THE 2002 II-VI INCORPORATED ANNUAL REPORT



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, 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 military optics through its California-based Exotic Electro-Optics subsidiary.

II-VI is a public company listed on the Nasdaq National Market under the symbol "IIVI."



Financial Summary

(\$000 except per share data)	2002	2001	
Net revenues	113,688	123,334	
Net earnings	7,264	9,491	
Total bookings	117,047	132,673	
Total assets	151,901	148,173	
Total shareholders' equity	97,660	89,413	
Diluted earnings per share	0.51	0.67	
Book value per share	6.96	6.43	
Diluted weighted average shares outstanding	14,313,713	14,159,899	

Chairman & President's Letter

September 6, 2002

Fiscal 2002 was a difficult time for the domestic and global economies. However, II-VI Incorporated and our family of companies maintained profitability despite the downturn, and advanced in several key areas. Bookings for the fiscal year ended June 30, 2002 were \$117.0 million, and revenues were \$113.7 million. Although these figures represent decreases of 12% and 8%, respectively, from Fiscal 2001, II-VI Incorporated ended Fiscal 2002 with an operating cash flow of \$16.1 million, our highest ever.

Our continued commitment to improving our worldwide productivity helped drive our performance in Fiscal 2002. Several of our material growth operations, including yttrium aluminum garnet (YAG) growth at our Florida-based VLOC facility, improved their performance over the prior year. Manufacturing operations in China and Singapore also improved performance over the prior year.

During Fiscal 2002 we worked hard at streamlining our worldwide manufacturing base. We continue to capitalize on our offshore cost advantage by increasing optics production at our China and Singapore manufacturing facilities. We maximized the synergies of our manufacturing base by consolidating all commercial infrared (IR) optics manufacturing to our Pennsylvania, China, and Singapore facilities. This will reduce operating expenses and enable our California-based Exotic Electro-Optics facility to concentrate all of its future efforts on their military markets.

We began streamlining our distribution channels in Europe as well. Recently, a new distribution company was established by II-VI Incorporated and L.O.T., a leading European distributor of high tech components for industrial and scientific applications. Called II-VI/L.O.T., this new venture will distribute both II-VI and Laser Power branded optics to the German market. II-VI owns a controlling interest in II-VI/L.O.T. and we will see enhancements to our top line revenue as a result of this consolidation. Furthermore, this consolidation furthers our ongoing strategy to streamline all worldwide sales channels for the II-VI and Laser Power Optics brands.

Fiscal 2002 also saw II-VI and our family of companies expanding our research and development efforts by pursuing new contracts and additional market opportunities. In October 2001, II-VI acquired the Silicon Carbide Group of Litton Systems, Inc. Now a part of II-VI's Wide-Band Gap Semiconductor Materials Group (WBG), this acquisition will significantly accelerate the pace of product development and reduce time to market for II-VI's silicon carbide (SiC) products, including 2" SiC wafers. Other product developments are in progress at VLOC, including maximizing the performance in YAG rods used for high-power solid-state lasers. In the medical and detector markets, our eV PRODUCTS division is continuing to work with GE Lunar and Anzai Medical while pursuing additional detector opportunities. In our core IR market, we are expanding our line of industrial laser consumables to include metal nozzles and ceramic nozzle holders. In the military markets, Exotic Electro-Optics is continuing to work on the Javelin Missile, IFTS, and Airborne Laser programs, and is expecting an increase in revenues for the coming year.

As we look to Fiscal 2003, we are cautiously optimistic regarding our return to growth. While all of the companies in our II-VI family continue to monitor costs, we nevertheless remain committed to long-term growth. We will continue to maintain the diversity of our product line, a healthy operating cash flow, a solid balance sheet, and a sound value for our shareholders.

Finally, we wish to extend our thanks to all of the employees of the II-VI family of companies for their hard work and perseverance, and for helping us to enhance our productivity and maintain our commitment to growth.

Carl J. Johnson, Chairman & Chief Executive Officer

Francis J. Kramer, President & Chief Operating Officer

France of Kramer

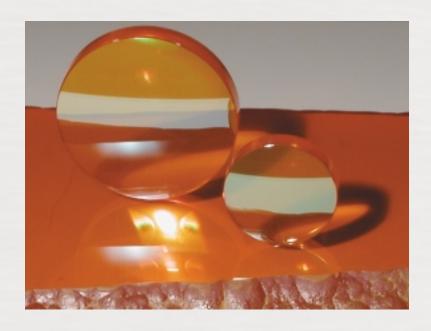




Core Infrared (IR) Products

Serving original equipment manufacturers (OEMs) of industrial lasers, end users of lasers, military, and aerospace customers, our Pennsylvania-based core infrared (IR) group produces both infrared optical materials and finished optical components. This combination of optical materials production and finished optics production is the only full-scale vertically-integrated $\rm CO_2$ laser optics manufacturing process in the world. Infrared materials produced include zinc selenide (ZnSe), zinc sulfide (ZnS), and ZnS MultiSpectral (ZnS-MS). Finished optics include lenses, mirrors, windows, partial reflectors, beam splitters, phase retarders, rhombs, beam expanders, polarizers, wave plates, and modulators. Optics manufacturing capabilities include both conventional optics fabrication and precision diamond turning. Optics are manufactured in Pennsylvania, China, and Singapore, and are sold under both the II-VI and Laser Power Optics brand names.

In addition to conventional optics for CO_2 lasers, our core IR group also manufactures ultra-low absorbing lenses for high-power CO_2 lasers utilizing the MP-5 brand coating, optics for scanning laser systems including scan lenses, galvo mirrors, band-selective optics, and windows, and specialized optics for military and aerospace programs (both past and present) including AIRS (Atmospheric Infrared Sounder weather satellite instrument), the Global Hawk unmanned aerial vehicle, the Theater High-Altitude Area Defense (THAAD) missile defense system, the Deep Impact comet probe, and more.



Exotic Electro-Optics

Focused exclusively on military markets (including classified programs), our California-based Exotic Electro-Optics (EEO) facility specializes in state-of-the-art infrared crystals, optical components, coatings, and assemblies. EEO fabricates optics from glass, silicon, zinc selenide (ZnSe), zinc sulfide (ZnS), AMTIR, sapphire, and other infrared crystals. With its vertically-integrated manufacturing processes, EEO builds these optics into complex assemblies that are used in military fire control, missile guidance, and thermal imaging systems.

Major military contracts include the Javelin Antitank Weapon System program (ZnS domes), the Integrated FLIR Targeting System (IFTS) program (sapphire windows and assemblies), and the Airborne Laser (ABL) program (large-size optics coated in EEO's Large Optics Coating Facility).





VLOC

Our Florida-based VLOC subsidiary manufactures crystal and optical components for solid-state laser systems and various instruments serving the industrial, medical, semiconductor, scientific, telecommunication, and military markets. Crystal products include yttrium aluminum garnet (YAG), yttrium vanadate (YVO $_4$), as well as numerous other oxide and fluoride crystal devices. Optical products include laser mirrors, lenses, prisms, etalons, windows, and waveplates.

The second largest manufacturer in the world of YAG laser rods and slabs, VLOC continues to improve processes and products. For example, VLOC is working with a leading laser manufacturer to increase the rod efficiency for multi-kilowatt industrial applications. VLOC has also been able to utilize key R&D contracts to develop larger diameter YAG growth and to introduce new crystal products such as YVO₄.





eV PRODUCTS

Our Pennsylvania-based eV PRODUCTS division manufactures solid-state radiation detection materials, components, and assemblies. At the heart of all of these devices is the material cadmium zinc telluride (CdZnTe), which eV PRODUCTS produces using a proprietary material growth process. eV PRODUCTS manufactures room-temperature radiation detectors from CdZnTe, and also designs and manufactures completed detector assemblies including highly specialized, low-noise, front-end electronics and imbedded readout systems. This level of integration is unique in the radiation detector industry and is propelling eV PRODUCTS to be the recognized market leader.

CdZnTe-based radiation detectors from eV PRODUCTS are used in a variety of fields, including medical diagnostics, industrial gauging, environmental monitoring, and nuclear safeguarding. Recently, eV PRODUCTS worked with Anzai Medical of Japan to develop a hand-held small field of view gamma-camera to help diagnose and treat breast, thyroid, and other organ-specific cancers. Currently, eV PRODUCTS is working with General Electric on the development of a next-generation bone densitometer. eV PRODUCTS is also working on enhanced security and monitoring systems, and eV PRODUCTS is well-positioned to address this rapidly expanding market segment, with expectations to design and release several new security products in Fiscal 2003.





WBG

Our New Jersey and Pennsylvania-based Wide-Band Gap Semiconductor Materials Group (WBG), with facilities in both Pennsylvania and New Jersey, manufactures silicon carbide (SiC), a semiconductor material that offers high-temperature, high-power, and high-frequency capabilities. II-VI acquired the Litton Systems, Inc. New Jersey-based Silicon Carbide (SiC) Group in October 2001. The \$2.2 million purchase of the group, as well as the operating expenses of its recently-completed facility, have increased our investment in SiC research and development. However, the acquisition will also complement the WBG's existing SiC research and development activities, and accelerate the pace of 2" SiC wafer product development and reduce our time to market.

End-products of silicon carbide include LEDs, blue laser diodes, wireless communications components, power-grid circuitry, and engine controls.

FORM 10-K

United States

SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

[X] **Annual Report** pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended June 30, 2002

[]	Transition report pursuant to Se	ection 13 or 15(d)	of the Securities	Exchange Act of 193	34 for the transition period
	from	_ to	•		

Commission File Number: 0-16195

II-VI INCORPORATED

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation or organization)

25-1214948

(I.R.S. Employer Identification No.)

375 Saxonburg Boulevard Saxonburg, PA

(Address of principal executive offices)

16056

(Zip code)

Registrant's telephone number, including area code: 724-352-4455

Securities registered pursuant to Section 12(b) of the Act: None.

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

Common Stock, no par value.

Preferred Stock Purchase Rights

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	X	No	

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Aggregate market value of outstanding Common Stock, no par value, held by non-affiliates of the Registrant at September 10, 2002, was approximately \$144,552,000 based on the closing sale price reported on the Nasdaq National Market for September 10, 2002. For purposes of this calculation only, directors and executive officers of the Registrant and their spouses are deemed to be affiliates of the Registrant.

Number of outstanding shares of Common Stock, no par value, at September 10, 2002, was 14,040,374. All share and per share information included in this Form 10-K reflects the two-for-one stock split effected on September 20, 2000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, which will be issued in connection with the 2002 Annual Meeting of Shareholders, are incorporated by reference into Part III of this annual report on Form 10-K.

Forward-Looking Statements

This annual report on Form 10-K (including certain information incorporated herein by reference) 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. Other important factors and uncertainties include, but are not limited to the Risk Factors set forth in Item 7.

PART I

ITEM 1: BUSINESS

Introduction

II-VI Incorporated ("II-VI" or the "Company") was incorporated in Pennsylvania in 1971. Our executive offices are located at 375 Saxonburg Boulevard, Saxonburg, Pennsylvania 16056. Our telephone number is 724-352-4455. Reference to the "Company" or "II-VI" in this Form 10-K, unless the context requires otherwise, refers to II-VI Incorporated and its wholly-owned subsidiaries: VLOC Incorporated; II-VI Delaware, Incorporated; II-VI Holdings B.V.; II-VI Japan Incorporated; II-VI Singapore Pte., Ltd.; II-VI Acquisition Corp.; II-VI Optics (Suzhou) Co. Ltd.; II-VI International Pte., Ltd.; II-VI U.K. Limited; and Laser Power Corporation and its wholly-owned subsidiaries: EMI Acquisition Corporation; Exotic Materials, Incorporated; Laser Power Optics de Mexico S.A. de C.V.; Laser Power Europe N.V.; and Laser Power FSC, Ltd. eV PRODUCTS operates as a division of II-VI Incorporated. The Company's name is pronounced "Two-Six Incorporated." The majority of our revenues are attributable to the sale of optical components for the industrial laser processing industry.

Information Regarding Market Segments and Foreign Operations

Our business comprises three segments: (i) the design, manufacture and marketing of optical and electro-optical components, devices and materials for infrared, near-infrared and visible-light instrumentation, (ii) the manufacture and marketing of x-ray and gamma-ray instrumentation and (iii) the Company's Laser Power Corporation subsidiary acquired in fiscal 2001.

Financial data regarding our revenues, results of operations, industry segments and international sales for the three years ended June 30, 2002 is set forth on the Consolidated Statements of Earnings and on Note J of the Company's Consolidated Financial Statements included in this Form 10-K.

General Description of Business

We develop, manufacture and market high technology materials and derivative products for precision use in industrial, medical, telecommunications, military and aerospace applications. We use advanced material growth technologies coupled with proprietary high precision fabrication, micro-assembly, and thin-film coating production processes. The resulting optical and optoelectronic devices are supplied to manufacturers and users of a wide variety of laser, detection, military and telecommunication components and systems. A key strategy is to develop and manufacture complex materials from elements of chemistry's periodic table. We focus on providing critical products to the heart of our customer's assembly lines for products such as high power laser material processing systems, military fire control and missile guidance devices and advanced medical x-ray systems. We believe we are a market leader for high power (CO₂) and YAG laser optical elements, military infrared optical components, and x-ray and gamma ray detectors for both the medical and nuclear radiation industries.

Our United States production operations are located in Pennsylvania, Florida, California and New Jersey and our international production operations are based in Singapore, China, Mexico and Belgium. In addition to sales offices at each of our manufacturing sites we have sales and marketing subsidiaries in Japan and the United Kingdom. Approximately 39% of our revenues are for product sales outside of the United States.

Our primary products are key optical and optoelectronic components used in the laser, military and nuclear radiation detection industries.

• Our laser-related products include laser gain materials for solid-state lasers and many of the high precision optical elements used to focus and direct laser beams to target or work surfaces. The majority of our laser products require advanced optical materials that are internally produced. Our vertical integration from material growth, through fabrication and thin-film coating provides us with a significant competitive advantage.

