

IPG PHOTONICS CORP
Form 10-Q
August 09, 2010

Table of Contents

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

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File Number 001-33155

IPG PHOTONICS CORPORATION

(Exact name of registrant as specified in its charter)

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

**04-3444218
(I.R.S. Employer
Identification Number)**

**50 Old Webster Road, Oxford, Massachusetts
(Address of principal executive offices)**

**01540
(Zip code)**

(508) 373-1100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

As of August 04, 2010, there were 46,306,007 shares of the registrant's common stock issued and outstanding.

TABLE OF CONTENTS

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets: June 30, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Operations: Three and Six Months Ended June 30, 2010 and 2009</u>	4
<u>Consolidated Statements of Cash Flows: Six Months Ended June 30, 2010 and 2009</u>	5
<u>Consolidated Statements of Equity: Six Months Ended June 30, 2010 and 2009</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 4. Controls and Procedures</u>	20
<u>Part II. Other Information</u>	20
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3. Defaults Upon Senior Securities</u>	22
<u>Item 4. (Removed and Reserved)</u>	22
<u>Item 5. Other Information</u>	22
<u>Item 6. Exhibits</u>	22
<u>Signatures</u>	23
<u>EX-12.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

Table of Contents

PART I FINANCIAL INFORMATION
ITEM 1. UNAUDITED INTERIM FINANCIAL STATEMENTS
IPG PHOTONICS CORPORATION
CONSOLIDATED BALANCE SHEETS

	June 30, 2010	December 31, 2009
	(In thousands, except share and per share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 90,655	\$ 82,920
Accounts receivable, net	39,907	30,356
Inventories, net	54,029	52,869
Income taxes receivable	2,960	2,558
Prepaid expenses and other current assets	7,191	4,653
Deferred income taxes	10,137	7,558
 Total current assets	 204,879	 180,914
DEFERRED INCOME TAXES	5,326	4,313
PROPERTY, PLANT AND EQUIPMENT, Net	106,106	111,453
OTHER ASSETS	17,413	15,956
 TOTAL	 \$ 333,724	 \$ 312,636
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Revolving line-of-credit facilities	\$ 6,300	\$ 6,007
Current portion of long-term debt	1,333	1,333
Accounts payable	10,427	5,620
Accrued expenses and other liabilities	35,287	21,189
Deferred income taxes	2,572	503
Income taxes payable	7,408	2,179
 Total current liabilities	 63,327	 36,831
DEFERRED INCOME TAXES AND OTHER LONG-TERM LIABILITIES	1,425	2,567
LONG-TERM DEBT	16,649	16,667
COMMITMENTS AND CONTINGENCIES		
IPG PHOTONICS CORPORATION STOCKHOLDERS EQUITY:		
Common stock, \$0.0001 par value, 175,000,000 shares authorized; 46,302,938 shares issued and outstanding at June 30, 2010; 46,076,472 shares issued and outstanding at December 31, 2009	5	5

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Additional paid-in capital	296,572	293,743
Accumulated deficit	(34,721)	(48,424)
Accumulated other comprehensive (loss) income	(9,740)	11,106
Total IPG Photonics Corporation stockholders' equity	252,116	256,430
NONCONTROLLING INTERESTS	207	141
Total equity	252,323	256,571
TOTAL	\$ 333,724	\$ 312,636

See notes to consolidated financial statements.

Table of Contents

IPG PHOTONICS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
NET SALES	\$ 67,258	\$ 40,385	\$ 118,462	\$ 85,793
COST OF SALES	36,797	28,613	67,454	58,160
GROSS PROFIT	30,461	11,772	51,008	27,633
OPERATING EXPENSES:				
Sales and marketing	4,932	3,880	9,270	7,069
Research and development	4,729	4,734	8,887	8,876
General and administrative	7,384	4,944	14,212	9,934
(Gain) loss on foreign exchange	(2,295)	(500)	(2,403)	1,015
Total operating expenses	14,750	13,058	29,966	26,894
OPERATING INCOME (LOSS)	15,711	(1,286)	21,042	739
OTHER EXPENSE, NET:				
Interest expense	(191)	(367)	(399)	(757)
Other expense	(26)	(36)	(92)	(184)
Total other expense	(217)	(403)	(491)	(941)
INCOME (LOSS) BEFORE (PROVISION FOR) BENEFIT FROM INCOME TAXES	15,494	(1,689)	20,551	(202)
(PROVISION FOR) BENEFIT FROM INCOME TAXES	(5,149)	524	(6,782)	63
NET INCOME (LOSS)	10,345	(1,165)	13,769	(139)
LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	39	64	66	(181)
NET INCOME (LOSS) ATTRIBUTABLE TO IPG PHOTONICS CORPORATION	\$ 10,306	\$ (1,229)	\$ 13,703	\$ 42
NET INCOME (LOSS) ATTRIBUTABLE TO IPG PHOTONICS CORPORATION PER SHARE: CORPORATION PER SHARE:				
Basic	\$ 0.22	\$ (0.03)	\$ 0.30	\$ 0.00
Diluted	\$ 0.22	\$ (0.03)	\$ 0.29	\$ 0.00
WEIGHTED-AVERAGE SHARES OUTSTANDING:				

