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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from to
Commission file number: 1-13011

COMFORT SYSTEMS USA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**76-0526487**
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

675 Bering Drive
Suite 400
Houston, Texas 77057
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(713) 830-9600**

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 ý No o

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 (Section 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 o No ý

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of the issuer's common stock, as of April 30, 2010 was 38,017,468.

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FOR THE QUARTER ENDED MARCH 31, 2010

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)

	December 31, 2009	March 31, 2010 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 127,850	$ 109,770
Accounts receivable, less allowance for doubtful accounts of $7,253 and $6,367, respectively	203,353	205,109
Other receivables	5,801	4,537
Income tax receivable	20,075	18,788
Inventories	9,817	9,259
Prepaid expenses and other	25,827	26,700
Costs and estimated earnings in excess of billings	20,432	19,590
Total current assets	413,155	393,753
PROPERTY, PLANT AND EQUIPMENT, net	34,671	33,326
GOODWILL	100,194	103,235
IDENTIFIABLE INTANGIBLE ASSETS, net	19,380	19,387
MARKETABLE SECURITIES	4,721	3,721
OTHER NONCURRENT ASSETS	2,827	2,697
Total assets	$ 574,948	$ 556,119
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 250	$
Current maturities of notes to former owners	917	2,316
Accounts payable	83,848	77,620
Accrued compensation and benefits	38,043	28,936
Billings in excess of costs and estimated earnings	66,343	63,937
Accrued self-insurance expense	26,881	27,729
Other current liabilities	32,748	32,545
Total current liabilities	249,030	233,083
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
NOTES TO FORMER OWNERS, NET OF CURRENT MATURITIES	6,441	5,042
DEFERRED INCOME TAX LIABILITIES	9,603	8,673
OTHER LONG-TERM LIABILITIES	3,890	3,834
Total liabilities	268,964	250,632
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par, 5,000,000 shares authorized, none issued and outstanding		
Common stock, $.01 par, 102,969,912 shares authorized, 41,123,365 and 41,123,365 shares issued, respectively	411	411

Treasury stock, at cost, 3,129,460 and 3,076,557 shares, respectively	(33,810)	(33,092)
Additional paid-in capital	326,103	324,843
Accumulated other comprehensive income (loss)	(181)	(181)
Retained earnings (deficit)	13,461	13,506
Total stockholders' equity	305,984	305,487
Total liabilities and stockholders' equity	$ 574,948	$ 556,119

The accompanying notes are an integral part of these consolidated financial statements.

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010
REVENUES	$ 280,274	$ 236,475
COST OF SERVICES	225,121	196,967
Gross profit	55,153	39,508
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	43,186	37,409
GAIN ON SALE OF ASSETS	(2)	(5)
Operating income	11,969	2,104
OTHER INCOME (EXPENSE):		
Interest income	227	64
Interest expense	(337)	(285)
Other	(7)	12
Other income (expense)	(117)	(209)
INCOME BEFORE INCOME TAXES	11,852	1,895
INCOME TAX EXPENSE	4,730	730
INCOME FROM CONTINUING OPERATIONS	7,122	1,165
DISCONTINUED OPERATIONS:		
Operating loss, net of income tax benefit of $73 and $	(180)	
Estimated gain on disposition, including income tax benefit of $ and $29		762
NET INCOME	$ 6,942	$ 1,927
INCOME PER SHARE:		
Basic		
Income from continuing operations	$ 0.18	$ 0.03
Discontinued operations		
Loss from operations		
Estimated gain on disposition		0.02
Net income	$ 0.18	$ 0.05
Diluted		
Income from continuing operations	$ 0.18	$ 0.03
Discontinued operations		
Loss from operations		
Estimated gain on disposition		0.02

Net income	$	0.18	$	0.05
SHARES USED IN COMPUTING INCOME PER SHARE:				
Basic		38,279		37,533
Diluted		38,687		37,819
DIVIDENDS PER SHARE	$	0.045	$	0.050

The accompanying notes are an integral part of these consolidated financial statements.

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands, Except Share Amounts)

		STOCKHOLDERS' EQUITY							
		Common Stock		Treasury Stock					
	Comprehensive Income	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2008		41,123,365	$ 411	(2,453,245)	$ (27,069)	$ 328,621	$ (326)	$ (15,166)	$ 286,471
Comprehensive Income:									
Net income	$ 34,182							34,182	34,182
Realized gain on marketable securities reclassified into earnings, net of tax	145						145		145
Comprehensive Income	$ 34,327								
Issuance of Stock:									
Issuance of shares for options exercised including tax benefit				354,700	3,815	(1,626)			2,189
Issuance of restricted stock				241,857	2,652	(2,652)			
Shares received in lieu of tax withholding payment on vested restricted stock				(45,779)	(459)				(459)
Stock-based compensation expense						3,454			3,454
Forfeiture of unvested restricted stock				(15,193)	(165)	165			
Tax benefit from vesting of restricted stock						(124)			(124)
Dividends						(1,735)		(5,555)	(7,290)
Share repurchase				(1,211,800)	(12,584)				(12,584)
BALANCE AT DECEMBER 31, 2009		41,123,365	411	(3,129,460)	(33,810)	326,103	(181)	13,461	305,984
Comprehensive Income:									
Net income (unaudited)	$ 1,927							1,927	1,927
Realized gain on marketable securities, reclassified into earnings, net of tax (unaudited)									
Comprehensive Income (unaudited)	$ 1,927								
Issuance of Stock:									
Issuance of shares for options exercised including tax benefit (unaudited)				46,209	502	(219)			283
Issuance of restricted stock (unaudited)				195,122	2,432	(2,182)			250
Stock-based compensation expense (unaudited)						1,151			1,151
Dividends (unaudited)								(1,882)	(1,882)
Other (unaudited)						(10)			(10)
Share repurchase (unaudited)				(188,428)	(2,216)				(2,216)
BALANCE AT MARCH 31, 2010 (unaudited)		41,123,365	$ 411	(3,076,557)	$(33,092)	$ 324,843	$ (181)	$ 13,506	$ 305,487

The accompanying notes are an integral part of these consolidated financial statements.

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,942	$ 1,927
Adjustments to reconcile net income to net cash used in operating activities		
Estimated gain on disposition of discontinued operations		(762)
Amortization of identifiable intangible assets	843	1,163
Depreciation expense	2,435	2,473
Bad debt expense	388	(57)
Deferred tax (benefit) expense	(254)	(1,441)
Amortization of debt financing costs	27	27
Gain on sale of assets	(2)	(5)
Stock-based compensation expense	1,284	1,151
Changes in operating assets and liabilities, net of effects of acquisitions		
(Increase) decrease in		
Receivables, net	19,805	271
Inventories	730	563
Prepaid expenses and other current assets	(367)	854
Costs and estimated earnings in excess of billings	1,610	887
Other noncurrent assets	26	266
Increase (decrease) in		
Accounts payable and accrued liabilities	(27,057)	(16,223)
Billings in excess of costs and estimated earnings	(9,438)	(2,469)
Other long-term liabilities	(905)	(86)
Net cash used in operating activities	(3,933)	(11,461)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,772)	(1,222)
Proceeds from sales of property and equipment	75	103
Proceeds from businesses sold	262	1,217
Sale of marketable securities	1,000	925
Cash paid for acquisitions and intangible assets, net of cash acquired		(3,577)
Net cash used in investing activities	(435)	(2,554)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on revolving line of credit		
Payments on other long-term debt	(1,042)	(250)

Payments of dividends to shareholders	(1,735)	(1,882)
Share repurchase program and shares received in lieu of tax withholding	(1,980)	(2,216)
Excess tax benefit of stock-based compensation	82	153
Proceeds from exercise of options	177	130
Net cash used in financing activities	(4,498)	(4,065)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,866)	(18,080)
CASH AND CASH EQUIVALENTS, beginning of period continuing and discontinued operations	117,015	127,850
CASH AND CASH EQUIVALENTS, end of period continuing and discontinued operations	$ 108,149	$ 109,770

The accompanying notes are an integral part of these consolidated financial statements.

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COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(Unaudited)

1. Business and Organization

Comfort Systems USA, Inc., a Delaware corporation, provides comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. We operate primarily in the commercial, industrial and institutional HVAC markets, and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing. Approximately 49% of our consolidated 2010 revenues are attributable to installation of systems in newly constructed facilities, with the remaining 51% attributable to maintenance, repair and replacement services. The following service activities account for our consolidated 2010 revenues: HVAC 77%, plumbing 15%, building automation control systems 4%, and other 4%. These service activities are within the mechanical services industry which is the single industry segment we serve.

2. Summary of Significant Accounting Policies

Basis of Presentation

These interim statements should be read in conjunction with the historical Consolidated Financial Statements and related notes of Comfort Systems included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2009 (the "Form 10-K").

The accompanying unaudited consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X of the SEC. Accordingly, these financial statements do not include all the footnotes required by generally accepted accounting principles for complete financial statements, and should be read in conjunction with the Form 10-K. We believe all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results for the full fiscal year.

Cash Flow Information

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Cash paid for interest for the three months ended March 31, 2009 and 2010 was approximately $0.3 million and $0.2 million, respectively. Cash paid for income taxes for continuing operations for the three months ended March 31, 2009 and 2010 was approximately $1.7 million and $0.8 million, respectively. There were no taxes paid for discontinued operations for both the three months ended March 31, 2009 and 2010.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2010

(Unaudited)

2. Summary of Significant Accounting Policies (Continued)

Subsequent Events

We evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q. No significant events occurred subsequent to the balance sheet or prior to the filing of this report that would have a material impact on our consolidated financial statements.

Segment Disclosure

Our activities are within the mechanical services industry which is the single industry segment we serve. Each operating subsidiary represents an operating segment and these segments have been aggregated, as the operating units meet all of the aggregation criteria.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, self-insurance accruals, deferred tax assets, warranty accruals, fair value accounting for acquisitions and the quantification of fair value for reporting units in connection with our goodwill impairment testing.

Income Taxes

We are subject to income tax in the United States and Puerto Rico and we file a consolidated return for federal income tax purposes. Income taxes are provided for under the liability method, which takes into account differences between financial statement treatment and tax treatment of certain transactions.

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carry-forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation each quarter. Estimations of required valuation allowances include estimates of future taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the activity underlying these assets becomes deductible. We consider projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income is less than the estimates, we may not realize all or a portion of the recorded deferred tax assets.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2010

(Unaudited)

2. Summary of Significant Accounting Policies (Continued)

Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions may be challenged and potentially disallowed. When facts and circumstances change, we adjust these reserves through our provision for income taxes.

To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of income tax expense in our consolidated statements of operations.

Financial Instruments

Our financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, other receivables, accounts payable, notes to former owners and a revolving credit facility. We believe that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

Marketable securities are classified as available-for-sale. These investments are recorded at fair value and are classified as marketable securities in the accompanying consolidated balance sheets. The changes in fair values, net of applicable taxes, are recorded as unrealized gains (losses) as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Recent Accounting Pronouncements

In the first quarter of 2010, certain disclosure provisions of the FASB Accounting Standards Update 2010-06 became effective for the Company. This standard clarified existing fair value requirements under the FASB ASC's Fair Value Measurements and Disclosures Topic 820, including the level of disaggregation required for fair value disclosures and disclosure of the valuation techniques and inputs used in estimating level 2 and level 3 fair value measurements. Our adoption of this standard did not have a material impact on our financial position, results of operations or cash flows.

Reclassifications

Certain reclassifications have been made in prior period financial statements to conform to current period presentation. These reclassifications have not resulted in any changes to previously reported net income for any periods.

3. Fair Value Measurements

We use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy, which gives the highest priority to quoted prices in active markets, is comprised of the following three levels:

Level 1	defined as observable inputs such as quoted prices in active markets;
Level 2	defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

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COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2010

(Unaudited)

3. Fair Value Measurements (Continued)

Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The assets measured at fair value on a recurring basis as of March 31, 2010 are as follows (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 109,770	$ 109,770	$	$
Auction rate securities	$ 4,721	$	$	$ 4,721

Cash and cash equivalents consist primarily of highly rated money market funds at a variety of well-known institutions with original maturities of three months or less. The original cost of these assets approximates fair value due to their short term maturity.

As of March 31, 2010, our marketable securities consisted of $4.7 million of auction rate securities, which are variable rate debt instruments, having long-term maturities (with final maturities up to June 2032), but whose interest rates are designed to reset through an auction process at 35 day intervals. We had investments in marketable securities of $5.6 million as of December 31, 2009. All of our auction rate securities are high quality municipal obligations which have high investment grade ratings or otherwise are backed by high investment grade rated insurance agencies. During the three months ended March 31, 2010, we sold $0.9 million of these auction rate securities at face value. An additional $1.0 million will be sold at face value during the second quarter of 2010; this is included in "Prepaid Expenses and Other" in our consolidated balance sheet. The remaining $3.7 million has been classified as a noncurrent asset on the consolidated balance sheet as we have the intent and ability to hold these securities until the market for auction rate securities stabilizes or until the issuer refinances the underlying security.

The auction events for some of these instruments failed during 2008 due to events in the credit markets. As a result of the temporary declines in fair value for our auction rate securities, which we attribute to liquidity issues rather than credit issues, we recorded an unrealized loss of $0.3 million, net of tax $0.1 million, to accumulated other comprehensive income (loss). Our analysis of the fair values of these securities considered, among other items, the creditworthiness of the counterparty, the timing of expected future cash flows, and the possibility that a discount may be required if we choose to sell the securities in the absence of a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics.