- Our military infrared products include targeting and navigation systems that utilize advance optical materials. The
 vertical integration of our manufacturing processes for these military applications provides us with a significant
 competitive advantage.
- Nuclear radiation detector products are based on the semiconductor material Cadmium Zinc Telluride (CdZnTe).
 These detectors are attractive to customers due to the increased performance, reduced size, improved ruggedness and lower voltage requirements as compared to traditional technologies.

We are at the forefront of advanced material growth research, development and high volume production. Over the past five years we have expanded our material growth development to include single crystal Silicon Carbide (SiC) for use in blue and green Light Emitting Diodes (LEDs), diode lasers and high performance electronics. In fiscal 2002, we acquired the Litton Systems Inc. Silicon Carbide Group to complement the Company's SiC development activities and to accelerate our product to market. Significant progress has been made in this relatively short development period and at the present time we are working closely with potential customers to qualify and further develop our products.

Our Markets

Our business is comprised of four markets:

- 1) Design, manufacture and marketing of optical and electro-optical components, devices and materials for infrared, near infrared and visible light lasers and instrumentation by our II-VI business units and VLOC subsidiary.
- 2) Manufacture and marketing of x-ray and gamma-ray solid-state radiation detectors and components for medical, industrial, environmental and scientific instruments by our eV PRODUCTS division.
- 3) Design, manufacture and marketing of infrared products for military applications and optical and electro-optical component devices for infrared lasers by our Laser Power Corporation subsidiary acquired in fiscal 2001.
- 4) Development of single crystal growth and fabrication of Silicon Carbide (SiC) substrates for use in the manufacture of devices such as high temperature electronics and blue and green high brightness LEDs by our Wide Band Gap (WBG) group.

Our reportable segments, in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," currently are optical components (which encompasses markets 1 and 4 above), radiation detectors (which is market 2 above) and the Company's Laser Power Corporation subsidiary (which is market 3 above).

Laser Components Market. In recent years, increases in laser component consumption have been driven by continued worldwide proliferation of laser processing applications. Manufacturers are seeking solutions to increasingly complex demands for quality, precision, speed, throughput, flexibility, automation and cost control. High power CO₂ and YAG lasers provide these benefits in a wide variety of cutting, welding, drilling, ablation, balancing, cladding, heat treating, and marking applications. For example, automobile manufacturers use lasers to facilitate rapid prototyping, production simplification, efficient sequencing, and computer control on high throughput production lines. Manufacturers of recreation vehicles, motorcycles, lawn mowers and garden tractors cut, trim and weld metal parts with lasers to achieve flexibility, high consistency, reduced post processing and lower costs. Furniture manufacturers utilize lasers to provide easily reconfigurable, low-distortion, low-cost prototyping and production capabilities that facilitate the manufacturing of customer specified designs. On high-speed processing lines, laser marking provides automated date coding for food packaging and computer driven container identification for pharmaceuticals.

We provide optical elements and components for both CO_2 and YAG laser systems. In addition to use by original equipment manufacturers (OEMs), a replacement part aftermarket exists in support of an estimated current worldwide installed base of over 100,000 industrial YAG and CO_2 lasers.

Solid-State Radiation Detection Market. Solid-state radiation detectors and components are sold primarily to companies engaged in the manufacture of medical diagnostic, medical imaging or industrial gauging/inspection, security and monitoring equipment. In an increasing number of applications, the use of gamma- or x-ray radiation enables more rapid and accurate measurement of medical conditions, industrial quality and early detection and identification of nuclear materials and threatening objects. Solid-state detectors based on CdZnTe are making inroads against older, more established technologies such as cryogenically cooled germanium detectors or sodium iodide scintillators coupled to photomultiplier tubes. CdZnTe detectors have already been substituted for these older technologies in applications where increased accuracy, simpler operation, portability and lower cost are required. CdZnTe is beginning to enable new medical, industrial and security/monitoring applications not feasible with the older technologies and is used routinely in cancer probes, bone densitometry systems and process control systems.

We believe the annual worldwide market for all solid-state radiation detectors is currently over \$250 million and growing at 10% per year. Digital radiography (the recording of digital x-ray images) represents the largest market segment followed in order by nuclear medicine (the detection or imaging of radioactively tagged materials in the body), industrial gauging, radiation monitoring and nuclear safeguards/non-proliferation. Presently, we believe that the addressable CdZnTe market has grown to represent \$50 million of the worldwide solid-state radiation detector market.

During the next several years, the performance of CdZnTe and other solid-state detectors will be improved through additional research and development, creating the potential for digital imaging to replace x-ray film in a myriad of traditional radiography applications.

We believe that the market for CdZnTe detectors and imagers will grow faster than the overall market rate of 10% because of several factors, including:

- the strong migration toward "film-less" detection methods that enable the direct recording of digital images or videos which can be stored, recalled and transmitted via the Internet;
- the desire for lower radiation dosage;
- the desire for simpler and safer operation at room temperature;
- the increasing requirement that equipment be "intrinsically safe" in environments where a spark might start a fire;
- the general trend towards equipment miniaturization; and
- the need to inspect, document and control quality at additional points within the manufacturing process in a wide range of industries; for example, the measurement and control of film thickness during the painting of automobile bodies.

Equipment manufacturers increasingly desire to procure fully tested, packaged components rather than devices that must be qualified and assembled. We believe that this trend will require leading suppliers to provide products containing ever-higher levels of signal processing and, as a result, the market will place high value on suppliers having strong applications engineering capabilities and a focus on customer relationships.

Military Infrared Optics Market. The military infrared optics market is comprised of a demand for several critical products primarily windows, window assemblies and domes. Windows and window assemblies are utilized in thermal imaging systems that provide night vision, targeting, and navigation systems. These systems are installed in various platforms, including ground vehicles, helicopters and fixed-wing aircraft. Domes are utilized as a protective cover for infrared guided missiles. Missile sizes range from small, man-portable designs to larger designs mounted on ground vehicles, helicopters and fixed-wing aircraft. These infrared optics products are sold primarily to the U.S. government and its prime contractors for use in night vision, thermal imaging and guidance systems.

Currently, the demand for military optics is being driven by upgrades to existing platforms such as the F-16 and F-18 fighter aircraft and the introduction of high performance/lower cost mid-wave infrared sensors. This complements the current market of long-wave infrared optical products that we have traditionally produced while providing additional

growth. Demand for mid-wave infrared optical components from materials such as sapphire, ALON and Spinel will likewise increase to meet this demand.

The U.S. government is directing several research and development programs to field defensive anti-missile systems using laser technology. An example of such programs is the Air Borne Laser (ABL) program. These programs require high performance coatings that must withstand extremely high laser energies and must be reliably coated onto large aperture optics including windows, domes and mirrors.

Silicon Carbide Electronic Materials Market. Silicon carbide 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 optoelectronic, telecommunication, power distribution and transportation markets. Silicon carbide has certain inherent physical and electronic advantages over competing semiconductor materials such as silicon and gallium arsenide, including the ability to operate at up to 400 degrees Centigrade (750 degrees Fahrenheit) and the capability to conduct up to twice the amount of heat away from operating devices. Typically, either silicon carbide or gallium nitride layers are deposited on a silicon carbide substrate and the desired optoelectronic or electronic devices are fabricated in the resulting material structure. Silicon carbide based structures are being developed and deployed for the manufacture of a wide variety of microwave and power switching devices while gallium nitride based structures are already standard for the manufacture of blue and green light emitting diodes and blue laser diodes.

We believe that wide band gap semiconductor devices incorporating silicon carbide materials technology will penetrate a wide range of applications in the optoelectronic, telecommunication, power distribution and transportation markets during the next decade. For instance, blue and green LEDs built on silicon carbide substrates offer the promise of higher output power than devices currently built on less expensive but thermally insulating sapphire substrates. The realization of this promise will establish silicon carbide substrates as an important building block in high brightness computer driven signs or displays, in high brightness automotive lighting and in the replacement of incandescent and eventually fluorescent lighting by high power, high efficiency solid-state lamps. High power, high frequency silicon carbide microwave devices promise to rival gallium arsenide devices in telecommunication base station transmitters and silicon devices in both commercial and military air traffic radar applications. Silicon carbide high power, high-speed switching devices promise to improve the performance and reliability of utility transmission and distribution systems and for motor controls in a wide variety of applications. These devices could also play a key role in the evolution of the electric car.

Our Strategy

Our strategy is to build businesses with world-class, high technology materials capabilities at their core. The following current business activities follow this model: CO₂ and infrared optics based on Zinc Selenide (ZnSe) and Zinc Sulfide (ZnS), near infrared and visible laser components based on YAG and Yttrium Lithium Fluoride (YLF), and solid-state radiation detectors based on CdZnTe. Consistent with this strategy, our initiative to enter the optoelectronic and electronic substrates business is predicated on the establishment of Silicon Carbide (SiC) capabilities. In every case, we subsequently manufacture precision parts and components from these materials using established but evolving expertise in low damage surfacing and micro fabrication, thin-film coating, and exacting metrology. A substantial portion of our business is based on long-term contracts with market leaders, which enables substantial forward planning and production efficiencies. In addition, industry leading product quality and delivery performance allows us to achieve comparatively high operating margins in major segments of our business. We intend to capitalize on the execution of this proven model and continually gain market share for laser optics and components, solid-state radiation detectors, telecommunication devices and optoelectronic/electronic materials and substrates.

- Continue Investment to Gain CO₂ and YAG Market Share Worldwide. We continually invest in our manufacturing operations worldwide to increase production capacity.
- Enhance Our Reputation as a Worldwide Quality and Customer Service Leader. We are committed to understanding our customers' needs and exceeding their expectations. We have established ourselves as a consistent high quality supplier of components into our customers' assembly lines. In many cases we deliver on a just in time (JIT) basis. We believe our on-time delivery record and product return rates are the best in the industries we serve. Our quality mission statement is, "We pledge to exceed our internal and external customer requirements through employee dedication to continuous improvement."

- Pursue Strategic Acquisitions and Alliances. Some of the markets we participate in remain fragmented and we
 expect consolidation to occur over the next several years. We will pursue strategic acquisitions and alliances with
 companies whose products or technologies compliment our current products, expand our market coverage, increase
 our addressed market or create synergies with our current capabilities. We intend to identify acquisition opportunities that accelerate our access to emerging high growth segments of the markets we serve.
- Pursue Military Infrared Systems Programs. We believe our Laser Power Corporation subsidiary is a leading supplier of optics for military infrared systems. The Exotic Electro-Optics (EEO) subsidiary of Laser Power Corporation is committed to capturing new military contracts and currently has significant contracts in place with every major military prime contractor. Our Large Optics Coating Facility (LOCF) will enable us to pursue the increased U.S. government defense funding for programs directed towards defensive anti-missile systems using laser technology. This facility is unique in the industry placing itself as one of the few coating laboratories to provide high performance coatings that must withstand extremely high laser energies. Laser Power has several proprietary coatings that are the enabling technology for these systems.
- Continue Extension of Technology Leadership in the Gamma- and X-ray Detector Field. We believe our eV PRODUCTS division is the leader in the manufacture of solid-state gamma- and x-ray detector devices and components. CdZnTe handheld probes in the medical field allow the introduction of new cancer location techniques. CdZnTe based imaging arrays are being introduced in nuclear medicine. CdZnTe is being developed for real time x-ray radiography, which will allow a physician to view relevant parts of the body in real time using a fraction of the x-ray dose required with film. In addition, CdZnTe is drawing attention from the Transportation Safety Administration (TSA) for use in baggage and package inspection systems. Our eV PRODUCTS division is working on these medical, industrial and security applications with market leaders worldwide. The high pressure Bridgman growth process for producing CdZnTe is a materials expertise unique to the Company.
- Utilize Proven Materials Growth Expertise to Perfect Silicon Carbide (SiC). We are a proven provider of hard to grow materials and opto-electronic crystals. We intend to leverage our skills and experiences in commercially producing ZnSe, ZnS, CdZnTe, YAG and YLF to move rapidly forward with our SiC development program. We intend to gain market share and become a reliable second source of SiC substrates to the worldwide marketplace. We will utilize our low damage fabrication experience and exacting metrology in achieving this position.

Our Products

Our products include optical, optoelectronic and electronic materials, devices and components for use in laser, detection, military, telecommunication and advanced electronic and optoelectronic applications. These products are sold to laser system manufacturers and end-users, military laser system and defense suppliers, manufacturers of nuclear radiation detection systems and component suppliers to the optoelectronic and electronic industries.

Laser Components. We supply a broad line of precision optical components such as lenses, waveplates, and mirrors to the CO₂ laser market. CO₂ lasers are used in a wide variety of industrial processes including cutting, welding, drilling, marking and heat treating of materials such as steel alloys, non-ferrous metals, plastics, wood, paper, fiberboard, ceramics and composites. CO₂ lasers are also used in cosmetic and invasive medical surgery. Our precision optical components are used to regulate the amount of laser energy, enhance the properties of the laser beam, and focus and direct laser beams to a target work surface. The optical components include both reflective and transmissive optics and are made from materials such as ZnSe, Copper, Silicon and Germanium. Transmissive optics used with CO₂ lasers are predominately made from ZnSe. We are the largest manufacturer in the world of ZnSe providing us with a significant cost advantage. We believe our ZnSe production capability, high precision fabrication operations and proprietary thin-film coating technology has earned us a reputation as the quality leader in this world market.

Additionally, we supply replacement optics and refurbishing services to end users of CO₂ lasers. Over time optics may become contaminated and must be replaced to maintain efficient laser operations. This aftermarket portion of our business continues to grow as laser applications proliferate worldwide.

Key materials and precision optical components for YAG and other solid-state laser systems are part of our product offering. The increasing power levels and reduced operating costs of evolving YAG laser systems are enabling this technology to address new applications. YAG lasers are now used in high power application such as cutting, welding, marking and date coding. Additionally, YAG laser energy can be delivered through optical fibers, which provides high flexibility beam delivery systems.

