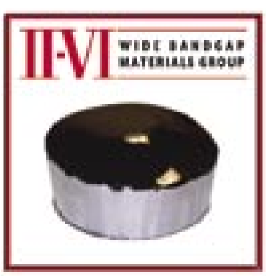
II-VI INCORPORATED



ANNUAL REPORT 2003

II-VI

About II-VI Incorporated

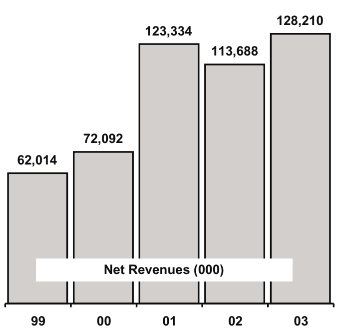
II-VI Incorporated (II-VI) traces its roots to 1971 when it was founded to produce the highest quality materials and optics for use in high-power industrial carbon dioxide (CO_2) lasers. With more than 30 years of creativity and innovation in crystal growth, optical fabrication, precision diamond turning, thin film coating, and world-class quality control, II-VI is recognized as the world leader in CO_2 laser optics.

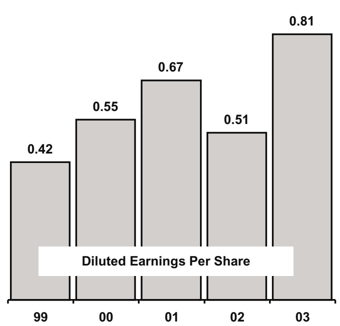
Today, II-VI is a global company with headquarters and manufacturing facilities in Pennsylvania; additional manufacturing facilities in Florida, California, New Jersey, Singapore, and China; and distribution facilities in Japan, Germany, Belgium and the United Kingdom. A diversified optical and opto-electronics manufacturing company, II-VI manufactures near-infrared and visible light products for solid-state lasers through its VLOC subsidiary, military infrared optics through its Exotic Electro-Optics subsidiary, solid-state x-ray and gamma-ray detection materials and devices through its eV PRODUCTS division, and single crystal silicon carbide substrates through its Wide Bandgap Materials Group (WBG).

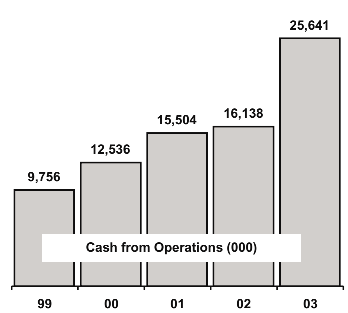
II-VI is a publicly traded company listed on the Nasdaq National Market under the symbol "IIVI."

Financial Summary

For the year ended or as of June 30,	2003	2002
($000 except per share data)		
Bookings	136,337	117,047
Revenues	128,210	113,688
Net earnings	11,620	7,264
Total assets	162,793	151,901
Total shareholders' equity	111,521	97,660
Diluted earnings per share	0.81	0.51
Book value per share	7.85	6.96
Diluted weighted average shares outstanding	14,389,907	14,313,713







From the Chairman and President

September 19, 2003

We are pleased to report a long list of record accomplishments by II-VI Incorporated for fiscal year 2003. We entered the year during a difficult time for the world's economies and, more specifically, for manufacturing companies competing in a global environment. In spite of significant challenges and through the substantial efforts of our employees, II-VI ended the fiscal year with a 16% increase in bookings to $136.3 million and a 13% increase in revenues to $128.2 million. Both set new Company records.

The increase in revenues, combined with our robust product offerings and growth in our infrared optics business, allowed the Company to achieve several financial records, some of which are depicted in the charts of this annual report. Among our most significant financial achievements were record earnings per diluted-share of $0.81, a 59% increase from the prior year; and record cash flow from operations of $25.6 million, a 59% increase from the prior year. These results allowed us to strengthen the Company's balance sheet and lower our debt by nearly $11 million or 30%.

The Company's financial results were due in large part to the performance of our Infrared Optics (IR) business. During fiscal 2003, we saw a noticeable rebound in market demand for carbon dioxide (CO_2) laser optics, especially for aftermarket (consumable) products. IR bookings and revenues increased approximately 40% and 20%, respectively, from the previous year. To meet this demand, during fiscal 2004 we will increase both our China manufacturing capacity and our Saxonburg diamond turning and coating capacity.

Late in fiscal year 2002, we had consolidated Laser Power Optics IR volumes into II-VI's Asian operations; as a result, during fiscal 2003 gross margins improved each quarter as we made more effective use of our worldwide manufacturing capacity. We also acquired majority ownership in II-VI/L.O.T. GmbH during the first quarter of fiscal 2003. This acquisition, which streamlined product distribution in Germany, incrementally boosted top-line revenues and was immediately accretive to earnings as well.

At VLOC, our Florida-based near-infrared optics business, we increased segment earnings by 33% on essentially flat revenues. VLOC employees accomplished this by continued improvements in growth, fabrication and coating of yttrium aluminum garnet (YAG) products. During fiscal 2003, VLOC continued research and development efforts in several key areas assisted by our corporate Advanced Materials Development Center. One such effort involves ultra-violet filter crystal growth and fabrication; this material can be used in military and commercial aircraft applications for early detection of missile threats.

Our military IR business, Exotic Electro-Optics (EEO), (previously part of Laser Power Corporation) had a difficult year financially. EEO undertook several technically challenging military programs, some of which are development contracts that offer the promise of long-term production after our internal investment in the enabling technology. Despite its challenges, we remain committed to this business and have expanded our work on sapphire windows through opportunities such as the Advanced Targeting Pod (ATP) program. Military business now represents approximately 30% of II-VI revenues and EEO leads our military infrared business.

In the first of our two emerging businesses, the eV PRODUCTS (eV) division, customers were slow to deploy new products and we made larger operating investments than originally expected. While eV has a steady base of medical customers, we need to broaden its customer base so it can breakeven financially. Homeland security opportunities in baggage screening and contraband detection continue to show promise. During fiscal year 2004, eV expects to introduce new products while carefully managing operating expenses.

In our other emerging business, the Wide Bandgap Materials Group (WBG), we used $3.5 million in external contracts to fund silicon carbide (SiC) development and began to sell single crystal SiC substrates. During fiscal 2003, we made several critical technology and quality improvements and received excellent market acceptance of our substrates. During fiscal year 2004, we plan to transfer this product from pilot to production manufacturing by doubling SiC crystal growth capacity and continuing to market our SiC substrates.

During fiscal year 2003, we welcomed two additional external directors to the II-VI Board, Joe Corasanti, President and Chief Operating Officer of CONMED Corporation, and Rear Admiral Marc Pelaez, (United States Navy retired). We appreciate their service and their excellent contributions to our Board.

While we know fiscal 2004 will present its own unique challenges, we pledge to earn your continued loyalty in the coming year. We thank each of you, our shareholders, employees, vendors and customers, for a record-setting fiscal 2003 and look forward to additional success in the year ahead.

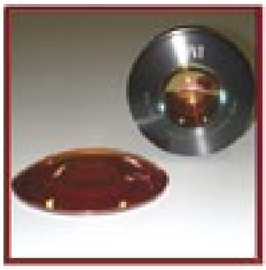
Carl J. Johnson — Francis J. Kramer

Chairman & Chief Executive Officer — President & Chief Operating Officer

II-VI

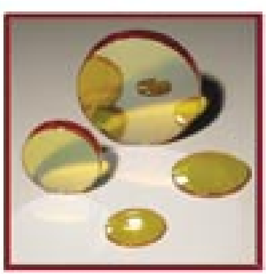
Infrared Optics

Serving original equipment manufacturers (OEMs) of industrial lasers, end users of lasers, and military and aerospace customers, the II-VI infrared optics business produces infrared optical materials and finished optical components. This combination of optical materials growth and finished optics production sets the Company apart as a world-class, vertically-integrated infrared optics manufacturer.



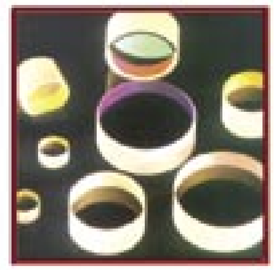
Infrared materials produced include zinc selenide (ZnSe), zinc sulfide (ZnS), and zinc sulfide MultiSpectral (ZnS-MS). Finished optical products include lenses, mirrors, windows, partial reflectors, beam splitters, phase retarders, rhombs, beam expanders, polarizers, waveplates and modulators. The infrared optics business also manufactures ultra-low absorbing lenses for high-power CO_2 lasers using MP-5™ coating, optics for scanning laser systems including scan lenses, galvo mirrors, band-selective optics and windows, and specialized optics for military and aerospace programs.