As of March 31, 2010 we continue to collect interest when due on all of our auction rate securities. Any future fluctuation in fair value related to these instruments that we deem to be temporary, including any recoveries of previous write-downs, would be recorded to accumulated other

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COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2010

(Unaudited)

3. Fair Value Measurements (Continued)

comprehensive income (loss). If we determine that any future valuation adjustment was other than temporary, we would record a charge to earnings as appropriate.

We measure certain assets, including our goodwill and intangible assets, at a fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the nine months ended March 31, 2010, we did not recognize any other-than-temporary impairments on those assets required to be measured at fair value on a nonrecurring basis.

4. Acquisitions

We completed one acquisition in the first quarter of 2010 which was not material individually or in the aggregate. Additional contingent purchase price ("earn-out") has been and will be paid if certain acquisitions achieve predetermined profitability targets. There were no acquisitions for the first quarter of 2009. Our consolidated balance sheets include preliminary allocations of the purchase price to the assets acquired and liabilities assumed based on estimates of fair value, pending completion of final valuation and purchase price adjustments. The results of operations of these acquisitions are included in our consolidated financial statements from their respective acquisition dates.

5. Discontinued Operations

We sold a small operating company in June 2009. This company's after-tax loss of $0.2 million for the three months ended March 31, 2009 has been reported in discontinued operations under "Operating loss, net of income tax benefit." During the first quarter of 2010, we recorded an income tax benefit of $0.3 million related to the adjustment of certain valuation allowances related to this discontinued operation.

Our consolidated statements of operations and the related earnings per share amounts have been restated to reflect the effects of this discontinued operation. No interest expense was allocated to this discontinued operation.

Revenues and pre-tax loss related to this company in 2009 and 2010 were as follows (in thousands):

	Three Months Ended March 31,	
	2009	**2010**
Revenues	$ 1,016	$
Pre-tax loss	$ (253)	$

Sale of Companies to Emcor In March 2002, we sold 19 operations to Emcor Group, Inc. ("Emcor"). The total purchase price was $186.25 million, including the assumption by Emcor of approximately $22.1 million of subordinated notes to former owners of certain of the divested companies. Of Emcor's purchase price, $5 million was deposited into an escrow account to secure potential obligations on our part to indemnify Emcor for future claims and contingencies arising from

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COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2010

(Unaudited)

5. Discontinued Operations (Continued)

events and circumstances prior to closing, all as specified in the transaction documents. Of this escrow, $4 million has been applied in determining our liability to Emcor in connection with the settlement of certain claims. The remaining $1 million of escrow was disbursed to us in March 2010.

There are ongoing open matters relating to this transaction that we continue to address with Emcor. We do not believe these open matters, either individually or in the aggregate, will have a material adverse effect on our financial position when ultimately resolved. During the fourth quarter of 2009, we recorded a gain of $0.8 million based upon a review of open matters. During the first quarter of 2010, in connection with the final escrow release, we recorded an additional gain of $0.5 million (net of income tax expense of $0.3 million) based upon a further review of open matters. The gain recorded during the first quarter is included in discontinued operations in the caption "Estimated gain on disposition, including income tax benefit."

6. Long-Term Debt Obligations

Long-term debt obligations consist of the following (in thousands):

	December 31, 2009	March 31, 2010
Revolving credit facility	$	$

intellectual property supplier) from July 2013 to March 2014. He has been on the board of NXP Semiconductors N.V. (a semiconductor company) since April 2014 and of UMICORE S.A. (a recycling and materials company), since April 2015. Mr. Meurice earned a Master's degree in mechanics and energy generation at the Ecole Centrale de Paris, a Master's degree in Economics from la Sorbonne University, Paris, and an M.B.A. from the Stanford University Graduate School of Business.

Key Attributes, Experience and Skills
Mr. Meurice has extensive skills and experience as a manager of several rapidly-growing, complex and global businesses in the capital equipment and electronics fields with several billions of dollars in revenues, most recently as former President and Chief Executive Officer of ASML. He has experience managing a publicly-held company as well as experience on serving on several public company boards in the equipment and technology fields, such as NXP Semiconductor N.V., UMICORE, Verigy, Ltd. and ARM Holdings plc. Mr. Meurice also has a record of proven leadership as a strategic thinker, operator and marketer at the businesses he managed.

John R. Peeler

Director since 2012
Presiding Independent Director
Age 63
Compensation Committee
Nominating and Corporate Governance Committee
Directorship at Other Public Company: Veeco Instruments Inc.
Mr. Peeler has been Chief Executive Officer and a director of Veeco Instruments Inc. since July 2007. He has been serving as its Chairman of the Board since May 2012. Veeco is a developer and manufacturer of MOCVD, molecular beam epitaxy, ion beam and other advanced thin film processes equipment. He was Executive Vice President of JDS Uniphase Corp. ("JDSU") and President of the Communications Test & Measurement Group of JDSU, which he joined upon the closing of JDSU's merger with Acterna, Inc. ("Acterna") in August 2005. Before joining JDSU, Mr. Peeler served as President and Chief Executive Officer of Acterna. He has a B.S. and M.E. in Electrical Engineering from the University of Virginia.

Key Attributes, Experience and Skills
Over the course of his career, Mr. Peeler has managed several high-growth technology companies. In addition, he has developed managerial leadership skills through his position as Chief Executive Officer of Veeco, a publicly-traded company with substantial international operations. His managerial positions have provided him with in-depth knowledge of the service needs of customers in demanding markets, including semiconductor capital equipment, various manufacturing models, marketing and sales. In these roles, he has also been responsible for attracting and incentivizing executives on his team. These experiences have provided him important insights in support of his positions as Presiding Independent Director and a member of the Compensation Committee and the Nominating and Corporate Governance Committee.

Thomas J. Seifert

Director since 2014
Independent Director
Age 54
Audit Committee (Chair) - Audit Committee Financial Expert
Nominating and Corporate Governance Committee
Directorship at Other Public Company: CompuGroup Medical, SE

Mr. Seifert is Chief Financial Officer of Cloudflare, Inc., an internet performance and security provider, from June 2017 to the present. Since February 2018, he is a member of the board of CompuGroup Medical SE, a publicly held company in Germany, which provides software to support medical and organization activities in medical offices and facilities. Mr. Seifert was the Executive Vice President and Chief Financial Officer of Symantec Corporation, a provider of security, backup and availability solutions, from March 2014 to December 2016. Mr. Seifert served as Executive Vice President and Chief Financial Officer of Brightstar Corporation, a wireless distribution and services company, from December 2012 to March 2014. He was Senior Vice President and Chief Financial Officer at Advanced Micro Devices Inc., a semiconductor company, from October 2009 to August 2012, and served as Interim

Chief Executive Officer from January 2011 to September 2012. From October 2008 to August 2009, Mr. Seifert served as Chief Operating Officer and Chief Financial Officer of Qimonda AG, a German memory chip manufacturer, and as Chief Operating Officer from June 2004 to October 2008. He also held executive positions at Infineon AG, White Oak Semiconductor, including the position as Chief Executive Officer, and Altis Semiconductor. Mr. Seifert has a Bachelor's degree and a Master's degree in Business Administration from Friedrich Alexander University and a Master's degree in Mathematics and Economics from Wayne State University.

Key Attributes, Experience and Skills

Mr. Seifert has extensive experience as both an operating executive and chief financial officer of large publicly-held international technology businesses, such as Symantec and Advanced Micro Devices. In these and other senior positions, he developed deep financial and accounting knowledge, as well as managerial leadership skills, in larger organizations. With his background in accounting, finance and management, Mr. Seifert brings broad skills and knowledge to the Board, the Audit Committee, and the Nominating and Corporate Governance Committee including internal controls, mergers and acquisitions and integrations.

Director Independence

Seven of our ten current directors are independent. A predominantly independent Board ensures that the Board is acting objectively and in the best interests of our stockholders. The independent directors also bring expertise and a diversity of perspectives to the Board. The culture of the Board enables directors to openly express their opinions in the boardroom and to raise challenges. The NASDAQ listing standards governing independence require that a majority of the members of the Board be independent as defined by NASDAQ. The Board conducted its annual review of director independence in March 2018. During this review, the Board examined all direct and indirect transactions or relationships between the Company or any of its subsidiaries and each director and any immediate family member of the director and determined that no material relationships with the Company existed during 2017. On the basis of this review, the Board determined that each of the following directors qualifies as an independent director as defined in the NASDAQ guidelines and SEC rules: Michael C. Child, Henry E. Gauthier, William S. Hurley, Catherine P. Lego, Eric Meurice, John R. Peeler and Thomas J. Seifert. The Board is comprised of directors with short and long-term tenures with the Company. Different tenures coupled with an independent and objective Board have provided stockholders with strong financial results.

Standing Committees and Board Committee Membership

The Board has a standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, each composed entirely of non-employee directors determined to be independent under the listing standards of the NASDAQ stock market. Under their written charters adopted by the Board, each of these committees is authorized and assured appropriate funding to retain and consult with external advisors, consultants and counsel. The table below sets forth the directors who are currently members or chairs of each of the standing Board committees, and the number of meetings held by each committee and the full Board in 2017. All incumbent directors attended 75% or more of the aggregate meetings of the Board and committees on which they served during 2017. We encourage directors to attend the annual meeting of stockholders, but we do not have a formal policy regarding such attendance. Last year, two of the directors in office attended the annual meeting.

	Board of Directors	Audit	Compensation	Nominating and Corporate Governance
Meetings held in 2017	6	7	8	5
Written consents in 2017	2	—	—	1
Valentin P. Gapontsev, Ph.D.	Chair	—	—	—
Michael C. Child	Member	—	—	Member
Henry E. Gauthier	Member	Member	—	—
William S. Hurley	Member	Member	Member	—
Catherine P. Lego	Member	Member	Chair	—
Eric Meurice	Member	—	Member	Chair
John R. Peeler	Member, and Presiding Independent Director	—	Member	Member
Igor Samartsev	Member	—	—	—
Eugene A. Scherbakov, Ph.D.	Member	—	—	—
Thomas J. Seifert	Member	Chair	—	Member

The Audit Committee assists the Board by providing oversight of financial management, the internal auditor function and the independent auditor and providing oversight with respect to our internal controls including that management is maintaining an adequate system of internal control such that there is reasonable assurance that assets are safeguarded and that financial reports are properly prepared; that there is consistent application of generally accepted accounting principles; and that there is compliance with management's financial reporting policies and procedures. The Audit Committee also pre-approves auditing and permissible non-audit services by our independent auditor, reviews and discusses our annual and quarterly financial statements and related disclosures, and coordinates the oversight of our internal and external controls over financial reporting, disclosure controls and procedures and code of business conduct. In performing these functions, the Audit Committee meets periodically with the independent auditor, management and internal auditor function (including in private sessions) to review their work and confirm that they are properly discharging their respective responsibilities. In addition, the Audit Committee appoints the independent auditor. For more information on Audit Committee activities in 2017, see the Audit Committee Report on page 47 of this proxy statement and "Proposal 2: Ratify Independent Registered Public Accounting Firm" on page 48.

The Board has determined that Mr. Seifert, the Chairman of the Audit Committee, as well as each of Messrs. Gauthier and Hurley and Ms. Lego qualify as an audit committee financial expert (as defined under the rules and regulations of the SEC) after determining that each has the necessary experience and qualifications.

The primary function of the Compensation Committee is to discharge the Board's duties and responsibilities relating to compensation of our non-employee directors and executive officers, and oversee the design and management of the long-term incentive and savings plans that cover our employees. The Compensation Committee's duties and responsibilities under its charter with respect to the compensation of our executive officers and directors include:

- reviewing and approving the Chairman and Chief Executive Officer's base salary compensation;

- determining the annual performance bonus of the Chairman and Chief Executive Officer based upon the corporate goals and objectives set by the independent directors and their input on the attainment of such goals and objectives;
- reviewing and approving compensation decisions recommended by the Chairman and Chief Executive Officer for the other executive officers, including setting base salaries, annual performance bonuses, long-term incentive awards, severance benefits and perquisites;
- setting our compensation philosophy and composition of the group of peer companies used for

comparison of executive compensation; and

- reviewing and recommending for approval by the Board the compensation for the non-employee directors.

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The Compensation Committee has retained an independent compensation consultant firm, Radford, a unit of Aon Hewitt ("Radford"), for matters related to executive officer and director compensation. The Compensation Committee also retains outside legal counsel to provide advice on compensation-related matters, including executive officers, directors and compensation plans. For further discussion of the role of the Compensation Committee in the executive compensation decision-making process and activities in 2017, and for a description of the nature and scope of the consultant's assignment, see "Compensation Discussion and Analysis - Role of Compensation Committee" on page 37 of this proxy statement. Additionally, the Compensation Committee reviews the Compensation Discussion and Analysis, prepares the Compensation Committee Report in this proxy statement on page 29 and oversees management's risk assessment of the Company's compensation for all employees and compensation-related risks as delegated by the Board.

