THE 2001 II-VI INCORPORATED ANNUAL REPORT

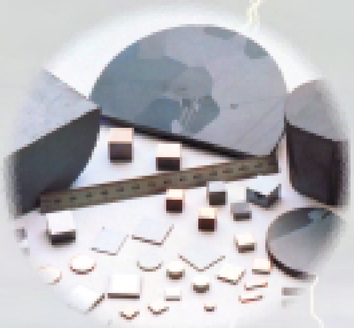
STABILITY, GROWTH & BREADTH

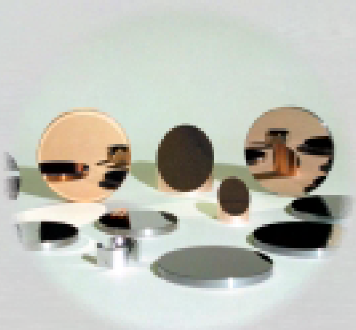
About II-VI Incorporated

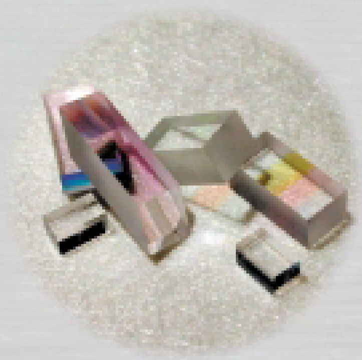
In 1971, II-VI Incorporated began by producing the highest-quality materials available for the manufacture of high-power industrial CO_2 laser optics. Today, thanks to three decades of innovation in II-VI materials processing, conventional optics fabrication, precision diamond turning, thin film coating, and unparalleled quality control, II-VI is the world leader in CO_2 laser optics.

Headquartered in Saxonburg, Pennsylvania, with manufacturing plants in Pennsylvania, Florida, California, Mexico, Singapore, and China; sales subsidiaries in Japan, Belgium, and the United Kingdom; and distributors and agents worldwide, II-VI is truly a global organization. A multifaceted optical and opto-electronics manufacturing company as well, II-VI offers components for radiation detection through its Pennsylvania-based eV PRODUCTS division; near infrared, visible light, and telecommunications products through its Florida-based VLOC subsidiary; and specialized commercial and military optics through its California-based Laser Power Corporation and Exotic Electro-Optics subsidiaries.

II-VI is a public company listed on NASDAQ under the symbol "IIVI."







cadmium zinc telluride (CdZnTe) raw material and chips (top)

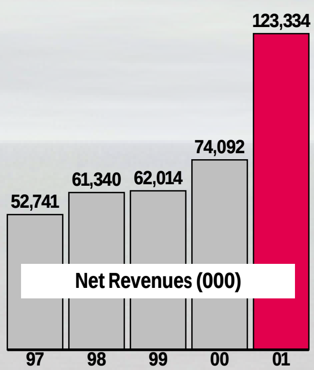
CO_2 laser mirrors (middle)

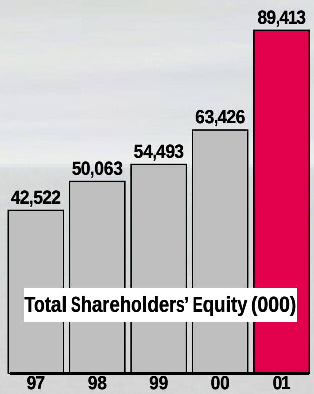
telecommunication prisms (bottom)

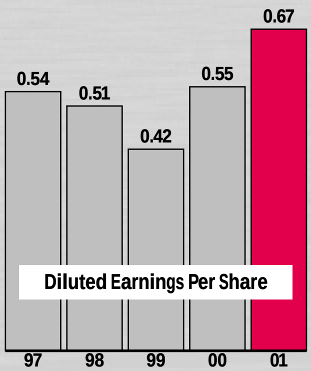
Financial Summary

($000 except per share data)	2001	2000
Net revenues	123,334	74,092
Net earnings	9,491	7,311
Total bookings	132,673	83,023
Total assets	148,173	84,102
Total shareholders' equity	89,413	63,426
Diluted earnings per share	0.67	0.55
Book value per share	6.43	4.91
Diluted weighted average shares outstanding	14,159,899	13,175,436

Share and per share data was adjusted to reflect the two-for-one stock split in fiscal 2001.







zinc selenide (ZnSe) raw material & CO_2 laser lenses (top)

yttrium aluminum garnet (YAG) crystal boules (bottom)

II-VI USA — Saxonburg, Pennsylvania

Exotic Electro-Optics — Temecula, California

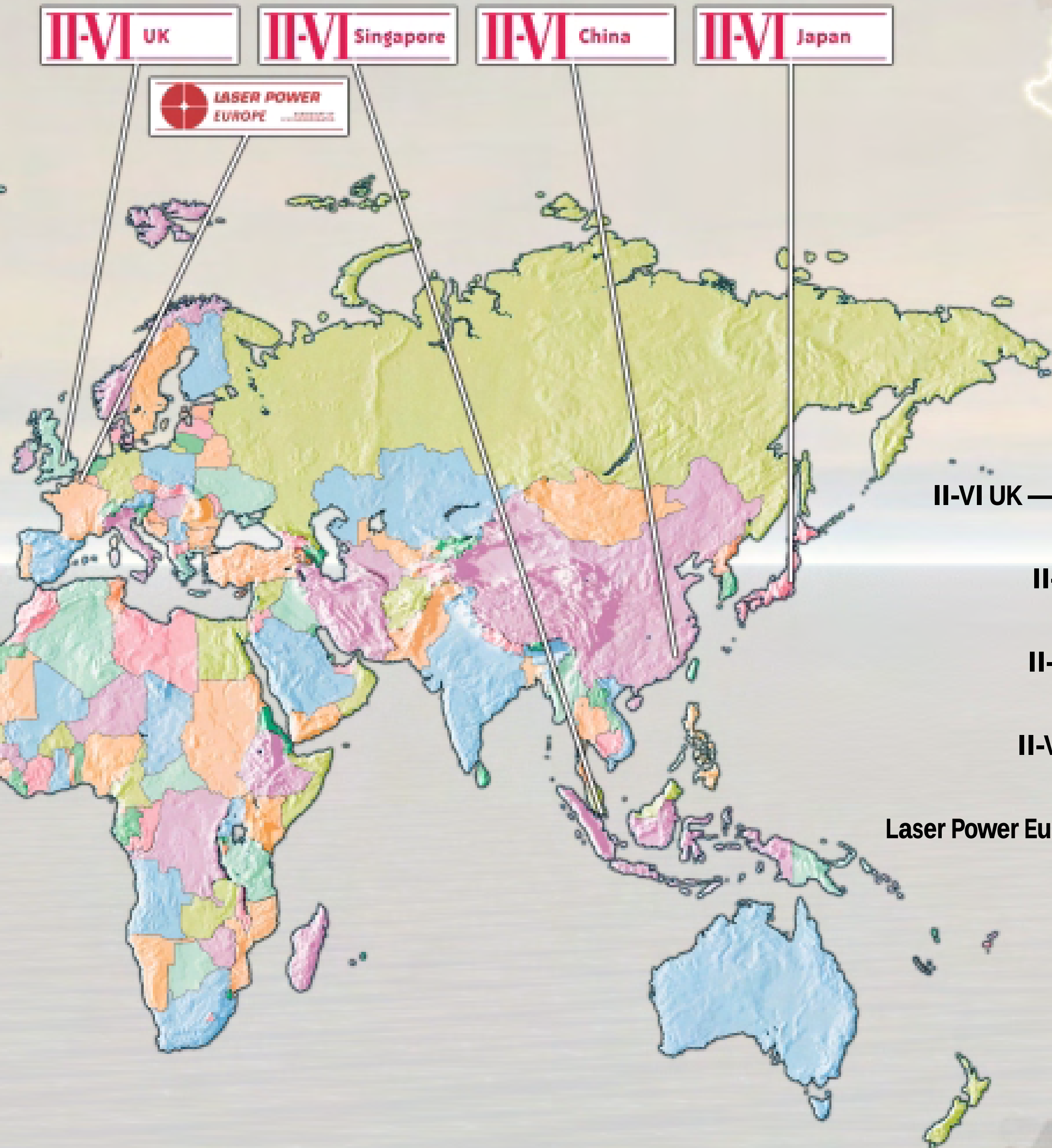
Laser Power Optics — Temecula, California

Laser Power Mexico — Tijuana, Mexico

eV PRODUCTS — Saxonburg, Pennsylvania

VLOC — New Port Richey and Port Richey, Florida

VLOC Telecommunications — Tarpon Springs, Florida



II-VI UK — Oakham, United Kingdom

II-VI Singapore — Singapore

II-VI China — Suzhou, China

II-VI Japan — Tokyo, Japan

Laser Power Europe — Gent, Belgium

To Our Shareholders

The past year has been a stormy one for the domestic and world economies. Yet II-VI Incorporated has weathered that storm, through the stability of our core product lines, the growth gained through strategic acquisition, and the breadth of our research in emerging technologies.

Bookings for the fiscal year ended June 30, 2001 reached a record $132.7 million, up from $83.0 million in fiscal year 2000. Revenues for fiscal year 2001 were $123.3 million, up from $74.1 million during fiscal year 2000.

Driving these record numbers was the completion of our acquisition of Laser Power Corporation (LPC), the largest acquisition in our company's history. With this acquisition, our infrared optics capabilities and markets were expanded by adding the Laser Power Optics (LPO) brand name, while new military market opportunities arrived through Exotic Electro-Optics, an LPC subsidiary. During the fiscal year, LPC was modestly accretive to II-VI's earnings.

Carl J. Johnson
Chairman
and Chief Executive Officer

Our VLOC subsidiary had excellent results in fiscal year 2001. Revenues increased over 34%, earnings nearly doubled, and YAG market share was gained.

eV PRODUCTS' revenue increased over 50% for the year, as several key customers began taking production quantities of x-ray and gamma-ray detector products. In addition, eV worked with Marconi Medical Systems on a large field of view gamma camera, and with Anzai Medical, a Japanese medical equipment manufacturer, on a small field of view medical imager. We believe that these ventures will lead to significant orders in the future.

