agreements, the international and U.S. purchase agreements provide that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreements may be terminated. The closings for the sale of shares to be purchased by the international managers and the U.S. underwriters are conditioned on one another. We have agreed to indemnify the international managers and the U.S. underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the international managers and U.S. underwriters may be required to make in respect of those liabilities. The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by

their counsel, including the validity of the shares, and other conditions contained in the purchase agreements, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. Commissions and Discounts The lead managers have advised us that the international managers propose initially to offer the shares to the public at the initial public offering price on the cover page of this prospectus, and to dealers at that price less a concession not in excess of $ per share. The international managers may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the initial public offering, the public offering price, concession and discount may be changed. 66 [ALTERNATE PAGE] The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the international managers and the U.S. underwriters of their over-allotment options. Per Share Without Option With Option --------- ------------- ----------- Public offering price................. $ $ $ Underwriting discount................. $ $ $ Proceeds, before expenses, to IPG Photonics............................ $ $ $ The expenses of the offering, not including the underwriting discount, are estimated at $1,000,000 and are payable by us. Over-Allotment Options We have granted options to the international managers to purchase up to additional shares at the public offering price less the underwriting discount. The international managers may exercise these options for 30 days from the date of this prospectus solely to cover any over-allotments. If the international managers exercise these options, each international manager will be obligated, subject to conditions contained in the purchase agreements, to purchase a number of additional shares proportionate to that international manager's initial amount reflected in the above table. We have also granted options to the U.S. underwriters, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares to cover any over-allotments on terms similar to those granted to the international managers. Intersyndicate Agreement The international managers and the U.S. underwriters have entered into an intersyndicate agreement that provides for the coordination of their activities. Under the intersyndicate agreement, the international managers and the U.S. underwriters may sell shares to each other for purposes of resale at the initial public offering price, less an amount not greater than the selling concession. Under the intersyndicate agreement, the international managers and any dealer to whom they sell shares will not offer to sell or sell shares to U.S. or Canadian persons or to persons they believe intend to resell to U.S. or Canadian persons, except in the case of transactions under the intersyndicate agreement. Similarly, the U.S. underwriters and any dealer to whom they sell shares will not offer to sell or sell shares to persons who are non-U.S. or non-Canadian persons or to persons they believe intend to resell to persons who are non-U.S. or non-Canadian persons, except in the case of transactions under the intersyndicate agreement. Reserved Shares At our request, the underwriters have reserved for sale, at the initial public offering price, up to % of the shares offered by this prospectus for sale to some of our employees and business associates. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of this offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus. No Sales of Similar Securities We and our executive officers and directors and substantially all other stockholders have agreed, with exceptions, not to sell or transfer any common stock for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other individuals have agreed not to directly or indirectly: . offer, pledge, sell or contract to sell any common stock; 67 [ALTERNATE PAGE] . sell any option or contract to purchase any common stock; . purchase any option or contract to sell any common stock; . grant any option, right or warrant for the sale of any common stock; . lend or otherwise dispose of or transfer any common stock; . request or demand that we file a registration statement related to the common stock; or . enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock, whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise. This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. Quotation on the Nasdaq National Market We expect the shares to be approved for quotation on the Nasdaq National Market, subject to notice of issuance, under the symbol "IPGP." Before this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations between us and the U.S. representatives and the lead managers. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are: . the valuation multiples of publicly traded companies that the U.S. representatives and the lead managers believe to be comparable to us; . our financial information; . the history of, and the prospects for, our company and the industry in which we compete; . an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues; . the present state of our development; and . the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours. An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price. The underwriters do not expect to sell more than 5% of the shares being offered in this offering to accounts over which they exercise discretionary authority. Price Stabilization, Short Positions and Penalty Bids Until the distribution of the shares is completed, SEC rules may limit the underwriters and selling group members from bidding for or purchasing our common stock. However, the U.S. representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price. In connection with the offering, the underwriters may make short sales of the common stock. Short sales involve the sale by the underwriters at the time of the offering of a greater number of shares than they are 68 [ALTERNATE PAGE] required to purchase in the offering. Covered short sales are sales made in an amount not greater than the over-allotment options. The U.S. representatives may close out any covered short position by either exercising the over- allotment options or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the U.S. representatives will consider, among other things, the price of shares available for purchase in the open market as compared to the public offering price at which they may purchase the shares through the over-allotment option. Naked short sales are sales in excess of the over-allotment option. The U.S. representatives must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the U.S. representatives are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Similar to other purchase transactions, the purchases by the U.S. representatives to cover syndicate short positions may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than it would otherwise be in the absence of these transactions. The U.S. representatives may also impose a penalty bid on underwriters and selling group members. This means that if the U.S. representatives purchase shares in the open market to reduce the underwriters' short position or to stabilize the price of such shares, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares. Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the U.S. representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. UK Selling Restrictions Each international manager has agreed that . it has not offered or sold and will not offer or sell any shares of common stock to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; . it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom; and . it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issuance of common stock to a person who is kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 as amended by the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1997 or is a person to whom such document may otherwise lawfully be issued or passed on. [No Public Offering Outside the United States No action has been or will be taken in any jurisdiction (except in the United States) that would permit a public offering of the shares of common stock, or the possession, circulation or distribution of this prospectus or any other material relating to our company or shares of our common stock in any jurisdiction where action for that purpose is required. Accordingly, the shares of our common stock may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with 69 [ALTERNATE PAGE] the shares of common stock may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction. Purchasers of the shares offered by this

prospectus may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price on the cover page of this prospectus. Other Relationships Merrill Lynch KECALP L.P. 1999, KECALP Inc., KECALP Inc., as Nominee for Merrill Lynch KECALP International L.P. 1999, ML IBK Positions, Inc. and Merrill Lynch Taurus 2000 Fund L.P., entities which are affiliated with Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the underwriters, beneficially own an aggregate of 600,000 shares of Series B preferred stock, which convert into 1,749,999 shares of common stock, and warrants to purchase 500,000 shares of common stock assuming an offering price of $15.00. Bayview 2000, L.P., an entity which is affiliated with Robertson Stephens, one of the underwriters, beneficially owns an aggregate of 80,000 shares of Series B preferred stock, which convert into 233,333 shares of common stock, and warrants to purchase 66,667 shares of common stock assuming an offering price of $15.00 per share. 70 -- -- [ALTERNATE PAGE] Through and including , 2001 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions. 8,200,000 Shares IPG Photonics Corporation [LOGO] Common Stock --------------- PROSPECTUS --------------- Merrill Lynch & Co. Robertson Stevens CIBC World Markets U.S. Bancorp Piper Jaffray Wit SoundView , 2001 --