The Nominating and Corporate Governance Committee is responsible for overseeing matters of corporate governance, including the evaluation of the performance and practices of the Board. The Nominating and Corporate Governance Committee develops and recommends criteria for Board membership (see "Board of Directors- Nomination of Directors" for a description of such criteria), reviews possible candidates for the Board as discussed on pages 20 and 21 of this proxy statement, and recommends the nominees for directors to the Board for approval. In addition, the Nominating and Corporate Governance Committee oversees the process for the performance evaluations of the Board and its committees. An important role of this Committee is to engage in Board succession planning to ensure boardroom skills are aligned with IPG's long-term strategic plan. It is also within the responsibilities of the Nominating and Corporate Governance Committee to review and recommend director orientation, stock ownership guidelines, delegation of authority to management, insider trading guidelines, and consider questions of possible conflicts of interest, including related party transactions, as such questions arise. The Nominating and Corporate Governance Committee also reviews and recommends risk oversight responsibilities of the Board and its committees and of the independent directors as a group.

Copies of the charters of each of the three committees can be found on our website at investor.ipgphotonics.com/corporate-governance/governance-documents.

Nomination of Directors

Director Eligibility. Our Corporate Governance Guidelines and director membership guidelines approved by the Nominating and Corporate Governance Committee contain Board membership criteria considered by the Nominating and Corporate Governance Committee in recommending nominees for a position on IPG's Board. The Nominating and Corporate Governance Committee believes that, at a minimum, a director candidate must possess the qualities of high personal integrity and ethics, sound business judgment and support for our Code of Business Conduct. A director candidate must also have sufficient time to devote to the affairs of IPG and service on the Board and committees, and not be engaged in any activity adverse to the Company's interest. The Nominating and Corporate Governance Committee considers, among other things, the following criteria when reviewing a director candidate or an incumbent director:

- the extent that the director/potential director has demonstrated excellence, leadership and significant experience in a field of endeavor,
- whether the director/potential director assists in achieving a collective membership on the Board with a broad spectrum of experience and expertise,
- whether the director/potential director meets the independence requirements of the listing standards of the NASDAQ guidelines and SEC rules (where independence is desired),
- whether the director/potential director can read and understand financial statement fundamentals and is committed to representing the long-term interests of the Company's stockholders, while keeping in perspective the interests of the

Company's customers, employees and the public and

- whether the director/potential director, by virtue of relevant technical expertise, experience or specialized skill relevant to IPG's current or future business, can add specific value as a Board member.

In addition, no potential director (excluding any incumbent director) with an age less than 21 years or greater than 72 years is eligible for election as a Board member. Each director/potential director must comply with the limits on other board memberships in our Corporate Governance Guidelines.

The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. In addition to the criteria set forth above, the Nominating and Corporate Governance Committee considers how the skills and attributes of each individual candidate or incumbent director work together to create a Board that is collegial, engaged and effective in performing its duties. The Nominating and Corporate Governance Committee seeks a Board that reflects diversity, in experience, gender and ethnicity, although it does not have formal objective criteria for determining the degree of diversity desired on the Board.

In the last few years, the Board has taken an active approach to refreshing its members in order to increase the effectiveness of the Board, including by increasing its focus on Board diversity. For example, the Board has added a female director and two directors born in Europe with significant international experience. Of these newer directors, two were under 60 years old when they joined our Board. The Board seeks a diverse set of backgrounds, experiences and skills in its directors to help guide IPG as it grows and enters new businesses as part of our long-term strategy. We typically seek candidates with experience on public company boards as such candidates understand the role and duties of directors. As described in the director biographies under "Key Attributes, Experiences and Skills," our Board seeks directors who add different sets of experience and skills that are important to the Company. Based on this criterion, we have added directors with photonics, electronics and semiconductor equipment industry backgrounds, larger company and entrepreneurial experience, non-U.S. and Asia experience, as well as experience in positions associated with accounting, finance and information technology, all of which contribute to the quality of the review and oversight by the Board, Board-management discussions and IPG's long-term strategy.

Director Nomination Process. The Nominating and Corporate Governance Committee identifies potential director nominees through contacts of the Board, executives and a variety of other sources. The Committee may retain a search firm or utilize third-party database search tools to identify director nominees. Stockholders may nominate candidates for election as directors as described below.

The Nominating and Corporate Governance Committee will consider several factors prior to nominating a candidate. Generally, the Committee will consider the existing size, future requirements of the Board, composition and skills of the Board, evaluate biographical information and other background material and interview each candidate selected. The Nominating and Corporate Governance Committee will apply any director selection criteria adopted by it based on the circumstances at the time and the criteria set forth in our Corporate Governance Guidelines.

The Nominating and Corporate Governance Committee will consider all director candidates identified through the processes described above and will evaluate each of them, including incumbents, based on the same criteria. Director candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee and may be considered at any point during the year. If based on the Committee’s initial evaluation, a director candidate continues to be of interest to the Nominating and Corporate Governance Committee, the chair of such Committee and other Committee members will interview the candidate and communicate the evaluation to the Committee and executive management. Additional interviews are conducted and all members of the Board may interview the final candidates. Ultimately, the Nominating and Corporate Governance Committee will meet to finalize its list of recommended candidates for the Board’s consideration.

The Nominating and Corporate Governance Committee will also consider candidates for nomination as a director submitted by stockholders. The Nominating and Corporate Governance Committee’s evaluation process and criteria does not vary based upon whether a candidate is recommended by a stockholder. However, the procedural requirements set forth in our by-laws and the procedures described under "Other Matters - 2018 Annual Meeting and Nominations" must be met.
Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee (Ms. Lego and Messrs. Peeler, Hurley and Meurice) is or has been an officer or employee of our Company or any of our subsidiaries. None of our executive officers served as a member of:

- the compensation committee of another entity in which one of the executive officers of such entity served on our Compensation Committee,

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- the compensation committee of another entity in which one of the executive officers of such entity served as a member of our Board or
- the board of directors of another entity, one of whose executive officers served on our Compensation Committee.

DIRECTOR COMPENSATION

The objectives for our non-employee director compensation program are to attract and attain highly-qualified individuals to serve on our Board and align their interests with those of our stockholders. Our non-employee directors are paid pursuant to our non-employee director compensation plan described below. Our Compensation Committee reviews our director compensation program periodically to confirm that the program remains appropriate and competitive and recommends any changes to our full Board for consideration and approval.

Director Compensation Plan

Our non-employee director compensation plan provides for both cash and equity compensation for our non-employee directors. Directors who are also our employees receive no additional compensation for their service on the Board. In 2017, the Compensation Committee engaged independent compensation consultant firm, Radford, to provide a comprehensive review of compensation for non-employee directors in comparison to the Company's compensation peer group. The compensation our Directors received in 2017 reflects Radford’s recommendations and is provided in the chart below.

Cash Compensation. Our non-employee directors receive the annual retainers from us set forth in the table below. Directors do not receive separate fees for attending meetings of the Board, committees or stockholders.

	Amount
Board Retainer	$ 40,000
Presiding Independent Director Retainer	$ 20,000
Audit Committee Retainers	
Chair	$ 25,000
Non-Chair	$ 12,500
Compensation Committee Retainers	
Chair	$ 22,500
Non-Chair	$ 10,000
Nominating and Corporate Governance Committee Retainers	
Chair	$ 17,500
Non-Chair	$ 7,500

Equity Compensation. Each non-employee director continuing in office after the annual meeting of stockholders receives a dollar value annual grant of equity totaling $250,000 (determined pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC Topic 718")). Of this award, one-third is service-based stock options and two-thirds are service-based restricted stock units. The annual awards vest in a single installment on the earlier of the one-year anniversary of the date of grant or the next annual meeting of stockholders. Upon initial election to the Board, each new non-employee director receives a grant (determined pursuant to ASC Topic 718) of $125,000 in stock options and $125,000 in restricted stock units vesting on the first anniversary of the date of grant subject to the director's continued service on the Board. The exercise price of each of the stock options is the closing market price of our common stock on the date of grant. Any director who retires after at least eight years of service on the Board will be entitled to full vesting of all options and restricted stock units then held by the director.

Director Compensation Table

The following table summarizes the compensation of each of our non-employee directors for 2017:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Total ($)
Michael C. Child	51,458	165,091	83,319	299,868
Henry E. Gauthier	65,208	165,091	83,319	313,618
William S. Hurley	67,708	165,091	83,319	316,118
Catherin P. Lego	76,042	165,091	83,319	324,452
Eric Meurice	73,125	165,091	83,319	321,535
John R. Peeler	80,833	165,091	83,319	329,243
Thomas J. Seifert	75,417	165,091	83,319	323,827

(1) Valuation based on the fair value of the restricted stock unit and stock option awards as of the grant date determined pursuant to ASC Topic 718 with respect to 2017. The assumptions that we used with respect to the valuation of restricted stock unit and stock option awards are set forth in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K filed with the SEC on February 28, 2018. On June 1, 2017, each continuing director serving on the Board was granted restricted stock units for 1,185 shares of common stock and options to purchase 2,993 shares of common stock at an exercise price of $140.64 per share. Both restricted stock units and options vest in a single installment on June 1, 2018.

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Outstanding Equity Awards Table

The following table provides information regarding unexercised stock options and unvested restricted stock units held by each of our non-employee directors on December 31, 2017:

Name	Unvested Restricted Stock Units (#)	Total Option Awards Held (#)	Exercisable Option Awards (#)
Michael C. Child	1,185	52,264	49,925
Henry E. Gauthier	1,185	7,596	5,257
William S. Hurley	1,185	14,096	11,757
Catherine P. Lego	3,444	10,847	2,127
Eric Meurice	2,175	17,019	12,324
John R. Peeler	1,185	25,596	23,257
Thomas J. Seifert	2,175	4,695	—

We also reimburse directors for all reasonable out-of-pocket expenses incurred for attending Board and committee meetings and director education programs. Non-employee directors do not receive any additional payments or perquisites.

Our certificate of incorporation limits the dollar amount of personal liability of our directors for breaches by them of their fiduciary duties. Our certificate of incorporation requires us to indemnify our directors to the fullest extent permitted by the Delaware General Corporation Law. We have also entered into indemnification agreements with all of our directors and we have purchased directors' and officers' liability insurance.

PROPOSAL 1: ELECTION OF DIRECTORS

The stockholders are being asked to elect Dr. Gapontsev, Dr. Scherbakov, Mr. Samartsev, Mr. Child, Mr. Gauthier, Ms. Lego, Mr. Meurice, Mr. Peeler and Mr. Seifert to terms ending with the annual meeting to be held in 2019, until a successor is elected and qualified or until his or her earlier death, resignation or removal. The Board nominated each of these individuals for election at the 2018 annual meeting of stockholders upon the recommendation of the Nominating and Corporate Governance Committee. Each nominee is currently a director of our company. All of the director nominees set forth in the proxy card have consented to being named in this proxy statement and to serving if elected. For more information regarding the nominees for director, see "Board of Directors."
The Board does not contemplate that any of the nominees will be unable to stand for election, but should any nominee become unable to serve or for good cause will not serve, all proxies (except proxies marked to the contrary) will be voted for the election of a substitute nominee nominated by the Board.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE
"FOR" ALL OF THE NOMINEES FOR DIRECTOR

COMMON STOCK OWNERSHIP

The following table provides information about the beneficial ownership of our common stock as of April 6, 2018 by:
- each of the Named Executive Officers,
- each person who is a director or nominee,
- all of our executive officers and directors as a group and
- each person or entity known by us to own beneficially more than five percent of our common stock.

Percentage of beneficial ownership is based on 53,732,790 shares of common stock outstanding as of April 6, 2018.

Name	Shares Owned	Right to Acquire Shares within 60 Days	Total Beneficial Ownership (1)	Percent
Named Executive Officers and Directors (2)				
Michael C. Child	10,719	53,449	64,168	*
Valentin P. Gapontsev, Ph.D. (3)	7,249,935	—	7,249,935	13.5 %
Henry E. Gauthier	13,919	8,781	22,700	*
William S. Hurley	9,820	11,781	21,601	*
Catherine P. Lego	3,753	7,914	11,667	*
Angelo P. Lopresti (4)	16,512,586	35,296	16,547,882	30.8 %
Timothy P.V. Mammen	20,186	23,900	44,086	*
Trevor D. Ness	4,074	18,968	23,042	*
Eric Meurice	6,291	19,194	25,485	*
John R. Peeler	5,819	20,596	26,415	*
Igor Samartsev (5)(6)	884,283	7,300	891,583	1.7 %
Eugene Scherbakov, Ph.D. (4)(5)	16,489,381	24,092	16,513,473	30.7 %
Thomas J. Seifert	4,156	6,870	11,026	*
All executive officers and directors as a group (15 persons)	17,771,401	289,712	18,061,113	33.4 %
Other >5% Stockholders				
The Valentin Gapontsev Trust I (2)(7)	14,612,004	—	14,612,004	27.2 %
IP Fibre Devices (UK) Ltd. (2)(8)	7,014.004	—	7,014.004	13.1 %
BlackRock, Inc. (9)	3,874,614	—	3,874,614	7.2 %
The Vanguard Group (10)	3,121,013	—	3,121,013	5.8 %

*Less than 1.0%

(1) In accordance with SEC rules, beneficial ownership includes any shares for which a person or entity has sole or shared voting power or investment power and any shares for which the person or entity has the right to acquire beneficial ownership within 60 days after April 6, 2018 through the exercise of any option or the vesting of a restricted stock unit.