Optics manufacturing capabilities include both traditional optics fabrication and precision diamond turning. Optics are manufactured in Pennsylvania, Singapore and China, and are sold under the II-VI and Laser Power Optics brand names.



Near-Infrared Optics

The Company's Florida-based VLOC subsidiary manufactures near-infrared and visible light crystals and optical components for solid-state laser systems and instrumentation serving the industrial, medical, semiconductor, scientific, telecommunication and military markets. Crystal products include yttrium aluminum garnet (YAG) and yttrium vanadate (YVO_4), as well as many oxide and fluoride crystals devices. Optical components include laser mirrors, lenses, prisms, etalons, windows, and waveplates.



A world leader in the manufacturing of YAG laser rods and slabs, VLOC continues to improve its near-infrared optics processes and products. VLOC has won key research and development contracts to develop larger diameter YAG crystal growth processes and new crystal products.

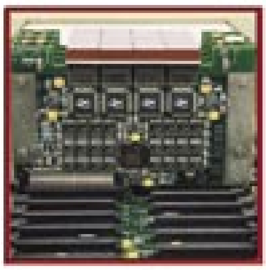
Military Infrared Optics

Focused exclusively on military markets, the Company's California-based Exotic Electro-Optics (EEO) subsidiary specializes in infrared crystals, optical components, coatings and assemblies. EEO fabricates optics from materials such as zinc sulfide (ZnS), zinc selenide (ZnSe), sapphire, silicon and glass. With its vertically-integrated manufacturing processes, EEO builds military infrared optics into complex assemblies used in missile guidance, military fire control and thermal imaging systems.

Major military contracts for EEO include the Javelin Antitank Weapon System that utilizes Zinc Sulfide domes, EO/IR (electro-optics/infrared) optics, a large multi-panel window program and the Advanced Targeting Pod (ATP) program that requires large panel sapphire windows.

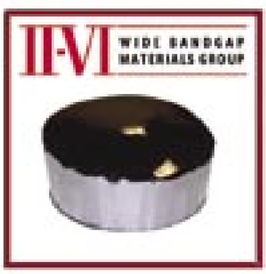
eV PRODUCTS

The eV PRODUCTS division manufactures solid-state X-ray and gamma-ray detection materials, components and assemblies. The enabling technology for these products is 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 complete detector assemblies including highly specialized, low-noise, front-end electronics and imbedded readout systems.



CdZnTe-based radiation detectors from eV PRODUCTS are used in numerous applications, including medical diagnostics, industrial gauging, environmental monitoring and nuclear safeguarding. eV PRODUCTS also is developing materials and components for enhanced security and monitoring systems.

Wide Bandgap Materials Group (WBG)



The Wide Bandgap Materials Group (WBG), with facilities in New Jersey and Pennsylvania, manufactures single crystal silicon carbide (SiC) substrates. In October 2001, II-VI acquired the Litton Systems, Inc. SiC Group and merged it with the II-VI SiC development group to form WBG.

WBG manufactures and markets SiC for use in solid-state lighting, wireless infrastructure, radio frequency electronics and power switching devices. In fiscal year 2003, WBG began selling two-inch diameter SiC substrates and announced plans to introduce three- and four-inch substrates in fiscal year 2004.

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, 2003

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ________ to ________.

Commission File Number: 0-16195

II-VI INCORPORATED
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-1214948**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
375 Saxonburg Boulevard Saxonburg, PA	**16056**
(Address of principal executive offices)	(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. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes __X__ No ____

Aggregate market value of outstanding Common Stock, no par value, held by non-affiliates of the Registrant at September 10, 2003, was approximately $243,690,000 based on the closing sale price reported on the Nasdaq National Market for September 10, 2003. 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, 2003, was 14,259,161. 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 2003 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) contains 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- and majority-owned subsidiaries: eV PRODUCTS operates as a division of II-VI Incorporated and Wide Band Gap Materials operates as a development group 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

Financial data regarding our revenues, results of operations, industry segments and international sales for the three years ended June 30, 2003 is set forth in the consolidated statements of earnings and in Note L to 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, 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 and military 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 components 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 and security scanning systems. We believe we are a market leader for high power CO_2 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 and Belgium. In addition to sales offices at each of our manufacturing sites we have sales and marketing subsidiaries in Germany, Japan and the United Kingdom. Approximately 41% of our revenues are for product sales outside of the United States.

Our primary products are 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 advanced optical materials. The vertical integration of our manufacturing processes for these military applications provides us with a significant competitive advantage.

- Our 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 six years we have expanded our material growth development to include single crystal SiC for use in solid-state lighting, wireless infrastructure, RF electronics and power switching industries.

Our Markets

Our business is comprised of five primary markets:

1) Design, manufacture and marketing of optical and electro-optical components, devices and materials for infrared lasers and instrumentation by our II-VI business units and sold under the II-VI and Laser Power brand names.

2) Design, manufacture and marketing of near-infrared and visible-light laser products for industrial, scientific and medical instruments and laser gain material and products for solid-state YAG and YLF lasers by our VLOC subsidiary.

3) Design, manufacture and marketing of infrared products for military applications by our Exotic Electro-Optics subsidiary.

4) Design, manufacture and marketing of x-ray and gamma-ray solid-state radiation detectors and components for medical, security, industrial, environmental and scientific instruments by our eV PRODUCTS division.

5) Development of single crystal SiC substrates for use in solid-state lighting, wireless infrastructure, RF electronics and power switching industries by our Wide Band Gap (WBG) group.

Infrared and Near-Infrared Markets. 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 CO_2 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 YAG and CO_2 lasers.

Military Infrared Optics Market. Several key optical components such as windows, domes and related assemblies are core products offered to the military market for infrared applications in night vision, targeting and navigation systems. Infrared windows and window assemblies are employed on helicopter, fixed-wing aircraft, and ground vehicles to provide advanced targeting and navigation capabilities. Infrared domes are often used on missiles with infrared guidance systems ranging from small, man portable designs to larger designs mounted on helicopters, fixed-wing aircraft and ground vehicles. High-precision domes are an integral component of the missile's targeting system providing efficient tactical capability while serving as a protective cover to its internal components. Our infrared optical products are sold primarily to the U.S. government and its prime contractors.

The current demand for infrared optical components is being driven by the replacement and repair of hardware used in combat in Iraq and the desire to upgrade the current capabilities of weapons, aircraft and ground vehicles. Germanium windows used in night vision and targeting systems on vehicles such as the Abrams M-1 Tank and Bradley Fighting Vehicle have been returned for refurbishment and/or replacement. The desire to provide the war fighter with increased capabilities has driven upgrades to navigation and targeting systems for aircraft such as the Apache attack helicopter and the F-16 fighter jet. These upgrades require more advanced optical components in order to meet today's more demanding performance requirements.

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, security scanning, including baggage inspection 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, we believe 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.

Silicon Carbide Materials Market. Silicon Carbide (SiC) is a wide band gap semiconductor material that offers high-temperature, high-power and high-frequency capabilities as a substrate for applications that are rapidly emerging at the high-performance end of the optoelectronic, telecommunication, power distribution and transportation markets. SiC has certain inherent physical and electronic advantages over competing semiconductor materials such as silicon and gallium arsenide. For example, the high thermal conductivity of silicon carbide enables SiC- and Gallium Nitride- (GaN) based devices to operate at high power levels and still dissipate the excess heat generated. Other intrinsic properties allow SiC-based devices to operate at high temperatures above 400 degrees Centigrade (750 degrees farenheit). Typically, either SiC or GaN layers are deposited on a SiC substrate and the desired optoelectronic or electronic devices are fabricated in the resulting material structure. SiC- and GaN-based structures are being developed and deployed for the manufacture of a wide variety of microwave and power switching devices while Gan-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 SiC materials technology will penetrate a wide range of applications in the optoelectronic, telecommunication, power distribution, transportation, and defense markets during the next decade. For instance, blue and green LEDs built on SiC substrates offer the promise of higher output power than devices currently built on less expensive but less thermally conducting sapphire substrates. The realization of this promise will establish SiC- and GaN-based 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 SiC 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. SiC 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.

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: Infrared optics based on Zinc Selenide (ZnSe) and Zinc Sulfide (ZnS), near infrared optics based on YAG and YLF, solid-state radiation detectors based on CdZnTe, and optoelectronic and electronic substrates based on SiC. In each 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 infrared and near-infrared optics, military infrared optics, solid-state radiation detectors and optoelectronic/electronic materials and substrates.

Our specific strategies are as follows:

- *Continue Investment to Gain CO_2 and YAG Market Share Worldwide*. We continually invest in our infrared and near-infrared manufacturing operations worldwide to increase production capacity and capabilities.