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Basic	46,220	45,431	46,159	45,263
Diluted	47,333	45,431	47,262	46,336

See notes to consolidated financial statements.

4

Table of Contents

IPG PHOTONICS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30,	
	2010	2009
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 13,769	\$ (139)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,514	9,043
Deferred income taxes	(2,766)	(5,699)
Stock-based compensation	1,563	1,205
Unrealized (gains) losses on foreign currency transactions	(2,403)	1,015
Other	(51)	(20)
Provisions for inventory, warranty and bad debt	4,475	6,152
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(12,740)	8,197
Inventories	(9,515)	1,686
Prepaid expenses and other current assets	391	398
Accounts payable	4,191	(335)
Accrued expenses and other liabilities	13,237	(406)
Income and other taxes payable	2,773	2,703
Net cash provided by operating activities	23,438	23,800
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, equipment and intangible assets	(8,701)	(7,726)
Acquisition of businesses, net of cash acquired	(4,108)	
Other	117	(54)
Net cash used in investing activities	(12,692)	(7,780)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line-of-credit facilities	5,543	16,502
Payments on line-of-credit facilities	(5,033)	(4,716)
Purchases of noncontrolling interests		(508)
Principal payments on long-term borrowings	(667)	(677)
Exercise of employee stock options, issuances under employee stock purchase plan and related tax benefit from exercise	1,266	477
Net cash provided by financing activities	1,109	11,078
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(4,120)	(313)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,735	26,785
CASH AND CASH EQUIVALENTS Beginning of period	82,920	51,283

CASH AND CASH EQUIVALENTS	End of period	\$ 90,655	\$ 78,068
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest		\$ 515	\$ 794
Income taxes paid		\$ 3,504	\$ 5,059
Non-cash transactions:			
Amounts related to acquisition of businesses included in accounts payable and accrued expenses and other liabilities		\$ 1,478	\$
Additions to property, plant and equipment included in accounts payable		\$ 286	\$ 360
Demonstration units transferred from inventory to other assets		\$ 652	\$ 3,196
Purchases of noncontrolling interests in exchange for Common Stock		\$	\$ 3,027
Inventory contributed to unconsolidated affiliate		\$	\$ 237

See notes to consolidated financial statements.

Table of Contents

IPG PHOTONICS CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

	Six Months Ended June 30,			
	2010		2009	
	(In thousands, except share and per share data)			
	Shares	Amount	Shares	Amount
COMMON STOCK				
Balance, beginning of year	46,076,472	\$ 5	44,965,960	\$ 4
Exercise of stock options	201,637		158,049	
Common stock issued under employee stock purchase plan	24,829		24,076	
Common stock issued in purchase of noncontrolling interests			368,146	1
Balance, end of period	46,302,938	5	45,516,231	5
ADDITIONAL PAID-IN CAPITAL				
Balance, beginning of year		293,743		283,217
Stock-based compensation		1,563		1,205
Exercise of stock options and related tax benefit from exercise		945		253
Common stock issued under employee stock purchase plan		321		224
Common stock issued in purchase of noncontrolling interests				3,027
Discount on purchase of noncontrolling interests				2,028
Premium on purchase of noncontrolling interests				(712)
Balance, end of period		296,572		289,242
ACCUMULATED DEFICIT				
Balance, beginning of year		(48,424)		(53,843)
Net income attributable to IPG Photonics Corporation		13,703		42
Balance, end of period		(34,721)		(53,801)
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Balance, beginning of year		11,106		8,794
Translation adjustments		(20,664)		(446)
Unrealized (loss) gain on derivatives, net of tax		(182)		335
Balance, end of period		(9,740)		8,683