We supply a family of standard and custom laser gain materials and optics for industrial, medical, scientific and research YAG lasers. Our YAG laser gain materials are produced to stringent industry specifications and precisely fabricated into rods or slabs. Additionally, we offer waveplates, polarizers, lenses, prisms and mirrors for visible and near-infrared applications which are used to control or alter visible or near-infrared energy and its polarization.

Solid-State Radiation Detectors. We design, manufacture and market CdZnTe room temperature, solid-state radiation detectors combined with custom-designed low noise electronics and imbedded systems. New and expanding applications in industry, medicine, security and research are fueling increased demand for our products. Our solid-state CdZnTe nuclear radiation detectors are attractive because of their reduced size, improved ruggedness, and lower voltage requirements as compared to traditional detectors based on scintillator/photomultiplier or cooled germanium technologies.

CdZnTe-based imaging arrays can be used in both nuclear medicine (internally emitted gamma-rays) and radiography (x-rays from an external source). In nuclear medicine, CdZnTe makes feasible a new generation of gamma cameras, offering much improved position sensitivity and the ability to produce images using lower doses of injected radioactivity. In radiography, higher density CdZnTe can provide much improved sensitivity to the higher x-ray energies used in some of the newer diagnostic techniques. Direct-read digital radiography cameras are being developed which, if successful, will allow the physician to view the relevant part of the body in real time, reducing the time required for diagnosis. In security applications, the unique properties of CdZnTe can provide additional information during a normal baggage scan that allow the system to not only show the image of a suspicious object, but more importantly, tell the operator the material or chemical composition of the item.

Military Infrared Optics. We produce optics for military infrared systems including thermal imaging, night vision, targeting, and navigation systems. These optics comprise missile domes, electro-optical windows and assemblies and imaging lenses and filters. Our precision optical products utilize optical materials consisting of zinc selenide, zinc sulfide, germanium, silicon, sapphire, AMTIR, ALON, and Spinel. The vertical integration of our manufacturing gives us a unique capability to design, fabricate, coat, and assemble these complex systems in-house. These products are currently utilized on the M1 tank, Apache Helicopter, F-14 and F-16, military aircraft, and others, as well as future platforms including the Joint Strike Fighter (JSF).

Research, Development and Engineering

Our research and development effort calls for the pursuit of a program of internally funded and contract research and development totaling between 5 and 8 percent of product sales. From time to time the ratio of contract to internally funded activity varies significantly due to the unevenness and uncertainty associated with most government research programs. We are committed to accepting only funded research that ties closely to our growth plans.

We devote significant resources to research, development and engineering programs directed at the continuous improvement of existing products and processes and to the timely development of new technologies, materials and products. We believe that our research, development and engineering activities are essential to our ability to establish and maintain a leadership position in each of the markets that we serve. As of June 30, 2002 we employed 148 people in research, development and engineering functions, 124 of which are engineers or scientists. In addition, manufacturing personnel support or participate in research and development on an ongoing basis. Interaction between the development and manufacturing functions enhances the direction of projects, reduces costs and accelerates technology transfers.

During the past year, we have made focused investments in:

• Silicon Carbide Substrate Technology: In fiscal 2002, we acquired the Litton Systems Inc. Silicon Carbide Group to complement the Company's SiC development activities. We presently have several crystal growth furnaces producing silicon carbide at both our Pennsylvania and New Jersey manufacturing facilities. In addition, slicing and substrate polishing facilities are in place and qualification products are being sampled by key customers.

- Large Diameter YAG Manufacturing: Our research and development activities in this area are focused on producing materials that will accelerate the evolution of kilowatt-class YAG lasers. Achievements in process control and reliability are rapidly transferred into production at our Florida manufacturing facility, largely due to effective teamwork and crossover between our development and manufacturing personnel.
- High Performance CdZnTe Materials: The marketplace success of eV PRODUCTS depends on our capability
 and capacity to produce radiation detectors with ever-higher sensitivity, resolution and efficiency at lower cost.
 Key advancements have been achieved and will continue to be sought in the production of larger single crystal
 ingots as well as in the fabrication techniques for the manufacture of monolithic arrays of closely spaced detectors.
 As improved performance is indicated, new applications and market potential are opened to CdZnTe products.

The development of our products and processes is largely based on proprietary technical know-how and expertise. We rely on a combination of contract provisions and trade secret laws to protect our proprietary rights. When faced with potential infringement, we have in the past and will continue to protect our rights.

Research, development and engineering expenditures were \$11.3 million, \$8.1 million and \$4.0 million for the fiscal years ended June 30, 2002, 2001 and 2000, respectively. For these same periods, the customer and government funded portions of these expenditures were \$7.6 million, \$5.1 million and \$1.7 million.

Marketing and Sales

We market our products through a direct sales force in North America, Japan, Southeast Asia, Belgium and the UK, and through representatives and distributors elsewhere in Europe, Asia, and South America. Our market strategy is focused on building market awareness and acceptance of our products. New products are constantly being produced and sold to our established customers in the laser component market places.

Each of our product lines is responsible for their own worldwide marketing and sales functions, as follows:

- 1) The laser component businesses share many common customers and sell through our subsidiaries II-VI Japan Incorporated and II-VI U.K. Limited as well as through a common distributor in most of Europe. In Germany, we recently established a new joint venture with L.O.T.-Oriel Laser Optik Technologie Holding GmbH and L.O.T. Oriel Laser Optik GmbH & Co. KG of Darmstadt, Germany (collectively L.O.T.) to distribute II-VI Incorporated and Laser Power Corporation products. (See Note M to the Consolidated Financial Statements.)
- 2) The eV PRODUCTS marketing and sales initiative is handled through a direct sales force in the US coupled with manufacturers' representatives. An array of distributors and representatives are used throughout the rest of the world.
- The military infrared products marketing and sales initiative is handled through a direct sales force in the United States.
- 4) The management and technical staff work closely with potential customers providing samples and deliverable products from our wide band gap wafer materials activities in SiC.

Our sales force develops close relationships with our OEM and end-user customers worldwide. All divisions actively market their products through targeted mailings, telemarketing, select advertising and attendance at trade shows. Our sales force includes a highly trained team of application engineers to assist customers in designing, testing and qualifying our parts as key components of our customers' systems. As of June 30, 2002, we employed 60 individuals in sales, marketing and support.

Manufacturing Technology and Processes

A majority of the products we produce depend on our ability to manufacture difficult optical, opto-electronic or electronic materials. The table below shows these key materials and the processes used to produce them.

	Materials	
Product Line	Produced	Growth Process Utilized
 Laser Components 	ZnSe and ZnS	Chemical Vapor Deposition
 Laser Components 	YAG and YLF	Czochralski
 Solid-State Detectors 	CdZnTe	High Pressure Bridgman
		and Conventional Bridgman
 SiC Substrates 	SiC	Physical Vapor Transport and Axial Gradient Transport

The ability to produce these difficult materials and to control the quality and yields is an expertise of II-VI. Processing of these materials into finished products is difficult to accomplish; yet the quality and reproducibility of these products are critical to the performance of our customer's instruments and systems. In the markets we serve there are a limited number of suppliers of many of the components we manufacture.

The network of our worldwide manufacturing sites allows products to be produced in regions that provide cost-effective advantages. We believe our cost to produce our infrared and near infrared components are the lowest among all competitors. We employ numerous advanced manufacturing technologies and systems in all product-manufacturing facilities. These include automated CNC optical fabrication, high throughput thin-film coaters, micro precision metrology and custom-engineered automated furnace controls for the crystal growth processes. Producing products for use across the electromagnetic spectrum requires the capabilities to repeatedly produce products with high yields to tolerances in the nanometer range. We embody a technology and quality mindset that gives our customers the confidence to utilize our products in a just in time basis straight into the heart of their production lines.

Sources of Supply

The major raw materials we use are Zinc, Selenium, Hydrogen Selenide, Hydrogen Sulfide, Cadmium, Tellurium, Yttrium Oxide, Aluminum Oxide and Iridium. We produce virtually all of our Zinc Selenide requirements internally, although small quantities of Zinc Selenide may be purchased from outside vendors from time to time. We also purchase Zinc Sulfide, Gallium Arsenide, Copper, Silicon, Germanium, Quartz, optical glass and small quantities of other materials for use as base materials for laser optics. We purchase Thorium Fluoride and other materials for use in optical fabrication and coating processes. There are more than two external suppliers for all of the above materials except for Zinc Selenide, Zinc Sulfide, Hydrogen Selenide and Thorium Fluoride, for each of which there is only one proven source of merchant supply. For most materials, we have entered into annual purchase arrangements whereby suppliers provide discounts for annual volume purchases in excess of specified amounts.

The continued high quality of these materials is critical to the stability of our manufacturing yields. We conduct testing of materials at the onset of the production process to meet evolving customer requirements. Additional research may be needed to better define future starting material specifications. We have not experienced significant production delays due to shortages of materials. However, we do occasionally experience problems associated with vendor supplied materials not meeting contract specifications for quality or purity. A significant failure of our suppliers to deliver sufficient quantities of necessary high-quality materials on a timely basis could have a materially adverse effect on our results of operations.

Customers

Our customer base for our laser component products consists of over 5,000 customers worldwide.

The three main groups of customers for our laser component products are as follows:

 Leading original equipment manufactures and system integrators of high power industrial, medical and military laser systems,

- Laser end users who require replacement optics for their existing laser systems, and
- Scientific and military customers, including the U.S. military and its allies, for use in advanced targeting, navigation and infrared imaging systems.

For our solid-state radiation detector products, our customers are manufacturers of equipment and devices for industrial process control, nuclear medicine, x-ray imaging, environmental monitoring, nuclear safeguards and nonproliferation, and health physics. We are currently dependent on a limited number of key customers for this product line.

Our silicon carbide electronic materials product sales to date have been limited and we do not have an established customer base for this product line.

Competition

We believe that we are a leading producer of products and services in our addressed markets. In the area of commercial infrared laser optics and materials, we believe we are an industry leader. We are a leading supplier of infrared optics used in complex military assemblies for targeting, navigation and thermal imaging systems to every major military prime contractor. We are a leading supplier of CdZnTe substrates and devices for x-ray and gamma-ray detectors and components. We are a significant supplier of YAG rods and YAG laser optics to the worldwide markets of scientific, research, medical and industrial laser manufacturers.

We compete on the basis of product quality, delivery time, strong technical support and pricing. Management believes that we compete favorably with respect to these factors and that our vertical integration, manufacturing facilities and equipment, experienced technical and manufacturing employees, and worldwide marketing and distribution provide competitive advantages.

We have a number of present and potential competitors, many of which have greater financial, selling, marketing or technical resources. A competitor of our production of ZnSe is a division of Rohm and Haas Company. The competitors producing infrared and CO₂ laser optics include Sumitomo in Japan and Ophir Optronics in Israel as well as several companies producing limited quantities of infrared and CO₂ laser optics. Competing producers of YAG materials and optics include the Poly-Scientific Division of the Northrop Grumman Component Technologies Sector and a division of Saint-Gobain. Competing producers of infrared optics for military applications are in-house fabrication and thin film coating capabilities of major military prime contractors, such as Raytheon Corporation. Competing producers of CdZnTe and CdZnTe detectors include Acrorad in Japan and Imarad in Israel.

In addition to competitors who manufacture products similar to those we produce, there are other technologies or materials that may compete with our products.

Bookings and Backlog

We define our bookings during a fiscal period as incoming orders believed to be deliverable to customers in the next twelve months net of any order cancellations. Certain long-term research and development contracts exceeding twelve-month may be booked in their entirety, but in no event would exceed twenty-four months. For the year ended June 30, 2002, our bookings were \$117.0 million compared to bookings of \$132.7 million for the year ended June 30, 2001. We believe that the decrease in bookings was driven by the weak worldwide economy and industrial demand. Many large one-year blanket orders were not cancelled, but were pushed out three to six months due to weakened industrial demand.

We define our backlog as customer orders available for shipment in the next twelve months and certain long-term research and development contracts not exceeding twenty-four months as of the end of the fiscal period. As of June 30, 2002, our backlog was \$48.0 million compared to \$44.7 million at June 30, 2001. The increase in backlog is primarily reflective of strong second half bookings, more specifically large one-year blanket orders recorded by the eV PRODUCTS division, significant military orders booked at the Laser Power Corporation and contract bookings for the development of Silicon Carbide.

Employees

As of June 30, 2002, we employed 976 persons worldwide. Of these employees, 148 were engaged in research, development and engineering, 613 in direct production and the balance in sales and marketing, administration, finance and support services. Our production staff includes highly skilled optical craftsmen. None of our employees are covered by a collective bargaining agreement, and we have never experienced any work stoppages. We have a long-standing policy of encouraging active employee participation in selected areas of operations management. We believe our relations with our employees to be good. We reward our employees with incentive compensation based on achievement of performance goals.

Patents, Trade Secrets and Trademarks

We rely on our trade secrets and proprietary know-how to develop and maintain our competitive position. We have not pursued process patents due to the disclosures required in the patent process and the relative difficulties in successfully litigating process-type patents. We have confidentiality and noncompetition agreements with our executive officers and certain other personnel.

The processes and specialized equipment utilized in crystal growth, infrared materials fabrication and infrared optical coatings as developed by us are complex and difficult to duplicate. However, there can be no assurance that others will not develop or patent similar technology or that all aspects of our proprietary technology will be protected. Others have obtained patents covering a variety of infrared optical configurations and processes, and others could obtain patents covering technology similar to our technology. We may be required to obtain licenses under such patents, and there can be no assurance that we would be able to obtain such licenses, if required, on commercially reasonable terms, or that claims regarding rights to technology will not be asserted which may adversely affect our results of operations. In addition, our research and development contracts with agencies of the United States Government present a risk that project-specific technology could be disclosed to competitors as contract reporting requirements are fulfilled.

We hold six registered trademarks: the **II-VI INCORPORATED®** name; **INFRAREADY OPTICS®** for replacement optics for industrial CO₂ lasers; **EPIREADY®** for low surface damage substrates for Mercury Cadmium Telluride epitaxy; and **eV PRODUCTS®** for products manufactured by our eV PRODUCTS division; **LASER POWER CORPORATION®** name; **MP-5®** for low absorption coating technology. The trademarks are registered with the United States Patent and Trademark Office, but not with any states. We are not aware of any interference or opposition to these trademarks in any jurisdiction.