Telecommunications revenues rose to $2.4 million, up from about $100,000 last year. This is all incremental business. Business in the second half of fiscal year 2001 was difficult, and we predict that this trend will continue in fiscal year 2002. Even so, we are working with select customers and expanding product offerings that incorporate even higher precision.

Our Silicon Carbide group made progress, expanded capacity, and is now developing 2-inch diameter electronic substrates for commercial sales.

Both VLOC and II-VI were awarded several key development contracts, including the second phase of a large diameter YAG contract, a yttrium vanadate contract, and a piezo-electric materials contract. These projects all fit well with the Company's on-going commitment to photonics materials research and development.

from the Chairman and the President

At our Pennsylvania infrared optics plant, we doubled our diamond turning capacity and capabilities in fiscal year 2001 and added a Fast Tool Servo system capable of producing non-rotationally symmetric optics. We believe this system is the only one of its kind in a commercial optics manufacturing facility in the United States.

Internationally, we made significant strides in both our Singapore and Suzhou, China manufacturing plants, and continue to produce more volume at these locations.

Operating cash flow for fiscal year 2001 was strong and reached a record level. This was sufficient to fund nearly all capital expenditures. Our earnings per share increased each quarter in fiscal year 2001, reflecting improved operations and acquisition synergies. Our balance sheet, even with the additional debt to fund the LPC acquisition, is strong and is poised to address new strategic opportunities.

Francis J. Kramer
President
and Chief Operating Officer

As we look ahead, we are keeping the LPO brand name because of its significant recognition in the laser marketplace. We also plan to maximize the synergies of LPO and II-VI by providing LPO with optical materials made in our Pennsylvania facility, and with finished optics made in our Singapore and China manufacturing plants. In addition, we see great potential for expanded growth in product offerings and military market share through Exotic Electro-Optics.

The outlook for world economies in our fiscal year 2002 is not good. We believe that the markets we serve will continue to grow, but at slower than historical rates. Given this environment, it is unlikely we will achieve our 20% organic growth goal. However, we remain committed to this long-term growth target. Fiscal year 2002 will bring on new rounds of cost monitoring and reductions as needed, with capital expenditures and research and development expenses being curtailed as appropriate.

A personal note of thanks goes to Dick Bohlen who retired from our Board of Directors in November 2000 after 16 years of dedicated and faithful service. We welcome to the Board of Directors Chuck Mattera who joined the Board November 2000.

Finally, we wish to extend our thanks to our shareholders, employees, and customers for their commitment to II-VI Incorporated.

Carl J. Johnson Francis J. Kramer

September 4, 2001

Stability:

Since our inception in 1971, infrared (IR) optics for carbon dioxide (CO_2) laser systems have been the very core of our business. Today, our product line includes:

- conventional lenses
- scan lenses
- mirrors
- windows
- partial reflectors
- beam splitters
- phase retarders
- rhombs
- beam expanders
- polarizers
- wave plates
- modulators

These optics serve the needs of both original equipment manufacturers (OEMs) and high-powered laser end users in the fields of metals processing, circuit board processing, medicine, military applications, and more.

While other companies offer competing optics products, we are unique in that we are the only IR optics manufacturer in the world with a full-scale vertically-integrated manufacturing process; that is, we make not only finished optics but the raw IR optical materials as well. These materials include:

- zinc selenide (ZnSe)
- zinc sulfide (ZnS)
- zinc sulfide MultiSpectral (ZnS MultiSpectral)

Once these man-made crystalline materials are grown in our Pennsylvania plant, they are machined into precision optics through either conventional means or state-of-the-art diamond turning. Conventionally-machined optics are produced at our Pennsylvania plant, and offshore at plants located in Singapore and China.

Precision diamond turning is performed at our Pennsylvania plant. During the past year, our Diamond Turning facility doubled in size and experienced 25% overall growth and 100% growth in 2-axis turning. The facility also added an exciting new capability: a Fast Tool Servo system. This system, the only one of its kind in a commercial facility in the United States, is capable of machining non-rotationally symmetric optics. Potential products include laser beam shaping optics, laser resonator mirrors, multi-lens arrays, and toroidal mirrors.

With our 30 years of experience, global manufacturing base, vertically-integrated production process, and exciting new capabilities, we will maintain our position as the world leader in CO_2 laser optics.

ZnSe scan lenses used for laser micro-via drilling printed circuit boards (top)

non-rotationally symmetric faceted copper mirror machined on our Fast Tool Servo system (bottom)

Our Core Products

In addition to optics for CO_2 lasers, our Florida-based VLOC subsidiary manufactures components for solid-state laser systems. These components include:

- neodymium doped yttrium aluminum garnet (Nd:YAG) laser crystals
- ruby laser crystals
- clear YAG laser crystals
- oxide laser crystal products
- machined and polished laser rods
- custom crystals and fluorides
- solid-state laser optics and optical cavities

VLOC is the second largest manufacturer in the world of Nd:YAG laser rods and slabs. The VLOC YAG facility contains state of the art crystal growth technology which can grow crystals to a length of over 250mm. Nd:YAG is the crystal of choice for most solid state lasers built in the world today.

Aiding VLOC in the growth of Nd:YAG laser crystals is the Pennsylvania-based Advanced Material Development Center (AMDC). In fiscal 2001, AMDC teamed with VLOC to strengthen infrastructure and control of the Nd:YAG manufacturing process, transfer large diameter (75mm) Nd:YAG growth technology into production, demonstrate 82mm Nd:YAG growth technology at AMDC, and initiate thermal profiling, modeling, and the ground work for even larger diameter growth.

In addition to its crystal fabrication capability which includes laser rods with a variety of diameters, slabs, and complicated prism type geometries, VLOC also manufactures:

- laser mirrors
- prisms
- etalons
- lenses
- waveplates
- windows

These crystals and components are sold into a diverse range of markets including medical, industrial, and scientific lasers; and instrumentation, test equipment, military, and semiconductor manufacturers.

In support of these businesses, VLOC has an active research group which does outside government contract work and supports new in-house product initiatives. VLOC is known to our customers as the One Stop Shopping Center for laser optics and crystals used in today's solid-state laser systems.

YAG solid-state laser rods (top)

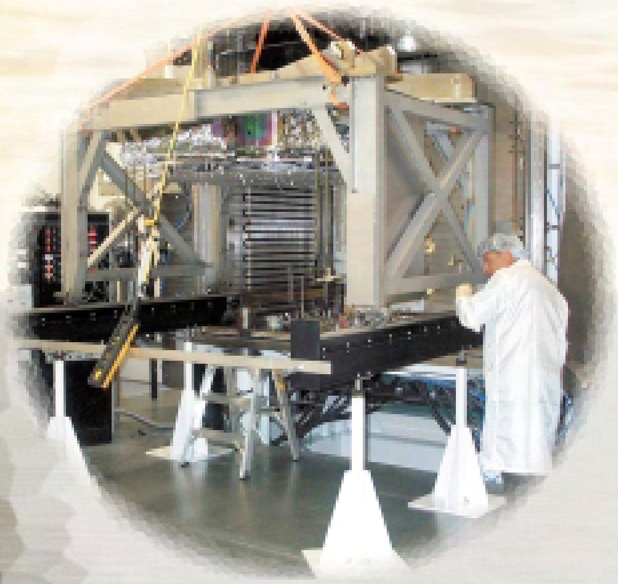
YAG crystal boules (bottom)

Growth:

In fiscal year 2001, II-VI made the strategic acquisition of Laser Power Corporation (LPC). This acquisition represented not only immediate significant growth to the overall II-VI business, but enabled II-VI to capture valuable production capability and capacity in California, Mexico and Belgium. The acquisition also gives II-VI a diversified business line featuring major recognizable brand names.

The three business units comprising LPC are:

- Exotic Electro-Optics (EEO) line of military infrared optics
- Laser Power Optics (LPO) brand of commercial CO_2 laser optics
- Large Optics Coating Facility (LOCF) for custom coatings



Exotic Electro-Optics (EEO) manufactures and sells infrared optics used in complex military assemblies. These optical components are vertically integrated at EEO's facility in California and are used in thermal imaging equipment, missile guidance systems, and fire control instrumentation.

In fiscal year 2001, demand for EEO products continued to increase, resulting in record bookings. Some of this growth is attributed to capturing new contracts, including Raytheon and Northrop Grumman. EEO has significant contracts in place with every major military prime contractor, diversity amongst many different military programs.

Fiscal year 2001 marked the introduction of diamond turning services and products to EEO's military customers. These diamond turned components range from diffractive germanium and silicon lenses used in missile seekers to large aperture aluminum mirrors for surveillance devices. This capability further enhances EEO's ability to serve its customers through additional vertical integration.

EEO recently entered into manufacturing, coating, and assembling windows and domes made of sapphire. Its first sapphire window shroud has successfully passed on-going flight tests for a major military program. This milestone gives EEO the special distinction of being able to deliver precision electro-optical components fabricated from conventional visible materials and all of the following:

- sapphire
- silicon (Si)
- zinc selenide (ZnSe)
- ALON
- germanium (Ge)
- zinc sulfide (ZnS)
- Spinel
- gallium arsenide (GaAs)

Large Optics Coating Facility coating chamber

Laser Power Corporation

Laser Power Optics (LPO), together with II-VI, launched a “two-brand strategy” to our customers. Most significant was the streamlining of the commercial optics business and the efficiencies gained by transferring more manufacturing overseas. Bookings remained strong throughout fiscal year 2001. Major success occurred in the European market with significant OEM contracts. Additionally, sales of low absorbing MP-5 lenses and output couplers firmly established MP-5 as a high standard for high power (>3KW) lasers.

LPO, through its subsidiary Laser Power Europe (LPE), also participated in developing new laser sources at a wavelength of 5.3μm for PC board drilling of via holes, and secured new business for mini slab mirrors used in laser marking systems.