TOTAL IPG PHONTONICS CORPORATION STOCKHOLDERS EQUITY	252,116	244,129
NONCONTROLLING INTERESTS		
Balance, beginning of year	141	5,127
Net income (loss) attributable to noncontrolling interests	66	(181)
Purchase of noncontrolling interests		(3,535)
Premium on purchase of noncontrolling interests		712
Discount on purchase of noncontrolling interests		(2,028)
Balance, end of period	207	95
TOTAL EQUITY	\$ 252,323	\$ 244,224

See notes to consolidated financial statements.

Table of Contents**IPG PHOTONICS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared by IPG Photonics Corporation, or IPG, we, our, or the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated financial statements include our accounts and those of our subsidiaries. All intercompany balances have been eliminated in consolidation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in our annual report on Form 10-K for the year ended December 31, 2009.

Effective January 1, 2010, the functional currency of our Russian subsidiary changed from the U.S. Dollar to the Russian Ruble due to other than temporary changes in the business that made the local currency the predominate transactional currency. As a result of this change in functional currency, the Company was required to change the method of translation of the financial statements of this business into U.S. dollars. From the effective date forward, the Company translates all assets and liabilities of the business into U.S. dollars using the exchange rate at the end of the period, income statement items are translated using rates at the date that the transactions are recorded, and related translation adjustments are accumulated and charged to accumulated other comprehensive income.

In the opinion of our management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair presentation of our financial position, results of operations and cash flows. The results reported in these consolidated financial statements are not necessarily indicative of results that may be expected for the entire year.

We have evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q with the SEC.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, an update was issued to the accounting guidance related to the separation criteria used to determine the unit of accounting for multiple element arrangements. This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation and expands the ongoing disclosure requirements. This guidance is effective for us beginning January 1, 2011, although early adoption is permitted, and adoption can be applied prospectively or retrospectively. We are evaluating the effect that implementation of this update will have, if any, on our consolidated financial position and results of operations upon adoption.

3. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2010	December 31, 2009
Components and raw materials	\$ 17,605	\$ 17,801
Work-in-process	21,240	21,375
Finished goods	15,184	13,693
Total	\$ 54,029	\$ 52,869

The Company recorded inventory provisions totaling \$1.4 million and \$4.2 million for the six months ended June 30, 2010 and 2009, respectively. These provisions were recorded as a result of changes in market prices of

certain components, the realizable value of those inventories through finished product sales and uncertainties related to the recoverability of the value of inventories due to technological changes and excess quantities. These provisions are reported as a reduction to components and raw materials and finished goods.

Table of Contents**4. FINANCING ARRANGEMENTS**

The Company's borrowings under existing financing arrangements consist of the following (in thousands):

	June 30, 2010	December 31, 2009
Revolving Line-of-Credit Facilities:		
Euro Credit and Overdraft Facilities	\$ 1,567	\$ 977
U.S. Line of Credit	4,733	5,030
Total	\$ 6,300	\$ 6,007
Term Debt:		
U.S. Long-Term Note	17,333	18,000
Other Notes payable	649	
Less current portion	(1,333)	(1,333)
Total long-term debt	\$ 16,649	\$ 16,667

The U.S. line of credit is available to certain foreign subsidiaries and allows for borrowings in the local currencies of those subsidiaries.

5. NET INCOME ATTRIBUTABLE TO IPG PHOTONICS CORPORATION PER SHARE

The following table sets forth the computation of diluted net income attributable to IPG Photonics Corporation per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income attributable to IPG Photonics Corporation	\$ 10,306	\$ (1,229)	\$ 13,703	\$ 42
Weighted average shares	46,220	45,431	46,159	45,263
Dilutive effect of common stock equivalents	1,113		1,103	1,073
Diluted weighted average common shares	47,333	45,431	47,262	46,336
Basic net income attributable to IPG Photonics Corporation per share	\$ 0.22	\$ (0.03)	\$ 0.30	\$ 0.00
Diluted net income attributable to IPG Photonics Corporation per share	\$ 0.22	\$ (0.03)	\$ 0.29	\$ 0.00