ITEM 2: PROPERTIES

Facilities

Our headquarters are located in Saxonburg, Pennsylvania, 25 miles north of Pittsburgh, on approximately 64 acres of land. This location contains several manufacturing facilities totaling 171,000 square feet. Our VLOC subsidiary maintains two manufacturing facilities in Florida, northwest of Tampa. These locations total 65,000 square feet. In addition, we lease manufacturing and office space in California, New Jersey, Mexico, Singapore, China, Japan, U.K. and Belgium totaling 184,000 square feet.

ITEM 3: LEGAL PROCEEDINGS

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Form 10-K.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their respective ages and positions are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Carl J. Johnson	60	Chairman, Chief Executive Officer and Director
Francis J. Kramer	53	President, Chief Operating Officer and Director
Herman E. Reedy	59	Vice President and General Manager of Quality and Engineering
James Martinelli	44	General Manager of Laser Power Corporation
		and Chief Financial Officer of II-VI Incorporated
Craig A. Creaturo	32	Treasurer

Carl J. Johnson, a co-founder of II-VI in 1971, serves as Chairman, Chief Executive Officer, and Director of II-VI. He served as President of II-VI from 1971 until 1985 and has been a Director since its founding and Chairman since 1985. From 1966 to 1971, Dr. Johnson was Director of Research & Development for Essex International, Inc., an automotive electrical and power distribution products manufacturer. From 1964 to 1966, Dr. Johnson worked at Bell Telephone Laboratories as a member of the technical staff. Dr. Johnson completed his Ph.D. in Electrical Engineering at the University of Illinois in 1969. He holds B.S. and M.S. degrees in Electrical Engineering from Purdue University and Massachusetts Institute of Technology (MIT), respectively. Dr. Johnson serves as a director of Xymox Technologies, Inc., and Armstrong Laser Technology, Inc.

Francis J. Kramer has been employed by II-VI since 1983 and has been its President and Chief Operating Officer since 1985. Mr. Kramer has served as a Director of II-VI since 1989. Mr. Kramer joined II-VI as Vice President and General Manager of Manufacturing and was named Executive Vice President and General Manager of Manufacturing in 1984. Prior to his employment by II-VI, Mr. Kramer was the Director of Operations for the Utility Communications Systems Group of Rockwell International Corp. Mr. Kramer graduated from the University of Pittsburgh in 1971 with a B.S. degree in Industrial Engineering and from Purdue University in 1975 with an M.S. degree in Industrial Administration.

Herman E. Reedy has been with II-VI since 1977 and is Vice President and General Manager of Quality and Engineering. Previously, Mr. Reedy held positions at II-VI as General Manager of Quality and Engineering, Manager of Quality and Manager of Components. From 1973 until joining II-VI, Mr. Reedy was employed by Essex International, Inc., serving last as Manager, MOS Wafer Process Engineering. Prior to 1973, he was employed by Carnegie Mellon University and previously held positions with SemiElements, Inc. and Westinghouse Electric Corporation. Mr. Reedy is a 1975 graduate of the University of Pittsburgh with a B.S. degree in Electrical Engineering.

James Martinelli has been employed by II-VI since 1986. He has served as General Manager of Laser Power Corporation since July 2000 and Chief Financial Officer of II-VI Incorporated since 1994. Mr. Martinelli joined the Company as Accounting Manager, was named Controller in 1990 and named Chief Financial Officer and Treasurer in 1994. Prior to his employment by II-VI, Mr. Martinelli was Accounting Manager at Tippins Incorporated and Pennsylvania Engineering Corporation from 1980 to 1985. Mr. Martinelli graduated from Indiana University of Pennsylvania in 1980 with a B.S. degree in Accounting and is a member of the Pennsylvania Institute of Certified Public Accountants.

Craig A. Creaturo has served as Treasurer and Director of Finance, Accounting and Information Systems since July 2000. Mr. Creaturo has been employed by the Company since 1998 when he joined the Company as Corporate Controller. Prior to his employment by the Company, Mr. Creaturo was employed by Arthur Andersen LLP from 1992 to 1998 and served in the audit and attestation division with a final position as Audit Manager. Mr. Creaturo graduated from Grove City College in 1992 with a B.S. degree in Accounting. Mr. Creaturo is a Certified Public Accountant in the Commonwealth of Pennsylvania and is a member of the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq National Market under the symbol "IIVI." The following table sets forth the range of high and low closing sale prices per share of the Company's Common Stock for the fiscal periods indicated, as reported by Nasdaq.

<u>High</u>	<u>Low</u>
\$17.25	\$12.67
\$18.05	\$11.90
\$19.10	\$13.95
\$15.78	\$11.98
\$28.50	\$13.31
\$23.38	\$13.89
\$17.69	\$11.00
\$17.50	\$11.88
	\$17.25 \$18.05 \$19.10 \$15.78 \$28.50 \$23.38 \$17.69

On September 10, 2002, the last reported sale price for the Common Stock was \$13.31 per share. As of such date, there were approximately 800 holders of record of the Common Stock. The Company historically has not paid cash dividends and does not anticipate paying cash dividends in the foreseeable future.

ITEM 6: SELECTED FINANCIAL DATA

FIVE-YEAR FINANCIAL SUMMARY

Year Ended June 30,	2002	2001	2000	1999	1998
(000 except per share data)					
Statement of Earnings					
Net revenues	\$113,688	\$123,334	\$74,092	\$62,014	\$61,340
Net earnings	\$ 7,264	\$ 9,491	\$ 7,311	\$ 5,463	\$ 6,780
Basic earnings per share	\$ 0.52	\$ 0.69	\$ 0.57	\$ 0.43	\$ 0.53
Diluted earnings per share	\$ 0.51	\$ 0.67	\$ 0.55	\$ 0.42	\$ 0.51
Diluted weighted average shares outstanding	14,314	14,160	13,176	12,980	13,348

Share and per share data for 2000, 1999 and 1998 were adjusted to reflect the two-for-one stock split in fiscal 2001.

June 30,	2002	2001	2000	1999	1998
(\$000)					_
Balance Sheet					
Working capital	\$ 35,746	\$ 33,976	\$24,335	\$17,590	\$13,420
Total assets	151,901	148,173	84,102	70,843	67,774
Total debt	34,503	37,006	5,585	6,674	8,209
Retained earnings	61,451	54,187	44,696	37,385	31,922
Shareholders' equity	97,660	89,413	63,426	54,493	50,063

For the five-year period ended June 30, 2002, no cash dividends were declared.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. Forward-looking statements are also identified by words such a "expects," "anticipates," "believes," "intends," "plans, "projects," or similar expressions. Actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including risk factors described in the Risk Factors set forth in Item 7.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note A of the Consolidated Financial Statements, which were prepared in accordance with accounting principles generally accepted in the United States of America. In preparing our financial statements, we made estimates and judgments which affect the results of our operations and the value of assets and liabilities we report. Our actual results may differ from these estimates.

We believe that the following summarizes critical accounting policies which require significant judgments and estimates in our preparation of our consolidated financial statements.

The Company records revenue, other than on long-term contracts, 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.

The Company records an allowance for doubtful accounts receivable including warranty reserves as a charge against earnings based on a percentage of actual historical product returns over the past twelve months. Additional reserve is estimated for potential non-collection of the receivable based on historical results. The Company has not experienced a non-collection of accounts receivable materially affecting the financial position or results of operations.

The Company records a slow moving inventory reserve as a charge against earnings for all products on hand that have not been sold to customers in the past twelve months. An additional reserve is recorded for product on hand that is in excess of product sold to customers over the past twelve months.

The Company records bonus and profit sharing estimates as a charge against earnings based on a percentage of operating income. These estimates are adjusted to actual based on final results of operations achieved during the fiscal year. Certain bonuses are paid quarterly at a level of 75% of the current year to date operating income with final payment in August of the subsequent fiscal year. Other bonuses and profit sharing are paid annually in August of the subsequent fiscal year.

From time to time, estimated accruals are recorded as a charge against earnings based on known circumstances where it is probable that a liability has been incurred or is expected to be incurred and the amount can reasonably be estimated.

RESULTS OF OPERATIONS

Fiscal 2002 Compared to Fiscal 2001

NET EARNINGS Net earnings decreased 23% in fiscal 2002 to \$7.3 million from \$9.5 million in fiscal 2001. The major contributor to the net earnings decrease was the general softening of demand for laser optics and component products in the industrial sector impacted by the weak worldwide economy.

BOOKINGS Bookings decreased 12% to \$117.0 million in fiscal 2002 compared to \$132.7 million in fiscal 2001. Order backlog increased 7% to \$48.0 million at June 30, 2002 from \$44.7 million at June 30, 2001 as a result of bookings outpacing shipments in fiscal 2002. The increase in backlog is primarily due to strong second half bookings, more specifically large orders recorded by significant military orders booked at Laser Power Corporation, blanket orders recorded by eV PRODUCTS division and contract bookings for the development of Silicon Carbide. Manufacturing orders comprised 93% of the backlog at June 30, 2002. Manufacturing bookings decreased by approximately \$16.1 million while contract research and development bookings increased by approximately \$0.1 million. Bookings for laser optics and component products decreased approximately 15%, primarily driven by delays in EOM and aftermarket orders caused by a slowdown in the industrial sector. Bookings for Laser Power Corporation were \$37.4 million for the fiscal year ended June 30, 2002 compared to \$39.0 million for eleven months ended June 30, 2001 during which period Laser Power Corporation was owned by the Company. The overall decrease in the Laser Power Corporation bookings was due to a decrease in commercial bookings more than offsetting an increase in military bookings. Bookings for the eV PRODUCTS division decreased approximately 30% due to the absence of orders to replace fiscal year 2001 high volume orders such as the NASA swift telescope program and Neoprobe bone densitometry. Bookings for the Silicon Carbide development activities of the WBG group were \$2.3 million.

REVENUES Revenues decreased 8% to \$113.7 million in fiscal 2002 compared to \$123.3 million last fiscal year. Revenues for laser optics and component products decreased approximately 10% due to lower shipments of industrial laser OEM and aftermarket sales from sluggish industrial worldwide demand, revenues from the eV PRODUCTS division decreased approximately 30% from the absence in sales to replace the fiscal year 2001 volume sales primarily in the medical sector, and the Company recorded revenues from Laser Power Corporation of approximately \$32.5 million for the fiscal year ended June 30, 2002 compared to \$31.1 million for eleven months ended June 30, 2001.

COSTS AND EXPENSES Manufacturing gross margin was \$36.3 million or 34% of net revenues in fiscal 2002 compared to \$46.1 million or 39% of net revenues in fiscal 2001. The dollar and percentage decrease was attributable to lower sales volume. The decrease in the gross margin percentage was also driven by a shift in the product mix during the past few quarters. As the industrial business has slowed, the Company has taken on more military business which historically has lower margins.

Contract research and development gross margin was \$0.7 million or 9% of contract research and development revenues in fiscal 2002 compared to \$1.5 million or 29% of contract research and development revenues in fiscal 2001. The gross margin was negatively impacted during the year as Laser Power Corporation and, more specifically, the Large Optics Coating Facility, encountered continued production issues related to several developmental contracts.

Company-funded internal research and development remained relatively unchanged at \$4.4 million in fiscal 2002 from \$4.5 million in fiscal 2001. In general, internal research and development expense reflects increased efforts focused on Silicon Carbide crystal growth technology and processing development, the Company's corporate research and development activities and the research and development activities of eV PRODUCTS.

Selling, general and administrative expenses were \$21.2 million or 19% of revenues in fiscal 2002 compared to \$24.8 million or 20% of revenues in fiscal 2001. This dollar and percentage decrease is attributable to the elimination of certain redundant expenses, as well as, expense and manpower reductions due to decreased manufacturing demand during fiscal 2002.

Other expense was \$0.4 million in fiscal 2002 compared to \$1.4 million in fiscal 2001. The other expense decrease was primarily due to the absence of approximately \$1.5 million of goodwill amortization incurred in fiscal 2001 (see Note E to the Consolidated Financial Statements) and foreign currency gains in 2002 as compared to losses in fiscal 2001. The overall decrease was partially offset by fiscal 2002 charges related to the closing of operations of Laser Power Corporation in Mexico of \$0.4 million, costs related to consolidating several of the Company's European distribution arrangements of \$0.4 million, and the write-off of certain crystal growth equipment and technology of \$0.7 million.

Interest expense was \$1.4 million in fiscal 2002 compared to \$2.3 million in fiscal 2001. The decrease in interest expense was primarily due to the lower borrowings and continuing decrease of the Company's LIBOR based interest rate as compared to fiscal 2001. The Company's weighted average interest rate was approximately 37% lower at June 30, 2002 as compared to the previous year. Scheduled quarterly payments on the term loan component of the Company's credit agreement began in fiscal 2002.

The effective corporate income tax rate was 24% in fiscal 2002 compared to 35% in fiscal 2001. The decrease in the effective income tax rate reflects the favorable mix of worldwide earnings from the Company's focus on increased manufacturing in China and Singapore where tax rates are lower than the United States.

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.

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.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2002, cash generated from operations was \$16.1 million. Proceeds from the net increase in borrowings of \$1.3 million in addition to the cash generated from operations were used primarily to fund an investment of \$8.6 million in property, plant and equipment, to finance a \$1.7 million investment for a 25% ownership of a key supplier to the Company, to acquire for \$2.2 million the Litton Systems, Inc. Silicon Carbide Group and pay down \$3.8 million due on the term loan. Cash transactions for fiscal 2002 and cash on hand at the beginning of the fiscal year resulted in a cash position of \$9.6 million at June 30, 2002.

The largest sources of the \$16.1 million in cash generated from operations in fiscal 2002 was \$16.6 million in net earnings before depreciation and amortization, an increase in deferred income taxes and a decrease in accounts receivable and inventories of \$2.3 million. This increase in cash was partially offset by a decrease in accounts payable and other operating net assets of \$2.5 million.