The Large Optics Coating Facility (LOCF) grew out of the demand of government research into directed energy weapons programs. These programs, which are part of the national missile defense initiative, include the Space-Based-Laser (SBL) and the Air-Borne-Laser (ABL). The LOCF group brought on-line a production coating chamber to meet the demands for flight hardware to be coated and tested by the United States Air Force. The backlog of hardware includes:

- resonator mirrors
- beam deflectors
- output windows

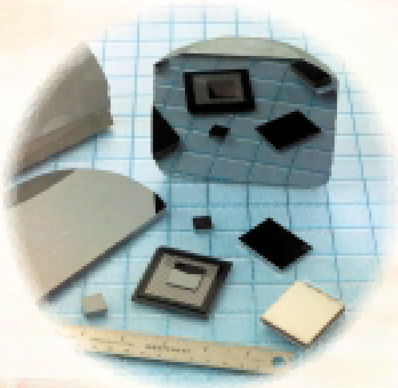
This 100-inch chamber is unique in the industry with its automated deposition, optical monitoring, and temperature control. LOCF has strategically placed itself as one of the few coating laboratories to be qualified to meet the extreme requirements placed on the optics to meet laser damage thresholds for these lasers having output power in the megawatts. This is achieved through its proprietary coatings which have absorption and scatter measuring in the parts per million.

During fiscal year 2001 LOCF qualified and delivered to the SBL program two resonator optics which will be tested with their chemical laser. For the ABL program, LOCF has passed qualification tests and will commence coating flight hardware to be tested on a retrofitted Boeing 747 airplane in a test to track and shoot down simulation missiles.

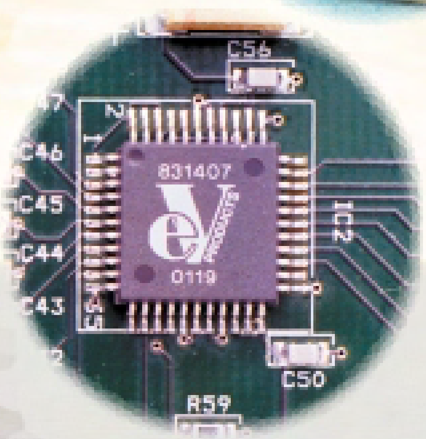
sniper infrared targeting pod with Exotic Electro-Optics window assembly

Breadth:

In addition to industrial optics products, II-VI and its subsidiaries are also developing products in several emerging technological fields: solid-state radiation detection, telecommunications, and silicon carbide (SiC).



II-VI supplies solid-state radiation detector assemblies, through its eV PRODUCTS division, to equipment manufacturers in medical, industrial, and security markets. These solid-state detectors are the enabling technology behind new measurement techniques as well as replacements for older, less-capable detector technologies in many applications.



The II-VI compound Cadmium Zinc Telluride (CdZnTe) is at the heart of each detector produced by eV PRODUCTS. eV PRODUCTS has pioneered the development of proprietary material growth and device fabrication processes. eV PRODUCTS combines these core competencies with the design and manufacture of highly specialized, low-noise, front-end electronics and imbedded readout systems in its products. This level of integration is unique in the radiation detector industry and is propelling eV PRODUCTS to be the recognized market leader.

This past fiscal year eV PRODUCTS' sales increased over 50% to nearly $9 million. This significant growth was fueled by the accelerating acceptance of CdZnTe-based detectors in a wide range of new and expanding applications in the following areas:

- nuclear medicine
- bone mineral densitometry
- X-ray imaging
- industrial gauging
- astrophysics

During the year more than 30,000 eV PRODUCTS CdZnTe detectors were manufactured, tested and delivered to NASA for incorporation in a space satellite that will be launched in 2003. Also, a major nuclear gamma-camera product development program was completed for Marconi Medical Systems, a recognized leader in the $1 billion nuclear medicine system market. In addition, a hand-held imaging system was developed for Anzai Medical of Japan. This revolutionary mini gamma-camera will be used by doctors to help diagnose and treat breast, thyroid, and other organ-specific cancers.

eV PRODUCTS looks forward to supporting the market launch of these and several other new products during fiscal year 2002.

CdZnTe raw material and chips (top)

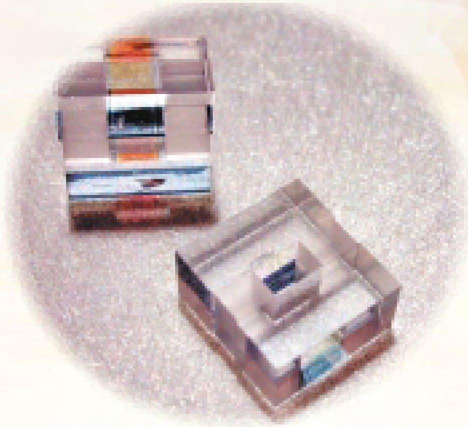
eV PRODUCTS custom electronics (center)

finished Anzai radiation detector (bottom)

Emerging Technologies

While the telecommunications industry weakened during our fiscal year 2001, our Florida-based VLOC subsidiary still grew in this area, expanding its customer base from eight to twenty-five qualified manufacturers of telecom modules. VLOC serves the industry with a wide range of telecom components, including:

- air-spaced etalons
- solid etalons
- zero and multi-order waveplates
- birefringent crystals
- other optical components



In addition to growing its customer base, VLOC also received its ISO 9001-1994 registration for the quality system of its telecom business segment.

At our Saxonburg plant, our Electronic & Photonic Materials Group (E&PM) made significant strides in crystal growth, fabrication, and characterization processes for the manufacture of silicon carbide (SiC) single crystal substrates.

Silicon carbide (SiC) is a wide band gap semiconductor material that offers high-temperature, high-power, and high-frequency capabilities in applications that are rapidly emerging at the high-performance end of the following markets:

- optoelectronics
- telecommunications
- power distribution
- transportation

SiC also offers advantages over competing materials, such as Silicon and Gallium Arsenide, including the ability to operate at up to 400° Centigrade (750° Fahrenheit) and to conduct heat away from devices up to twice as fast.

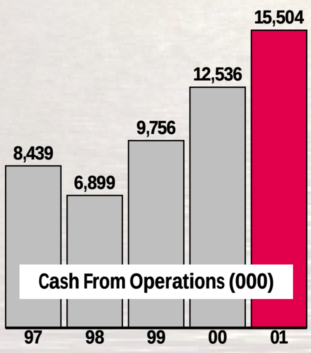
During fiscal year 2001, E&PM automated the Physical Vapor Transport growth system for production of 2-inch diameter SiC crystals, synthesized high-purity SiC grain with low boron content for use as the source material in the production of SiC wafers having controlled electronic properties, and developed a novel crystal growth technology called Axial Gradient Transport with the potential for production of low stress and low defect 100-mm diameter substrate wafers. These steps will help position II-VI as an industry leader in the growing SiC marketplace.

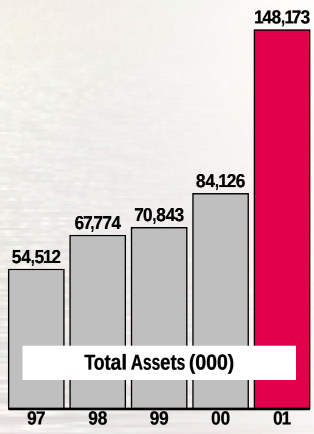
air-gapped etalons (top)

cut and polished silicon carbide (SiC) wafers (bottom)

Our Mission:

We pledge to exceed our internal and external customer requirements through employee dedication to continuous improvement.





MANAGEMENT'S DISCUSSION & ANALYSIS

OVERVIEW

During the year ended June 30, 2001 (fiscal 2001), II-VI Incorporated and its subsidiaries (the “Company”) had revenue growth of 66% to $123.3 million from $74.1 million in fiscal year 2000 as a result of a combination of internal growth and acquisitions. Growth of existing businesses, primarily in the laser optics and component product lines, added more than $18 million in fiscal 2001 revenues as compared to the prior fiscal year. Also, the Company acquired Laser Power Corporation, effective August 2000, and as a result added an additional $31 million to revenues for fiscal 2001.

In the fiscal 2001 first quarter, the Company declared a two-for-one stock split of the Company’s common stock in the form of a 100% common stock dividend. The record date was September 5, 2000 and the distribution date was September 20, 2000.

Also, in the fiscal 2001 first quarter, the Company replaced its $15.0 million unsecured line of credit agreement with a $45.0 million secured credit agreement in connection with the Company's acquisition of Laser Power Corporation.

The Company expects cash flow from operations to continue to fund working capital needs, capital expenditures and internal growth. During fiscal 2001, the Company reinvested $16.7 million into capital projects.

RESULTS OF OPERATIONS

Fiscal 2001 Compared to Fiscal 2000

NET EARNINGS Net earnings increased 30% in fiscal 2001 to $9.5 million from $7.3 million in fiscal 2000. The major contributor to the net earnings increase were higher revenues. Each contributor is explained further in this section.

BOOKINGS Bookings increased 60% to $132.7 million in fiscal 2001 compared to $83.0 million in fiscal 2000. Order backlog increased 64% to $44.7 million at June 30, 2001 from $27.2 million at June 30, 2000 as a result of bookings outpacing shipments in fiscal 2001 and the addition of Laser Power Corporation. Manufacturing orders comprised 96% of the backlog at June 30, 2001. Manufacturing bookings increased by approximately $50.3 million, of which $39.0 million was attributable to Laser Power Corporation, while contract research and development bookings decreased by approximately $0.2 million. Bookings for laser optics and component products increased approximately 15% and bookings for the eV PRODUCTS division increased approximately 15%. These increases were attributable to strong demand for the Company’s laser optics and component products and continued acceptance of products of the eV PRODUCTS division.

REVENUES Revenues grew 66% to $123.3 million in fiscal 2001 compared to $74.1 million last fiscal year. Revenues for laser optics and component products increased approximately 20% due to continued strong demand for infrared optics products, revenues from the eV PRODUCTS division increased approximately 53% due to successful market launches and other new product acceptance in the marketplace, and the Company recorded revenues from Laser Power Corporation of approximately $31.1 million.