- *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*. Our Exotic Electro-Optics subsidiary is a leading supplier of optics for military infrared systems and is committed to capturing new military contracts and expanding existing business base with every major defense prime contractor. Exotic Electro-Optics is supplying large area sapphire windows to the defense industry providing enabling technologies that are critical to the advanced targeting systems currently available to the war fighter. Exotic Electro-Optics is actively engaged with the major defense contractors during the initial product development phase in order to incorporate our products into our customers' systems. Early participation in long-term programs has proven to be a successful strategy and ultimately a competitive advantage in addressing the military market. An example of the success of this approach is a recent award for a prototype sapphire window set for the Joint Strike Fighter program.

- *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 leading volume supplier of affordable, high performance wide bandgap semiconductor materials, that includes silicon carbide, through new process developments, acquisitions and strategic customer alliances.

Our Products

Our products include optical, optoelectronic and electronic materials, devices and components for use in laser, detection, military, security scanning 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.

Infrared and Near-Infrared Optics. We supply a broad line of precision infrared optical components such as lenses, waveplates, and mirrors to the CO_2 laser market. CO_2 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. CO_2 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 zinc selenide (ZnSe), copper, silicon and germanium. Transmissive optics used with CO_2 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 to end users of CO_2 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 and the installed base of serviceable laser systems increases each year.

Key materials and precision optical components for YAG and other solid-state laser systems are part of our near-infrared optics 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 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.

Military Infrared Optics. Exotic Electro-Optics produces optics and optical assemblies for military infrared systems including thermal imaging, night vision, targeting and navigation systems. Our product offering is comprised of missile domes, electro-optical windows and assemblies, imaging lenses and other components. Our precision optical products utilize infrared optical materials such as sapphire, zinc selenide, zinc sulfide, germanium, silicon, and ALON. In addition, our products also include visible materials and fused silica as well. The vertical integration of our manufacturing processes gives us a unique capability to design, fabricate, coat and assemble complex optical products. Our products are currently utilized on the Abrams M-1 tank, Apache Helicopter, F-14 and F-16 military aircraft and other platforms, as well as future production programs such as the Joint Strike Fighter.

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 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. 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.

Silicon Carbide Substrates. During the year ended June 30, 2003, we began selling single crystal SiC substrates. Our current SiC product offering is focused on two-inch diameter with expansion into three- and four-inch substrates in the near future. Initial product acceptance of our SiC products has been very good.

Research, Development and Engineering

Our research and development effort calls for the pursuit of a program of internally and externally funded research and development totaling between 5 and 10 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, 2003, we employed 144 people in research, development and engineering functions, 112 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 research and development 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 crystal growth, fabrication and polishing facilities for producing silicon carbide at both our Pennsylvania and New Jersey manufacturing sites.

- ***Yttrium Vanadate Manufacturing:*** Our research and development activities in this area involve the crystal growth of neodymium (Nd) activated yttrium vanadate (YVO_4). These efforts are focused on the development of more robust laser systems utilizing Nd:YVO_4 in diode-pumped laser housings used in next-generation sensor technologies. Efforts at VLOC, our manufacturing site in Florida and our research facility in Pennsylvania have teamed to coordinate the achievement of this technological advancement.

- ***Large Diameter YAG Manufacturing***: Our research and development activities in this area are focused on producing large diameter 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 division 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 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.

Internal and external research, development and engineering expenditures were \$13.1 million, \$11.3 million and \$8.1 million for the fiscal years ended June 30, 2003, 2002 and 2001, respectively. For these same periods, the external customer and government funded portions of these expenditures (i.e. contract research and development revenue) were \$11.0 million, \$7.6 million and \$5.1 million.

Marketing and Sales

We market our products through a direct sales force in North America, Germany, 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 infrared optics marketing and sales initiative is handled through a direct sales force in the U.S. and sells 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, during fiscal year 2003, we 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 infrared optics in Germany (See Note B to the Company's consolidated financial statements.)

2) The near-infrared optics marketing and sales initiative is handled through a direct sales force in the U.S. as well as distributors throughout the rest of the world. In addition, whenever possible the near-infrared optics business uses the subsidiaries of the infrared optics business around the world.

3) The military infrared optics marketing and sales initiative is handled through a direct sales force in the U.S.

4) The solid-state radiation detectors marketing and sales initiative is handled through a direct sales force in the U.S. coupled with manufacturers' representatives. An array of distributors and representatives are used throughout the rest of the world.

5) The SiC marketing and sales initiative is handled through a direct sales force in the U.S.

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, 2003, we employed 72 individuals in sales, marketing and support.

Manufacturing Technology and Processes

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

Product Line	Materials Produced	Growth Process Utilized
• Infrared Laser Components	ZnSe and ZnS	Chemical Vapor Deposition
• Near- Infrared 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 the Company. 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 and Zinc Sulfide requirements internally and also produce a portion of our Hydrogen Selenide and Thorium Fluoride requirements. 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 from outside vendors. We purchase Thorium Fluoride and other materials for use in optical fabrication and coating processes. Excluding our own production, 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 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 infrared and near-infrared optics 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, security monitoring, 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 significant supplier of YAG rods and YAG laser optics to the worldwide markets of scientific, research, medical and industrial laser manufacturers. 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 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 CO_2 laser optics include Sumitomo in Japan and Ophir Optronics in Israel as well as several companies producing limited quantities of infrared and CO_2 laser optics. Competing producers of YAG materials and optics include a division of Northrop Grumman Corporation 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 as customer orders received that are expected to be converted to revenues over the next 12 months. For long-term customer orders, the Company takes the view of not including in bookings the portion of the customer order that is beyond 12 months due to the inherent uncertainty of an order that far out in the future. For the year ended June 30, 2003, our bookings were $136.3 million compared to bookings of $117.0 million for the year ended June 30, 2002. We believe that the increase in bookings was primarily attributable to stronger market demand in the commercial industrial infrared optics market. Many large single- and multi-year orders delayed in the prior fiscal year were received with increased order quantities due to the strengthened industrial demand.

We define our backlog as customer orders available for shipment in the next twelve months as of the end of the fiscal period. As of June 30, 2003, our backlog was $57.5 million compared to $48.0 million at June 30, 2002. The increase in backlog is primarily reflective of strong bookings in the commercial infrared optics business, including the addition of the backlog acquired with our majority-owned German distributor during the year ended June 30, 2003, improved bookings in the near-infrared military, semi-conductor and medical markets and contract bookings for the development of silicon carbide.

Employees

As of June 30, 2003, we employed 1,094 persons worldwide. Of these employees, 144 were engaged in research, development and engineering, 731 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 U.S. 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 CO_2 lasers; EPIREADY(™) for low surface damage substrates for Mercury Cadmium Telluride epitaxy; eV PRODUCTS(™) for products manufactured by our eV PRODUCTS division; LASER POWER CORPORATION(™) name; and MP-5(™) for low absorption coating technology. The trademarks are registered with the U.S. Patent and Trademark Office but not with any states. We are not aware of any interference or opposition to these trademarks in any jurisdiction.

Available Information

The Company maintains an investor relations page on its Internet website at http://www.ii-vi.com. The Company makes its annual, quarterly and current reports filed or furnished with the Securities and Exchange Commission available as soon as reasonably practicable on the website. Such reports may be viewed or downloaded free of charge.

ITEM 2. PROPERTIES

Information regarding our principal properties at June 30, 2003 is set forth below:

	Location	Use	Square Footage	Ownership
United States:	Saxonburg, PA	Manufacturing and Corporate Headquarters	171,000	Owned
	New Port Richey, FL	Manufacturing	45,000	Owned
	Port Richey, FL	Manufacturing	20,000	Owned
	Temecula, CA	Manufacturing	66,000	Leased
	Pine Brook, NJ	Manufacturing	13,000	Leased
Foreign Locations:	Singapore	Manufacturing	24,200	Leased
	China	Manufacturing	33,000	Leased
	Germany	Distribution	2,000	Leased
	Japan	Distribution	1,200	Leased
	United Kingdom	Distribution	1,100	Leased
	Belgium	Distribution and Manufacturing	5,000	Leased

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:

Name	Age	Position
Carl J. Johnson	61	Chairman, Chief Executive Officer and Director
Francis J. Kramer	54	President, Chief Operating Officer and Director
Herman E. Reedy	60	Executive Vice President – Infrared Optics
James Martinelli	45	Vice President – Government and Military Businesses
Craig A. Creaturo	33	Chief Accounting Officer and Treasurer

Carl J. Johnson, a co-founder of the Company in 1971, serves as Chairman, Chief Executive Officer, and Director of the Company. He served as President of the Company from 1971 until 1985 and has been a Director since 1971 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. 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 Armstrong Laser Technology, Inc.

Francis J. Kramer has been employed by the Company since 1983 and has been its President and Chief Operating Officer since 1985. Mr. Kramer has served as a Director of the Company since 1989. Mr. Kramer joined the Company 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 the Company, 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 with a B.S. degree in Industrial Engineering and from Purdue University with an M.S. degree in Industrial Administration.