-- PART II INFORMATION NOT REQUIRED IN PROSPECTUS Item 13. Other Expenses of Issuance and Distribution. The following are the estimated expenses to be incurred in connection with the issuance and distribution of the securities registered under this Registration Statement, other than underwriting discounts and commissions. All amounts shown are estimates except the Securities and Exchange Commission registration fee and the National Association of Securities Dealers, Inc. filing fee. The following expenses will be borne solely by the Registrant. Securities and Exchange Commission Registration Fees.......... $ 39,600 National Association of Securities Dealers, Inc. Filing Fee... 15,500 NASDAQ Listing Fee... 95,000 Blue Sky Fees and Expenses................................... 10,000 Printing and Engraving Expenses.............................. 500,000 Legal Fees and Expenses...................................... 1,000,000 Accounting Fees and Expenses................................. 375,000 Transfer Agent and Registrar Fees............................ 10,000 Miscellaneous.. 54,900 ---------- Total.. $2,100,000 ========== -------- * To be supplied by amendment. Item 14. Indemnification of Directors and Officers. Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law. The Registrant's certificate of incorporation provides for the indemnification of directors to the fullest extent permissible under Delaware law. The Registrant's bylaws provide for the indemnification to the fullest extent as required or permitted by Delaware law of officers and directors acting on behalf of the Registrant with respect to any criminal action or proceeding. We have entered into an indemnification agreement with each of our directors which requires us, among other things, to indemnify them against certain liabilities which may arise by reason of his status or service as a director (other than liabilities arising from willful misconduct of a culpable nature). We also intend to maintain director and officer liability insurance, if available on reasonable terms. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. Item 15. Recent Sales of Unregistered Securities. Since incorporation, the Registrant has issued the following securities that were not registered under the Securities Act as summarized below: None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and the Registrant believes that each transaction was exempt from the registration requirements II-1 of the Securities Act by virtue of Section 4(2) thereof, Rule 506 of Regulation D promulgated thereunder or Rule 701 promulgated under from 3(b) of the Securities Act pursuant to compensatory benefit plans and contracts relating to compensation as provided under such Rule 701. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the stock certificates and instruments issued in such transactions. All recipients either received adequate information or had access, through their employment or other

relationships with the Registrant, to such information about the Registrant. For additional information regarding these equity investment transactions, see the section entitled "Transactions with Related Parties" in the Prospectus. (a) Issuances of Capital Stock. 1. In January 1999, the Registrant issued and sold an aggregate of 43,600,000 shares of common stock to individuals who founded the Registrant for an aggregate purchase price of $2,180. 2. On January 15, 2000, the Registrant issued and sold 20,000,000 shares of common stock to IP Fibre Devices Ltd. in satisfaction of $182,000 of intercompany debt and accrued interest and a cash payment of $18,000. 3. On March 31, 2000, the Registrant issued and sold an aggregate of 1,000,000 shares of its Series A preferred stock to a group of private investors for an aggregate purchase price of $5,000,000. 4. Between August 30, 2000 and December 6, 2000, the Registrant issued and sold an aggregate of 7,600,000 shares of its Series B preferred stock to a group of private investors for an aggregate purchase price of $95,000,000. 5. On August 24, 2000, the Registrant issued 2,300,000 shares of its common stock and paid $7,500,000 to IP Fibre Devices Ltd. to purchase 51% of IPG Laser GmbH. 6. On October 4, 2000, we exercised our rights under a Contribution and Exchange Agreement, dated August 24, 2000, between us and Dr. Valentin P. Gapontsev, our Chairman of the Board of Directors and Chief Executive Officer, under which we received the remaining 46% of the total issued and outstanding interest in IPG Laser GmbH from Dr. Valentin P. Gapontsev in exchange for an aggregate of 2,806,000 shares of our common stock. 7. On January 22, 2001, the Registrant issued and sold 1,000,000 shares of our common stock to an executive officer of the Registrant for an aggregate purchase price of $500,000 in connection with his employment agreement with the Registrant. (b) Certain Grants of Warrants to Purchase Common Stock 1. Between August 30 and December 8, 2000, the Registrant granted warrants to purchase an aggregate of 3,166,667 shares of its common stock to a group of private investors in connection with the sale of the Registrant's Series B preferred stock, assuming an offering price of $15.00. (c) Certain Grants and Exercises of Stock Options and Warrants 1. From incorporation through January 22, 2001, the Registrant granted stock options to purchase 9,372,600 shares of common stock at exercise prices ranging from $0.50 to $3.75 per share to employees, consultants and directors pursuant to its 2000 stock incentive plan. Of such options, 694,868 have been exercised through December 31, 2000 at prices ranging from $0.50 to $1.00 per share. II-2 2. On February 3, 2000, the Registrant granted options to an individual to purchase 400,000 shares of the Registrant's common stock at $0.50 per share. The individual exercised these options immediately upon grant contemporaneously assigning an aggregate of 20,000 such options to three family members. Subsequently, the Registrant issued and sold 500,000 restricted shares of its common stock to the same individual for an aggregate purchase price of $250,000. In March 2000, the Registrant issued and sold 500,000 shares of restricted common stock to the same individual for an aggregate purchase price of $250,000. 