COSTS AND EXPENSES Manufacturing gross margin was $46.1 million or 39% of net revenues in fiscal 2001 compared to $30.9 million or 43% of net revenues in fiscal 2000. The dollar increase was attributable to higher sales volume at all three of the Company’s segments. Increased sales included infrared optics and materials, detector products at the eV PRODUCTS division, and sales from Laser Power Corporation. The decrease in gross margin as a percentage of net sales reflects the addition of Laser Power Corporation which has historically lower gross margins than the Company.

Contract research and development gross margin was $1.5 million or 29% of contract research and development revenues in fiscal 2001 compared to $0.5 million or 28% of contract research and development revenues in fiscal 2000. The Company has increased the amount of contract research and development projects it undertakes and plans to increase this amount over the foreseeable future.

MANAGEMENT'S DISCUSSION & ANALYSIS *(continued)*

Company-funded internal research and development increased to $4.5 million in fiscal 2001 from $2.8 million in fiscal 2000. The Company continues to expand its internal research and development projects, including projects associated with developing nuclear radiation detectors at the eV PRODUCTS division, infrared optics and materials, and silicon carbide at the Company's optical components businesses.

Selling, general and administrative expenses were $24.8 million or 20% of revenues in fiscal 2001 compared to $18.2 million or 25% of revenues in fiscal 2000. This dollar increase is attributable to the addition of the selling, general and administrative expenses of the Company's Laser Power Corporation subsidiary, increased employment costs associated with new employees, increased payroll expense attributable to the Company's worldwide profit driven bonus programs, and increased sales and marketing efforts. The decrease in selling, general and administrative expenses as a percentage of net revenues reflect the addition of Laser Power Corporation and revenue improvements from the eV PRODUCTS division and the Company's VLOC subsidiary with limited corresponding increases to selling, general and administrative expenses.

Other expense, was $1.4 million in fiscal 2001 compared to other expense of $0.2 million in fiscal 2000. The increase in other expense was primarily attributable to the amortization of goodwill related to the purchase of Laser Power Corporation.

Interest expense was $2.3 million in fiscal 2001 compared to $0.3 million in fiscal 2000. The increase in interest expense was the direct result of additional borrowings in connection with the purchase of Laser Power Corporation.

The effective corporate income tax rate was 35% in fiscal 2001 compared to 25% in fiscal 2000. The increase in the effective income tax rate reflects the completion of several international related tax opportunities during fiscal 2000 and the non-deductible amortization of goodwill resulting from the acquisition of Laser Power Corporation.

Fiscal 2000 Compared to Fiscal 1999

OVERVIEW Net earnings increased 34% in fiscal 2000 to $7.3 million from $5.5 million in fiscal 1999. Revenues grew 20% to $74.1 million in fiscal 2000 from $62.0 million last fiscal year. Bookings increased 38% to $83.0 million in fiscal 2000 from $60.0 million in fiscal 1999. Order backlog increased 51% to $27.2 million at June 30, 2000 from $18.0 million at June 30, 1999 as a result of bookings outpacing shipments in fiscal 2000. Manufacturing orders comprised 99% of the backlog at June 30, 2000, compared to 97% of the backlog at June 30, 1999.

NET EARNINGS Net earnings increased 34% in fiscal 2000 to $7.3 million from $5.5 million in fiscal 1999. The major contributors to the net earnings increase were higher revenues and higher gross margins. Each of these are explained further in this section.

BOOKINGS Bookings increased 38% to $83.0 million in fiscal 2000 compared to $60.0 million in fiscal 1999. Manufacturing bookings increased by approximately $22.3 million while contract research and development bookings increased by approximately $0.7 million. Bookings for laser optics and component products increased approximately 35% and bookings for the eV PRODUCTS division increased approximately 60%. The increase was attributable to strong demand for the Company's laser optics and component products and continued acceptance of products of the eV PRODUCTS division.

REVENUES Revenues grew 20% to $74.1 million in fiscal 2000 compared to $62.0 million last fiscal year. Revenues for laser optics and component products increased approximately 20% while revenues from the eV PRODUCTS division were consistent with the previous year. The increase was attributable to strong demand for the Company's laser optics and component products.

COSTS AND EXPENSES Manufacturing gross margin was $30.9 million or 43% of net sales in fiscal 2000 compared to $24.0 million or 40% of net sales in fiscal 1999. The dollar increase was attributable to higher sales volume, particularly sales of infrared optics and materials. The increase in gross margin as a percentage of net sales reflects productivity gains and cost control programs, lower per unit cost associated with higher production volume for laser optics and component products and a strengthened Japanese Yen.

Contract research and development gross margin was $0.5 million or 28% of contract research and development revenues in fiscal 2000 compared to $0.4 million or 28% of contract research and development revenues in fiscal 1999.

Company-funded internal research and development increased to $2.8 million in fiscal 2000 from $2.3 million in fiscal 1999. The Company continues to expand its internal research and development projects, including projects associated with developing nuclear radiation detectors, infrared optics and materials and silicon carbide.

Selling, general and administrative expenses were $18.2 million or 25% of revenues in fiscal 2000 compared to $13.8 million or 22% of revenues in fiscal 1999. This dollar increase is attributable to higher general and administrative expenses needed to support the Company's growth. The increase in selling, general and administrative expenses as a percentage of net revenues is attributable to increased compensation expense associated with the Company's worldwide profit-driven bonus programs and increased professional service expenses.

Other expense, including interest expense, was $0.6 million in fiscal 2000 compared to other expense of $0.2 million in fiscal 1999. The primary reason for the increase in other expense is due to foreign currency losses as a result of the fluctuations of foreign currencies relative to the U.S. dollar as compared to foreign currency gains in the prior year.

The effective corporate income tax rate was 25% in fiscal 2000 compared to 32% in fiscal 1999. The decrease in the effective income tax rate is primarily attributable to an increase in the utilization of the tax savings available to the Company from its foreign sales corporation.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2001, cash generated from operations was $15.5 million. Proceeds from the net increase in borrowings of $29.3 million in addition to the cash generated from operations were used primarily to finance the cash portion of the Company's acquisition of Laser Power Corporation for $27.7 million, and to purchase $16.7 million of property, plant and equipment. Cash transactions for fiscal 2001, cash on hand at the beginning of the fiscal year, and cash required as a result of the acquisition of Laser Power Corporation resulted in a cash position of $8.1 million at June 30, 2001.

The largest sources of the $15.5 million in cash generated from operations in fiscal 2001 was $21.2 million in net earnings before depreciation, amortization, loss on foreign currency transactions, and an increase in deferred income taxes. This increase in cash was partially offset by an increase in accounts receivable and inventories of $5.4 million, and a decrease in accounts payable of $0.5 million.

On August 14, 2000, the Company replaced its $15.0 million unsecured line of credit agreement with a $45.0 million secured credit agreement in connection with the acquisition of Laser Power Corporation. This facility has a five-year life and contains term and line of credit borrowing options. This facility is secured by certain assets of the Company and is subject to certain restrictive covenants (see note F). This facility has an interest rate range of LIBOR plus 0.88% to LIBOR plus 1.50%. The average interest rate in effect as of June 30, 2001 was 5.30%. As of June 30, 2001, the total borrowings under this line of credit of $34.5 million consisted of $25.0 million under the term loan option and $9.5 million under the line of credit option, leaving an available remaining unused line of credit of $10.5 million.

On August 23, 2000, the board of directors declared a two-for-one stock split of the Company's common stock in the form of a 100% common stock dividend. The record date was September 5, 2000 and the distribution date was September 20, 2000. All share and per share amounts included in the Company's consolidated financial statements have been restated to reflect the stock split for all periods presented.

MANAGEMENT'S DISCUSSION & ANALYSIS *(continued)*

The Company believes that internally generated funds, current cash on hand and available borrowing capacity will be adequate to meet foreseeable needs.

The impact of inflation on the Company's business has not been material.

MARKET RISKS The Company is exposed to market risks arising from adverse changes in foreign currency exchange rates and interest rates. In the normal course of business, the Company uses a variety of techniques and derivative financial instruments as part of its overall risk management strategy.

Foreign Exchange Risks — In the normal course of business, the Company enters into foreign currency forward exchange contracts with its banks. The purpose of these contracts is to hedge ordinary business risks regarding foreign currencies on product sales. Foreign currency exchange contracts are used to limit transactional exposure to changes in currency rates. The Company enters into foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts provide the Company with an economic hedge in which settlement will occur in future periods and which otherwise would expose the Company to foreign currency risk. The Company monitors its positions and the credit ratings of the parties to these contracts. While the Company may be exposed to potential losses due to risk in the event of non-performance by the counterparties to these financial instruments, it does not anticipate such losses. The Company entered into a low interest rate, 237 million Yen loan with PNC Bank in September 1997 in an effort to minimize the foreign currency exposure in Japan. A change in the interest rate of 1% for this Yen loan would have changed the interest expense by approximately $20,000 and a 10% change in the Yen to dollar exchange rate would have changed revenues by approximately $1,200,000 for the year ended June 30, 2001.

Interest Rate Risks — The Company entered into an interest rate collar with a notional amount of $12.5 million as required under the terms of its current credit agreement in order to limit interest rate exposure on one-half of the $25.0 million term loan. A change in the Company’s overall interest rate of 1% would have changed the interest expense by approximately $290,000 for the year ended June 30, 2001.

This Management’s Discussion and Analysis and the Letters to Shareholders contained in the Annual Report to Shareholders contain forward looking statements as defined by Section 21E of the Securities Exchange Act of 1934, as amended, including the statements regarding projected growth rates, markets, product development, financial position, capital expenditures and foreign currency hedging. Forward-looking statements are also identified by words such as “expects,” “anticipates,” “intends,” “plans,” “projects” or similar expressions.

Actual results could materially differ from such statements due to the following factors: materially adverse changes in economic or industry conditions generally (including capital markets) or in the markets served by the Company, the development and use of new technology and the actions of competitors.