Herman E. Reedy has been employed by the Company since 1977 and has been Executive Vice President – Infrared Optics since February 2003. Previously, Mr. Reedy held positions at the Company as Vice President and General Manager of Quality and Engineering, Manager of Quality and Manager of Components. Prior to his employment by the Company, 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 graduate of the University of Pittsburgh with a B.S. degree in Electrical Engineering.

James Martinelli has been employed by the Company since 1986 and has been Vice President – Government and Military Businesses since February 2003. Previously, Mr. Martinelli served as General Manager of Laser Power Corporation since 2000 and Chief Financial Officer of II-VI Incorporated since 1994. Mr. Martinelli joined the Company as Accounting Manager, was named Corporate Controller in 1990 and named Chief Financial Officer and Treasurer in 1994. Prior to his employment by the Company, Mr. Martinelli was Accounting Manager at Tippins Incorporated and Pennsylvania Engineering Corporation from 1980 to 1985. Mr. Martinelli graduated from Indiana University of Pennsylvania with a B.S. degree in Accounting and is a member of the Pennsylvania Institute of Certified Public Accountants.

Craig A. Creaturo has been employed by the Company since 1998 and has been Chief Accounting Officer since February 2003. Mr. Creaturo has served as Treasurer since 2000. Previously, Mr. Creaturo served as Director of Finance, Accounting and Information Systems since 2000 and initially joined the Company as Corporate Controller. Prior to his employment by the Company, Mr. Creaturo was employed by the Pittsburgh, Pennsylvania office of 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 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.

	High	Low
Fiscal 2002		
First Quarter	$17.25	$12.67
Second Quarter	$18.05	$11.90
Third Quarter	$19.10	$13.95
Fourth Quarter	$15.78	$11.98
Fiscal 2003		
First Quarter	$14.30	$11.34
Second Quarter	$17.10	$13.00
Third Quarter	$18.49	$14.38
Fourth Quarter	$23.78	$16.55

On September 10, 2003, the last reported sale price for the Common Stock was $21.90 per share. As of such date, there were approximately 780 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,	2003	2002	2001	2000	1999
(000 except per share data)					
Statement of Earnings					
Net revenues	$128,210	$113,688	$123,334	$74,092	$62,014
Net earnings	$ 11,620	$ 7,264	$ 9,491	$ 7,311	$ 5,463
Basic earnings per share	$ 0.83	$ 0.52	$ 0.69	$ 0.57	$ 0.43
Diluted earnings per share	$ 0.81	$ 0.51	$ 0.67	$ 0.55	$ 0.42
Diluted weighted average shares outstanding	14,390	14,314	14,160	13,176	12,980

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

June 30,	2003	2002	2001	2000	1999
($000)					
Balance Sheet					
Working capital	$ 40,200	$ 35,746	$ 33,976	$24,335	$17,590
Total assets	162,793	151,901	148,173	84,102	70,843
Total debt	23,705	34,503	37,006	5,585	6,674
Retained earnings	73,071	61,451	54,187	44,696	37,385
Shareholders' equity	111,521	97,660	89,413	63,426	54,493

For the five-year period ended June 30, 2003, 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 as "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

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles and the Company's discussion and analysis of its financial condition and results of operations requires the Company's management to make judgments, assumptions, and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note A of the Notes to Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

Management believes the Company's critical accounting policies are those related to revenue recognition, allowance for doubtful accounts, warranty reserves, inventory valuation, valuation of long-lived assets including acquired intangibles and goodwill, accrual of bonus and profit sharing estimates, accrual of income tax liability estimates and accounting for stock-based compensation. Management believes these policies to be critical because they are both important to the portrayal of the Company's financial condition and results of operations, and they require management to make judgments and estimates about matters that are inherently uncertain.

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is established or determinable and collectibility is probable.

Revenue, other than for contract research and development, for all business segments is recognized from the sale of products at the point of passage of title, which is at the time of shipment.

The Company performs research and development under contract agreements with customers based on cost plus fixed fee, cost reimbursable or fixed fee terms. These contracts generally require the Company to produce and provide developmental materials and/or products to those customers. Revenues from cost plus fixed fee and cost reimbursable contracts are recognized as costs are incurred.

We follow the guidelines of Statement of Position 81-1 "Accounting for Performance of Construction – Type and Certain Production-Type Contracts" for our fixed fee contracts. Revenue and profits on each fixed fee contract are accounted for using the percentage-of-completion method of accounting, 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. The estimated total cost for each contract is periodically reevaluated and revised, when necessary, throughout the life of the contract. Losses on contracts are recorded in full when identified.

We establish an allowance for doubtful accounts and a warranty reserve based on historical experience and believe the collection of revenues, net of these reserves, is reasonably assured. The allowance is an estimate for potential non-collection of accounts receivable based on historical experience. The Company has not experienced a non-collection of accounts receivable materially affecting its financial position or results of operations as of and for the fiscal years ended June 30, 2003, 2002 and 2001, respectively. If the financial condition of the Company's customers were to deteriorate causing an impairment of their ability to make payments, additional provisions for bad debts may be required in future periods.

The Company records a warranty reserve as a charge against earnings based on a percentage of revenues utilizing actual returns over the last twelve months. If actual returns are not consistent with the historical data used to calculate these estimates, net revenues and accounts receivable could be misstated.

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. If actual market conditions are less favorable than projected, additional inventory reserves may be required.

The Company tests goodwill on at least an annual basis for impairment. Other intangible assets are amortized over their estimated useful lives. The determination of related estimated useful lives of other intangible assets and whether goodwill is impaired involves judgments based upon long-term projections of future performance. A discounted cash flow model is used to determine the fair value of the reporting units for purposes of testing goodwill for impairment. Based on the results of the most recently completed analysis, the Company's goodwill was not impaired as of June 30, 2003. No event has occurred as of or for the period ended June 30, 2003 that would give management an indication that an impairment charge was necessary that would adversely affect the Company's financial position or results of operations.

The Company records bonus and profit sharing estimates as a charge against earnings based on a formula percentage of the Company's operating income. These estimates are adjusted to actual based on final results of operations achieved during the fiscal year. Partial bonus amounts are paid quarterly based on interim Company performance, and the remainder is paid after fiscal year end and final determination of the applicable percentage. Other bonuses and profit sharing are paid annually.

The Company records an estimated income tax liability to recognize the amount of income taxes payable or refundable for the current year and deferred income tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or income tax returns. Judgment is required in estimating the future income tax consequences of events that have been recognized in the Company's financial statements or the income tax returns.

The Company uses the intrinsic value approach specified in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," for stock options granted to officers and key employees, and therefore does not record compensation costs based upon the fair value of options at the date of grant. See Notes A and K to the Company's consolidated financial statements.

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 2003 Compared to Fiscal 2002

NET EARNINGS Net earnings increased 60% in fiscal 2003 to $11.6 million ($0.81 per share-diluted) from $7.3 million ($0.51 per share-diluted) in fiscal 2002. The major contributor to the net earnings increase was the strong worldwide demand for commercial infrared optics and component products in the industrial sector. Earnings increases also resulted from a variety of factors, including improved production efficiencies, savings achieved through the consolidation of infrared optics operations, increased external research and development funding and reduced interest expense.

BOOKINGS Bookings increased 16% to $136.3 million in fiscal 2003 compared to $117.0 million in fiscal 2002. Order backlog increased 20% to $57.5 million at June 30, 2003 from $48.0 million at June 30, 2002 as a result of bookings outpacing shipments in fiscal 2003. Manufacturing orders comprised approximately 93% of the backlog at June 30, 2003. Manufacturing bookings increased by approximately $18.5 million while contract research and development bookings increased by approximately $0.8 million. The bookings growth was primarily attributable to stronger market demand in the infrared optics market and higher external research and development funding for single crystal SiC development efforts. Bookings are defined as customer orders received that are expected to be converted to revenues over the next 12 months. For long-term customer orders, the Company does not include in bookings the portion of the customer order that is beyond 12 months due to the inherent uncertainty of an order that far out in the future.

REVENUES Revenues increased 13% to $128.2 million in fiscal 2003 compared to $113.7 million last fiscal year. The revenue growth reflects the general strength of our product offering and, more specifically, strong demand in our infrared optics business. The increase in revenues for fiscal 2003 compared to the same period last fiscal year is primarily due to stronger shipments of commercial infrared optics to both OEM and aftermarket customers and the integration of the Company's sales and marketing distribution activity in Germany through a new consolidated subsidiary, II-VI/L.O.T., (See Note B of the Company's consolidated financial statements).