(2) The contact address for each person or entity is in care of IPG Photonics Corporation, 50 Old Webster Road, Oxford, Massachusetts 01540.

(3) Includes 7,014,004 shares beneficially owned by IP Fibre Devices (UK) Ltd. (“IPFD”), of which Dr. Gapontsev is the sole managing director. See note 8 below.

(4) Includes (a) 7,598,000 shares owned of record by Valentin Gapontsev Trust I (“Gapontsev Trust I”), (b) 7,014,004 shares owned of record by IPFD which are deemed to be beneficially owned by Gapontsev Trust I (see notes 7 and 8 below), (c) 908,450 shares beneficially owned by Valentin Gapontsev Trust II ("Gapontsev Trust II"), and (d) 962,450 shares beneficially owned by Valentin Gapontsev Trust III ("Gapontsev Trust III"), because such person is a trustee of each said trust. Gapontsev Trust I, Gapontsev Trust II and Gapontsev Trust III were formed by CEO

Valentin Gapontsev. Dr. Scherbakov and Mr. Lopresti are trustees of Gapontsev Trust I, Gapontsev Trust II and Gapontsev Trust III.

(5) Such person disclaims beneficial ownership of the shares held by IPFD except to the extent of his economic interest therein. See note 8 below.

(6) Includes 539,650 shares held by the spouse of Mr. Samartsev and family trusts formed by her. Mr. Samartsev disclaims beneficial ownership of such shares.

(7) Includes 7,014,004 shares beneficially owned by IPFD, in which Gapontsev Trust I has a 48% economic interest. Gapontsev Trust I disclaims beneficial ownership of the shares held by IPFD except to the extent of its economic interest therein. See note 8 below.

(8) Dr. Gapontsev has sole voting and investment power with respect to the shares held of record by IPFD. The following officers and directors of the Company or related parties have economic interests in IPFD: Gapontsev Trust I (48%), Dr. Gapontsev (3%), Mr. Samartsev (8%), Dr. Scherbakov (8%) and Gapontsev Trust III (2%). Each such person and entity (other than Dr. Gapontsev) does not possess voting or investment power with respect to such interest and each disclaims beneficial ownership of the shares held by IPFD except to the extent of his or its economic interest therein.

(9) The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055. Based solely on a Schedule 13G filed with the SEC on January 25, 2018.

(10) The address of The Vanguard Group is 100 Vanguard Boulevard, Malvern, PA 19355. Based solely on a Schedule 13G filed with the SEC on February 9, 2018.

EXECUTIVE OFFICERS

The following table sets forth certain information regarding our executive officers as of April 1, 2018.

Name	Age	Position
Valentin P. Gapontsev, Ph.D.	79	Chief Executive Officer and Chairman of the Board
Eugene A. Scherbakov, Ph.D.	70	Chief Operating Officer, Managing Director of IPG Laser GmbH, Senior Vice President, Europe and Director
Timothy P.V. Mammen	48	Chief Financial Officer and Senior Vice President
Angelo P. Lopresti	54	General Counsel, Secretary and Senior Vice President
Alexander Ovtchinnikov, Ph.D.	57	Senior Vice President, Components
Trevor D. Ness	45	Senior Vice President, World Wide Sales and Marketing
Igor Samartsev	55	Chief Technology Officer and Director
Felix Stukalin	56	Senior Vice President, North America Operations

The biographies of Dr. Gapontsev, Dr. Scherbakov and Mr. Samartsev are presented on pages 14 and 15 of this proxy statement. The biographies of our other executive officers are presented below.

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

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

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

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

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

School General Management Program.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's proxy statement for the Company's 2018 annual meeting of stockholders and in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
The information in this Compensation Committee Report shall not be considered "soliciting material" or "filed" with the SEC, nor shall this information be incorporated by reference into any previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company incorporates it by specific reference.

COMPENSATION COMMITTEE

Catherine P. Lego, Chair
William S. Hurley
Eric Meurice
John R. Peeler

March 28, 2018

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides a review of our executive compensation philosophy and program, and Compensation Committee decisions for fiscal 2017. The discussion in this section focuses on the compensation of our "Named Executive Officers" or "NEOs" for fiscal 2017, who were:

- Valentin P. Gapontsev, Ph.D., our Chairman and Chief Executive Officer
- Eugene Scherbakov, Ph.D., our Chief Operating Officer, the Managing Director of IPG Laser GmbH, our subsidiary, and Senior Vice President, Europe
- Timothy P.V. Mammen, our Senior Vice President and Chief Financial Officer
- Trevor Ness, our Senior Vice President, World Wide Sales and Marketing
- Angelo P. Lopresti, our Senior Vice President, General Counsel and Secretary

2017 Business Summary

We are committed to delivering increasing value to our shareholders by: (1) enhancing our core market leadership through the growing market penetration of our fiber laser technology over other lasers and non-laser technology and (2) expanding into multiple new markets and applications. In 2017, IPG delivered record revenue, operating margin, net income, and cash flow from operations, while we continued to make investments to drive future growth.

In 2017, we:

- increased revenue by 40%, our strongest annual growth in six years, and achieved a four-year compounded annual growth rate of 21%,
- used our vertical integration and direct sales model to increase our industry-leading gross margins to 56.6%,
- deepened our penetration in laser cutting and expanded laser welding sales,
- continued to gain sales from other laser and non-laser technologies and
- introduced new products, systems and accessories to expand our addressable markets.

IPG recorded $1,408.9 million in net sales in 2017, which is the highest level of revenues for any fiscal year in our history. We delivered $6.36 in diluted earnings per share, up 31% year-over-year, which includes charges of $0.90 related to the U.S. Tax Cuts and Jobs Act.

Our operating income increased 51% in 2017 and achieved its highest levels to date, reaching $551 million compared to $364 million in 2016 and $342 million in 2015.

Our gross margin increased to 56.6% in 2017 up from 54.9% in 2016, as a result of increased manufacturing efficiency offset by increasing depreciation from increased investment in plant and equipment. IPG's gross margins are industry-leading as compared to our laser peers.

We also increased our cash and cash equivalents and short term investments to $1.12 billion at December 31, 2017, compared to $831 million at December 31, 2016, while investing $127 million in property, plant, equipment and technology in 2017 so that we are well-positioned for future demand growth for our industry-leading products.
For more information about our business, please read "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the SEC on February 28, 2018.

Summary of Executive Compensation Pay Practices

The guiding principles of our executive compensation philosophy and practice continue to be pay-for-performance, accountability for annual and long-term performance, alignment to stockholders' interests, and providing competitive pay to attract and retain executives. We believe our compensation program strikes the appropriate balance between utilizing responsible, measured pay practices and effectively incentivizing our executives to dedicate themselves fully to value creation for our stockholders.

Executive Compensation Design

Our executive compensation program is designed to focus executive officers on both annual and long-term financial and operational performance, without encouraging unnecessary risk. The following graphs show approximately 63 percent of the Chief Executive Officer's total direct compensation and approximately 78 percent of the average total direct compensation of all of the other Named Executive Officers' compensation, as reflected in the 2017 column of the Summary Compensation Table, is at risk.

Our Chief Executive Officer, the Company's founder, does not receive long-term incentives because of his significant level of common stock ownership. As a result, a smaller percentage of his total compensation is performance-based as compared to the chief executives of our peer companies who typically receive additional compensation in the form of long-term incentives.

The performance-based stock units in the chart below are presented at target based upon grant date fair value.

The following provides details on the components of our executive compensation program:

Compensation Element	Objective
Base salary	• Provide a competitive fixed component of cash compensation to attract and retain talented and experienced executives with the knowledge and skills necessary to achieve the Company's strategic business objectives. • The Compensation Committee uses the services of an independent compensation consultant to assess the base salaries as compared to a competitive target range of the Company's named peer group. • The Compensation Committee considers these when setting base salaries of the executive officers: scope of the executive's responsibilities, performance, contributions, skills and experience, annual and long-term Company performance.
Annual incentive plan	• Offer a variable cash compensation opportunity earned based upon the level of achievement of challenging corporate goals, with additional compensation opportunity based upon individual performance. • Foster a shared commitment among executives through establishment of uniform Company financial goals. • Award payouts are subject to a cap of 225% of target in a performance period.
Long-term incentives	• Align interests of our executives and stockholders by motivating executive officers to increase long-term stockholder value. • Service-based equity awards offer certainty and long-term retention while providing additional compensation opportunity based upon increased stock price levels. • Performance-based stock units provide additional incentive to our NEOs (other than the CEO) and are earned based on IPG's total stockholder return relative to the Russell 3000 index. • Enhance retention with vesting over four years.
401(k) Retirement Savings Plan	• Provides participants the opportunity to defer a portion of their compensation and receive a company match of 50% of deferrals subject to a maximum of 6% of eligible compensation. • The plan is available to all eligible U.S. employees of the Company.
Pension Plan	• We provide no pension plan or deferred compensation plan.
Perquisites	• Perquisites are limited.

2017 Base Salaries

We provide base salary to our Named Executive Officers and other employees to compensate them for services rendered on a day-to-day basis during the fiscal year. Unlike annual cash incentives and long-term equity incentives, base salary is not subject to performance risk. The Compensation Committee reviews information provided by its compensation consultant and considers the experience, skills, knowledge and responsibilities of the executive and the individual's performance assessment provided by the Chief Executive Officer to assist it in evaluating base salary for each Named Executive Officer. With respect to the Chief Executive Officer, the Compensation Committee additionally considers the performance of the Company as a whole.

In 2017, the Compensation Committee evaluated the base salaries and total cash compensation for the Named Executive Officers with the assistance of Radford. The Compensation Committee reviewed Radford's assessment in connection with positioning the midpoint of the Company's target total cash compensation range near the 65th percentile of our peer group. Based upon this review, the Compensation Committee approved increases of the Named Executive Officers in the following manner: Dr. Gapontsev received an increase in base salary of 13% bringing his base salary in line with the market 65th percentile of our peer group, which also factored in the fact that the Compensation Committee does not grant any equity awards to Dr. Gapontsev. Likewise, the salary of Dr. Scherbakov increased from approximately $500,000 to $540,000 which also factored in his additional management responsibilities related to his appointment as Chief Operating Officer in February 2017. Finally, the Compensation Committee approved merit increases of 5%, 8% and 3% for the base salaries of Messrs. Mammen, Ness and Lopresti.

Update 2018. In 2018, the Compensation Committee approved increases to each of the Named Executive Officers following an updated assessment of base salaries and total cash compensation conducted by Radford. The CEO's base salary was increased by12% to $930,000. Also, the salary of Dr. Scherbakov increased from approximately $540,000 to $679,400. Finally, the Compensation Committee approved increases of 5%, 6% and 5% to the base salaries of Messrs. Mammen, Ness and Lopresti, respectively.

2017 Cash Incentive Awards

To focus each executive officer on the importance of the Company's performance, a significant portion of the individual's potential short-term compensation is in the form of annual cash incentive pay that is tied to the achievement of goals set by the Compensation Committee. Our Named Executive Officers participate in our Senior Executive Annual Incentive Plan (the "AIP") administered by the Compensation Committee. The Compensation Committee determines who is eligible to receive awards under the AIP, defines performance goals and objectives for executives, establishes target awards for each participant for the relevant performance period, and determines the percentage of the target award that should be allocated to the achievement of each of the chosen performance goals in consultation with the Chief Executive Officer with respect to other executive officers. The target award percentages established by the Compensation Committee are chosen with input from the compensation assessment conducted by Radford and the seniority level of the executive.

Consistent with prior years, in 2017 the Compensation Committee identified two financial performance measures: net sales and adjusted EBIT and assigned a 50% weighting factor to each financial performance goal. "Adjusted EBIT" is a performance measure that is equal to our earnings before interest income and expense, income taxes, equity-based compensation expenses and expenses for litigation matters approved by the Compensation Committee. Further, the Compensation Committee intentionally focused on net sales growth and pretax profits so that our executive officers would be incentivized to deliver the types of growth that benefit our stockholders, namely increasing sales and profits.

Under the 2017 AIP, the executives could receive cash incentive payments in the table below as a percentage of base salaries based upon achievement of the minimum to maximum objectives for both financial performance measures and for individual performance. If the financial performance exceeds one or more of the stretch objectives, the incentive payments to the executive would increase as determined by linear interpolation, subject to limits on maximum award payouts. Consistent with our pay-for-performance philosophy, no cash incentive payments would be made if the minimum financial objectives established by the Compensation Committee in 2017 were not met. The individual goals and objectives for the Chief Executive Officer include operational and strategic targets determined by the independent directors.

The overall target awards in the table below are a percentage of the respective base salaries. The company-wide financial objectives are the same for all executive officers in order to foster a shared commitment among executives.

Name	Target as % of Base Salary	Financial Performance Minimum	Financial Performance Maximum	Individual Performance Maximum	Maximum Award Payout (1)	Target Award ($)(2)	Actual Payout ($)
Valentin P. Gapontsev, Ph.D.	100%	18.8%	225.0%	25.00%	225%	832,000	1,399,100
Eugene A. Scherbakov, Ph.D.	75%	14.0%	225.0%	19.00%	225%	405,000	769,300
Timothy P.V. Mammen	75%	14.0%	225.0%	19.00%	225%	344,000	577,000
Trevor D. Ness	75%	14.0%	225.0%	19.00%	225%	308,000	516,200
Angelo P. Lopresti	75%	14.0%	225.0%	19.00%	225%	316,000	530,000

(1) Maximum award payout is presented as a percentage of the target award.
(2) Target award includes both financial and individual performance targets.