There are additional risk factors that could affect the Company's business, results of operations or financial condition. Investors are encouraged to review the risk factors set forth in the Company's most recent Form 10-K as filed with the Securities and Exchange Commission.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS Statement of Financial Accounting Standards (SFAS) No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended by SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities-Deferral of the effective date of SFAS No. 133”, and SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities”, were effective for the Company as of July 1, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

SFAS No. 141: In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

SFAS No. 142: In June 2001, the FASB issued SFAS 142 "Goodwill and Other Intangible Assets". SFAS 142 will require that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment in accordance with the Standard until its life is determined to no longer be indefinite. As of June 30, 2001, the Company had goodwill and other intangible assets, net of accumulated amortization, of approximately $29.2 million and $4.1 million, respectively, which would be subject to the transitional assessment provisions of SFAS 142.

The Company is permitted to adopt this Statement effective July 1, 2001 or defer adoption until July 1, 2002. Once adopted, goodwill amortization of approximately $1.5 million on an annualized basis will cease. The Company has not yet determined if any impairment charges will result from the adoption of this Statement. At this time, the Company anticipates adopting this standard effective as of July 1, 2001.

SFAS No. 143: In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently evaluating the impact that this Statement will have on the Company's financial statements.

FIVE-YEAR FINANCIAL SUMMARY

Year Ended June 30,	2001	2000	1999	1998	1997
(000 except per share data)					
Statement of Earnings					
Net revenues	$123,334	$74,092	$62,014	$61,340	$52,741
Net earnings	9,491	7,311	5,463	6,780	7,111
Basic earnings per share	0.69	0.57	0.43	0.53	0.56
Diluted earnings per share	0.67	0.55	0.42	0.51	0.54
Diluted weighted average shares outstanding	14,160	13,176	12,980	13,348	13,228

Share and per share data was adjusted to reflect the two-for-one stock split in fiscal 2001.

June 30,	2001	2000	1999	1998	1997
($000)					
Balance Sheet					
Working capital	$ 33,976	$24,335	$17,590	$13,420	$21,089
Total assets	148,173	84,102	70,843	67,774	54,512
Total debt	37,006	5,585	6,674	8,209	1,346
Retained earnings	54,187	44,696	37,385	31,922	25,142
Shareholders' equity	89,413	63,426	54,493	50,063	42,522

For the five-year period ended June 30, 2001, no dividends were declared.

QUARTERLY FINANCIAL DATA

FISCAL 2001

QUARTER ENDED	9/30/00	12/31/00	3/31/01	6/30/01
($000 except per share data)				
Net revenues	$26,713	$31,738	$32,531	$32,352
Cost of goods sold	16,180	19,364	20,847	19,409
Internal research and development	992	1,166	1,088	1,253
Selling, general and administrative	6,268	6,239	6,083	6,177
Interest expense	337	837	657	499
Other expense (income) - net	67	543	180	592
Earnings before income taxes	2,869	3,589	3,676	4,422
Income taxes	909	1,246	1,241	1,669
Net earnings	1,960	2,343	2,435	2,753
Basic earnings per share	$ 0.15	$ 0.17	$ 0.18	$ 0.20
Diluted earnings per share	$ 0.14	$ 0.16	$ 0.17	$ 0.19

Fiscal 2001 results reflect the August 2000 acquisition of Laser Power Corporation.

FISCAL 2000

QUARTER ENDED	9/30/99	12/31/99	3/31/00	6/30/00
($000 except per share data)				
Net revenues	$16,198	$16,874	$19,781	$21,239
Cost of goods sold	9,286	9,644	11,315	12,501
Internal research and development	623	602	744	875
Selling, general and administrative	3,806	4,208	4,933	5,224
Interest expense	85	94	79	91
Other expense (income) - net	(72)	(59)	85	272
Earnings before income taxes	2,470	2,385	2,625	2,276
Income taxes	731	715	574	425
Net earnings	1,739	1,670	2,051	1,851
Basic earnings per share	$ 0.14	$ 0.13	$ 0.16	$ 0.14
Diluted earnings per share	$ 0.13	$ 0.13	$ 0.15	$ 0.14

Share and per share data was adjusted to reflect the two-for-one stock split in fiscal 2001.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF II-VI INCORPORATED AND SUBSIDIARIES:

We have audited the accompanying consolidated balance sheets of II-VI Incorporated and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity, comprehensive income and cash flow for each of the three years in the period ended June 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of II-VI Incorporated and subsidiaries as of June 30, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
August 8, 2001

CONSOLIDATED BALANCE SHEETS

June 30,	2001	2000
($000)		
Current Assets		
Cash and cash equivalents	$ 8,093	$ 6,330
Accounts receivable - less allowance for doubtful accounts of $749 at June 30, 2001 and $575 at June 30, 2000	21,884	14,202
Inventories	20,782	13,738
Deferred income taxes	3,304	896
Prepaid and other current assets	1,644	1,184
Total Current Assets	55,707	36,350
Property, Plant & Equipment, net	58,031	40,883
Goodwill, net	29,236	1,792
Other Intangible Assets, net	4,086	1,516
Other Assets	1,113	3,585
	$148,173	$ 84,126
Current Liabilities		
Accounts payable	$ 5,714	$ 3,726
Accrued salaries, wages and bonuses	7,086	4,685
Income taxes payable	2,158	222
Accrued profit sharing contribution	1,122	812
Other accrued liabilities	1,817	2,526
Current portion of long-term debt	3,834	44
Total Current Liabilities	21,731	12,015
Long-Term Debt	33,172	5,541
Other Liabilities, Primarily Deferred Income Taxes	3,857	3,120
Total Liabilities	58,760	20,676
Shareholders' Equity		
Preferred stock, no par value; authorized — 5,000,000 shares; none issued	—	—
Common stock, no par value; authorized — 30,000,000 shares; issued — 14,981,163 shares at June 30, 2001; 13,976,102 shares at June 30, 2000	37,045	20,454
Accumulated other comprehensive income	91	210
Retained earnings	54,187	44,696
	91,323	65,360
Less treasury stock at cost, 1,068,880 shares	1,910	1,910
Total Shareholders' Equity	89,413	63,450
	$148,173	$ 84,126

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended June 30,	2001	2000	1999
($000 except per share data)			
Revenues			
Net sales:			
Domestic	$ 73,075	$ 36,265	$ 31,759
International	45,176	36,176	28,819
Contract research and development	5,083	1,651	1,436
	123,334	74,092	62,014
Costs, Expenses and Other Expense (Income)			
Cost of goods sold	72,181	41,550	36,590
Contract research and development	3,619	1,196	1,041
Internal research and development	4,499	2,844	2,317
Selling, general and administrative	24,767	18,171	13,827
Interest expense	2,330	349	415
Other expense (income) - net	1,382	226	(214)
	108,778	64,336	53,976
Earnings Before Income Taxes	14,556	9,756	8,038
Income Taxes	5,065	2,445	2,575
Net Earnings	$ 9,491	$ 7,311	$ 5,463
Basic Earnings Per Share	$ 0.69	$ 0.57	$ 0.43
Diluted Earnings Per Share	$ 0.67	$ 0.55	$ 0.42

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Accumulated Other Comprehensive	Retained	Treasury Stock		Total
	Shares	Amount	Income	Earnings	Shares	Amount	
(000)							
BALANCE - JUNE 30, 1998	13,670	$18,468	$ 435	$31,922	(769)	$ (762)	$50,063
Shares issued under stock option plans	82	203	—	—	—	—	203
Net earnings	—	—	—	5,463	—	—	5,463
Other comprehensive loss, net of tax	—	—	(163)	—	—	—	(163)
Income tax benefit for options exercised	—	75	—	—	—	—	75
Purchase of treasury stock	—	—	—	—	(300)	(1,148)	(1,148)
BALANCE - JUNE 30, 1999	13,752	18,746	272	37,385	(1,069)	(1,910)	54,493
Shares issued under stock option plans	224	681	—	—	—	—	681
Net earnings	—	—	—	7,311	—	—	7,311
Other comprehensive loss, net of tax	—	—	(62)	—	—	—	(62)
Income tax benefit for options exercised	—	1,027	—	—	—	—	1,027
BALANCE - JUNE 30, 2000	13,976	20,454	210	44,696	(1,069)	(1,910)	63,450
Shares issued under stock option plans	128	466	—	—	—	—	466
Shares issued to acquire Laser Power Corporation	877	15,474	—	—	—	—	15,474
Net earnings	—	—	—	9,491	—	—	9,491
Other comprehensive loss, net of tax	—	—	(119)	—	—	—	(119)
Income tax benefit for options exercised	—	651	—	—	—	—	651
BALANCE - JUNE 30, 2001	14,981	$37,045	$ 91	$54,187	(1,069)	$(1,910)	$89,413

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended June 30,	2001	2000	1999
($000)			
Net earnings	$9,491	$7,311	$5,463
Other comprehensive loss:			
Foreign currency translation adjustments	(119)	(62)	(163)
COMPREHENSIVE INCOME	$9,372	$7,249	$5,300

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

Year Ended June 30,	2001	2000	1999
($000)			
Cash Flows from Operating Activities			
Net earnings	$ 9,491	$ 7,311	$ 5,463
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	6,838	4,693	4,343
Amortization	1,866	326	326
(Gain) loss on foreign currency transactions	1,445	(368)	(167)
Net loss on disposal or writedown of property, plant and equipment	237	—	203
Deferred income taxes	1,518	662	347
Increase (decrease) in cash from changes in:			
Accounts receivable	(3,702)	(576)	(1,679)
Inventories	(1,745)	(4,478)	1,145
Accounts payable	(484)	1,674	(1,522)
Other operating net assets	40	3,292	1,297
Net cash provided by operating activities	15,504	12,536	9,756
Cash Flows from Investing Activities			
Purchases of businesses	(27,726)	(2,894)	—
Additions to property, plant and equipment	(16,699)	(8,877)	(5,420)
Disposals (additions) of other assets	259	786	(600)
Net cash used in investing activities	(44,166)	(10,985)	(6,020)
Cash Flows from Financing Activities			
Proceeds (payments) on short-term borrowings	4,308	(1,344)	(1,790)
Proceeds from long-term borrowings	25,000	—	—
Payments on long-term borrowings	(44)	(46)	(61)
Proceeds from sale of common stock	466	681	203
Purchases of treasury stock	—	—	(1,148)
Net cash provided by (used in) financing activities	29,730	(709)	(2,796)
Effect of exchange rate changes on cash and cash equivalents	695	(70)	458
Net increase in cash and cash equivalents	1,763	772	1,398
Cash and Cash Equivalents			
Beginning of year	6,330	5,558	4,160
End of year	$ 8,093	$ 6,330	$ 5,558
Non-cash transactions: Net assets acquired for fair value of common stock	$15,474	—	—

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include II-VI Incorporated and its wholly-owned subsidiaries II-VI Worldwide, Incorporated; II-VI Delaware, Incorporated; II-VI Japan Incorporated; VLOC Incorporated; II-VI U.K. Limited; II-VI Singapore Pte., Ltd; II-VI Optics (Suzhou) Co. Ltd.; II-VI International Pte., Ltd; and Laser Power Corporation and its wholly-owned subsidiaries EMI Acquisitions Corporation; Exotic Materials, Incorporated; Exotic Electro-Optics; Laser Power Optics de Mexico S.A. de C.V.; Laser Power Europe N.V.; and Laser Power FSC, Ltd. (collectively the "Company"). All intercompany transactions and balances have been eliminated.