SEGMENT EARNINGS Segment earnings, which is defined as earnings before income taxes, interest and other income or expense, for fiscal 2003 increased 51% to $17.2 million compared to $11.4 million for the same period last fiscal year primarily due to higher gross margins from improved manufacturing efficiencies and cost controls in the infrared optics segment and higher sales volume from all businesses with the exception of the eV PRODUCTS division. Improvement in segment earnings was experienced in the infrared and near-infrared optics segments which was partially offset by lower segment earnings in the military infrared optics segment and the Company's Other category primarily comprised of our eV PRODUCTS division and Wide Band Gap (WBG) group.

Segment earnings is a non-GAAP financial measure and differs from income from operations in that segment earnings excludes certain operational expenses included in other expense – net as reported. Management believes segment earnings to be a useful measure because it reflects the results of segment performance over which management has direct control.

Bookings, revenues and segment earnings or (loss) for the Company's reportable segments are discussed below. Certain amounts from prior years have been reclassified to conform with the segment reporting presentation adopted in fiscal 2003. See also Note L to the Company's consolidated financial statements.

Infrared Optics

Bookings for fiscal 2003 for Infrared Optics increased 42% to $79.3 million from $55.7 million compared to last fiscal year. The improvement was due to overall increases in order volume from OEM and aftermarket customers worldwide. The bookings growth was also attributable to the receipt of single- and multi-year orders from domestic and international OEM customers that had been delayed from the prior fiscal year. During fiscal 2003, the OEM manufacturers of both high-power, multi-kilowatt lasers for cutting, welding, drilling and heat treating applications and lower-power lasers for engraving and marking requested products at a rate more consistent with fiscal 2001 business levels explaining the increase in order bookings over the same period last fiscal year.

Revenues for fiscal 2003 for Infrared Optics increased 19% to $73.6 million from $61.8 million compared to last fiscal year. This increase was primarily attributable to increased shipments to several of the Company's domestic and international OEM customers, as well as, increased shipments to aftermarket customers. Stronger order intake has translated into stronger revenues for the current fiscal year as compared to the prior fiscal year.

Segment earnings for fiscal 2003 increased 57% to $20.0 million compared to $12.7 million for the same period last fiscal year. The improvement in segment earnings for the current fiscal year as compared to the last fiscal year was due to a combination of increased sales volume, a full year impact of operational consolidation of the commercial infrared optics operations from Laser Power Corporation and the acquisition of a majority interest in a distributor in Germany.

Near-Infrared Optics

Bookings for fiscal 2003 for Near-Infrared Optics increased 6% to $24.8 million from $23.4 million compared to last fiscal year. The increase in bookings for fiscal 2003 as compared to the last fiscal year was primarily due to stronger demand in commercial bookings in the optics and crystal product lines used in defense and medical applications.

Revenues for fiscal 2003 for Near-Infrared Optics were $22.8 million compared to $22.7 million last fiscal year. Commercial revenues increased as compared to the prior fiscal year, primarily in the optics and crystal product lines offset by a decrease in contract revenues from the winding down of the multi-year yttrium aluminum garnet (YAG) contract.

Segment earnings for fiscal 2003 increased 31% to $1.7 million from $1.3 million compared to last fiscal year. This improvement reflected overall stronger gross margins and improved product yields. Cost reductions particularly in the materials area as a result of yield improvements were sufficient to increase gross margins despite the essentially flat revenues for fiscal 2003 compared to fiscal 2002.

Military Infrared Optics

Bookings for fiscal 2003 for Military Infrared Optics decreased 21% to $23.1 million from $29.3 million last fiscal year. The reduction in bookings is primarily due to the delay of the production portion of a customer order for sapphire based products and the receipt of a six month order for Javelin missile domes in fiscal 2003 as compared to a twelve month order received in the previous fiscal year.

Revenues for fiscal 2003 for Military Infrared Optics increased 5% to $23.0 million compared to $22.0 million last fiscal year. Revenues from a contract for the Air Borne Laser (ABL) and increased shipments of sapphire based products were the major contributors to the increase as compared to the last fiscal year.

Military Infrared Optics experienced a $0.1 million segment loss in fiscal year 2003 compared to segment earnings of $1.6 million last fiscal year. During the fiscal year changes in contract estimated costs to complete relating primarily to a development contract resulted in $1.2 million of additional expenses. Additionally, the consolidation of the commercial operations in the fourth quarter of fiscal year 2002 from Laser Power Corporation to other II-VI facilities decreased gross margins in the remaining Military Infrared Optics business segment due to the absorption of costs previously allocated to the Infrared Optics segment.

Other

The Company's Other segment includes the combined operations of the Company's eV PRODUCTS division and WBG group and the Company's corporate research and development group.

Combined bookings for fiscal 2003 for eV PRODUCTS division and WBG group increased 7% to $9.2 million as compared to $8.6 million last fiscal year. The increase was due to the receipt of more externally funded contract support for WBG's efforts in Silicon Carbide (SiC) development and the initial customer orders for SiC substrates. This increase in bookings for WBG group was partially offset by a decrease in bookings for eV PRODUCTS division due to slow development and deployment of new products by existing and target customers for medical and industrial applications.

Revenues for fiscal 2003 from these operations increased 23% to $8.7 million compared to $7.1 million last fiscal year. The higher revenues are a direct result of the higher contract billings, particularly contract research and development of the WBG group.

The segment loss for fiscal 2003 of $4.4 million increased 7% from the segment loss of $4.1 million in the prior fiscal year. The increase in the segment loss was primarily attributable to weakness in demand for products from eV PRODUCTS division. This loss was partially offset by more external contract support of the Company's efforts in SiC, which offsets the funding needed to be provided by the Company for this activity.

Costs and Expenses

Manufacturing gross margin, which is defined as net sales less cost of goods sold, for fiscal 2003 was $47.8 million or 41% of revenues compared to $36.3 million or 34% of revenues last fiscal year. The increased sales volume for fiscal year 2003 as compared to last fiscal year, the operational consolidation late last fiscal year of the infrared optics commercial manufacturing that was previously done at Laser Power Corporation in California to other worldwide manufacturing sites, the acquisition of a majority interest in a distributor in Germany, II-VI/L.O.T. GmbH and lower material costs as a result of yield improvements all contributed to the increased gross margin.

Contract research and development gross margin, which is calculated as contract research and development revenues less expenses, for fiscal 2003 was $0.6 million (5% of research and development revenues), compared to a gross margin of $0.7 million (9% of research and development revenues), for the same period last fiscal year. The contract research and development revenues and costs are a result of development efforts in the Near-Infrared Optics and the Military Infrared Optics segments as well as activities in the eV PRODUCTS division and the WBG group for the fiscal year ended June 30, 2003. The increased revenues level for fiscal 2003 as compared to last fiscal year is primarily due to revenues from a new SiC development contract. Contract research and development gross margin is a result of a blend of cost plus fixed fee, cost reimbursement and fixed fee contract activities. The reduced gross margin for fiscal 2003 was due primarily to losses of approximately $1.2 million recognized from activities performed on a fixed price percentage of completion development contract in the Military Infrared Optics segment.

Company-funded internal research and development expenses for fiscal 2003 were $2.7 million or 2% of revenues compared to $4.4 million or 4% of revenues, for last fiscal year. The lower expense is a direct result of more external contract support of the Company's WBG group's efforts in SiC crystal growth technology and processing development which offsets the funding needed to be provided by the Company for this activity. Fiscal 2002 included the results of the former Litton Systems, Inc. Silicon Carbide Group from the acquisition date; however the Company did not have a commensurate level of contract revenues in fiscal 2002 to offset the WBG group's additional costs associated with this business. Company-funded internal research and development expenses also include corporate research and development activities in addition to the research and development activities of the eV PRODUCTS division.

Selling, general and administrative expenses for fiscal 2003 were $28.5 million or 22% of revenues compared to $21.2 million or 19% of revenues for last fiscal year. The dollar and percentage increases for fiscal year 2003 as compared to last fiscal year reflect costs associated with the acquisition of a majority interest in a distributor in Germany, II-VI/L.O.T. GmbH during the first quarter of this fiscal year (See Note B to the Company's consolidated financial statements). While this acquisition has increased the Company's direct selling expense by approximately 2% of sales as compared to the prior year, this expense increase has been offset by the additional gross margin on sales to end customers in Germany. In addition to this acquisition of II-VI/L.O.T., the Company recorded higher salary expenses as compared to last fiscal year for its world-wide profit driven bonus program.

Interest expense for fiscal 2003 was $0.8 million compared to $1.4 million for last fiscal year. The decrease in interest expense reflects lower LIBOR based interest rates, as well as a 31% reduction in debt levels of the Company at June 30, 2003 as compared to the same period last fiscal year.

Other expense for fiscal 2003 was $0.3 million compared to $0.4 million for last fiscal year. Other expense in 2003 was primarily due to the minority interest in II-VI/L.O.T., the $0.1 million write-off of an investment in the second quarter of the current fiscal year and foreign currency losses as a result of the U.S. dollar's performance relative to other currencies in the current fiscal year offset by royalty income and interest income. Other expense in fiscal 2002 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 offset by foreign currency gains, royalty income and interest income.