While objectives were intended to be achievable by the Company, a maximum bonus would require very high levels of Company performance. In 2017, the Compensation Committee adjusted the targets to reflect the acquisition of OptiGrate Corporation and Innovative Laser Technology, Inc. The adjusted target levels for net sales and Adjusted EBIT were $1,134 million and $422 million, respectively, representing 13% and 7% increases, respectively, from prior year levels. The Compensation Committee's adjusted minimum and stretch targets for net sales were $964 million and $1,304 million, and for Adjusted EBIT were $338 million and $507 million.

During 2017, the Company achieved net sales of $1,409 million and Adjusted EBIT of $593 million. These results represented a 40% increase in net sales and a 51% increase in Adjusted EBIT over 2016 levels. Despite exceeding the stretch targets in 2017, payouts were not limited by the plan maximums, which are set at 225% of the target award for financial and individual performance. The independent directors set

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the individual goals and objectives for the Chief Executive Officer in 2017. In 2017, the independent directors also reviewed the Chief Executive Officer's attainment of goals and objectives and approved his payout under the 2017 AIP. As a result of this process, the independent directors awarded the Chief Executive Officer 25.0% of his base salary for his individual performance during 2017. The Compensation Committee, with input from the Chief Executive Officer, awarded the other Named Executive Officers 19.0% of their respective base salaries for their individual performances in 2017.

The Compensation Committee may award discretionary bonuses to executives for exceptional performance. For 2017, the Compensation Committee did not exercise this right.

2018 Update. In February 2018, the Committee approved annual targets and incentive payouts to the Named Executive Officers for fiscal year 2018 under the AIP, as set forth below. The awards noted below have financial and individual performance goals. The Compensation Committee approved the targets under the AIP to the Named Executive Officers in February 2018 in the following payout amounts:

Name	Target as % of Base Salary	Financial Performance Minimum	Financial Performance Maximum	Individual Performance Maximum	Maximum Award Payout (1)
Valentin P. Gapontsev, Ph.D.	110%	20.63%	220.0%	27.50%	225%
Eugene A. Scherbakov, Ph.D.	100%	18.75%	200.0%	25.00%	225%
Timothy P.V. Mammen	80%	15.00%	160.0%	20.00%	225%
Trevor D. Ness	80%	15.00%	160.0%	20.00%	225%
Angelo P. Lopresti	80%	15.00%	160.0%	20.00%	225%

(1) Maximum award payout is presented as a percentage of the target award.

Equity-Based Incentives Granted in 2017

The goal of our equity-based award program is to provide employees and executives with the perspective of an owner with a long-term financial stake in our success, further increasing alignment with stockholders. Our equity-based incentives align the interests of our executives and stockholders by motivating executive officers to increase long-term stockholder value.

In 2017, our equity-based award program for executives included service-based stock options (33%), service-based restricted stock units (33%), and performance-based stock units (at target, 33%). The type and proportion of the equity grants reflected a 2017 review by our Compensation Committee with the assistance of Radford of grant practices at peer companies. The value of stock options, restricted stock units and performance-based stock units are tied to the Company stock price which links pay to performance.

Consistent with our pay-for-performance philosophy, the service-based stock option awards have no value unless our stock price increases after the grant date. Another reason why we use service-based stock options is because it fosters an innovative environment focused on long-term growth of the Company and stockholder value.

The addition of performance-based stock units in 2015 to the equity mix increases the portion of the executives' compensation that is based upon the Company's performance. The Compensation Committee decided to measure performance of the Company's stock as compared to the Russell 3000 Index, which includes the Company. Also, it directly aligns executives' compensation with stockholders interest because the number of shares earned depends upon performance against the Russell 3000 Index and the value of the shares fluctuates based on the stock price. For each

1% that IPG's common stock exceeds the performance of the Russell 3000 Index for the trailing 60 trading days from the end of the performance measurement period (March 1, 2020) against the comparable period from the beginning of the performance measurement period (March 1, 2017), the grant recipient would receive a 2% increase in the number of shares above target (up to a maximum cap of 200% of the target award). For each 1% below the Russell 3000 Index's performance, the grant recipient would receive a 2% decrease in the number of shares (down to zero). In addition, Name Executive Officers cannot receive a number of shares that exceeds 400% of the value of the target award on the date of grant. The vesting date is March 1, 2020, should any performance-based stock units vest at all.

In 2017, the Compensation Committee targeted granting equity compensation near the 65th percentile of the target compensation of our peer group, balancing the perspective of delivering competitive compensation based upon Black-Scholes option pricing values and Monte Carlo simulations for performance-based stock units. The Compensation Committee analyzed several aspects of the equity grant program, including (i) the "in the money" value, the degree to which executives have incentives to remain employed by the Company through unvested option values, and (ii) the aggregate equity usage in terms of (a) annual usage, typically called burn rate, and (b) cumulative equity delivery, typically called overhang, to determine the dilutive effect of equity awards on investors. The majority of outstanding equity award holdings of the executives were allocated to unvested shares in the aggregate, and all such executives had a minimum of two years' worth of annual award values in unvested equity value. Based upon this information, Radford advised the Compensation Committee that our equity program provides strong retention incentives.
Since the Company's initial public offering in 2006, the Compensation Committee has not granted the Chief Executive Officer any equity compensation awards. As the Company's founder and the beneficial owner of a large number of our shares, he has the perspective of an owner with a significant financial stake in the Company's success. This practice has resulted in substantially lower total compensation earned by our Chief Executive Officer as compared to the chief executives of our named peers despite our outstanding business and earnings growth. In addition, this practice results in a lower compensation expense and lower equity burn rate for the Company.
The table below provides information on grants of service-based stock options, service-based restricted stock units and performance-based stock units to the Named Executive Officers in 2017. All awards in the table below vest on March 1, 2021, except for the performance-based stock units which vest on March 1, 2020.

Name	Service-Based Stock Options (#)	Exercise Price ($)	Service-Based Restricted Stock Units (#)	Performance-Based Stock Units (at Target) (#)	Performance-Based Stock Units Range (Based upon Achievement) (#)
Valentin P. Gapontsev, Ph.D.	—	—	—	—	—
Eugene A. Scherbakov, Ph.D.	10,367	119.50	3,388	3,388	0 - 6,776
Timothy P.V. Mammen	8,799	119.50	2,876	2,876	0 - 5,752
Trevor D. Ness	7,871	119.50	2,572	2,572	0 - 5,144
Angelo P. Lopresti	7,184	119.50	2,348	2,348	0 - 4,696

The Compensation Committee believes that vesting of awards of service-based options and restricted stock units over four years provides a strong incentive for executives to remain employed by us and to focus on increasing our financial performance over the long-term, while discouraging excessive short-term risk taking. The Compensation Committee believes that the performance-based stock units should vest over three years, instead of four years, because having a four year performance period would reduce the utility of the performance award and not properly align pay with performance. The service-based restricted stock units granted in 2017 may be entitled to dividends, should any be paid, at the discretion of the Compensation Committee. Any dividends on shares underlying the performance-based stock units do not vest until the performance-based stock units vest.

2018 Update. The Compensation Committee approved the grant of service-based stock options and restricted stock units and performance-based stock units to the Named Executive Officers in February 2018. All equity awards in the table below vest according to the vesting schedule approved by the Compensation Committee: service-based stock options and restricted stock units vest 25% on each anniversary of March 1, 2018 and performance-based stock units vest on March 1, 2021, the last day of the performance period which is three years after the start of the performance period on March 1, 2018.

Name	Service-Based Stock Options (#)	Exercise Price ($)	Service-Based Restricted Stock Units (#)	Performance-Based Stock Units (at Target) (#)	Performance-Based Stock Units Range (Based upon Achievement) (#)
Valentin P. Gapontsev, Ph.D.	—	—	—	—	—
Eugene A. Scherbakov, Ph.D.	13,744	239.72	4,014	4,014	0 - 8,028
Timothy P.V. Mammen	6,642	239.72	1,940	1,940	0 - 3,880
Trevor D. Ness	5,689	239.72	1,661	1,661	0 - 3,322
Angelo P. Lopresti	5,786	239.72	1,690	1,690	0 - 3,380

All Other Compensation

Severance Benefits. The severance benefits we offer assist us in recruiting and retaining talented individuals and are consistent with the range of severance benefits offered by our peer group. The severance provisions of our employment agreements are summarized below in the section titled "Potential Payments upon Termination or Change in Control."

Retirement Benefits. We do not offer an executive retirement plan or a non-qualified deferred compensation plan. Executive officers in the United States are eligible to participate in our 401(k) retirement savings plan on the same terms as all other U.S. employees. Our 401(k) retirement savings plan is a tax-qualified plan and therefore is subject to certain Internal Revenue Code limitations on the dollar amounts of deferrals and Company contributions that can be made to plan accounts. These limitations apply to our more highly-compensated employees (including the Named Executive Officers). We made matching contributions to our employees at a rate of 50% of deferrals subject to a maximum of 6% of eligible compensation under the 401(k) retirement savings plan, including the Named Executive Officers, who participate in the plan as set forth in the Summary Compensation Table. Our executives outside of the United States participate in government-sponsored retirement programs.

Personal Benefits. Our executives are eligible to participate in employee benefit plans, including medical, dental, life and disability insurance and vacation plans as well as an employee stock purchase plan, which is intended to be qualified under Section 423 of the Code. The employee stock purchase plan allows participants to purchase Company shares at a price equal to 85% of the lesser of the fair market value at the first day or last day of the six month offering period, subject to limitations on the amount of shares. These plans generally are available to all salaried employees and do not discriminate in favor of executive officers. Benefits are intended to be competitive with the overall market in order to facilitate attraction and retention of high-quality employees.

The Compensation Committee compared the Company's executive perquisites policies against the 2017 peer group and made no changes. The Company provides the use of a corporate aircraft to the Chief Executive Officer and other executives for business travel integral to the performance of their duties. Executives are encouraged to use the aircraft for efficiency, safety and security. However, executives are not allowed to use the aircraft for personal use that has not been paid for, except that family and other guests may accompany executives on the aircraft for business travel. The Company provides the Chief Executive Officer with a car and driver in the United States so that he may use his travel time for company purposes. The Company also provides Dr. Scherbakov use of an automobile, as it does for other high-ranking employees in Germany.

Role of Compensation Committee

The Compensation Committee determines, approves and administers the compensation programs for our executive officers, including our Named Executive Officers. The Compensation Committee recommends to the independent directors the CEO's annual base salary, annual incentive opportunity and long-term incentive opportunity. The independent directors approve the CEO's compensation and our Compensation Committee approves the compensation for other executive officers in consultation with our CEO. Our Compensation Committee is also responsible for making recommendations to the Board with respect to the adoption of equity plans and certain other benefit plans. The Compensation Committee may delegate authority whenever it deems appropriate. In 2017, the Compensation Committee delegated authority to grant

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equity awards for non-executive officers to the Chief Executive Officer subject to certain conditions including amounts of awards and review of awards by the Compensation Committee.

Our Compensation Committee's policy is to set executive officer pay in accordance with the objectives of the Company's compensation programs as described above. In the Compensation Committee's view, the Company's executive compensation program provides an overall level of compensation opportunity that is competitive with peer companies. Actual compensation levels may be greater or less than target compensation levels provided by similar companies based upon annual and long-term Company performance, as well as individual performance, contributions, skills, seniority, knowledge, experience and responsibilities.

Role of Management

The Chief Executive Officer participates in the establishment of the compensation targets and payout levels for the other Named Executive Officers. He assesses the performance of all Named Executive Officers and recommends to the Compensation Committee the overall levels of achievement, and personal performance in the year. Upon request, Named Executive Officers provide supplemental material to the Compensation Committee to assist in the determination and implementation of compensation, policies and practices. The Chief Executive Officer is not involved in decisions regarding the setting of any component of his compensation. The Chief Executive Officer and other members of senior management attend Compensation Committee meetings at the invitation of the Compensation Committee.

Role of Independent Consultant

The Compensation Committee engaged Radford, an independent compensation consultant, to conduct a comprehensive review and analysis of our executive and non-employee director compensation programs and to make recommendations for compensation related to 2017. The consultation included non-executive compensation data and valuation services for equity incentives. Radford’s parent company does not perform any other work for the Company. The Compensation Committee reviews the independence of Radford in light of SEC rules and NASDAQ listing standards regarding compensation consultants. The Compensation Committee believes that there were no actual or potential conflicts of interest with Radford in 2017.

Pay Positioning Strategy

In 2017, the midpoint of the Company's target total cash compensation range was adjusted to near the 65^{th} percentile. The Compensation Committee positioned our targeted total compensation competitively within our peer group. An individual's actual compensation may fall below or above the target positions based on the individual's experience, seniority, skills, knowledge, performance, responsibilities and contributions as well as the Company's performance. These factors are weighed by the Compensation Committee in its judgment, and no single factor takes precedence over others nor is any formula used in making these decisions.