INVENTORIES Inventories are valued at the lower of cost or market, with cost determined on the first-in, first-out basis. Inventory costs include material, labor and manufacturing overhead.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are carried at cost or valuation. Major improvements are capitalized, while maintenance and repairs are generally expensed as incurred.

DEPRECIATION Depreciation for financial reporting purposes is computed primarily by the straight-line method over the estimated useful lives of the assets. Depreciable useful lives range from 3 to 20 years. Depreciation expense was $6.8 million, $4.7 million, and $4.3 million in 2001, 2000, and 1999 respectively.

GOODWILL The excess purchase price over the net assets of businesses acquired is reported as goodwill in the accompanying Consolidated Balance Sheets. This cost is being amortized on a straight-line basis over periods not exceeding 25 years. Goodwill amortization expense was $1,473,000, $87,000, and $87,000 in 2001, 2000, and 1999, respectively. Accumulated amortization was $1,850,000 and $377,000 at June 30, 2001 and 2000, respectively.

INTANGIBLES Intangible assets are carried at cost or valuation. Amortization for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the assets ranging from 7 to 20 years. Amortization expense was $393,000, $239,000, and $239,000 in 2001, 2000, and 1999, respectively. Accumulated amortization was $1,278,000 and $885,000 at June 30, 2001 and 2000, respectively.

FOREIGN CURRENCY TRANSLATION For II-VI Singapore Pte., Ltd., and its subsidiaries, and for Laser Power Optics de Mexico S.A. de C.V., the functional currency is the U.S. dollar. Gains and losses on the remeasurement of the local currency financial statements are included in net earnings. Foreign currency translation losses were $459,000, $75,000, and $43,000 in 2001, 2000, and 1999, respectively.

For all other foreign subsidiaries, the functional currency is the local currency. Assets and liabilities of those operations are translated into U.S. dollars using period-end exchange rates; income and expenses are translated using the average exchange rates for the reporting period. Translation adjustments are recorded as accumulated other comprehensive income within shareholders' equity.

INCOME TAXES Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

REVENUE RECOGNITION Revenue, other than on long-term contracts, is recognized when a product is shipped. Revenue on long-term contracts is accounted for using the percentage-of-completion method, whereby revenue and profits are recognized throughout the performance period of the contract. Percentage-of-completion is determined by relating the actual cost of work performed to date to the estimated total cost for each contract. Losses on contracts are recorded in full when identified.

In September 2000, the FASB Emerging Issues Task Force (the "EITF") issued EITF 00-10: "Accounting for Shipping and Handling Fees and Costs" which requires shipping costs billed to customers be recognized as revenues. These guidelines were effective for the Company as of March 30, 2001. The effect on earnings from operations was an increase to both revenue and selling, general, and administrative expenses by $344,000, $282,000, and $264,000 for the years ended 2001, 2000 and 1999, respectively. Total shipping and handling costs included in selling, general, and administrative expenses were $310,000, $248,000, and $240,000 for the years ended 2001, 2000 and 1999, respectively.

RESEARCH AND DEVELOPMENT Research and development costs are expensed as incurred. Costs related to customer and/or government funded research and development contracts are charged to costs and expenses as the related sales are recorded.

EARNINGS PER SHARE The following table sets forth the computation of earnings per share for the periods indicated:

Year Ended June 30,	2001	2000	1999
(000 except per share data)			
Net earnings	$ 9,491	$ 7,311	$ 5,463
Divided by:			
Weighted average common shares outstanding	13,737	12,756	12,720
Basic earnings per share	$ 0.69	$ 0.57	$ 0.43
Net earnings	$ 9,491	$ 7,311	$ 5,463
Divided by:			
Weighted average common shares outstanding	13,737	12,756	12,720
Dilutive effect of common stock equivalents	423	420	260
Dilutive weighted average common shares outstanding	14,160	13,176	12,980
Diluted earnings per share	$ 0.67	$ 0.55	$ 0.42

CASH AND CASH EQUIVALENTS For purposes of the statement of cash flows, the Company considers highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The majority of cash and cash equivalents is invested in investment grade money market type instruments. Cash of foreign subsidiaries is on deposit at banks in Japan, Singapore, China, Belgium, and the United Kingdom.

NATURE OF BUSINESS The Company designs, manufactures and markets optical and electro-optical components, devices and materials for infrared, near-infrared, visible light, x-ray and gamma-ray, and telecommunication instrumentation and applications. The Company markets it products in the United States through its direct sales force and worldwide through its wholly-owned subsidiaries, distributors and agents.

The Company uses certain uncommon materials and compounds to manufacture its products. Some of these materials are available from only one proven outside source. The continued high quality of these materials is critical to the stability of the Company's manufacturing yields. The Company has not experienced significant production delays due to a shortage of materials. However, the Company does occasionally experience problems associated with vendor supplied materials not meeting specifications for quality or purity. A significant failure of the Company's suppliers to deliver sufficient quantities of necessary high-quality materials on a timely basis could have a material adverse effect on the Company's results of operations.

ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents The carrying amount approximates fair value because of their short maturities.

Debt Obligations The fair values of debt obligations are estimated based upon market values of similar issues. The fair values and carrying amounts of the Company's debt obligations, specifically the line of credit, Yen loan and the PIDA loan, are approximately equivalent.

CONCENTRATIONS OF CREDIT RISK Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large number of customers. However, a significant portion of accounts receivable is from European distributors. Although the Company does not currently foresee a risk associated with these receivables, repayment is dependent upon the financial stability of these distributors.

COMPREHENSIVE INCOME Comprehensive income is a measure of all changes in shareholders' equity that result from transactions and other economic events of the period other than transactions with owners. The Company has presented accumulated other comprehensive income as a component of shareholders' equity and consists of foreign currency translation adjustments of $91,000 and $210,000 as of June 30, 2001 and 2000, respectively.

DERIVATIVE INSTRUMENTS Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the effective date of SFAS No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", were effective for the Company as of July 1, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company was not required to record any transition adjustments as a result of adopting these standards.

The Company from time to time purchases foreign currency forward exchange contracts, primarily in Japanese Yen, that permit it to sell specified amounts of these foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. These contracts are entered into to limit transactional exposure to changes in currency exchange rates of export sales transactions in which settlement will occur in future periods and which otherwise would expose the Company, on a basis of its aggregate net cash flows in respective currencies, to foreign currency risk.

The Company recorded the fair value of contracts with a notional amount of approximately $1,723,000 as of June 30, 2001 on the statement of financial position. The Company does not account for these contracts as hedges as defined by SFAS No. 133, and records the change in the fair value of these contracts in the results of operations as they occur. The change in the fair value of these contracts increased net earnings by $165,000 for the year ended June 30, 2001.

To satisfy certain provisions of its line of credit facility, on March 5, 2001 the Company entered into an interest rate collar with a notional amount of $12.5 million. The floating rate option is the one-month LIBOR rate with the cap strike rate of 7.00% and the floor strike rate of 4.02%. The agreement expires March 5, 2002. At June 30, 2001 the one-month LIBOR rate was 3.86%. This agreement was entered into to limit interest rate exposure on one-half of the $25 million term loan. The Company does not account for this agreement as a hedge as defined by SFAS No. 133, and records the unrealized change in the fair value of this collar as an increase or decrease in interest expense in the results of operations. The effect of the interest rate collar on net earnings for the year ended June 30, 2001 was immaterial.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS SFAS No. 141: In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

SFAS No. 142: In June 2001, the FASB issued SFAS 142 "Goodwill and Other Intangible Assets." SFAS 142 will require that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment in accordance with the Standard until its life is determined to no longer be indefinite. As of June 30, 2001, the Company had goodwill and other intangible assets, net of accumulated amortization, of approximately $29.2 million and $4.1 million, respectively, which would be subject to the transitional assessment provisions of SFAS 142.

The Company is permitted to adopt this Statement effective July 1, 2001 or defer adoption until July 1, 2002. Once adopted, goodwill amortization of approximately $1.5 million on an annualized basis will cease. The Company has not yet determined if any impairment charges will result from the adoption of this Statement. At this time, the Company anticipates adopting this standard as of July 1, 2001.

SFAS No. 143: In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently evaluating the impact that this Statement will have on the Company's financial statements.

RECLASSIFICATIONS Certain amounts from prior years have been reclassified to conform with the 2001 presentation.

Note B STOCK SPLIT

On August 23, 2000, the board of directors declared a two-for-one stock split of the Company's common stock in the form of a 100% common stock dividend. The record date was September 5, 2000 and the distribution date was September 20, 2000. All share and per share amounts included in the Company's consolidated financial statements have been restated to reflect the stock split for all periods presented.