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

The Company expects cash flow from operations to continue to fund working capital needs, capital expenditures and internal growth. During fiscal 2002, the Company reinvested \$8.6 million into capital projects.

RISK FACTORS

We Depend on Highly Complex Manufacturing Processes Which Require Products from Limited Sources of Supply

We utilize high quality, optical grade ZnSe in the production of a majority of our products. We are a leading producer of ZnSe for our internal use and for external sale. The production of ZnSe is a complex process requiring production in a highly controlled environment. A number of factors, including defective or contaminated materials, could adversely affect our ability to achieve acceptable manufacturing yields of high quality ZnSe. ZnSe is available from only one outside source where quantity and qualities may be limited. The unavailability of necessary amounts of high quality ZnSe would have a material adverse effect upon us. In addition, in fiscal 1992 and 1993, we experienced fluctuations in our manufacturing yields which affected our results of operations. There can be no assurance that we will not experience manufacturing yield inefficiencies which could have a material adverse effect on our business, results of operations or financial condition.

We produce Hydrogen Selenide gas which is used in our production of ZnSe. There are risks inherent in the production and handling of such material. Our inability to effectively handle Hydrogen Selenide could require us to curtail our production of Hydrogen Selenide. Hydrogen Selenide can be obtained from one outside source. The cost of purchasing such material is significantly greater than the cost of internal production. As a result, purchasing a substantial portion of such material from the outside source would significantly increase our production costs of ZnSe. Therefore, our inability to internally produce Hydrogen Selenide could have a material adverse effect on our business, results of operations or financial condition.

In addition, we utilize other high purity, relatively uncommon materials and compounds to manufacture our products. Failure of our suppliers to deliver sufficient quantities of these necessary materials on a timely basis could have a material adverse effect on our business, results of operations or financial condition.

Our Business is Dependent on Other Cyclical Industries

Our business is significantly dependent on the demand for products produced by end users of industrial lasers. Many of these end users are in industries that historically have experienced a highly cyclical demand for their products. Therefore, as a result, demand for our products and our results of operations are subject to cyclical fluctuations.

Our Revenues are Subject to Potential Seasonal Fluctuations

Due to our customers' buying patterns, particularly in Europe, revenues for our first fiscal quarter ending in September could be below those in the preceding quarter. Our first fiscal quarter results often are dependent upon the sales made in the last month of the quarter.

We May Encounter Substantial Competition

We may encounter substantial competition from other companies in the same market, including established companies with substantial resources. Some of our competitors may have financial, technical, marketing or other capabilities more extensive than ours and may be able to respond more quickly than we can to new or emerging technologies and other competitive pressures. We may not be able to compete successfully against our present or future competitors, and competition may adversely affect our business, financial condition or operating results.

International Sales Account for a Significant Portion of Our Revenues

Sales to customers in countries other than the United States accounted for approximately 39%, 37% and 49% of revenues during the years ended June 30, 2002, 2001 and 2000, respectively. We anticipate that international sales will continue to account for a significant portion of our revenues for the foreseeable future. In addition, we manufacture products in Singapore and China and maintain direct sales offices in Japan, the UK and Belgium. Sales and operations outside of the United States are subject to certain inherent risks, including fluctuations in the value of the U.S. dollar relative to foreign currencies, tariffs, quotas, taxes and other market barriers, political and economic instability, restrictions on the export or import of technology, potentially limited intellectual property protection, difficulties in staffing and managing international operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a material adverse effect on our business, financial condition or results of operations. In particular, although our international sales, other than in Japan, Belgium and the UK, are denominated in U.S. dollars, currency exchange fluctuations in countries where we do business could have a material adverse affect on our business, financial condition or results of operations, by rendering us less price-competitive than foreign manufacturers. Our sales in Japan are denominated in yen and, accordingly, are affected by fluctuations in the dollar/yen currency exchange rates. We generally reduce our exposure to such fluctuations through forward exchange agreements hedging approximately 75% of our sales in Japan. We do not engage in the speculative trading of financial derivatives. There can be no assurance, however, that our practices will reduce or eliminate the risk of fluctuation in the dollar/yen currency exchange rate.

Our Revenues May Suffer if General Economic Conditions Worsen

Our revenues and earnings may be affected by general economic factors, such as excessive inflation, currency fluctuations and employment levels, resulting in a temporary or longer-term overall decline in demand for our products. Therefore, any significant downturn or recession in the United States or other countries could have a material adverse effect on our business, financial condition and results of operations.

We May Expand Product Lines and Markets by Acquiring Other Businesses

Our business strategy includes expanding our product lines and markets through internal product development and acquisitions. Any acquisition may result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, and amortization expense related to intangible assets acquired, any of which could have a material adverse affect on our business, financial condition or results of operations. In addition, acquired businesses may be experiencing operating losses. Any acquisition will involve numerous risks, including difficulties in the assimilation of the acquired company's operations and products, uncertainties associated with operating in new markets and working with new customers, and the potential loss of the acquired company's key employees. In fiscal 1995, we acquired the Virgo Optics Division of Sandoz Chemicals Corporation. In fiscal 1996, we acquired Lightening Optical Corporation. Subsequently, these acquisitions were combined to form our VLOC subsidiary. In fiscal 2001, we acquired Laser Power Corporation. In fiscal 2002, we acquired the Litton System, Inc. Silicon Carbide Group.

Our Success Depends on New Products and Processes

In order to meet our strategic objectives, we must continue to develop, manufacture and market new products, develop new processes and improve existing processes. As a result, we expect to continue to make significant investments in research and development and to continue to consider from time to time the strategic acquisition of businesses, products, or technologies complementary to our business. Our success in developing, introducing and selling new and enhanced products depends upon a variety of factors including product selection, timely and efficient completion of product design and development, timely and efficient implementation of manufacturing and assembly processes, effective sales and marketing, and product performance in the field. There can be no assurance that we will be able to develop and introduce new products or enhancements to our existing products and processes in a manner which satisfies customer needs or achieves market acceptance. The failure to do so could have a material adverse affect on our ability to grow our business.

Failure to Keep Pace with Industry Developments May Adversely Affect Our Operations

We are engaged in industries which will be affected by future developments. The introduction of products or processes utilizing new developments could render existing products or processes obsolete or unmarketable. Our continued success will depend upon our ability to develop and introduce on a timely and cost-effective basis new products, processes and applications that keep pace with developments and address increasingly sophisticated customer requirements. There can be no assurance that we will be successful in identifying, developing and marketing new products, applications and processes and product or process enhancements, that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of product or process enhancements or new products, applications or processes, or that our products, applications or processes will adequately meet the requirements of the marketplace and achieve market acceptance. Our business, results of operations and financial condition could be materially and adversely affected if we were to incur delays in developing new products, applications or processes or product or process enhancements or if we did not gain market acceptance.

Exposure to Government Markets

With the acquisition of Laser Power Corporation, sales to customers in the defense industry have increased. These customers in turn generally contract with a governmental entity, typically the U.S. government. Most governmental programs are subject to funding approval and can be modified or terminated with no warning upon the determination of a legislative or administrative body. The loss or failure to obtain certain contracts or a loss of a major government customer could have a material adverse effect on our business, financial condition and results of operations.

Our Success Depends on the Ability to Retain Key Personnel

We are highly dependent upon the experience and continuing services of certain scientists, engineers, production and management personnel. Competition for the services of these personnel is intense, and there can be no assurance that we will be able to retain or attract the personnel necessary for our success. The loss of the services of our key personnel could have a material adverse affect on our business, results of operations or financial condition.

There Are Limitations on the Protection of Our Intellectual Property

We do not currently hold any material patents applicable to our processes and rely on a combination of trade secret, copyright and trademark laws and employee non-competition and nondisclosure agreements to protect our intellectual property rights. There can be no assurance that the steps taken by us will be adequate to prevent misappropriation of our technology. Furthermore, there can be no assurance that, in the future, third parties will not assert infringement claims against us. Asserting our rights or defending against third-party claims could involve substantial expense, thus materially and adversely affecting our business, results of operations or financial condition. In the event a third party were successful in a claim that one of our processes infringed its proprietary rights, we may have to pay substantial damages or royalties, or expend substantial amounts in order to obtain a license or modify the process so that it no longer infringes such proprietary rights, any of which could have an adverse effect on our business, results of operations or financial condition.

Our European Sales Rely On A Single Distributor

A significant portion of our European sales not made by our subsidiaries in the UK and Belgium have been made through a European distributor. This distributor also provides service and support to the end users of our products. Thus, a reduction in the sales efforts of this distributor could adversely affect our European sales and our ability to support the end users of our products. There can be no assurance that this distributor will continue to distribute, or to distribute successfully, our products and, in such an event, our business, results of operations and financial earnings could be materially and adversely affected. We recently established controlling interest in a new joint venture with the distributor serving the German market. (See Note M to the Consolidated Financial Statements.)

Our Stock Price May Fluctuate

Future announcements concerning us, our competitors or customers, quarterly variations in operating results, announcements of technological innovations, the introduction of new products or changes in product pricing policies by us or our competitors, seasonal or other variations in anticipated or actual results of operations, changes in earnings estimates by analysts or reports regarding our industries in the financial press or investment advisory publications, among other factors, could cause the market price of our stock to fluctuate substantially. In addition, stock prices may fluctuate widely for reasons which may be unrelated to operating results. These fluctuations, as well as general economic, political and market conditions such as recessions, military conflicts or market or market-sector declines, may materially and adversely affect the market price of our common stock. In addition, any information concerning us, including projections of future operating results, appearing in investment advisory publications or on-line bulletin boards or otherwise emanating from a source other than us could in the future contribute to volatility in the market price of our common stock.

We Have Adopted Antitakeover Devices Which May Limit the Price that Certain Investors May be Willing to Pay in the Future for Shares of Our Common Stock

Our articles of incorporation, by-laws and shareholder rights plan contain provisions which could make us a less attractive target for a hostile takeover or make it more difficult or discourage a merger proposal, a tender offer or a proxy contest. This could limit the price that certain investors might be willing to pay in the future for shares of our common stock. The provisions include:

- classification of the board of directors into three classes;
- a procedure which requires shareholders or the board of directors to nominate directors in advance of a meeting to elect such directors;
- the ability of the board of directors to issue additional shares of common stock or preferred stock without share-holder approval; and
- certain provisions requiring supermajority approval (at least two-thirds of the votes cast by all shareholders entitled to vote thereon, voting together as a single class).
- a formal shareholder rights plan designed to protect all corporate interests in the event the Company's Board of Directors and shareholders are confronted with an abusive or unfair takeover attempt.

In addition, the Pennsylvania Business Corporation Law contains provisions which may have the effect of delaying or preventing a change in our control.

We Are Subject to Stringent Environmental Regulation

We use or generate certain hazardous substances in our research and manufacturing facilities. We believe that our handling of such substances is in material compliance with applicable local, state and federal environmental, safety and health regulations at each operating location. We invest substantially in proper protective equipment, process controls and specialized training to minimize risks to employees, surrounding communities and the environment due to the presence and handling of such hazardous substances. We annually conduct employee physical examinations and workplace air monitoring regarding such substances. When exposure problems or potential exposure problems have been indicated, corrective actions have been implemented and re-occurrence has been minimal or non-existent. We do not carry environmental impairment insurance.

Relative to its generation and use of the extremely hazardous substance Hydrogen Selenide, we have in place an emergency response plan. Special attention has been given to all procedures pertaining to this gaseous material to minimize the chances of its accidental release to the atmosphere.

With respect to the production, use, storage and disposal of the low-level radioactive material Thorium Fluoride, our facilities and procedures have been inspected and licensed by the Nuclear Regulatory Commission. This material is utilized in our thin-film coatings. Thorium bearing by-products are collected and shipped as solid waste to a government-approved low-level radioactive waste disposal site in Clive, Utah.

The generation, use, collection, storage and disposal of all other hazardous by-products, such as suspended solids containing heavy metals or airborne particulates, are believed by us to be in material compliance with regulations. We believe that all of the permits and licenses required for operation of our business are in place. Although we do not know of any material environmental, safety or health problems in our properties or processes, there can be no assurance that problems will not develop in the future which would have a materially adverse effect on us.

Some Laser Systems Are Complex in Design and May Contain Defects that Are Not Detected Until Deployed Which Could Increase Our Costs and/or Reduce Our Revenues

Laser systems are inherently complex in design and require ongoing regular maintenance. The manufacture of lasers, laser products and systems involves a highly complex and precise process. As a result of the technical complexity of our products, changes in our or our suppliers' manufacturing processes or in the use of defective or contaminated materials by us or our suppliers could result in a material adverse effect on our ability to achieve acceptable manufacturing yields and product reliability. To the extent that we do not achieve such yields or product reliability, our business, operating results, financial condition and customer relationships could be adversely affected. Our customers may discover defects in our products after the products have been fully deployed and operated under peak stress conditions. In addition, some of our products are combined with products from other vendors, which may contain defects. Should problems occur, it may be difficult to identify the source of the problem. If we are unable to fix defects or other problems, we could experience, among other things:

- loss of customers;
- increased costs of product returns and warranty expenses;
- damage to our brand reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; and
- legal action by our customers.

The occurrence of any one or more of the foregoing factors could seriously harm our business or financial condition.

Recently Issued Financial Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 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 adopted this standard as of July 1, 2002 and does not believe that the adoption of SFAS 143 will have a significant impact on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which provides guidance that will eliminate inconsistencies in the accounting for the impairment or disposal of long-lived assets under existing accounting pronouncements. The Company will apply the provisions of the pronouncement beginning July 1, 2002. The Company does not expect the adoption of this pronouncement to have a material impact on its financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 will affect income statement classification of gains and losses from extinguishment of debt and make certain other technical corrections. Based on current operations, the Company does not expect the adoption of this pronouncement to have a material impact on its financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullified EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS 146 and Issue 94-3 relates to SFAS 146 requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of this pronouncement to have a material effect on its financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 \$830,000 for the year ended June 30, 2002. In September 2002, the Company replaced the 237 million Yen loan with a 300 million Yen loan effective September 25, 2002. (See Note M to the Consolidated Financial Statements.)