The Company's effective income tax rate for fiscal 2003 was 28% compared to an effective income tax rate of 24% for fiscal 2002. The increase in the effective tax rate reflects the completion of an annual external transfer pricing study and the resulting finalization of the allocation of profits around the world. The Company's effective income tax rate reflects the Company's continued benefit from lower tax rates on its Singapore and China operations and a favorable mix of U.S. and foreign income.

Fiscal 2002 Compared to Fiscal 2001

NET EARNINGS Net earnings decreased 23% in fiscal 2002 to $7.3 million ($0.51 per share-diluted) from $9.5 million ($0.67 per share-diluted) in fiscal 2001. The major contributor to the net earnings decrease was the general softening of demand for infrared laser optics and component products and solid-state x-ray and gamma-ray detection materials and 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. The bookings decrease was primarily a result of order delays caused by a slowdown in the industrial sector.

REVENUES Revenues decreased 8% to $113.7 million in fiscal 2002 compared to $123.3 million last fiscal year. Revenues decreased due to lower shipments compared to the same period last fiscal year of industrial laser OEM and aftermarket sales from sluggish industrial worldwide demand and from the absence in sales of radiation detection materials and products to replace the fiscal year 2001 sales volume primarily in the medical sector.

SEGMENT EARNINGS Segment earnings, which is defined as earnings before income taxes, interest and other income or expense, for fiscal 2002 decreased 38% to $11.4 million compared to $18.3 million for the same period last fiscal year primarily due to lower gross margins from lower sales volume from the majority of our businesses. The decrease in segment earnings was also caused by a shift in the product mix away from the slowed industrial business and towards the military business which historically has lower margins.

Bookings, revenues and segment earnings or (loss) for the Company's reportable segments are discussed below. Certain amounts from prior years have been reclassified to conform with the segment reporting presentation adopted in fiscal 2003. See Note L to the Company's consolidated financial statements.

Infrared Optics

Bookings for fiscal 2002 for Infrared Optics decreased 18% to $55.7 million from $68.2 million compared to last fiscal year. The decrease was primarily driven by delays in OEM and aftermarket orders caused by a slowdown in the industrial sector.

Revenues for fiscal 2002 for Infrared Optics decreased 12% to $61.8 million from $69.9 million compared to last fiscal year. This decrease was primarily attributable to decreased shipments to several of the Company's domestic and international OEM customers, as well as, decreased shipments to aftermarket customers.

Segment earnings for fiscal 2002 increased 7% to $12.7 million compared to $13.7 million for the same period last fiscal year. The reduction in segment earnings for the current fiscal year as compared to the last fiscal year was due to a decrease in sales volume from softer demand for infrared optics, particularly in the industrial sector.

Near-Infrared Optics

Bookings for fiscal 2002 for Near-Infrared Optics decreased 9% to $23.4 million from $25.8 million compared to last fiscal year. The decrease in bookings for fiscal 2002 as compared to the last fiscal year was primarily due to weaker demand in commercial bookings in the optics and telecommunications product lines partially offset by an increase in contract research and development bookings.

Revenues for fiscal 2002 for Near-Infrared Optics decreased 10% to $22.7 million compared to $25.1 million last fiscal year. Commercial revenues decreased as compared to the prior fiscal year, primarily in the optics and telecommunications product lines.

Segment earnings for fiscal 2002 decreased 62% to $1.3 million from $3.4 million compared to last fiscal year. This reduction reflected decreased gross margins, lower sales volume and reduced product yields as a result of certain production related issues in our YAG growth and development area.

Military Infrared Optics

Bookings for fiscal 2002 for Military Infrared Optics were $29.3 million compared to $29.4 million for eleven months ended June 30, 2001 during which period this segment of our business was owned by the Company. Military bookings in the infrared crystals and optical components area were softer as compared to fiscal year 2001, but were offset by stronger bookings of military contracts including the Javelin Antitank Weapon System, the IFTS and Air Borne Laser programs.

Revenues for fiscal 2002 for Military Infrared Optics were $22.0 million compared to $19.0 million for the eleven months ended June 30, 2001. Even on an annualized basis, the Exotic Electro-Optics business was the only business resulting in an increase to sales for the year.

Segment earnings decreased 56% to $1.6 million from $3.6 million compared to last fiscal year. The reduction in segment earnings primarily related to major military contracts where technical challenges caused cost overruns eroding gross margins. Gross margins on military business, even absent of these cost overruns have historically lower margins as compared to our non-military businesses.

Other

Combined bookings for fiscal 2002 for eV PRODUCTS division and WBG group decreased 8% to $8.6 million as compared to $9.3 million last fiscal year. The decrease was due to the lower order intake by the Company's eV PRODUCTS division.

Revenues for fiscal 2002 from these operations decreased 24% to $7.1 million compared to $9.3 million last fiscal year. The lower revenues are the result of the absence in replacement revenues for eV PRODUCTS division's high-volume fiscal year 2001 order relating to the NASA Swift Telescope Program.

The segment loss for fiscal 2002 of $4.1 million increased 71% from the segment loss of $2.4 million in the prior fiscal year. The increase in the segment loss was attributable to weakness in demand for products from the eV PRODUCTS division resulting in lower sales volume and significant increase in internal research and development expense by the WBG group. The fiscal 2002 purchase of the Litton Systems, Inc. Silicon Carbide (SiC) group, while accelerating our efforts in single crystal SiC growth, at the same time increased our internal research and development expense.

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 division.

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.

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.

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 Company's 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.

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.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2003, cash generated from operations was $25.6 million. Proceeds from exercise of common stock options and fixed assets of $0.5 million each, in addition to the cash generated from operations, were used primarily to fund an investment of $7.0 million in property, plant and equipment, to finance a $2.8 million acquisition for a 75% majority ownership of II-VI/L.O.T. and to pay down $10.9 million of debt. Cash transactions for fiscal 2003 plus cash on hand at the beginning of the fiscal year resulted in a cash position of $15.6 million at June 30, 2003.

The largest sources of the $25.6 million in cash generated from operations in fiscal 2003 were $20.9 million in net earnings before depreciation and amortization, an increase in deferred income taxes of $1.4 million, an increase in accounts payable of $2.1 million and a decrease in other operating net assets of $4.8 million. These sources of cash were partially offset by an increase in accounts receivable and inventories of $4.2 million.

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

The Company had available $15.5 million and $9.3 million under its line of credit as of June 30, 2003 and 2002, respectively.

The Company believes cash flow from operations, existing cash reserves and available borrowing capacity will be sufficient to fund its working capital needs, capital expenditures, scheduled debt payments and internal growth. During fiscal 2003, the Company reinvested $7.0 million into capital projects.

OFF-BALANCE SHEETS ARRANGEMENTS

None.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

	Payments Due By Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
($000's)					
Long-Term Debt Obligations	$23,705	$6,923	$13,976	$2,613	$193
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	2,913	1,097	1,555	261	—
Purchase Obligations	3,019	309	1,275	1,435	—
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	—	—	—	—	—
Total	$29,637	$8,329	$16,806	$4,309	$193

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. 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 41%, 39% and 37% of revenues during the years ended June 30, 2003, 2002 and 2001, 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 Germany, 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 Germany, 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, specifically the military infrared optics business of Exotic Electro-Optics, 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.

A Large Portion of Our European Sales Rely On A Single Distributor

A large portion of our European sales not made by our subsidiaries in Germany, 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 B of the Company's 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 shareholder approval;
- 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); and
- 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 January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of Interpretation No. 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which an enterprise obtains an interest in after that date, and for variable interest entities created before this date, the provisions are effective July 1, 2003. We are currently evaluating the provisions of this interpretation; however, we do not believe they will have a material impact on our accounting for existing investments.

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 primarily focused on its exposure to the Japanese Yen. No significant changes have occurred in the techniques and instruments used other than those described below.

The Company has transactions denominated in Euros and Pounds Sterling. Changes in the foreign currency exchange rates of these currencies did not have a material impact on the results of operations for fiscal year 2003.

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, 300 million Yen loan with PNC Bank in September 2002 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 $24,000 and a 10% change in the Yen to dollar exchange rate would have changed revenues by approximately $1,187,000 for the year ended June 30, 2003.

For II-VI Singapore Pte., Ltd. and its subsidiaries, 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 remeasurement losses were $0.2 million, $0.5 million and $0.5 million for the years ended June 30, 2003, 2002 and 2001, 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; while 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.