Note C ACQUISITION OF LASER POWER CORPORATION

On September 21, 1999, the Company purchased 1,250,000 shares of Laser Power Corporation common stock, representing an ownership interest in the company of approximately 13%, for a total purchase price of approximately $2.8 million. Laser Power Corporation designs, manufactures, and markets high performance optics for the industrial, medical and military applications. Laser Power's infrared products are sold under the Laser Power brand name. Infrared products manufactured for military applications are sold under the Exotic Electro-Optics brand name.

On August 14, 2000, the Company increased its ownership in Laser Power Corporation to approximately 88%, giving the Company a controlling interest. This additional ownership was acquired for a total consideration of approximately $23.8 million in cash and the issuance of approximately 739,000 shares of the Company's common stock for a total cost of $37.1 million.

On October 24, 2000, the Company completed its acquisition of Laser Power Corporation for a total consideration of approximately $3.9 million in cash and the issuance of approximately 132,000 shares of the Company's common stock for a total cost of $6.3 million.

This transaction has been accounted for as a purchase. The goodwill acquired of $29.2 million is being amortized over 20 years on a straight-line basis. The results of Laser Power Corporation for eleven months ended June 30, 2001 are included in the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Pro forma results, as if the acquisition of Laser Power Corporation had occurred at the beginning of fiscal year 2000, are as follows:

Year Ended June 30,	2001	2000
(000 except per share data)		
Net revenues	$125,483	$107,569
Income from continuing operations	9,019	4,801
Net income	9,019	3,573
Basic earnings per share:		
Income from continuing operations	$ 0.66	$ 0.35
Loss from discontinued operations	—	(0.09)
Net income	$ 0.66	$ 0.26
Diluted earnings per share:		
Income from continuing operations	$ 0.64	$ 0.34
Loss from discontinued operations	—	(0.09)
Net income	$ 0.64	$ 0.25

The pro forma results are not necessarily indicative of what actually would have occurred if the transaction had taken place at the beginning of the period, are not intended to be a projection of future results and do not reflect any cost savings that might be achieved from the combined operations. The loss from discontinued operations related to the activities of Laser Power Corporation in prior periods.

Prior year financial statements reflect the adoption of the equity method of accounting in a manner consistent with the accounting for a step-by-step acquisition of Laser Power Corporation. The effect of the restatement was to reclassify all of the Company's investment in Laser Power common stock at June 30, 2000 from an investment accounted for as an available for sale security to an investment accounted for under the equity method. The effect of the restatement on income for the year ended June 30, 2000 was a charge to net income of $129,000.

Note D INVENTORIES

The components of inventories are as follows:

June 30,	2001	2000
($000)		
Raw materials	$ 6,173	$ 3,947
Work in process	8,680	5,518
Finished goods	5,929	4,273
	$20,782	$13,738

Note E PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (at cost or valuation) consists of the following:

June 30,	2001	2000
($000)		
Land and land improvements	$ 1,715	$ 1,528
Buildings and improvements	24,426	21,333
Machinery and equipment	68,217	47,578
	94,358	70,439
Less accumulated depreciation	36,327	29,556
	$58,031	$40,883

The interest capitalized associated with the construction of buildings and improvements approximated $119,000 during the year ended June 30, 2001. No interest was capitalized during the years ended June 30, 2000, and 1999.

Note F DEBT

The components of debt are as follows:

June 30,	2001	2000
($000)		
Line of credit, interest at the LIBOR Rate, as defined, plus 1.25% and 0.75%, respectively	$ 9,500	$2,750
Term loan, interest at the LIBOR Rate, as defined, plus 1.25% payable in quarterly installments through August 2005	25,000	—
Pennsylvania Industrial Development Authority (PIDA) term note, interest at 3%, payable in monthly installments through October 2011	546	589
Term note, interest at the Japanese Yen Base Rate, as defined, plus 1.49%, principal payable in full in September 2002	1,902	2,246
Other	58	—
Total debt	37,006	5,585
Current portion of long-term debt	(3,834)	(44)
Long-term debt	$33,172	$5,541

The Company had a $15.0 million unsecured line of credit agreement with PNC Bank that expired on March 25, 2000. This line of credit was extended for one year until March 24, 2001 upon mutual agreement of the Company and PNC Bank. The weighted average interest rate in effect as of June 30, 2000 was 7.47%. The average outstanding borrowings under this line of credit were $4.6 million during the year ended June 30, 2000. The Company was subject to certain restrictive covenants under this agreement.

On August 14, 2000, the Company replaced its $15.0 million unsecured line of credit agreement with a $45.0 million secured credit agreement in connection with the Company's acquisition of Laser Power Corporation (see Note C). This facility has a five-year life and contains term and line of credit borrowing options. This facility is secured by the Company’s accounts receivables and inventory, a pledge of all of the capital stock of each of the Company’s existing direct and indirect domestic subsidiaries, and a pledge of 65% of the stock of the Company’s foreign subsidiaries. Additionally, this facility is subject to certain restrictive covenants, including those related to minimum net worth, leverage and interest coverage. This facility has an interest rate range of LIBOR plus 0.88% to LIBOR plus 1.50%. The weighted average interest rate of borrowings under the credit agreements was 5.31% at June 30, 2001. The average outstanding borrowings under this line of credit were $28.9 million during the year ended June 30, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

In September 1997, the Company obtained a 237 million Yen loan with PNC Bank. Interest is at a rate equal to the lesser of the floating rate or the maximum rate as defined in the loan agreement. The floating rate is equal to the Japanese Yen Base Rate, as defined, plus 1.49% and the maximum rate is 3.74%. On June 30, 2001, the Japanese Yen Base Rate was 0.13% and the floating rate was 1.62%.

The Company has a line of credit facility with a Singapore bank which permits maximum borrowings of approximately $385,000. Borrowings are payable upon demand with interest being charged at the rate of 1.00% above the bank's prevailing prime lending rate. The interest rate at June 30, 2001 was 6.00%. At June 30, 2001 and 2000 there were no outstanding borrowings under this facility.

The aggregate annual amounts of principal payments required on the long-term debt are as follows:

Year Ended June 30,	
($000)	
2002	$ 3,834
2003	6,968
2004	6,923
2005	7,550
2006	11,426
Thereafter	305

Interest and commitment fees paid during the years ended June 30, 2001, 2000 and 1999 totaled approximately $2,266,000, $369,000, and $450,000, respectively.

Note G INCOME TAXES

The components of income tax expense are as follows:

Year Ended June 30,	**2001**	**2000**	**1999**
($000)			
Current:			
Federal	$2,387	$1,094	$2,033
State	387	53	121
Foreign	939	667	74
Total	3,713	1,814	2,228
Deferred:			
Federal	$1,119	$528	$300
State	118	60	47
Foreign	115	43	—
Total	1,352	631	347
Provision for Income Taxes	$5,065	$2,445	$2,575

Principal items comprising deferred income taxes are as follows:

June 30,	2001	2000
($000)		
Deferred income tax liabilities		
Tax over book accumulated depreciation	$3,476	$2,276
Intangible assets	1,474	443
Available for sale securities	—	1,227
Deferred income tax liability - long-term	$4,950	$3,946
Deferred income tax assets		
Inventory capitalization	$1,256	$ 385
Non-deductible accruals	1,248	511
Net-operating loss carryforward — current portion	800	—
Deferred income tax asset — current	$3,304	$ 896
Net operating loss carryforward	$2,334	$ 134
Valuation allowance	317	(134)
Deferred income tax asset - long-term	$2,017	$ —
Net deferred income tax asset (liability)	$ 371	$(3,050)

The reconciliation of income tax expense at the statutory federal rate to the reported income tax expense is as follows:

Year Ended June 30,	2001	%	2000	%	1999	%
($000)						
Taxes at statutory rate	$4,949	34	$3,317	34	$2,733	34
Increase (decrease) in taxes resulting from:						
State income taxes — net of federal benefit	358	3	69	—	112	1
Excludable Foreign Sales Corporation income	(378)	(3)	(628)	(6)	(106)	(1)
Excludable foreign income	(124)	(1)	(728)	(7)	(617)	(7)
Foreign taxes	126	1	181	2	—	—
Non-deductible goodwill amortization	500	3	30	—	30	—
Other	(366)	(2)	204	2	423	5
	$5,065	35	$2,445	25	$2,575	32

During the years ended June 30, 2001, 2000 and 1999, cash paid by the Company for income taxes was approximately $1.7 million, $1.6 million, and $1.1 million, respectively.

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested outside the United States. If the earnings of such foreign subsidiaries were not indefinitely reinvested, a deferred tax liability of approximately $5.6 million and $4.5 million would have been required as of June 30, 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The sources of differences resulting in deferred income tax expense (credit) and the related tax effect of each were as follows:

Year Ended June 30,	2001	2000	1999
($000)			
Depreciation and amortization	$2,232	$691	$241
Inventory capitalization	(872)	(119)	24
Net operating loss carryforward	729	145	129
Other - primarily nondeductible accruals	(737)	(86)	(47)
	$1,352	$631	$347

As of June 30, 2001, net operating loss carryforwards totaled $7.6 million. Of that amount, $4.9 million expire over the next 10 years; the remaining $2.7 million expire over the next 17 years.

Note H OPERATING LEASES

The Company leases certain property under operating leases that expire at various dates through fiscal 2007. Future rental commitments applicable to the operating leases at June 30, 2001 are approximately $1,099,000, $936,000, $661,000, $541,000, $530,000 and $255,000 for fiscal 2002, 2003, 2004, 2005, 2006, and thereafter, respectively. Rent expense was approximately $1,010,183, $452,000 and $397,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

Note I STOCK OPTION PLANS

The Company has a stock option plan under which stock options have been granted by the Board of Directors to certain officers and key employees, with 3,120,000 shares of common stock reserved for use under this plan. All options to purchase shares of common stock granted to-date have been at market price at the date of grant. Generally, twenty percent of the options granted may be exercised one year from the date of grant with comparable annual increases on a cumulative basis each year thereafter. The stock option plan also has vesting provisions predicated upon the death, retirement or disability of the optionee. The amount available for future grants under the stock option plan was 379,007 as of June 30, 2001.