In analyzing our executive compensation program relative to this target market positioning, the Compensation Committee utilizes a comparative analysis of the compensation of our executive officers measured against a group of peer companies selected by the Compensation Committee. The peer companies are companies in the laser source and photonics industry, as well as a broader group of technology companies of comparable size and complexity with international scope that experience growth.

For 2017, the peer companies were:

Barnes Group, Inc.	Cognex Corporation	Coherent, Inc.
Dolby Laboratories, Inc.	Entegris, Inc.	Fabrinet
FLIR Systems, Inc.	Graco, Inc.	II-VI Incorporated
IDEX Corporation	ITT, Inc.	MKS Instruments, Inc.
National Instruments, Inc.	Nordson Corporation	OSI Systems, Inc.
Teradyne, Inc.	Trimble Navigation Limited	Zebra Technologies, Inc.

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The Compensation Committee reviews this peer group annually with input from Radford to ensure that the comparisons are meaningful. In this review, the Compensation Committee considers several factors in developing a peer group: it considers the current peer group to determine appropriateness, the peers used by institutional governance advisors, the companies that list our company as peer to understand crossover peers and broader research based upon established selection criteria to identify potential future peers. The Committee then develops criteria for business sector, market capitalization, revenue and headcount. Radford also supplements its peer analysis with the data from a broader list of high-technology public company participants in the AON Radford Executive Technology Survey targeting technology companies with comparable revenue levels. Companies that are no longer publicly traded have been omitted from the peer group. Based upon the process and applying the criteria above, the Compensation Committee (i) added Dolby Laboratories, Inc., Fabrinet, IDEX Corporation, ITT, Inc. and Trimble Navigation Limited to the peer group and (ii) removed Analogic Corporation, Brooks Automation, Inc., Diodes, Inc., FEI Company and Rofin-Sinar Technologies, Inc. from the peer group.

2018 Update. For 2018 compensation determinations, the Compensation Committee applied the methodology above and removed Fabrinet and OSI Systems, Inc. because such peers fell below the targeted scope of one or more of market value, revenue and headcount or were acquired. Additionally, the Compensation Committee added Arista Networks,Inc., Donaldson Company and Waters Corporation to the peer group for 2018.

Other Factors Affecting Compensation

Tax Deductibility under Section 162(m). Section 162(m) of the Internal Revenue Code ("Section 162(m)") limits the deductibility for federal income tax purposes of certain compensation paid in any year by a publicly held corporation to its "covered employees" as defined by Section 162(m) to $1 million per executive (the "$1 million cap"). Due to the recently enacted U.S. Tax Cuts and Jobs Act, the "performance-based" compensation exception to the $1 million cap does not apply for tax years after 2017, unless certain limited transition relief is met. The Compensation Committee retains the discretion to grant or pay compensation that may exceed the $1 million cap or may not qualify for the performance-based compensation exception to Section 162(m).

Accounting Considerations. We consider the accounting implications of our executive compensation program. In addition, accounting treatment is just one of many factors impacting plan design and pay determinations. Our executive compensation program is designed to achieve a favorable accounting and tax treatment as long as doing so does not conflict with the intended plan design or program objectives.

Compensation Risk

Management conducts an annual risk assessment of the Company's compensation policies and practices for all employees, including non-executive officers, and reports its findings to the Compensation Committee. In 2017, management concluded that the Company's compensation policies and practices are balanced and do not motivate imprudent risk taking. Management believes that IPG’s compensation policies do not create risks that are reasonably likely to have a material adverse effect on IPG.

In reaching this conclusion, they considered the following factors:

- our compensation program is designed to provide a mix of both fixed and variable incentive compensation,
- our senior executives are subject to stock ownership guidelines, which we believe incentivize our executives to consider the long-term interests of the Company and our stockholders and discourage excessive risk-taking that could negatively impact our stock price, and
- our incentive compensation programs are designed with vesting terms that are relatively consistent, spread out over several years, and do not contain steep payout "cliffs" that might encourage short-term business decisions in order to meet a vesting or payout threshold.

Other Policies

Anti-Hedging and Limitations on Pledging of Company Stock. The Board adopted policies prohibiting hedging transactions and limiting the pledging of our common stock. Under our insider trading policy, no director or employee may engage in shorting shares of our common stock, or buying or selling puts,

calls or derivatives related to our common stock. A director or officer of the Company may not pledge shares constituting more than 20% of his or her total stock ownership. Pledges of shares constituting 20% or less of total stock ownership are subject to certain conditions.

Stock Ownership Guidelines. The Board adopted stock ownership guidelines to closely align the interests of our executive officers with those of our long-term stockholders. Under the guidelines, the Chief Executive Officer is expected to maintain a minimum investment on our common stock of five times his annual salary and other senior executive officers are expected to maintain a minimum investment on our common stock of the lesser of 5,000 shares or one times their respective annual salaries. All of our senior executive officers substantially exceed the ownership requirements under our stock ownership guidelines. These ownership levels are to be achieved no later than four years after the election as an executive officer, except that prior to such time the officer is expected to retain a certain portion of stock issued upon exercise of stock options or vesting of restricted stock awards until the minimum ownership levels are attained. For more information, see "Corporate Governance - Stock Ownership Guidelines."

Clawback Policies. In 2015, the Compensation Committee approved a compensation recovery policy that allows the Company to recapture performance-based compensation from executives if the amount of the award was based upon achieving certain financial results that were later restated due to the participant's misconduct. In addition, all equity awarded to employees since 2007 contain a provision under which employees may be required to forfeit equity awards or profit from equity awards if they engage in certain conduct, including competing against the Company, disclosing confidential information, or soliciting its employees or customers.

EXECUTIVE COMPENSATION TABLES

Summary Compensation Table

The following table provides information regarding compensation earned by our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executives for the fiscal years indicated below:

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Total ($)
Valentin P. Gapontsev, Ph.D.	2017	832,000	—	—	—	1,399,100	53,583	2,284,683
Chief Executive Officer and	2016	735,400	—	—	—	709,044	36,953	1,481,397
Chairman of the Board (5)	2015	687,981	—	—	—	713,582	11,853	1,413,416
Eugene A. Scherbakov, Ph.D.	2017	510,000	—	899,514	340,038	769,300	23,028	2,541,880
Chief Operating Officer, Managing Director of IPG Laser GmbH,	2016	510,677	—	643,031	228,899	361,928	30,138	1,774,672
Senior Vice President, Europe and Director(5)	2015	450,449	—	636,664	305,714	363,675	30,231	1,973,841
Timothy P.V. Mammen,	2017	458,300	—	763,578	288,607	577,000	8,910	2,096,395
Chief Financial Officer and Senior	2016	436,025	—	643,031	228,899	315,694	8,760	1,632,409
Vice President	2015	440,067	—	823,772	305,714	342,223	8,764	1,920,540
Trevor Ness, Senior Vice	2017	410,000	—	682,866	258,169	516,200	8,910	1,876,145
President, World Wide Sales and	2016	379,724	—	527,502	187,744	275,121	8,490	1,378,581
Marketing	2015	383,543	—	673,995	250,130	298,267	8,511	1,614,446
Angelo P. Lopresti, Senior Vice	2017	421,000	—	623,394	235,635	530,000	9,342	1,819,372
President, General Counsel and	2016	408,256	—	496,333	176,709	263,042	9,192	1,353,532
Secretary	2015	412,015	—	636,664	236,234	284,911	9,240	1,579,063

(1) Salaries for 2015 reflect 27 pay periods occurring in the year.

(2) Valuation based on the fair value of such award as of the grant date determined pursuant to ASC Topic 718. The assumptions that we used with respect to the valuation of service-based restricted stock unit, performance-based stock units and stock option awards are set forth in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K filed with the SEC on February 28, 2018. The amounts in the Stock Awards column reflect service-based restricted stock units and performance-based stock units granted in 2017. The value of the performance-based stock units is based on the probable outcome of the performance conditions (at the grant date) in accordance with ASC Topic 718 assuming no forfeiture. The values of performance-based stock units at the grant date assuming the highest level of performance conditions will be achieved are $1,619,464, $1,374,728, $1,229,416 and $1,122,344 for Dr. Scherbakov and Messrs Mammen, Ness and Lopresti, respectively. There is no assurance that any of the performance targets will be achieved, that the service-based awards will vest or that the any of the recipients will realize the values listed above.

(3) Represents amounts earned under our AIP for services rendered in 2017, 2016 and 2015, respectively.

(4) The amount in 2017 for Dr. Gapontsev consists of premiums paid for group life insurance, the incremental cost for non-employee guests accompanying him on the Company's aircraft and the cost of a car and driver ($36,776) at the Company's headquarters. The amount in 2017 for Dr. Scherbakov is the expense of an automobile provided by us.

(5) Portions of the amounts paid to Dr. Gapontsev and Dr. Scherbakov were denominated in Euros and Rubles. Dr. Scherbakov's salary is approved in US dollars and payments are converted to Euro at then prevailing Euro exchange rate. Amounts paid in foreign currencies were translated into U.S. Dollars at the average daily exchange rates for the full years. The average daily rates in 2017, 2016 and 2015, for the Euro were 0.89, 0.90 and 0.90, respectively, and for the Ruble were 58.3, 67.0 and 61.2, respectively. As a result of compensation being paid in one or more currencies that fluctuate against the U.S. Dollar, the amount of salary paid may vary slightly from the salary stated in an employment agreement or approved by the Compensation Committee.

Employment Agreements

The Company has entered into employment agreements with each of the above-named executives, effective through December 31, 2018. Upon expiration, the employment agreements will automatically renew for successive one year periods, unless the Company or a Named Executive Officer provides written notice of non-renewal at least six months prior to the end of the then current term. In the event of a change in control, the agreements would extend through the second anniversary of the change in control.

The employment agreements set the annual base salaries and stipulate that the Compensation Committee may adjust the salaries annually, as noted in the above "Compensation Discussion and Analysis - 2017 Base

Salaries" section. The agreements entitle these executive officers to participate in bonus plans, standard insurance plans such as life, short-term disability and long-term disability insurance and retirement benefits, such as the 401(k) retirement savings plan and equity award plans described above, on similar terms and on a similar basis as such benefits are available to executives at similar levels within the Company. Each of these executive officers also entered into a separate restrictive covenant agreement with the Company in 2013 that prohibits each of them from competing with the Company for a period of one year after the termination of his employment with the Company for any reason and from hiring or attempting to hire the Company's employees or soliciting customers or suppliers of the Company for a period ending eighteen months following the termination of his employment for any reason. Each of the officers is entitled to receive his base salary for the period during which the Company enforces the non-competition provisions of the agreement but not for more than one year following the termination of his employment. The severance provisions of the agreements are summarized below in the section titled "Potential Payments upon Termination or Change in Control."

2017 Grants of Plan-Based Awards

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ($)(1)			Estimated Future Payouts Under Equity Incentive Plan Awards (#)(2)			All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	Option Awards Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards ($/Sh)	Grant Fair V of Stock Optio Awar ($)(4)
		Threshold	Target	Maximum	Threshold	Target	Maximum				
Valentin P. Gapontsev	2/17/2017	364,000	832,000	1,872,000	—	—	—	—	—	—	—
	2/17/2017	178,200	405,000	911,250	—	—	—	—	—	—	—
Eugene A.	2/17/2017	—	—	—	1,694	3,388	6,776	—	—	—	498,8
Scherbakov	2/17/2017	—	—	—	—	—	—	3,388	—	—	400,6
	2/17/2017	—	—	—	—	—	—	—	10,367	119.50	340,0
	2/17/2017	151,239	343,725	773,381	—	—	—	—	—	—	—
Timothy P.V. Mammen	2/17/2017	—	—	—	1,438	2,876	5,752	—	—	—	423,4
	2/17/2017	—	—	—	—	—	—	2,876	—	—	340,0
	2/17/2017	—	—	—	—	—	—	—	8,799	119.50	288,6
	2/17/2017	135,300	307,500	691,875	—	—	—	—	—	—	—
Trevor D.	2/17/2017	—	—	—	1,286	2,572	5,144	—	—	—	378,7
Ness	2/17/2017	—	—	—	—	—	—	2,572	—	—	304,1
	2/17/2017	—	—	—	—	—	—	—	7,871	119.50	258,1
	2/17/2017	138,930	315,750	710,438	—	—	—	—	—	—	—
Angelo P.	2/17/2017	—	—	—	1.694	2.348	4.696	—	—	—	345,7
Lopresti	2/17/2017	—	—	—	—	—	—	2,348	—	—	277,6
	2/17/2017	—	—	—	—	—	—	—	7,184	119.50	235,6

(1) Amounts shown include the payouts under the AIP for 2017 financial performance at the three goals plus individual performance at maximum for each. The performance goals used in determining AIP payments are discussed in the above Compensation Discussion and Analysis above. Actual amounts paid for 2017 performance are shown in the "Non-Equity Incentive Plan Compensation" column in the Summary Compensation Table above.

(2) For a description of the performance-based stock units, see Compensation Discussion and Analysis-Equity-Based Incentives Granted in 2017.

(3) The amounts listed reflect service-based restricted stock units and stock options granted under our 2006 Incentive Compensation Plan and are described in the Outstanding Equity Awards Table below.