Interest Rate Risks — The Company entered into an interest rate cap 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 \$350,000 for the year ended June 30, 2002.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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 (the "Company") as of June 30, 2002 and 2001, and the related consolidated statements of earnings, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended June 30, 2002. Our audits also included the financial statement schedule listed in Item 15. These consolidated financial statements and financial statement schedule are the responsibility of management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule 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, 2002 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note E to the Consolidated Financial Statements, the Company changed its method of accounting for goodwill amortization in fiscal 2002.

/s/ Deloitte & Touche LLP Pittsburgh, Pennsylvania September 13, 2002 (September 25, 2002 as to Note M)

CONSOLIDATED BALANCE SHEETS

June 30,	2002	2001
(\$000)		_
Current Assets		
Cash and cash equivalents	\$ 9,610	\$ 8,093
Accounts receivable – less allowance for doubtful accounts	φ 2,010	Ψ 0,075
of \$847 at June 30, 2002 and \$749 at June 30, 2001	21,541	21,884
Inventories	19,741	20,782
Deferred income taxes	3,457	3,304
	1,488	1,644
Prepaid and other current assets		
Total Current Assets	55,837	55,707
Property, Plant & Equipment, net	60,711	58,031
Goodwill, net	28,987	29,236
Intangible Assets, net	3,233	4,086
Other Assets	3,133	1,113
	\$151,901	\$148,173
Current Liabilities		
Accounts payable	\$ 3,970	\$ 5,714
Accrued salaries and wages	2,125	1,826
Accrued bonuses	2,851	5,260
Income taxes payable	1,012	2,158
Accrued profit sharing contribution	736	1,122
Other accrued liabilities	4,329	1,817
Current portion of long-term debt	5,068	3,834
Total Current Liabilities	20,091	21,731
Long-Term Debt	29,435	33,172
Other Liabilities, Primarily Deferred Income Taxes	4,715	3,857
Total Liabilities	54,241	58,760
Shareholders Equity	5 .,2 . 1	20,700
Preferred stock, no par value;		
authorized — 5,000,000 shares; none issued	_	_
Common stock, no par value; authorized — 30,000,000 shares; issued —		
15,101,450 shares at June 30, 2002; 14,981,163 shares at June 30, 2001	37,840	37,045
Accumulated other comprehensive income	279	91
Retained earnings	61,451	54,187
	99,570	91,323
Less treasury stock at cost, 1,068,880 shares	1,910	1,910
Total Shareholders' Equity	97,660	89,413
Total Shaleholders Equity	\$151,901	\$148,173
	\$131,901	\$140,173

CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended June 30,	2002	2001	2000
(\$000 except per share data)			
Revenues			
Net sales:			
Domestic	\$ 61,995	\$ 73,075	\$ 36,265
International	44,066	45,176	36,176
Contract research and development	7,627	5,083	1,651
	113,688	123,334	74,092
Costs, Expenses and Other Expense			
Cost of goods sold	69,732	72,181	41,550
Contract research and development	6,905	3,619	1,196
Internal research and development	4,441	4,499	2,844
Selling, general and administrative	21,245	24,767	18,171
Interest expense	1,444	2,330	349
Other expense - net	411	1,382	226
	104,178	108,778	64,336
Earnings Before Income Taxes	9,510	14,556	9,756
Income Taxes	2,246	5,065	2,445
Net Earnings	\$ 7,264	\$ 9,491	\$ 7,311
Basic Earnings Per Share	\$ 0.52	\$ 0.69	\$ 0.57
Diluted Earnings Per Share	\$ 0.51	\$ 0.67	\$ 0.55

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Accumulated Other

			Otner				
_	Common Stock		Comprehensive Retained		Treasury		Total
·	Shares	Amount	Income	Earnings	Shares	Amount	
(000)				_			
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
Shares issued under	- 1,	- 1, - 1		,	(-,)	(-,)	,
stock option plans	120	370	_	_	_	_	370
Net earnings	_		_	7,264			7,264
Other comprehensive income, net of ta	x —		188	· —			188
Income tax benefit for							
options exercised	_	425	_	_	_	_	425
BALANCE – JUNE 30, 2002	15,101	\$37,840	\$ 279	\$61,451	(1,069)	\$ (1,910)	\$97,660

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended June 30,	2002	2001	2000
(\$000)			_
Net earnings	\$ 7,264	\$ 9,491	\$ 7,311
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	188	(119)	(62)
COMPREHENSIVE INCOME	\$ 7,452	\$ 9,372	\$ 7,249

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30,	2002	2001	2000
(\$000)			
Cash Flows from Operating Activities			
Net earnings	\$ 7,264	\$ 9,491	\$ 7,311
Adjustments to reconcile net earnings to net cash			
provided by operating activities:			
Depreciation	8,429	6,838	4,693
Amortization	363	1,866	326
(Gain) loss on foreign currency transactions	(165)	1,445	(368)
Net loss on disposal or writedown of assets	335	237	_
Deferred income taxes	794	1,518	662
Other	(672)	_	_
Increase (decrease) in cash from changes in:			
Accounts receivable	596	(3,702)	(576)
Inventories	1,700	(1,745)	(4,478)
Accounts payable	(1,775)	(484)	1,674
Other operating net assets	(731)	40	3,292
Net cash provided by operating activities	16,138	15,504	12,536
Cash Flows from Investing Activities			
Additions to property, plant and equipment	(8,663)	(16,699)	(8,877)
Purchases of business	(2,172)	(27,726)	(2,894)
Investment in unconsolidated businesses	(1,698)		_
Disposals of other assets	317	259	786
Net cash used in investing activities	(12,216)	(44,166)	(10,985)
Cash Flows from Financing Activities			
Proceeds (payments) on short-term borrowings	1,250	4,308	(1,344)
Proceeds from long-term borrowings	_	25,000	
Payments on long-term borrowings	(3,834)	(44)	(46)
Proceeds from sale of common stock	370	466	681
Net cash (used in) provided by financing activities	(2,214)	29,730	(709)
Effect of exchange rate changes on cash and cash equivalents	(191)	695	(70)
Net increase in cash and cash equivalents	1,517	1,763	772
Cash and Cash Equivalents			
Beginning of year	8,093	6,330	5,558
End of year	\$ 9,610	\$ 8,093	\$ 6,330
Non-cash transactions: Net asset acquired as settlement on a customer	\$ 366	¥ 0,025	- - -
purchase commitment	ψ 500		
Net assets acquired for fair value of common stock		\$ 15,474	
Their assets acquired for fair value of common stock		Ψ 13,77	

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: VLOC Incorporated; II-VI Delaware, Incorporated; II-VI Holdings B.V.; II-VI Japan Incorporated; II-VI Singapore Pte., Ltd.; II-VI Acquisition Corp.; II-VI Optics (Suzhou) Co. Ltd.; II-VI International Pte., Ltd.; II-VI U.K. Limited; and Laser Power Corporation and its wholly-owned subsidiaries: EMI Acquisition Corporation; Exotic Materials, Incorporated; 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. As of June 30, 2002, the Company reviewed its property, plant and equipment in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of". SFAS 121 requires comparing the future cash flows from operations for an asset to the recorded value, if the cash flows do not exceed the value of the asset, an impairment loss is recorded. Based on this analysis, the cash flows of certain assets with a value of approximately \$0.3 million, net of tax did not project the recoverability of the investment, in accordance with SFAS 121, the Company recorded a charge to operations in fiscal 2002.

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 \$8.4 million, \$6.8 million, and \$4.7 million in 2002, 2001, and 2000, respectively.

GOODWILL The excess purchase price over the net assets of businesses acquired is reported as goodwill in the accompanying Consolidated Balance Sheets. SFAS 142 "Goodwill and Other Intangible Assets", was adopted by the Company as of July 1, 2002. SFAS 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually (see Note E for further discussion).

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 5 to 20 years. As discussed above under the caption Property, Plant and Equipment, related technology with a net book value of approximately \$0.2 million, net of tax was written off (see Note E for further discussion).

INVESTMENTS In fiscal 2002, the Company acquired for \$1.7 million a 25% ownership of a key supplier to the Company. In July 2002, the Company increased its ownership to 33% as a result of a loan conversion to equity in accordance with the original purchase agreement. This investment is accounted for under the equity method of accounting.

As of June 30, 2002, the Company has outstanding notes receivable of approximately \$0.2 million from an equipment and supply agreement with this supplier. Payments on these notes are made quarterly with interest calculated at the Canadian Prime Rate plus 1 1/2% on the unpaid balance.

For the fiscal year ended June 30, 2002, the Company purchased \$0.2 million of raw materials from this key supplier.

The Company's pro rata share of the earnings from this investment and the interest received from both of these agreements did not have a material effect on the Company's results of operations.

The Company performs an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of the equity investment is not recoverable. If the evaluation indicates an other than temporary decline in fair value, the investment is written down to fair value. No impairment was recorded in fiscal 2002.

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 gains (losses) were \$165,000, (\$459,000), and (\$75,000) in 2002, 2001, and 2000, 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 rate; 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. Total shipping and handling costs included in revenues and in selling, general and administrative expenses were \$261,000, \$344,000 and \$282,000 for the years ended 2002, 2001 and 2000, 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,	2002	2001	2000
(000 except per share data)			
Net earnings	\$ 7,264	\$ 9,491	\$ 7,311
Divided by:			
Weighted average common shares outstanding	13,962	13,737	12,756
Basic earnings per share	\$ 0.52	\$ 0.69	\$ 0.57
Net earnings	\$ 7,264	\$ 9,491	\$ 7,311
Divided by:			
Weighted average common shares outstanding	13,962	13,737	12,756
Dilutive effect of common stock equivalents	352	423	420
Dilutive weighted average common shares outstanding	14,314	14,160	13,176
Diluted earnings per share	\$ 0.51	\$ 0.67	\$ 0.55

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation because they were antidilutive, were immaterial for fiscal years 2002, 2001 and 2000, respectively.

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. Our significant estimates include the following: allowance for doubtful accounts, product warranty reserves, inventory obsolescence, income tax accrual, deferred income tax valuation allowances related to net operating losses primarily from our foreign subsidiaries, and certain liabilities based on known circumstances.

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 a European distributor. As of June 30, 2002, the accounts receivable balance from the European distributor was \$2.4 million, or 11% of the accounts receivable balance. Although the Company does not currently foresee a risk associated with these receivables, repayment is dependent upon the financial stability of this distributor.

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. Accumulated other comprehensive income is a component of shareholders' equity and consists of foreign currency translation adjustments of \$279,000 and \$91,000 as of June 30, 2002 and 2001, respectively.

DERIVATIVE INSTRUMENTS 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. 138", 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 \$1.2 million as of June 30, 2002 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 (decreased) increased net earnings by \$(66,000) and \$165,000 for the years ended June 30, 2002 and 2001, respectively.

To satisfy certain provisions of its line of credit facility, on March 6, 2002 the Company entered into a one-year interest rate cap expiring March 6, 2003, with a notional amount of \$12.5 million replacing an interest rate collar that expired on March 5, 2002. These agreements were entered into to limit interest rate exposure on one-half of the \$25 million term loan. The floating rate option for the cap agreement is the one-month LIBOR rate with a cap strike rate of 3.00%. At March 31, 2002 the one-month LIBOR rate was 1.87%. The Company has elected not to account for these agreements as hedges as defined by SFAS No. 133, and recorded the unrealized change in the fair value of these agreements as an increase or decrease to interest expense in the results of operations. The combined effect of these instruments increased net earnings for fiscal 2002 by approximately \$88,000. The effect of the interest rate collar on net earnings for fiscal 2001 was immaterial.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 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 adopted this standard as of July 1, 2002 and does not believe that the adoption of SFAS 143 will have a significant impact on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which provides guidance that will eliminate inconsistencies in the accounting for the impairment or disposal of long-lived assets under existing accounting pronouncements. The Company will apply the provisions of the pronouncement beginning July 1, 2002. The Company does not expect the adoption of this pronouncement to have a material impact on this financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 will affect income statement classification of gains and losses from extinguishment of debt and make certain other technical corrections. Based on current operations, the Company does not expect the adoption of this pronouncement to have a material impact on its financial position or results of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullified EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" (including Certain Costs Incurred in a Restructuring). The principal difference between SFAS 146 and Issue 94-3 relates to SFAS 146 requirements for recognition of a liability for a cost associated with an exit or disposal activity. AFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of this pronouncement to have a material effect on our financial position or results of operations.

Note B ACQUISITIONS

LITTON SYSTEMS, INC. SILICON CARBIDE GROUP On October 19, 2001, the Company acquired the Litton Systems, Inc. Silicon Carbide (SiC) group for approximately \$2.2 million in cash. The major assets acquired were equipment, inventory and intangible assets. The cash paid equaled the fair value of the assets as of the closing date, therefore no goodwill was recorded. No liabilities or long-term obligations were assumed. The acquired group, located in New Jersey, concentrates their efforts on research and development of SiC and will complement the Company's SiC research and development activities that have been ongoing since 1998.

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 results of Laser Power Corporation since the date of acquisition are included in the Company's consolidated financial statements.

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,		2002		2001		2000
(\$000)						
Net revenues	\$1	13,688	\$1	25,483	\$1	07,569
Income from continuing operations		7,264		9,019		4,801
Net income		7,264		9,019		3,573
Basic earnings per share:						
Income from continuing operations	\$	0.52	\$	0.66	\$	0.35
Loss from discontinued operations		_		_		(0.09)
Net income	\$	0.52	\$	0.66	\$	0.26
Diluted earnings per share:						
Income from continuing operations	\$	0.51	\$	0.64	\$	0.34
Loss from discontinued operations		_				(0.09)
Net income	\$	0.51	\$	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 relates to the activities of Laser Power Corporation in prior periods. The pro forma information above does not include the FFAS 142 adjustment (see Note E).