Interest Rate Risks

On March 6, 2003, the Company entered into an interest rate cap, replacing an existing interest rate cap that matured on March 5, 2003, with a notional amount of $8.8 million as required under the terms of its current credit agreement in order to limit interest rate exposure on one-half of the then outstanding balance of the term loan. In fiscal 2003, the Company decreased its borrowings by $10.9 million. As of June 30, 2003, the total borrowings of $23.7 million include $16.2 million under the term loan option, $4.5 million under the line of credit option, $2.5 million Japanese Yen loan and a $0.5 million Pennsylvania Industrial Development Authority (PIDA) term note. As such, the Company is exposed to changes in interest rates. A change in the interest rate of 1% would have changed the interest expense by approximately $291,000 for fiscal year 2003.

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, 2003 and 2002, 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, 2003. Our audits also included the financial statement schedule listed in Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's 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, such consolidated financial statements present fairly, in all material respects, the financial position of II-VI Incorporated and subsidiaries as of June 30, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2003 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 A to the consolidated financial statements, the Company changed its method of accounting for goodwill amortization in fiscal 2002.

Deloitte & Touche LLP

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
September 25, 2003

CONSOLIDATED BALANCE SHEETS

June 30,	**2003**	**2002**
($000)		
Current Assets		
Cash and cash equivalents	$15,583	$ 9,610
Accounts receivable – less allowance for doubtful accounts and warranty returns of $1,266 at June 30, 2003 and $847 at June 30, 2002	22,086	21,541
Inventories	24,384	19,741
Deferred income taxes	3,794	3,457
Prepaid and other current assets	1,968	1,488
Total Current Assets	67,815	55,837
Property, Plant & Equipment, net	57,954	60,711
Goodwill, net	28,987	28,987
Investments	1,792	1,850
Intangible Assets, net	4,643	3,233
Other Assets	1,602	1,283
	$162,793	$151,901

Current Liabilities		
Accounts payable	$ 6,115	$ 3,970
Accrued salaries and wages	2,809	2,125
Accrued bonuses	5,244	2,851
Income taxes payable	1,945	1,012
Accrued profit sharing contribution	1,263	736
Other accrued liabilities	3,316	4,329
Current portion of long-term debt	6,923	5,068
Total Current Liabilities	27,615	20,091
Long-Term Debt	16,782	29,435
Deferred Income Taxes	5,579	3,881
Other Liabilities	1,296	834
Total Liabilities	51,272	54,241
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, no par value; authorized — 5,000,000 shares; none issued	—	—
Common stock, no par value; authorized — 30,000,000 shares; issued — 15,268,876 shares at June 30, 2003; 15,101,450 shares at June 30, 2002	39,430	37,840
Accumulated other comprehensive income	930	279
Retained earnings	73,071	61,451
	113,431	99,570
Less treasury stock at cost, 1,068,880 shares	1,910	1,910
Total Shareholders' Equity	111,521	97,660
	$162,793	$151,901

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended June 30,	2003	2002	2001
($000 except per share data)			
Revenues			
Net sales:			
Domestic	$ 64,740	$ 61,995	$ 73,075
International	52,470	44,066	45,176
Contract research and development	11,000	7,627	5,083
	128,210	113,688	123,334
Costs, Expenses and Other Expense			
Cost of goods sold	69,408	69,732	72,181
Contract research and development	10,436	6,905	3,619
Internal research and development	2,660	4,441	4,499
Selling, general and administrative	28,510	21,245	24,767
Interest expense	849	1,444	2,330
Other expense - net	297	411	1,382
	112,160	104,178	108,778
Earnings Before Income Taxes	16,050	9,510	14,556
Income Taxes	4,430	2,246	5,065
Net Earnings	$ 11,620	$ 7,264	$ 9,491
Basic Earnings Per Share	$ 0.83	$ 0.52	$ 0.69
Diluted Earnings Per Share	$ 0.81	$ 0.51	$ 0.67

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Accumulated Other Comprehensive	Retained	Treasury Stock		
	Shares	Amount	Income	Earnings	Shares	Amount	Total
(000)							
BALANCE – JULY 1, 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 stock option plans	120	370	—	—	—	—	370
Net earnings	—	—	—	7,264	—	—	7,264
Other comprehensive income, net of tax	—	—	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
Shares issued under stock option plans	167	542	—	—	—	—	542
Shares issued to acquire Laser Power Corporation	1	6	—	—	—	—	6
Net earnings	—	—	—	11,620	—	—	11,620
Other comprehensive income, net of tax	—	—	651	—	—	—	651
Income tax benefit for options exercised	—	1,042	—	—	—	—	1,042
BALANCE – JUNE 30, 2003	15,269	$39,430	$930	$73,071	(1,069)	$ (1,910)	$111,521

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended June 30,	2003	2002	2001
($000)			
Net earnings	$ 11,620	$ 7,264	$ 9,491
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of income tax of $248, $58, and $(64), respectively	651	188	(119)
COMPREHENSIVE INCOME	$ 12,271	$ 7,452	$ 9,372

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30,	2003	2002	2001
($000)			
Cash Flows from Operating Activities			
Net earnings	$ 11,620	$ 7,264	$ 9,491
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	8,817	8,429	6,838
Amortization	510	363	1,866
Loss (gain) on foreign currency remeasurements and transactions	159	(165)	1,445
Net loss on disposal or writedown of assets	323	335	237
Deferred income taxes	1,361	794	1,518
Other	50	(672)	—
Increase (decrease) in cash from changes in:			
Accounts receivable	(623)	596	(3,702)
Inventories	(3,549)	1,700	(1,745)
Accounts payable	2,124	(1,775)	(484)
Other operating net assets	4,849	(731)	40
Net cash provided by operating activities	25,641	16,138	15,504
Cash Flows from Investing Activities			
Additions to property, plant and equipment	(7,017)	(8,663)	(16,699)
Purchases of businesses	(2,755)	(2,172)	(27,726)
Dividends from (investment in) unconsolidated business	9	(1,698)	—
Disposals of property, plant and equipment	476	317	259
Net cash used in investing activities	(9,287)	(12,216)	(44,166)
Cash Flows from Financing Activities			
(Payments) proceeds on short-term borrowings	(5,819)	1,250	4,308
Proceeds from long-term borrowings	—	—	25,000
Payments on long-term borrowings	(5,066)	(3,834)	(44)
Proceeds from sale of common stock	548	370	466
Net cash (used in) provided by financing activities	(10,337)	(2,214)	29,730
Effect of exchange rate changes on cash and cash equivalents	(44)	(191)	695
Net increase in cash and cash equivalents	5,973	1,517	1,763
Cash and Cash Equivalents			
Beginning of year	9,610	8,093	6,330
End of year	$ 15,583	$ 9,610	$ 8,093
Non-cash transactions: Increase to investments from loan conversion	$ 412	—	—
Net assets acquired as settlement on a customer purchase commitment	—	$ 366	—
Net assets acquired for fair value of common stock	—	—	$ 15,474

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 instrumentation. The Company markets its products in the United States through its direct sales force and worldwide through its wholly- or majority-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.

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include II-VI Incorporated and its wholly-owned subsidiaries: VLOC Incorporated; Exotic Electro-Optics, Inc.; 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; II-VI Deutschland GmbH and II-VI LPE N.V., as well as its majority-owned subsidiary, II-VI/L.O.T. GmbH (collectively the "Company"). All intercompany transactions and balances have been eliminated.

FOREIGN CURRENCY TRANSLATION For II-VI Singapore Pte., Ltd. and its subsidiaries, 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 remeasurement losses were $0.2 million, $0.5 million and $0.5 million for the years ended June 30, 2003, 2002 and 2001, respectively.

For all other foreign subsidiaries, the functional currency is the local currency. Assets and liabilities of those operations are translated into U.S. dollars using period-end exchange rates; while 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 in the accompanying consolidated balance sheets.

CASH AND CASH EQUIVALENTS 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 Singapore, China, Germany, Japan, Belgium, the Netherlands and the United Kingdom.

ACCOUNTS RECEIVABLE The Company establishes an allowance for doubtful accounts based on historical experience. The Company records a warranty reserve as a charge against earnings based on a percentage of sales utilizing actual returns over the last twelve months.

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 the accounts receivable is from a single European distributor. At June 30, 2003 and 2002, the accounts receivable balance from this distributor was $1.9 million and $2.4 million, respectively, or 9% or 11%, respectively, 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.

For cash flow purposes, the Company factored with recourse approximately one-third of the accounts receivable due to its Japan subsidiary during each of the years ended June 30, 2003 and 2002. Factoring is done with large banks in Japan. As of June 30, 2003 and 2002, approximately $0.6 million and $0.4 million accounts receivable had been factored. As of June 30, 2003 and 2002, approximately $0.6 million and $0.4 million, respectively, was included in Other Accrued Liabilities representing the Company's obligation to the bank for these factored receivables.

The following table summarizes the change in the carrying value of the Company's warranty reserve as of and for the years ended June 30, 2003, 2002 and 2001.