(4)

The awards are reported based on the fair value of such award as of the grant date determined pursuant to ASC Topic 718. The assumptions that we used with respect to the valuation of equity awards are set forth in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K filed with the SEC on February 28, 2018. The option exercise price has not been deducted from the amounts indicated above and we disregard an estimate of forfeitures. Regardless of the value placed on an equity award on the grant date, the actual value of the equity award will depend on the market value of our common stock at such date in the future when the restricted stock unit vests or the stock option is exercised, and the performance of our common stock in relation to the Russell 3000 on the measurement date with respect to the performance-based stock unit. For informational purposes, if the maximum level of performance was achieved for the performance-based stock units, the values as limited by the 400% value cap are $1,619,464, $1,374,728, $1,229,416 and $1,122,344 for Dr. Scherbakov and Messrs. Mammen, Ness and Lopresti, respectively.

2017 Outstanding Equity Awards at Fiscal Year-End

Name	Year of Grant	Option Awards (1) Securities Underlying Unexercised Options Exercisable (#)	Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)(2)	Option Expiration Date	Stock Awards (1) Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)(1)(4)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)(4)
Valentin P. Gapontsev	—	—	—	—	—	—	—	—	—
Eugene A. Scherbakov	2/26/2010	1,000	—	15.82	2/25/2020	—	—	—	—
	3/1/2011	3,000	—	53.76	2/28/2021	—	—	—	—
	2/14/2012	1,500	—	58.65	2/13/2022	—	—	—	—
	3/1/2013	3,000	—	60.11	2/28/2023	—	—	—	—
	2/28/2014	—	13,000	71.77	2/27/2024	2,000	428,620	—	—
	2/25/2015	—	7,326	97.65	2/24/2025	3,663	785,018	7,326	1,430,768
	2/18/2016	—	7,592	81.89	2/17/2026	3,796	813,521	7,592	1,243,418
	2/17/2017	—	10,367	119.50	2/16/2027	3,388	726,082	6,776	1,619,464
Timothy P.V. Mammen	2/14/2012	10,000	—	58.65	2/13/2022	—	—	—	—
	3/1/2013	15,000	—	60.11	2/28/2023	—	—	—	—
	2/28/2014	—	14,200	71.77	2/27/2024	2,200	471,482	—	—
	2/25/2015	—	7,326	97.65	2/24/2025	3,663	785,018	7,326	1,430,768
	2/18/2016	—	7,592	81.89	2/17/2026	3,796	813,521	7,592	1,243,418
	2/17/2017	—	8,799	119.50	2/26/2027	2,876	616,356	5,752	1,374,728
Trevor D. Ness	2/14/2012	4,000	—	58.65	2/13/2022	—	—	—	—
	3/1/2013	2,000	—	60.11	2/28/2023	—	—	—	—
	2/28/2014	—	11,000	71.77	2/27/2024	1,700	364,327	—	—
	2/25/2015	—	5,994	97.65	2/24/2025	2,997	642,287	5,994	1,170,628
	2/18/2016	—	6,227	81.89	2/17/2026	3,114	667,361	6,228	1,020,022
	2/17/2017	—	7,871	119.50	2/16/2027	2,572	551,205	5,144	1,229,416
Angelo P. Lopresti	3/1/2011	9,500	—	53.76	2/28/2021	—	—	—	—
	3/1/2013	13,000	—	60.11	2/28/2023	—	—	—	—
	2/28/2014	—	11,000	71.77	2/27/2024	1,800	385,758	—	—
	2/25/2015	—	5,661	97.65	2/24/2025	2,831	606,712	5,662	1,105,789
	2/18/2016	—	5,861	81.89	2/17/2026	2,930	627,928	5,860	959,751
	2/17/2017	—	7,184	119.50	2/16/2027	2,348	503,200	4,696	1,122,344

(1) The vesting dates assume the continued service of the Named Executive Officer. All awards granted in 2014, 2015 and 2016 vest in one installment on March 1, 2018, 2019 and 2020, respectively. Service-based stock options and restricted stock units granted in 2017 vest in four annual installments commencing on March 1, 2018 and performance-based stock units granted in 2017 vest in one installment on March 1, 2020.

(2) Represents the closing common stock price of a share on the grant date.

(3) Based upon the closing common stock price on December 31, 2017, which was $214.31 per share.

(4) The performance-based stock unit performance determination dates are March 1, 2018, 2019 and 2020 for units granted in 2015, 2016 and 2017, respectively. The numbers of unearned awards range from 0% to 200% based upon achievement of performance metrics and assumes attainment of the maximum performance levels not limited by dollar value cap. The dollar payout values represent estimated values assuming attainment of maximum performance levels as limited by the dollar value cap of 400% of target values on the dates of grant.

Option Exercises and Stock Vested in 2017

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(2)
Valentin P. Gapontsev	—	—	—	—
Eugene A. Scherbakov	31,954	3,290,285	2,200	265,650
Timothy P.V. Mammen	37,850	4,251,554	2,500	301,875
Trevor D. Ness	25,000	2,435,923	1,900	229,425
Angelo P. Lopresti	11,750	1,230,011	2,000	241,500

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(1) The value realized is based on the difference between the reported closing common stock price on the date of exercise and the exercise price of the stock option.

(2) The value realized is based on the reported closing common stock prices on the vesting dates of the restricted stock units.

Potential Payments upon Termination or Change in Control

If the Company terminates the employment of any of the Named Executive Officers without cause (as defined in the respective employment agreements) or any of the Named Executive Officers terminates his employment for good reason (as defined in the respective employment agreements) ("cause" and "good reason" are referred to below as "Involuntary Terminations"), then the officer would receive:

(a) continuation of salary for eighteen months, except in the case of Dr. Gapontsev, who would receive continuation of salary for thirty-six months,

(b) a portion of the annual bonus that the executive would have received had he remained employed through the end of the applicable bonus period, based on actual performance, including the individual performance element (the portion based upon the percentage of the year that he was employed by the Company),

(c) cash reimbursement for continuation of health benefits for up to eighteen months, except in the case of Dr. Gapontsev, who would receive continuation of health benefits by payment of the officer's COBRA premiums for thirty-six-months; and

(d) accelerated vesting of equity compensation awards that otherwise would have vested within twelve months of termination of employment.

Upon an Involuntary Termination within twenty-four months following a change in control of the Company, the Named Executive Officer would be entitled to continuation of salary and reimbursement of COBRA premiums for health benefits for twenty-four months, the pro-rated bonus for the year of termination plus a payment of two times the average annual bonus paid to the Named Executive Officer for the three full years preceding the year of termination. In the case of the Chief Executive Officer, he would be entitled to continuation of salary and health benefits for thirty-six months, the pro-rated bonus for the year of termination plus a payment of three times the average annual bonus paid to him for the three full years preceding the termination. Under the employment agreements, all equity awards vest fully if a change in control occurs followed within two years by an Involuntary Termination. Upon a change in control, the officers' employment periods under the agreements would automatically be extended to the second anniversary of the change in control if such date is later than expiration of the current term.

If the total value of all payments and benefits, including any equity vesting ("total payments"), made to a Named Executive Officer following a change in control would result in an excise tax under the provisions of Internal Revenue Code Section 4999 (the "golden parachute tax"), the total payments will be reduced so that the maximum amount of total payments (after reduction) is $1.00 less than the amount that would cause the total payments to be subject to the golden parachute tax; provided, however, that the total payments will only be reduced to the extent that the after-tax value of amounts received by the officer after application of the above reduction would exceed the after-tax value of the total payments received without application of such reduction (so called "best after-tax treatment").

If the employment period of any of the Named Executive Officers terminates and the Company does not offer such officer continued employment in the same or a substantially similar position or in a higher position than the officer's position at the end of the employment period and at a compensation level that is the same or substantially similar to the compensation level in effect at the end of the employment period, then such officer may resign from employment and would receive continuation of salary and health benefits for twelve months, except for the Chief Executive Officer who would receive the same for twenty-four months, plus a pro-rated bonus for the year of termination.

If a Named Executive Officer's employment is terminated by death or disability, the officer would receive a pro-rated bonus for the year of termination. Under the employment agreements, the Company would not be obligated to make any cash payments if employment were terminated by the Company for cause or by the executive not for good reason. Additionally, if the officer's employment is terminated due to death, the non-vested portions of stock options, service-based restricted stock units and performance-based stock units would immediately vest.

Severance payments to the officers are conditioned upon the release of claims by the Named Executive Officer in favor of the Company. Each of the Named Executive Officers also has an agreement with the Company that prohibits him from competing with the Company for a period of one year after the termination of his employment with the Company for any reason and from hiring or attempting to hire the Company's employees or soliciting customers or suppliers of the Company for a period ending eighteen months following the termination of his employment for any reason. Each of the Named Executive Officers is entitled to receive his base salary for the period during which the Company enforces the non-competition provisions of the agreement but not for more than one year following termination of his employment.

The following table provides information regarding compensation and benefits that would be payable to our Named Executive Officers as of December 31, 2017, upon an Involuntary Termination absent a change in control and preceded by a change in control and upon terminations in other circumstances. The incentive plan severance was calculated using the actual amount awarded under the 2017 AIP. There can be no assurance that the event triggering payments would produce the same or similar results as those described below if such event occurs on any other date or at any other price, or if any other assumption used to estimate the potential payments and benefits is incorrect. Any actual payments and benefits may be different due to a number of factors that affect the nature and amount of any potential payments or benefits.

Name	Benefit	Termination Without Cause or For Good Reason ($)	Termination Without Cause or For Good Reason Following a Change in Control ($)	Termination following Death ($)	Termination following Disability ($)	Termination following Non-Renewal ($)
Valentin P. Gapontsev	Salary Severance and Benefits Continuation	2,539,383	2,539,383	—	—	1,692,922
	Incentive Plan Severance	1,399,100	3,431,506	1,399,100	1,399,100	1,399,100
	Equity Acceleration	—	—	—	—	—
	Total	3,938,483	5,970,889	1,399,100	1,399,100	3,092,022
Eugene A. Scherbakov	Salary Severance and Benefits Continuation	816,921	1,089,228	—	—	544,614
	Incentive Plan Severance	769,300	1,473,816	769,300	769,300	769,300
	Equity Acceleration	2,324,502	11,785,651	11,785,651	—	—
	Total	3,910,723	14,348,695	12,554,951	769,300	1,313,914
Timothy P.V. Mammen	Salary Severance and Benefits Continuation	719,973	959,963	—	—	479,982
	Incentive Plan Severance	577,000	1,215,050	577,000	577,000	577,000
	Equity Acceleration	2,495,550	11,453,574	11,453,574	—	—
	Total	3,792,523	13,628,588	12,030,574	577,000	1,056,982
	Salary Severance and Benefits Continuation	647,523	863,363	—	—	431,682
Trevor D. Ness	Incentive Plan Severance	516,200	1,068,970	516,200	516,200	516,200
	Equity Acceleration	1,932,267	9,483,276	9,483,276	—	—
	Total	3,095,990	11,415,609	9,999,476	516,200	947,882
	Salary Severance and Benefits Continuation	664,023	885,363	—	—	442,682
Angelo P. Lopresti						

Incentive Plan Severance	530,000	1,051,163	530,000	530,000	530,000
Equity Acceleration	1,953,698	8,997,062	8,997,062	—	—
Total	3,147,721	10,933,589	9,527,062	530,000	972,682

(1) Equity acceleration is calculated using the full value of service-based restricted stock units and the maximum amount of shares for performance-based stock units based upon the closing sale price of our common stock on December 31, 2017 of $214.31 per share and the aggregate difference between the exercise prices of outstanding stock options and the closing sale price of our common stock on December 31, 2017.

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CEO PAY RATIO

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 402(u) of Regulation S-K, we are providing the following information on the relationship of the annual total compensation of our employees and the annual total compensation of Dr. Valentin P. Gapontsev, our Chief Executive Officer. The pay ratio included in this information is a reasonable estimate calculated in a manner consistent with rules promulgated by the SEC.

Determining our Median Employee: As of December 31, 2017, the measurement date, we employed 5,389 employees, 63% of whom were located outside of the U.S.A. This includes all full-time, part-time, and temporary employees. It does not include independent contractors.

We have employees in nineteen countries. As permitted by the SEC rules, in identifying our median employee, we excluded 158 workers in the following jurisdictions (employees excluded in parenthesis): Belarus (38), Korea (29), India (23), Turkey (15), Poland (13), United Kingdom (10), Brazil (7), France (6), Spain (5), Czech Republic (5), Mexico (5) and Russia (2). We also excluded approximately 107 employees who became our employees as a result of our 2017 acquisitions of OptiGrate Corporation, Innovative Laser Technology, LLC and Laser Depth Dynamics, Inc.

The SEC rules required us to identify our median employee by use of a consistently applied compensation measure (“CACM”). We chose a CACM that closely approximates the annual total cash compensation of our employees. Specifically, we identified the median employee by looking at total wages and bonuses paid in 2017. After applying our CACM methodology and excluding the employees listed above, we identified the median employee.

Calculating the Pay Ratio: As required by the SEC rules, we then calculated our median employee’s total annual compensation in accordance in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K (which is the calculation method for reporting CEO compensation in the Summary Compensation Table).

The compensation of our median employee was $32,676. Our CEO’s compensation as reported in the Summary Compensation Table was $2,231,100. Therefore, our CEO to median employee pay ratio is approximately 68.3:1.

This information is being provided solely for compliance purposes. The Compensation Committee does not consider this ratio when evaluating compensation arrangements.