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 C INVENTORIES

The components of inventories are as follows:

June 30,	2002	2001
(\$000)		
Raw materials	\$ 4,638	\$ 6,173
Work in process	8,958	8,680
Finished goods	6,145	5,929
	\$19,741	\$20,782

Note D PROPERTY, PLANT AND EQUIPMENT

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

June 30,	2002	2001
(\$000)		
Land and land improvements	\$ 1,551	\$ 1,715
Buildings and improvements	30,008	24,426
Machinery and equipment	73,041	68,217
	104,600	94,358
Less accumulated depreciation	43,889	36,327
	\$ 60,711	\$58,031

The interest capitalized associated with the construction of buildings and improvements approximated \$118,000 and \$119,000 during the years ended June 30, 2002 and 2001, respectively. No interest was capitalized during the year ended June 30, 2000.

Note E GOODWILL AND INTANGIBLE ASSETS

SFAS 142 "Goodwill and Other Intangible Assets", was adopted by the Company as of July 1, 2001. SFAS 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121 "Accounting for 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 \$33.3 million, which was subject to the transitional assessment provisions of SFAS 142. A third-party valuation advisory service was engaged by the Company to calculate the fair value of the identified reporting units of the Company which have recorded goodwill. A discounted cash flow model was used to determine the fair value of the reporting units for purposes of testing goodwill for impairment. The discount rate used was based on a risk-adjusted weighted average cost of capital for the Company. The Company completed its impairment test of goodwill prior to December 31, 2001. The results of this test indicated that the Company's goodwill was not impaired as of July 1, 2001, therefore, no impairment loss was recorded.

In accordance with SFAS 142, the Company evaluates its goodwill on an annual basis. The Company completed a discounted cash flow and comparable market capitalization analysis by identified reporting units of the Company which have recorded goodwill as of June 30, 2002. Based on the results of this analysis, the Company's goodwill was not impaired as of June 30, 2002.

In accordance with SFAS 142, the Company discontinued the amortization of goodwill effective July 1, 2001. The following pro forma information adjusts previously reported net earnings, basic earnings per share and diluted earnings per share to exclude goodwill amortization:

Year Ended June 30,	2002	2001	2000
(\$000) Net earnings Add: Goodwill amortization Adjusted net income	\$ 7,264 	\$ 9,491 1,473 \$ 10,964	\$ 7,311 87 \$ 7,398
Basic earnings per share Add: Goodwill amortization Adjusted net income	\$ 0.52 	\$ 0.69 0.11 \$ 0.80	\$ 0.57 .01 \$ 0.58
Diluted earnings per share Add: Goodwill amortization Adjusted net income	\$ 0.51 	\$ 0.67 0.10 \$ 0.77	\$ 0.55 0.01 \$ 0.56

Changes in carrying amount of goodwill are included below:

Year Ended June 30,	2002	2001
(\$000) Balance – Beginning of Year	\$ 29,236	\$ 1,792
Goodwill acquired – Laser Power Corporation	φ 29,230	28,917
Goodwill amortization	_	(1,473)
Reclassification of intangibles into goodwill Tax adjustment	229 (478)	_
Balance – End of Year	\$ 28,987	\$ 29,236

The Company completed a tax project in fiscal 2002 relating to its acquisition of Laser Power Corporation in August 2000. The result of this tax study identified additional deferred income tax assets of \$311,000 and a reduction in current income tax payable of \$167,000. These tax adjustments resulted in a reduction of goodwill of \$478,000 related to the acquisition of Laser Power Corporation during the year ended June 30, 2002.

The gross carrying amount and accumulated amortization of the Company's intangible assets other than goodwill as of June 30, 2002 and 2001 are as follows (\$000):

		June 30, 2002			June 30, 2001	
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Patents	\$2,193	(\$ 757)	\$1,436	\$2,142	(\$ 285)	\$1,857
Trademark	1,491	(143)	1,348	1,491	(68)	1,423
Other	1,250	(801)	449	1,751	(945)	806
Total	\$4,934	(\$1,701)	\$3,233	\$5,384	(\$1,298)	\$4,086

In addition to the equipment written-off as noted in Note A under property, plant and equipment, related technology with a net book value of approximately \$235,000 net of tax was written off as a charge to operations in fiscal 2002.

Amortization expense recorded on the intangible assets for the years ended June 30, 2002, 2001 and 2000 was \$363,000 \$393,000, and \$239,000, respectively. The estimated amortization expense for existing intangible assets for each of the five succeeding years is as follows:

Year Ended June 30,	
(\$000)	
2003	\$328,000
2004	328,000
2005	328,000
2006	276,000
2007	177,000

Note F DEBT

The components of debt are as follows:

June 30,	2002	2001
(\$000)		
Line of credit, interest at the LIBOR Rate, as defined,		
plus 1.375% and 1.25%, respectively	\$ 10,750	\$ 9,500
Term loan, interest at the LIBOR Rate, as defined,		
plus 1.375% and 1.25%, respectively, payable in quarterly		
installments through August 2005	21,250	25,000
Pennsylvania Industrial Development Authority		
(PIDA) term note, interest at 3%, payable in		
monthly installments through October 2011	499	546
Term note, interest at the Japanese Yen Base Rate,		
as defined, plus 1.49%, principal payable in full in September 2002 (see Note M)	1,983	1,902
Other	21	58
Total debt	34,503	37,006
Current portion of long-term debt	(5,068)	(3,834)
Long-term debt	\$29,435	\$33,172

The Company has a \$45.0 million secured credit agreement, which it obtained in connection with the Company's acquisition of Laser Power Corporation. The facility has a five-year life effective August 14, 2000 and contains term and line of credit bor-

rowing options. The facility is collateralized 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, the 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 agreement was 3.36% and 5.31%, respectively, at June 30, 2002 and 2001. The average outstanding borrowings under the line of credit were \$33.0 million and \$28.9 million during the years ended June 30, 2002 and 2001, respectively. The Company had available \$12.0 million and \$16.1 million under its line of credit as of June 30, 2002 and 2001, respectively.

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%. The Japanese Yen Base Rate was 0.10% and 0.13% and the floating rate was 1.59% and 1.62% at June 30, 2002 and 2001, respectively.

On June 28, 2002, the Company amended the credit facility to allow for a renewal of and an increase to the principal of the Yen loan. The principal amount available under the Yen loan was increased to 300 million Yen. Additionally, terms relating to the required interest rate protection agreement and to a restrictive covenant were amended to enhance the clarity of the agreement. All other substantial terms and conditions of the credit facility remain unchanged.

The Company has a line of credit facility with a Singapore bank which permits maximum borrowings in the local currency of approximately \$415,000 and \$385,000 for the fiscal year ended June 30, 2002 and 2001, respectively. 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, 2002 and 2001 was 6.00%. At June 30, 2002 and 2001 there were no outstanding borrowings under this facility.

The aggregate annual amounts of principal payments required on the long-term debt, considering the refinancing of the Yen loan, are as follows:

Year Ending June 30,	
(\$000)	
2003	\$ 5,068
2004	6,923
2005	7,550
2006	12,676
2007	53
Thereafter	2,233

Interest and commitment fees paid during the years ended June 30, 2002, 2001 and 2000 totaled approximately \$1.4 million, \$2.3 million and \$0.4 million, respectively.

Note G INCOME TAXES

The components of income tax expense are as follows:

Year Ended June 30,	2002	2001	2000
(\$000)			
Current			
Federal	\$ 423	\$ 2,387	\$ 1,094
State	233	387	53
Foreign	690	939	667
Total	1,346	3,713	1,814
Deferred:			
Federal	\$ 1,015	\$ 1,119	\$ 528
State	190	118	60
Foreign	(305)	115	43
Total	900	1,352	631
Provision for Income Taxes	\$ 2,246	\$ 5,065	\$ 2,445

Principal items comprising deferred income taxes are as follows:

June 30,	2002	2001
(\$000)		
Deferred income tax liabilities		
Tax over book accumulated depreciation	\$ 4,333	\$ 3,476
Intangible assets	962	1,474
Deferred income taxes liability – long-term	\$ 5,295	\$ 4,950
Deferred income tax assets		
Transfer price adjustment	\$ 167	\$ —
Inventory capitalization	1,004	1,256
Non-deductible accruals	1,416	1,248
Net-operating loss carryforward – current portion	870	800
Deferred income taxes asset – current	\$ 3,457	\$ 3,304
Net-operating loss carryforward	\$ 1,882	\$ 2,334
Valuation allowance	(468)	(317)
Deferred income tax asset – long-term	\$ 1,414	\$ 2,017
Net deferred income tax asset (liability)	(\$ 424)	\$ 371

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

Year Ended June 30,	2002	%	2001	%	2000	%
(\$000)						
Taxes at statutory rate	\$ 3,234	34	\$ 4,949	34	\$ 3,317	34
Increase (decrease) in taxes resulting from:						
State income taxes – net of federal benefit	279	3	358	3	69	_
Excludable Foreign Sales						
Corporation income	(719)	(7)	(378)	(3)	(628)	(6)
Excludable foreign income	(525)	(6)	(124)	(1)	(728)	(7)
Foreign taxes	83	1	126	1	181	2
Non-deductible goodwill amortization	_		500	3	30	_
Other	(106)	(1)	(366)	(2)	204	2
	\$ 2,246	24	\$ 5,065	35	\$ 2,445	25

During the years ended June 30, 2002, 2001, and 2000, cash paid by the Company for income taxes was approximately \$1.4 million, \$1.7 million, and \$1.6 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, an additional deferred tax liability of approximately \$6.9 million and \$5.6 million would have been required as of June 30, 2002 and 2001, respectively.

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

Year Ended June 30,	2002	2001	2000
(\$000)			
Depreciation and amortization	\$ 344	\$ 2,232	\$ 691
Inventory capitalization	252	(872)	(119)
Net operating loss carryforward	639	729	145
Other – primarily nondeductible accruals	(335)	(737)	(86)
	\$ 900	\$ 1,352	\$ 631

As of June 30, 2002, net operating loss carryforwards totaled \$4.6 million. Of that amount, \$3.1 million expire in 2018. The remaining \$1.5 million expire in 2019.

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, 2002 are as follows:

Year Ended June 30,	
(\$000)	
2003	\$ 971
2004	712
2005	572
2006	561
2007	261
Thereafter	_

Rent expense was approximately \$1.1 million, \$1.0 million and \$0.5 million for the years ended June 30, 2002, 2001 and 2000, 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 3,870,000 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 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 1,122,377 as of June 30, 2002.

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 joined 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, 2002.

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, 2002 is as follows:

Options	Number of Shares Subject to Option	Weighted Avg. Exercise Price Per Share
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 – July 1, 2000	1,106,726	\$ 5.04
Granted	225,775	\$17.27
Exercised	(128,460)	\$ 3.63
Forfeited	(29,750)	\$ 7.55
Outstanding – July 1, 2001	1,174,291	\$ 7.47
Granted	45,950	\$15.10
Exercised	(119,640)	\$ 2.96
Forfeited	(39,320)	\$13.98
Outstanding – June 30, 2002	1,061,281	\$ 8.07
Exercisable – June 30, 2002	744,620	\$ 5.76
Exercisable – June 30, 2001	737,569	\$ 4.41
Exercisable – June 30, 2000	733,416	\$ 3.75

Outstanding and exercisable options at June 30, 2002 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	297,100	2.29	\$ 1.59	297,100	\$ 1.59
\$ 4.25 - \$ 5.50	251,726	5.22	\$ 5.21	188,195	\$ 5.15
\$ 6.09 - \$10.00	194,420	5.15	\$ 8.93	163,120	\$ 9.11
\$10.50 - \$15.74	121,470	7.25	\$13.31	55,940	\$11.67
\$16.00 - \$23.38	196,565	8.16	\$17.43	40,265	\$17.56
	1,061,281	5.16	\$ 8.07	744,620	\$ 5.76

The Company uses the intrinsic value approach specified in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." 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, 2002, 2001 and 2000 would have been reduced by \$632,000, \$635,000 and \$390,000 or \$.04, \$.04 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:

Year Ended June 30,	2002	2001	2000
Risk free interest rate	3.81%	6.1%	6.5%
Expected volatility	47%	92%	81%
Expected life of options	7.00 years	6.40 years	5.95 years
Expected dividends	none	none	none

Based on the option pricing model, options granted during the years ended June 30, 2002, 2001 and 2000 had fair values at the date of the grant of \$8.09, \$13.81 and \$6.90 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 options 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 (see Note A). 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 transfer have been eliminated.

	Optical Components	Radiation Detectors	Laser Power Corporation	Totals
(\$000)	-		-	
2002				
Net revenues	\$ 74,693	\$ 6,490	\$ 32,505	\$113,688
Income (loss) from operations	12,331	(1,703)	737	11,365
Interest expense	_		_	1,444
Other expense, net	_	_	_	463
Equity income	_	52	_	52
Earnings before income taxes	_	_	_	9,510
Depreciation and amortization	6,120	700	1,972	8,792
Segment assets	93,805	10,214	47,882	151,901
Expenditures for property, plant and equipment	6,370	1,203	1,090	8,663
Equity investment	_	1,750	_	1,750
Goodwill	1,926	<u> </u>	27,061	28,987
(\$000)				
2001	Φ 02 245	Φ 0.062	¢ 21 106	ф122 224
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	14,914	490	1,295	16,699
Goodwill	1,698	_	27,538	29,236
(\$000) 2000				
	\$ 68,302	\$ 5,790		\$ 74,092
Net revenues Income (loss) from operations	12,427	(2,096)	_	10,331
Income (loss) from operations Interest expense	12,427	(2,090)	_	349
Other expense, net	_	_	_	226
	_	_	_	9,756
Earnings before income taxes	_	_	_	9,730
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

Geographic information for revenues, based on country of origin, and long-lived assets which include property, plant and equipment, goodwill and other intangibles, net of related depreciation and amortization follows:

	Revenues				
Year Ended June 30,	2002	2001	2000		
(\$000)					
United States	\$ 89,659	\$ 97,753	\$ 55,493		
Singapore	9,714	8,230	6,867		
Japan	8,301	11,668	9,839		
Belgium	4,305	3,460	_		
United Kingdom	1,709	2,223	1,893		
Total Non-United States	24,029	25,581	18,599		
	\$113,688	\$123,334	\$ 74,092		

Long-Lived Assets

Year Ended June 30,	2002	2001	2000		
(\$000)					
United States	\$88,570	\$86,606	\$41,533		
Singapore	2,390	2,801	1,347		
Japan	27	17	36		
Belgium	472	476	_		
China	1,465	1,443	1,263		
United Kingdom	7	10	12		
Total Non-United States	4,361	4,747	2,658		
	\$92,931	\$91,353	\$44,191		

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 \$738,000, \$1,122,000 and \$812,000 for the years ended June 30, 2002, 2001 and 2000, 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 commons stock available for purchase to 400,000 shares. There were 206,454 and 215,313 shares of common stock available for purchase under the plan at June 30, 2002 and 2001, respectively.