The Company has a nonemployee directors stock option plan with 240,000 shares of common stock reserved for use under this plan. The plan provides for the automatic grant of options to purchase 30,000 shares to each nonemployee director at the fair value on the date of shareholder approval of the plan and a similar grant for each nonemployee director that joins the Board prior to October 1999. Twenty percent of the options granted may be exercised one year from the date of grant with comparable annual increases on a cumulative basis each year thereafter. The amount available for future grants under the nonemployee directors stock option plan was 120,000 as of June 30, 2001.

All stock options expire 10 years after the grant date.

Stock option activity relating to the plans in each of the three years in the period ended June 30, 2001 is as follows:

Options	Number of Shares Subject to Option	Weighted Avg. Exercise Price Per Share
Outstanding — July 1, 1998	1,244,982	$ 4.36
Granted	176,828	$ 5.34
Exercised	(81,960)	$ 2.47
Forfeited	(61,860)	$ 7.00
Outstanding — July 1, 1999	1,277,990	$ 4.49
Granted	80,300	$ 9.38
Exercised	(224,570)	$ 3.00
Forfeited	(26,994)	$ 8.30
Outstanding — June 30, 2000	1,106,726	$ 5.04
Granted	225,775	$17.27
Exercised	(128,460)	$ 3.63
Forfeited	(29,750)	$ 7.55
Outstanding — June 30, 2001	1,174,291	$ 7.47
Exercisable — June 30, 2001	737,569	$ 4.41

Outstanding and exercisable options at June 30, 2001 are as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 1.00 - $ 2.00	383,740	2.92	$ 1.53	383,740	$ 1.53
$ 4.25 - $ 5.50	272,986	6.22	$ 5.18	171,689	$ 5.09
$ 6.09 - $10.00	208,140	6.14	$ 8.95	137,620	$ 9.19
$10.50 - $15.39	96,500	7.35	$12.17	42,720	$11.44
$16.00 - $23.38	212,925	9.16	$17.57	1,800	$20.00
	1,174,291	5.75	$ 7.47	737,569	$ 4.41

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The Company uses the intrinsic value approach specified in Accounting Principles Board Opinion No. 25 in accounting for stock options. Had the Company determined compensation costs based upon the fair value of the options at the grant dates in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," its net earnings for the years ended June 30, 2001, 2000 and 1999 would have been reduced by $635,000, $390,000 and $350,000, or $.04, $.03 and $.03 per diluted share, respectively.

The pro forma adjustments were calculated using the Black-Scholes option pricing model under the following weighted-average assumptions in each fiscal year:

	2001	2000	1999
Risk free interest rate	6.1%	6.5%	6.0%
Expected volatility	92%	81%	64%
Expected life of options	6.40 years	5.95 years	5.95 years
Expected dividends	none	none	none

Based on the option pricing model, options granted during the years ended June 30, 2001, 2000 and 1999 had fair values at the date of the grant of $13.81, $6.90, and $3.42 per share, respectively.

Note J SEGMENT AND GEOGRAPHIC REPORTING

The Company reports its segments using the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure or any other manner in which management segregates a company.

The Company's reportable segments offer similar products to different target markets. The segments are managed separately due to the production requirements and facilities that are unique to each segment. The Company has three reportable segments: Optical Components, which is an aggregation of the Company's infrared optics and material products business and the Company's VLOC subsidiary, Radiation Detectors, which is the Company's eV PRODUCTS division, and the Company's Laser Power Corporation subsidiary acquired in fiscal 2001.

The Optical Components segment is divided into the geographic locations within the United States, Singapore, China, Japan and the United Kingdom. Each geographic location is directed by a general manager and is further divided into production and administrative units that are directed by managers. The Optical Components segment designs, manufactures and markets optical and electro-optical components, devices and materials for precision use in infrared, near infrared and visible light instrumentation. The Optical Components segment includes certain general corporate management and administrative activities of the Company which are not allocated to the other segments, certain research and development activities of the Company not necessarily specific to the Optical Components segment and other unallocated charges.

The Radiation Detectors segment is located in the United States and is a division of the Company. The Radiation Detectors segment is directed by a general manager. The Radiation Detectors segment is further divided into production and administrative units that are directed by managers. The Radiation Detectors segment develops and markets solid-state x-ray and gamma-ray products for the nuclear radiation detection industry.

The Laser Power Corporation segment is located primarily in the United States. Laser Power Corporation is directed by a general manager. The Laser Power Corporation segment is further divided into production and administrative units that are directed by managers. The Laser Power Corporation segment designs, manufactures and markets high performance optics for military, industrial and medical applications. Laser Power's infrared products are sold under the Laser Power brand name. Infrared products manufactured for military applications are sold under the Exotic Electro-Optics brand name.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. Substantially all of the Company's corporate expenses are allocated to the segments. The Company evaluates segment performance based upon reported segment profit or loss from operations. Inter-segment sales and transfers have been eliminated.

Net revenues from external customers attributable to the Company's foreign operations, primarily II-VI Japan and II-VI Singapore Pte., Ltd. were $25.6 million, $18.6 million, and $14.5 million for the years ended June 30, 2001, 2000 and 1999, respectively. Identifiable assets of the Company's foreign operations, primarily II-VI Singapore Pte., Ltd. and II-VI Japan are $20.3 million $15.4 million, and $10.1 million as of June 30, 2001, 2000 and 1999, respectively.

	Optical Components	Radiation Detectors	Laser Power Corporation	Totals
($000)				
2001				
Net revenues	$ 83,345	$ 8,863	$ 31,126	$123,334
Income (loss) from operations	15,036	(992)	4,224	18,268
Interest expense	—	—	—	2,330
Other expense, net	—	—	—	1,382
Earnings before income taxes	—	—	—	14,556
Depreciation and amortization	5,208	685	2,811	8,704
Segment assets	84,642	8,173	55,358	148,173
Expenditures for property, plant and equipment	14,956	490	1,295	16,741
Goodwill	1,698	—	27,538	29,236
2000				
Net revenues	$68,302	$ 5,790	—	$74,092
Income (loss) from operations	12,427	(2,096)	—	10,331
Interest expense	—	—	—	349
Other expense, net	—	—	—	226
Earnings before income taxes	—	—	—	9,756
Depreciation and amortization	4,352	667	—	5,019
Segment assets	76,476	7,650	—	84,126
Expenditures for property, plant and equipment	8,501	376	—	8,877
Goodwill	1,792	—	—	1,792
1999				
Net revenues	$56,354	$ 5,660	—	$62,014
Income (loss) from operations	9,375	(1,136)	—	8,239
Interest expense	—	—	—	415
Other income, net	—	—	—	(214)
Earnings before income taxes	—	—	—	8,038
Depreciation and amortization	3,961	708	—	4,669
Segment assets	62,390	8,453	—	70,843
Expenditures for property, plant and equipment	4,925	495	—	5,420
Goodwill	1,879	—	—	1,879

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Note K EMPLOYEE BENEFIT PLANS

Eligible employees of the Company participate in a profit sharing retirement plan. Contributions to the plan are made at the discretion of the Company's board of directors and were approximately $1,122,000, $812,000, and $579,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

The Company has an employee stock purchase plan for employees who have completed six months of continuous employment with the Company. The employee may purchase the common stock at 5% below the prevailing market price. The amount of shares which may be bought by an employee is limited to 10% of the employee's base pay for each fiscal year. This plan, as amended, limits the number of shares of common stock available for purchase to 400,000 shares. At June 30, 2001, 215,313 shares of common stock are available for purchase under the plan.

The Company has no program for postretirement health and welfare and postemployment benefits.

The II-VI Incorporated Deferred Compensation Plan (the "Plan") is designed to allow officers and key employees of the Company to defer receipt of compensation into a trust fund for retirement purposes. The Plan is a nonqualified, defined contribution employees' retirement plan. At the Company's discretion, the Plan may be funded by the Company making contributions based on compensation deferrals, matching contributions and discretionary contributions. Compensation deferrals will be based on an election by the participant to defer a percentage of compensation under the Plan. All assets in the Plan are subject to claims of the Company's creditors until such amounts are paid to the Plan participants. Employees of the Company made contributions to the Plan in the amount of approximately $354,000, $248,000, and $30,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

II-VI INCORPORATED CORPORATE INFORMATION:

Board of Directors

Carl J. Johnson
Chairman and Chief Executive Officer,
II-VI Incorporated

Francis J. Kramer
President and Chief Operating Officer,
II-VI Incorporated

Vincent D. Mattera, Jr.
Vice President,
Undersea Optical Transport
Agere Systems

Thomas E. Mistler
President and Chief Executive Officer,
ESCO Holding Corp.
Engineered Arresting Systems Corporation

Duncan A.J. Morrison
Chairman,
ARRI Canada Ltd.

Peter W. Sognefest
President and Chief Executive Officer,
Xymox Technologies, Inc.

Executive Officers

Carl J. Johnson
Chairman and Chief Executive Officer

Francis J. Kramer
President and Chief Operating Officer

Herman E. Reedy
Vice President and General Manager
of Quality and Engineering

James Martinelli
General Manager of Laser Power Corporation
and Chief Financial Officer of II-VI Incorporated

Craig A. Creaturo
Treasurer

Corporate Headquarters

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Stock Listing

The common stock of II-VI Incorporated is traded on the Nasdaq National Market under the trading symbol "IIVI".

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S.E.C. Counsel

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Pittsburgh, PA 15219

II-VI Incorporated is an Equal Opportunity Employer. As such, it is the Company's policy to promote equal employment opportunities and to prohibit discrimination on the basis of race, color, religion, sex, age, national origin, disability or status as a veteran in all aspects of employment, including recruiting, hiring, training or promoting personnel. In fulfilling this commitment, the Company shall comply with the letter and spirit of the laws, regulations and Executive Orders governing equal opportunity in employment, including the Civil Rights Act of 1964, Executive Order 11246, Revised Order Number 4, and amendments thereto.

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