AUDIT COMMITTEE REPORT

The primary role of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information proposed to be provided to stockholders and others, the adequacy of the system of internal control over financial reporting and disclosure controls and procedures established by management and the Board, and the audit process and the independent registered public accounting firm's qualifications, independence and performance.

Management has primary responsibility for the financial statements and is responsible for establishing and maintaining the Company's system of internal controls over preparation of the Company's financial statements. The Company's independent registered public accounting firm, Deloitte & Touche LLP, is responsible for performing an integrated audit of the Company's consolidated financial statements and the effectiveness of internal controls over financial reporting in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and issuing an opinion on the financial statements and the effectiveness of internal controls over financial reporting. The Audit Committee also employs an international auditing firm to conduct internal audits throughout the Company of various financial, operational and information technology areas as selected each year by the Audit Committee. The Audit Committee periodically met and held separate discussions with the internal auditors and the Company's independent registered public accounting firm, with and without management present, to review the adequacy of the Company's internal controls, financial reporting practices and audit process.

The Audit Committee has reviewed and discussed the Company's audited consolidated financial statements for the year ended December 31, 2017 with management and the independent registered public accounting firm. As part of this review, the Audit Committee discussed with Deloitte & Touche LLP the required communications described in Auditing Standard No. 16, Communication with Audit Committees, and those matters required to be reviewed pursuant to Rule 2-07 of Regulation S-X as well as the results of their audit of the effectiveness of internal controls over financial reporting.

The Audit Committee has received from Deloitte & Touche LLP a written statement describing all relationships between that firm and the Company that might bear on their independence, consistent with PCAOB Ethics and Independence Rule 3526, Communications with Audit Committees Concerning Independence. The Audit Committee has discussed the written statement with the independent registered public accounting firm and has considered whether its provision of any other non-audit services to the Company is compatible with maintaining the auditors' independence.

Based on the above-mentioned reviews and discussions, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

The information in this Audit Committee Report shall not be considered "soliciting material" or "filed" with the SEC, nor shall this information be incorporated by reference into any previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company incorporated it by specific reference.

AUDIT COMMITTEE

Thomas J. Seifert, Chair
Henry E. Gauthier
William S. Hurley
Catherine P. Lego
March 28, 2018

PROPOSAL 2: RATIFY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP currently serves as our independent registered public accounting firm and audited our consolidated financial statements for the year ended December 31, 2017. Our Audit Committee has appointed Deloitte & Touche LLP to serve as our independent registered public accounting firm for 2018, and to conduct an integrated audit of our consolidated financial statements for the year ending December 31, 2018 and of our internal control over financial reporting as of December 31, 2018. Deloitte & Touche LLP has served as the Company's auditor since 1999.

The Audit Committee is solely responsible for the appointment, retention, termination and oversight of the work of our independent registered public accounting firm, including the approval of all engagement fees, terms, and the annual audit plan. In determining whether to reappoint Deloitte & Touche LLP as the Company's independent external auditor, the Audit Committee took into consideration several factors, including an assessment of the professional qualifications and past performance of the lead audit partner and the Deloitte & Touche LLP team, the quality and level of transparency of the Audit Committee's relationship and communications with Deloitte & Touche LLP. The Audit Committee considered, among other things, the knowledge and skills of Deloitte & Touche LLP's auditing experts that would be providing services to the Company, international scope and knowledge of the Company and its operations. After its assessment, the Audit Committee concluded that the best course of action was to reappoint Deloitte & Touche LLP as the Company's independent external auditor for 2018. Lead and concurring audit partners are subject to rotation requirements that limit the number of consecutive years an individual partner may provide services. The maximum number of consecutive years of service in that capacity is five years and 2019 will be a year of lead audit partner rotation. The Audit Committee was directly involved in the selection process of the current and prior lead audit partners. In 2014, the process for rotation of the Company's lead audit partner involved a meeting between the Audit Committee and the successor candidate, as well as meetings with management.

Fees Paid to Deloitte & Touche. The fees for services provided by Deloitte & Touche LLP, member firm of Deloitte Touche Tohmatsu, and their respective affiliates, to the Company were:

	Fees	
Fee Category	2017	2016
Audit fees	$1,873,535	$1,662,214
Audit-related fees	$212,072	$150,258
Tax fees	$95,200	$278,753
All other fees	$—	$—
Total Fees	$2,180,807	$2,091,225

Audit fees. These fees comprise fees for professional services rendered in connection with the audit of the Company's consolidated financial statements that are customary under auditing standards generally accepted in the United States. Audit fees also include fees for consents and reviews related to SEC filings and quarterly services with respect to the preparation of our unaudited quarterly financial statements.

Audit-related fees. These fees comprise fees for services that are reasonably related to the performance of the audit or review of the Company's financial statements. The increase in audit-related fees in 2017 primarily relate to additional audit work required for acquisitions completed in 2017.

Tax fees. Fees for tax services consist of fees for tax compliance services and tax planning and advice services. Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute and obtain government approval for amounts to be included in tax filings. Tax planning and advice are services rendered with respect to proposed transactions or that alter a transaction to obtain a particular tax result. The tax fees in 2017 and 2016 relate primarily to assistance with the analysis of research and development tax credits and incentives and assistance. The decrease in tax fees relates to one-time work for research and development tax incentives outside the United States in 2016.

All other fees. These are fees for any services not included in the other three categories.

Policy on Pre-Approval of Audit and Permissible Non-Audit Services. The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These

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services may include audit services, audit-related services and tax services as well as specifically designated non-audit services that, in the opinion of the Audit Committee, will not impair the independence of the independent registered public accounting firm. Pre-approval is generally provided for each fiscal year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and our management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with the pre-approval, including the fees for the services performed to date. In addition, the Audit Committee also may pre-approve particular services on a case-by-case basis, as required.

Our Audit Committee is solely responsible for selecting and appointing our independent registered public accounting firm, and this appointment is not required to be ratified by our stockholders. However, our Audit Committee has recommended that the Board submit this matter to the stockholders in a non-binding advisory vote as a matter of good corporate practice. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether to retain Deloitte & Touche LLP, and may retain that firm or another without re-submitting the matter to our stockholders. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR"
RATIFICATION OF DELOITTE & TOUCHE LLP AS OUR
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who beneficially own more than 10% of a registered class of our equity securities to file reports of ownership of, and transactions in, our securities with the SEC. These directors, executive officers and 10% stockholders are also required to furnish us with copies of all Section 16(a) forms that they file. Based solely on its review of such forms received by it and the written representations of its Reporting Persons, the Company has determined that no such persons known to it were delinquent with respect to their reporting obligations as set forth in Section 16(a) of the Exchange Act.

2019 Annual Meeting and Nominations

Stockholders may present proposals for action at a future meeting and nominations for director if they comply with applicable SEC rules and our by-laws. If you would like us to consider including a proposal in our proxy statement pursuant to Rule 14a-8 under the Exchange Act, it must be received by our Secretary, at IPG Photonics Corporation, 50 Old Webster Road, Oxford, Massachusetts 01540, on or before December 10, 2019. If you would like to present a proposal at the 2019 annual meeting of stockholders or nominate a director next year, but not to have such proposal or nominee included in our proxy statement relating to that meeting, such proposal or nomination must be received by our Secretary not earlier than February 5, 2019 and not later than March 7, 2019. Our by-laws contain additional specific requirements regarding a stockholder's ability to nominate a director or to submit a proposal for consideration at an upcoming meeting. Our by-laws require that the notice to the Company include (i) information relating to the name, age and experience of the nominee and such other information concerning such nominee as would be required under the then-current rules of the SEC to be included in a proxy statement soliciting proxies for the election of the nominee, (ii) the nominee's written consent to being named in the proxy statement and serving as a director, if elected and (iii) the name and address of the record holder and beneficial holder of the shares, the number of shares held of record or beneficially owned, and representations as described in our by-laws. If the Nominating and Corporate Governance Committee or the Board determines that any nomination made by a stockholder was not made in accordance with the Company's procedures, the rules and regulations of the SEC or other applicable laws or regulations, such nomination will be void. If you would like a copy of the requirements contained in our by-laws, please contact our Secretary.

No Incorporation by Reference

In our filings with the SEC, information is sometimes "incorporated by reference." This means that we are referring you to information that has previously been filed with the SEC and the information should be considered as part of the particular filing. As provided under SEC regulations, the Compensation Committee Report and the Audit Committee Report contained in this proxy statement specifically are not incorporated by reference into any of our other filings with the SEC, are not to be deemed soliciting materials or subject to the liabilities of Section 18 of the Exchange Act. In addition, this proxy statement includes several website addresses. These website addresses are intended to provide inactive, textual references only. The information on these websites is not part of this proxy statement.

Stockholders Sharing the Same Address

Under the rules adopted by the SEC, we may deliver a single set of proxy materials to one address shared by two or more of our stockholders. This delivery method is referred to as “householding” and can result in significant cost savings. To take advantage of this opportunity, we have delivered only one set of proxy materials to multiple stockholders who share an address, unless we received contrary instructions from the impacted stockholders prior to the mailing date. We agree to deliver promptly, upon written or oral request, a separate copy of the proxy materials, as requested, to any stockholder at the shared address to which a single copy of these documents was delivered. If you prefer to receive separate copies of the Notice, proxy statement or annual report, call 877-373-6374 if you are a stockholder of record, or contact your bank or broker if you own shares in "street name."

In addition, if you currently are a stockholder who shares an address with another stockholder and would like to receive only one copy of future notices and proxy materials for your household, you may notify your bank or broker if your shares are held in "street name." You may notify us if you are a stockholder of record by calling 877-373-6374.

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IMPORTANT ANNUAL MEETING INFORMATION

Using a black ink pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas. ý

Admission Ticket

Electronic Voting Instructions

You can vote by Internet or telephone!

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on June 5, 2018.

Vote by Internet

• Log on to the Internet and go to www.investorvote.com/ipgp

• Follow the steps outlined on the secured website.

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada any time on a touch tone telephone. There is NO CHARGE to you for the call.

• Follow the instructions provided by the recorded message.

Annual Meeting Proxy Card

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proposals — The Board recommends a vote FOR all nominees and Proposal 2.

1. Election of Directors	For	Withhold		For	Withhold		For	Withhold	
01 - Valentin P. Gapontsev, Ph.D.	..	..	02 - Eugene A. Scherbakov, Ph.D.	..	..	03 - Igor Samartsev	..	..	+
04 - Michael C. Child	..	..	05 - Henry E. Gauthier	..	..	06 - Catherine P. Lego	..	..	
07 - Eric Meurice	..	..	08 - John R. Peeler	..	..	09 - Thomas J. Seifert	..	..	

	For	Against	Abstain
2. Ratify Deloitte & Touche LLP as IPG's independent registered public accounting firm for 2018	o	o	o

B Non-Voting Items

Change of Address — Please print your new address below.	Comments — Please print your comments below.	Meeting Attendance Mark the box to the right if you plan to attend the Annual Meeting.	..

C Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign Below
Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) — Please print date below. Signature 2 — Please keep signature

Signature 1 — Please keep signature within the box.	within the box.

/ /

2018 Annual Meeting Admission Ticket

2018 Annual Meeting of Shareholders
IPG Photonics Corporation
June 5, 2018
50 Old Webster Road
Oxford, MA 01540

Upon arrival, please present this admission ticket
and photo identification at the registration desk.
If you plan to attend the annual meeting, please bring this admission ticket with you. This ticket admits a shareholder and one guest. All meeting attendees must present valid photo identification. For your safety, all personal items including bags, purses and briefcases are subject to inspection. The use of photographic and recording devices is prohibited in the building. Cell phone use is permitted only in the lobby area. No personal items, with the exception of purses, may be carried into the meeting area.
From the East
Travel the Mass Turnpike West to Auburn Exit 10. From the tollbooth bear to the left and take the second right, I-395 South, Oxford. Travel I-395 South and take Exit 4B Sutton Ave., Oxford. From Exit 4B go to the set of traffic lights and turn left onto Main Street (Rt. 12 South). Follow Main Street for approximately 1.5 miles turn right onto Harwood Street. Follow Harwood Street for 1.5 miles (bear left at fork in road), Harwood Street becomes Old Webster Road. IPG Photonics will be on your left.
From the West
Travel the Mass Pike East to Exit 10 Auburn, approximately a 15 minute drive. From the tollbooth, bear to the left and take the second right, I-395 South, Oxford. From Exit 4B go to the set of traffic lights and turn left onto Main Street (Rt. 12 South). Follow Main Street for approximately 1.5 miles turn right onto Harwood Street. Follow Harwood Street for 1.5 miles (bear left at fork in road), Harwood Street becomes Old Webster Road. IPG Photonics will be on your left.
IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.
Proxy - IPG Photonics Corporation

Notice of 2018 Annual Meeting of Stockholders
50 Old Webster Road, Oxford, MA 01540
Proxy Solicited by Board of Directors for Annual Meeting - June 5, 2018
Valentin P. Gapontsev and Angelo P. Lopresti, each with the power of substitution, are hereby authorized to represent and vote the shares of the undersigned, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Stockholders of IPG Photonics to be held on June 5, 2018 or at any postponement or adjournment thereof.
Shares represented by this proxy will be voted by the stockholder. If no such directions are indicated, the Proxies will have authority to vote FOR all nominees and Proposal 2.
In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.
(Items to be voted appear on reverse side.)