The Company has no program for postretirement health and welfare and post employment 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 \$71,000, \$354,000 and \$248,000 for the years ended June 30, 2002, 2001, and 2000, respectively.

Note L CONTINGENCIES

As the result of issues generated in the course of daily business, the Company is involved in legal proceedings. Management believes that the final disposition of these proceedings will not have a material adverse effect on the Company's operations, financial position, liquidity or results of operations.

Note M SUBSEQUENT EVENTS

European Distribution Joint Venture

Effective September 25, 2002, the Company reached an agreement with L.O.T.-Oriel Laser Optik Technologie Holding GmbH and L.O.T. – Oriel Laser Optik GmbH & Co. KG of Darmstadt, Germany (collectively L.O.T.) to establish a new European joint venture to distribute II-VI Incorporated and Laser Power Corporation products in Germany. The Company purchased a 75% controlling interest in this joint venture, called II-VI L.O.T. GmbH (II-VI/L.O.T.), for approximately \$2.8 million, net of taxes already or to be refunded to the Company. II-VI/L.O.T. will be based in Darmstadt, Germany and will provide distribution, marketing and laser specific know-how needed to successfully sell both II-VI and Laser Power products in Germany to OEM and aftermarket customers.

Yen Loan

On September 23, 2002, the Company replaced its 237 million Yen loan with PNC Bank, with a 300 million Yen loan with the same bank. This loan matures on September 25, 2007. Interest is at a rate equal to the Japanese Yen base rate, as defined in the loan agreement, plus 1.49%. Due to this event, the aggregate annual amounts of principal payments required on the long-term debt as of June 30, 2002 were revised to reflect this transaction (see Note F).

SCHEDULE II

II-VI INCORPORATED AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS YEARS ENDED JUNE 30, 2000, 2001, AND 2002 (IN THOUSANDS OF DOLLARS)

	Additions ¹				
	Balance at Beginning of Year	Charged to Expense	Charged to Other Accounts	Deduction from Reserves	Balance at End of Year
YEAR ENDED JUNE 30, 2000: Allowance for doubtful accounts & warranty returns	\$ 457	\$ 213	\$ 7	\$ 102 ²	\$ 575
YEAR ENDED JUNE 30, 2001: Allowance for doubtful accounts & warranty returns	\$ 575	\$ 232	\$ 94	\$ 152 ²	\$ 749
YEAR ENDED JUNE 30, 2002: Allowance for doubtful accounts & warranty returns Other ³	\$ 749 —	\$ 158 780	\$ 42 \$ —	\$ 102 ² \$ 88	\$ 847 692

Amounts primarily relate to businesses acquired, warranty returns and the effects of foreign currency translation.

² Uncollectible accounts written off, net of recovery

Primarily relates to the closing of manufacturing operations in Mexico and the costs related to consolidating several of the Company's European distribution arrangements.

QUARTERLY FINANCIAL DATA

FISCAL 2002

QUARTER ENDED	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
(\$000 except per share data)				
Net revenues	\$28,693	\$27,446	\$27,441	\$30,108
Cost of goods sold	18,590	18,640	19,848	19,559
Internal research and development	990	1,345	1,153	953
Selling, general and administrative	5,645	4,876	4,824	5,900
Interest expense	542	358	313	231
Other expense (income) – net	(565)	(95)	(353)	1,424
Earnings before income taxes	3,491	2,322	1,656	2,041
Income taxes	1,152	577	492	25
Net earnings	\$ 2,339	\$ 1,745	\$ 1,164	\$ 2,016
Basic earnings per share	\$ 0.17	\$ 0.13	\$ 0.08	\$ 0.14
Diluted earnings per share	\$ 0.16	\$ 0.12	\$ 0.08	\$ 0.14

Other expense for the quarter ended June 30, 2002 includes the closing of operations of Laser Power in Mexico of \$400, costs related to consolidating several of the Company's European distribution arrangements of \$350, and the write-off of certain crystal growth equipment and technology of \$700.

FISCAL 2001

QUARTER ENDED	September 30, 2000	December 31, 2000	March 31, 2001	June 30, 2001
(\$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.

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

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth above in Part I under the caption "Executive Officers of the Registrant" is incorporated herein by reference. The other information required by this item is incorporated herein by reference to the information set forth under the captions "Election of Directors", "Board of Directors and Board Committees" and "Other Matters - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for the 2002 Annual Meeting of Shareholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the information set forth in the second paragraph under the caption "Board of Directors and Board Committees" and the information set forth under the caption "Executive Compensation and Other Information" in the Company's definitive proxy statement for the 2002 Annual Meeting of Shareholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

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

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
	(a)	(b)	(c)	
Equity compensation plans approved by security holders Equity compensation plans not approved by security holders	1,061,281 0	\$8.07 0	1,242,377	
by security holders	U		U	
Total	1,061,281	\$8.07	1,242,377	

The other information required by this item is incorporated herein by reference to the information set forth under the caption "Principal Shareholders" in the Company's definitive proxy statement for the 2002 Annual Meeting of Shareholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the information set forth under the caption "Board of Directors and Board Committees" in the Company's definitive proxy statement for the 2002 Annual Meeting of Shareholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

ITEM 14: CONTROLS AND PROCEDURES

Not yet applicable.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

The financial statements are set forth under Item 8 of this annual report on Form 10-K.

(2) Schedules

Schedule II – Valuation and Qualifying Accounts for each of the three years in the period ended June 30, 2002 is set forth under Item 8 of this annual report on Form 10-K.

Financial statements, financial statement schedules and exhibits not listed have been omitted where the required information is included in the consolidated financial statements or notes thereto, or is not applicable or required.

Exhibits.

Exhibit	: Number	Description of Exhibit
3.01	Amended and Restated Articles of Incorporation of II-VI Incorporated	Incorporated herein by reference is Exhibit 3.02 to Registration Statement No. 33-16389 on Form S-1.
3.02	Amended and Restated By-Laws of II-VI Incorporated	Filed herewith.
4.01	Rights Agreement dated as of August 11, 2001	Incorporated herein by reference is Exhibit 1 to the Company's Exchange Act Registration Statement on Form 8-A (file number 0-16195) filed on August 28, 2001.
10.01	II-VI Incorporated Employees' Stock Purchase Plan	Incorporated herein by reference is Exhibit 10.03 to Registration Statement No. 33-16389 on Form S-1.
10.02	II-VI Incorporated Amended and Restated Employees' Stock Purchase Plan	Incorporated herein by reference is Exhibit 10.04 to Registration Statement No. 33-16389 on Form S-1.
10.03	First Amendment to the II-VI Incorporated Amended and Restated Employees' Stock Purchase Plan	Incorporated herein by reference is Exhibit 10.01 to II-VI's Form 10-Q for the Quarter Ended March 31, 1996.
10.04	II-VI Incorporated Amended and Restated Employees' Profit-Sharing Plan and Trust Agreement, as amended	Incorporated herein by reference is Exhibit 10.05 to Registration Statement No. 33-16389 on Form S-1.
10.05	Form of Representative Agreement between II-VI and its foreign representatives	Incorporated herein by reference is Exhibit 10.15 to Registration Statement No. 33-16389 on Form S-1.

Exhibi	t Number	Description of Exhibit
10.06	Form of Employment Agreement*	Incorporated herein by reference is Exhibit 10.16 to Registration Statement 33-16389 on Form S-1.
10.07	Description of Management-By- Objective Plan*	Incorporated herein by reference is Exhibit 10.09 to II-VI's Annual Report on Form 10-K for the fiscal year ended June 30, 1993.
10.08	II-VI Incorporated 1994 Nonemployee Directors Stock Option Plan*	Incorporated herein by reference is Exhibit A to II-VI's Proxy Statement dated September 30, 1994.
10.09	II-VI Incorporated Deferred Compensation Plan*	Incorporated herein by reference is Exhibit 10.12 to II-VI's Annual Report on Form 10-K for the fiscal year ended June 30, 1996.
10.10	Trust Under the II-VI Incorporated Deferred Compensation Plan*	Incorporated herein by reference is Exhibit 10.13 to II-VI's Annual Report on Form 10-K for the fiscal year ended June 30, 1996.
10.11	Description of Bonus Incentive Plan*	Incorporated herein by reference is Exhibit 10.14 to II-VI's Annual Report on Form 10-K for the fiscal year ended June 30, 1996.
10.12	Amended and Restated II-VI Incorporated Deferred Compensation Plan*	Incorporated herein by reference is Exhibit 10.01 to II-VI's Form 10-Q for the Quarter Ended December 31, 1996.
10.13	Amended and Restated II-VI Incorporated 1997 Stock Option Plan*	Incorporated herein by reference is Exhibit 10.04 to II-VI's Annual Report on Form 10-K for the fiscal year ended June 30, 1998.
10.14	Agreement by and between PNC Bank, National Association and II-VI Incorporated for Amended and Restated Letter Agreement for Committed Line of Credit and Japanese Yen Term Loan	Incorporated herein by reference is Exhibit 10.01 to the II-VI's Form 10-Q for the Quarter Ended March 31, 1999.
10.15	Credit Agreement by and among II-VI Incorporated, its subsidiary guarantors, various lenders and PNC Bank, National Association dated as of August 14, 2000	Incorporated herein by reference is Exhibit (b)(1) to Amendment No. 3 to the Company's Tender Offer Statement on Schedule TO filed on August 24, 2000.
10.16	II-VI Incorporated Stock Option Plan of 2001	Incorporated herein by reference is Exhibit 10.01 to II-VI's Form 10-Q for the quarter ended December 31, 2001.

Exhibit Number

Description of Exhibit

10.17	First Amendment to Credit Agreement
	by and among II-VI Incorporated, its
	subsidiary guarantors, various lenders
	and PNC Bank, National Association
	dated as of June 28, 2002

Filed herewith.

21.01 List of Subsidiaries of II-VI Incorporated

Filed herewith.

23.01 Consent of Deloitte & Touche LLP

Filed herewith.

99.01 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Carl J. Johnson Filed herewith.

99.02 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Craig A. Creaturo Filed herewith.

The Registrant will furnish to the Commission upon request copies of any instruments not filed herewith which authorize the issuance of long-term obligations of Registrant not in excess of 10% of the Registrant's total assets on a consolidated basis.

- (b) No reports on Form 8-K have been filed during the fourth quarter of fiscal year 2002.
- (c) The Company hereby files as exhibits to this Form 10-K the exhibits set forth in Item 15(a)(2) above.

^{*} Denotes management contract or compensatory plan, contract or arrangement.

SIGNATURES

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

II-VI INCORPORATED

the follow-

Pursuant to the requirements of the Securities Exchaing persons on behalf of the registrant and in the capacities as	By: /s/ Carl J. Johnson Carl J. Johnson, Chairman and Chief Executive Officer nge Act of 1934, this report has been signed below by	
ing persons on behalf of the registrant and in the capacities at		
	Principal Executive Officer:	
September 25, 2002	By: /s/ Carl J. Johnson Carl J. Johnson Chairman, Chief Executive Officer and Director	
	Principal Financial and Accounting Officer:	
September 25, 2002	By: /s/ Craig A. Creaturo Craig A. Creaturo Treasurer	
September 25, 2002	By: /s/ Francis J. Kramer Francis J. Kramer President, Chief Operating Officer and Director	
September 25, 2002	By: /s/ Thomas E. Mistler Thomas E. Mistler Director	
September 25, 2002	By: /s/ Duncan A. J. Morrison Duncan A. J. Morrison Director	
September 25, 2002	By: /s/ Peter W. Sognefest Peter W. Sognefest Director	

CERTIFICATIONS

I, C	arl J	. Johr	ison,	certify	that:
------	-------	--------	-------	---------	-------

- 1. I have reviewed this annual report on Form 10-K of II-VI Incorporated;
- 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
- 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

September 25, 2002

By: /s/ Carl J. Johnson

Carl J. Johnson

Chairman, Chief Executive Officer
and Director

I, Craig A. Creaturo, certify that:

- 1. I have reviewed this annual report on Form 10-K of II-VI Incorporated;
- Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
- 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

September 25, 2002

By: /s/ Craig A. Creaturo
Craig A. Creaturo
Treasurer (principal financial officer)

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 Vice Chairman, 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*

* — resigned May 17, 2002. Thanks and best wishes to Chuck Mattera.

Corporate Headquarters

II-VI Incorporated 375 Saxonburg Boulevard Saxonburg, PA 16056 724-352-4455 (phone) 888-558-1504 (toll-free) www.ii-vi.com

Annual Meeting

Friday, November 1, 2002, 1:00 PM EST Treesdale Golf & Country Club One Arnold Palmer Drive Gibsonia, PA 15044

Stock Listing

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

Transfer Agent and Registrar

American Stock Transfer & Trust Company 6201 15th Avenue, 3rd Floor Brooklyn, NY 11219 718-921-8210

Independent Auditors

Deloitte & Touche LLP 2500 One PPG Place Pittsburgh, PA 15222

Corporate Counsel

Sherrard, German & Kelly 35th Floor, FreeMarkets Center 210 Sixth Avenue Pittsburgh, PA 15222

S.E.C. Counsel

Buchanan Ingersoll, P.C. One Oxford Centre 301 Grant Street, 20th Floor 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.



II-VI INCORPORATED 375 SAXONBURG BLVD SAXONBURG, PA 16056

www.ii-vi.com

NASDAQ: iivi