3. On February 3, 2000, the Registrant granted options to purchase 500,000 shares of common stock outside of its 2000 stock incentive plan at an exercise price of $0.50 per share to members of its National Advisory Board, and 500,000 of such options were exercised on March 17, 2000 for an aggregate purchase price of $250,000. Also on February 3, 2000, the Registrant granted options to purchase 100,000 shares of common stock under its 2000 stock incentive plan at an exercise price of $0.50 per share to two other members of its National Advisory Board. Of these options, 30,000 were exercised in December 2000 for an aggregate purchase price of $15,000. On November 28, 2000 the Registrant granted options to purchase 50,000 shares of common stock under its 2000 incentive compensation plan at an exercise price of $3.75 per share to an additional member of its National Advisory Board. II-3 Item 16. Exhibits and Financial Statement Schedules. Exhibit Number Description ------- ----------- 1.1 Form of Underwriting Agreement 3.1* Amended and Restated Certificate of Incorporation of the Registrant, as amended 3.2* Bylaws of the Registrant, as amended 4.1 Specimen certificate representing the common stock 4.2* Form of Warrant to Purchase Common Stock of the Registrant 4.3* Series A Preferred Stockholders Agreement, dated as of March 31, 2000, among the Registrant and the owners of Series A Preferred Stock of the Company listed on Schedule I attached thereto 4.4* Registration Rights Agreement, dated as of August 30, 2000, by and between the Registrant and the Investors named therein 5.1** Form of Opinion of Winston & Strawn 10.1* 2000 Stock Incentive Plan, as amended 10.2* $6,500,000.00 Construction Loan Furnished by Family Bank, FSB to the Registrant, Guaranteed by IP Fibre Devices Ltd. and Dr. Valentin P. Gapontsev, dated April 28, 2000 10.3* Assignment, Research and Development Agreement, dated as of August, 30, 2000, by and among the Registrant, IPG Laser GmbH, IPG Fibertech S.r.l and NTO IRE-POLUS 10.4* Purchase and Sales Agreement, dated October 6, 1999, by and between the Registrant and Daniel Prouty and Melvin Glickman as trustees for Elmar Realty Trust 10.5* Employment Agreement, entered into as of June 19, 2000, by and between the Registrant and John Geagea 10.6* Employment Agreement, entered into as of August 9, 2000, by and between the Registrant and Hon. John H. Dalton

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(+) Portions of this exhibit have been omitted pursuant to a request for confidential treatment. II-4 Item 17. Undertakings. The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser. Insofar as indemnification by the Registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under Item 14 of this Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act, and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. The undersigned Registrant hereby undertakes that: (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof. II-5 SIGNATURES Pursuant to the requirements of the Securities Act of 1933 (the "Securities Act"), the Company certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Sturbridge, Massachusetts on February 2, 2001. IPG Photonics Corporation /s/ Dr. Valentin P. Gapontsev By: _________________________________ Name: Dr. Valentin P. Gapontsev Title: Chairman of the Board of Directors and Chief Executive Officer POWER OF ATTORNEY KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Dr. Valentin P. Gapontsev and Hon. John H. Dalton, and each of them acting individually, as his true and lawful attorneys-in-fact and agents, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in their capacities on the dates indicated below. Signature Title Date --------- ----- ---- /s/ Dr. Valentin P. Gapontsev Chairman of the Board of February 2, 2001 ____ Directors and Chief Executive Dr. Valentin P. Gapontsev Officer (Principal Executive Officer) /s/ Hon. John H. Dalton President and Director February 2, 2001 ____ Hon. John H. Dalton /s/ Dr. Eugene Shcherbakov Director February 2, 2001 ____ Dr. Eugene Shcherbakov /s/ Timothy P.V. Mammen Chief Financial Officer and February 2, 2001 ____ Vice President Timothy P.V. Mammen (Principal Accounting Officer) II-6 Signature Title Date --------- ----- ---- /s/ Dr. Denis Gapontsev Vice President of Research February 2, 2001 ____ and Development and Dr. Denis Gapontsev Director /s/ Robert A. Blair Vice Chairman of the Board February 2, 2001 ____ of Directors Robert A. Blair /s/ Michael C. Child Director February 2, 2001 ____ Michael C. Child /s/ Dr. William F. Krupke Director February 2, 2001 ____ Dr. William F. 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