Year Ended June 30,	**2003**	**2002**	**2001**
($000)			
Balance – Beginning of Year	$419	$334	$264
Expense and writeoffs, net	85	(3)	70
Other[(1)]	–	88	–
Balance – End of Year	$504	$419	$334

[1] Reclassification of certain warranty reserves from other current liabilities.

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. 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.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are carried at cost. Major improvements are capitalized, while maintenance and repairs are generally expensed as incurred. The Company reviews its property, plant and equipment and other long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. 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.

GOODWILL The excess purchase price over the net assets of businesses acquired is reported as goodwill in the accompanying consolidated balance sheets. Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets", was adopted by the Company as of July 1, 2001. The Company no longer amortizes goodwill but tests goodwill for impairment at least annually or when events or changes in circumstances indicate that goodwill might be impaired.

INVESTMENTS During the year ended June 30, 2002, the Company acquired for $1.7 million a 25% ownership interest in a supplier to the Company. In July 2002, the Company increased its ownership interest 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.

At June 30, 2003 and 2002, the Company had outstanding notes receivable of approximately $0.5 million and $0.2 million, respectively, 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 years ended June 30, 2003 and 2002, the Company purchased $0.3 million of raw materials each year from this 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 in either year ended June 30, 2003 or 2002.

INTANGIBLES Intangible assets are carried at cost. 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.

ACCRUED BONUSES AND PROFIT SHARING CONTRIBUTION The Company records bonus and profit sharing estimates as a charge against earnings based on a formula percentage of the Company's operating income. These estimates are adjusted to actual based on final results of operations achieved during the fiscal year. Partial bonus amounts are paid quarterly based on interim Company performance, and the remainder is paid after fiscal year end and final determination of the applicable percentage. Other bonuses and profit sharing are paid annually.

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 income tax assets to the amount more likely than not to be realized.

REVENUE RECOGNITION Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is established or determinable and collectibility is probable.

Revenue, other than for contract research and development, for all business segments is recognized from the sale of products at the point of passage of title, which is at the time of shipment.

The Company performs research and development under contract agreements with customers based on cost plus fixed fee, cost reimbursable or fixed fee terms. These contracts generally require the Company to produce and provide developmental materials and/or products to those customers. Revenues from cost plus fixed fee and cost reimbursable contracts are recognized as costs are incurred.

The Company follows the guidelines of Statement of Position 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" for its fixed fee contracts. Revenue and profits on each fixed fee contract are accounted for using the percentage-of-completion method of accounting, 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. The estimated total cost for each contract is periodically reevaluated and revised, when necessary, throughout the life of the contract. Losses on contracts are recorded in full when identified. During fiscal year 2003, a contract of the military infrared optics segment was adjusted reflecting a decrease in profitability by $0.8 million net of income tax during the year ended June 30, 2003 and $0.4 million net of income tax during the quarter ended June 30, 2003 as a result of revisions to estimated costs to complete the contract.

SHIPPING AND HANDLING COSTS Shipping and handling costs billed to customer are included in revenues. Shipping and handling costs incurred by the Company are included in selling, general and administrative expenses in the accompanying consolidated statements of earnings. Total shipping and handling costs included in revenues and in selling, general and administrative expenses were $0.2 million, $0.3 million and $0.3 million for the years ended June 30, 2003, 2002 and 2001, respectively.

RESEARCH AND DEVELOPMENT Research and development costs and costs related to customer and government funded research and development contracts are expenses as incurred.

STOCK-BASED COMPENSATION In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation should a company elect this accounting method. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and Accounting Principles Board (APB) Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method specified in APB Opinion No. 25, "Accounting for Stock Issued to Employees."

The Company uses the intrinsic value approach of APB Opinion No. 25 for stock options granted to officers and key employees. All options granted under the plan had an exercise price equal to the fair market value of the underlying common stock on the date of grant.

In accordance with the disclosure requirements of SFAS No. 148, the following pro forma information adjusts previously reported net earnings, basic earnings per common share and diluted earnings per common share to reflect the fair value recognition provisions of SFAS No. 123.

Year Ended June 30	2003 Net Earnings	2003 Basic Earnings Per Common Share	2003 Diluted Earnings Per Common Share	2002 Net Earnings	2002 Basic Earnings Per Common Share	2002 Diluted Earnings Per Common Share	2001 Net Earnings	2001 Basic Earnings Per Common Share	2001 Diluted Earnings Per Common Share
($000 except per share data)									
Net earnings and earnings per common share, as reported	$11,620	$0.83	$0.81	$7,264	$0.52	$0.51	$9,491	$0.69	$0.67
Add: Stock-based employee compensation cost, net of related tax effects, recorded in the financial statements	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Deduct: Stock-based employee compensation cost, net of related income tax effects, that would have been included in the determination of net earnings if the fair value method had been applied to all awards	(698)	(0.05)	(0.05)	(632)	(0.05)	(0.05)	(635)	(0.05)	(0.04)
Pro forma net earnings and earnings per common share	$10,922	$0.78	$0.76	$6,632	$0.47	$0.46	$8,856	$0.64	$0.63

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,	2003	2002	2001
Risk free interest rate	3.45%	3.81%	6.10%
Expected volatility	61%	47%	92%
Expected life of options	7.04 years	7.00 years	6.40 years
Expected dividends	none	none	none

Based on the option pricing model, options granted during the years ended June 30, 2003, 2002 and 2001 had fair values at the date of the grant of $8.86, $8.09 and $13.81 per share, 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. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", were effective for the Company as of July 1, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company was not required to record any transition adjustments as a result of adopting these standards.

The Company from time to time purchases foreign currency forward exchange contracts, primarily in Japanese Yen, that permit it to sell specified amounts of these foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. These contracts are entered into to limit transactional exposure to changes in currency exchange rates of export sales transactions in which settlement will occur in future periods and which otherwise would expose the Company, on the 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 $2.2 million and $1.2 million as of June 30, 2003 and 2002, respectively, on the statement of financial position. The Company does not account for these contracts as hedges as defined by SFAS No. 133 and records the change in the fair value of these contracts in the results of operations as they occur. The change in the fair value of these contracts increased (decreased) net earnings by $69,000, $(66,000) and $165,000 for the years ended June 30, 2003, 2002 and 2001, respectively.

To satisfy certain provisions of its credit agreement (see Note G), on March 6, 2003 the Company entered into a one-year interest rate cap with a notional amount of $8.8 million replacing an interest rate cap that expired on March 5, 2003. These agreements were entered into to limit interest rate exposure on one-half of the remaining outstanding balance of the Company's term loan under the credit agreement. The floating rate option for the cap agreement is the one-month LIBOR rate with a cap strike rate of 3.00%. At June 30, 2003 the one-month LIBOR rate was 1.12%. The Company has elected not to account for these agreements as hedges as defined by SFAS No. 133 but instead 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 the year ended June 30, 2002 by approximately $88,000. The effect of these instruments on net earnings for the years ended June 30, 2003 and 2001 was immaterial.

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 accumulated foreign currency translation adjustments of $0.9 million and $0.3 million, net of income taxes, as of June 30, 2003 and 2002, respectively.

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 are approximately equivalent.

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.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 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 SFAS No. 143 in the first quarter of the year ended June 30, 2003. The Company evaluated its existing leased and owned properties for potential asset retirement obligations under SFAS No. 143. Based on this review, the Company identified obligations primarily related to disposal of certain materials utilized in its manufacturing process. The adoption of SFAS No. 143 did not have a material effect on the Company's financial position or results of operations as of or for the year ended June 30, 2003.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of Interpretation No. 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which an enterprise obtains an interest after that date, and for variable interest entities created before this date, the provisions are effective July 1, 2003. We are currently evaluating the provisions of this interpretation; however, we do not believe they will have a material impact on our accounting for existing investments.

RECLASSIFICATIONS Certain amounts from priors years have been reclassified to conform with the 2003 presentation.

Note B ACQUISITIONS

II-VI/L.O.T. GmbH During the quarter ended September 30, 2002, the Company reached an agreement with L.O.T. – Oriel Laser Optik Technologies Holding GmbH and L.O.T. – Oriel Laser Optik GmbH & Co. KG of Darmstadt, Germany (collectively L.O.T.) to establish a new European entity to distribute II-VI Incorporated and Laser Power Corporation products in Germany. Approximately 10% of the Company's total sales are in Germany. Prior to this acquisition, the distribution of the Company's products in Germany was handled by L.O.T. The Company purchased a 75% controlling interest in II-VI/L.O.T. GmbH (II-VI/L.O.T.) for approximately $2.8 million in cash. The major assets acquired were inventory of approximately $1.2 million and intangible assets (customer lists and related information) of approximately $1.6 million that are being amortized over a ten-year useful life. The results of II-VI/L.O.T., for the year ended June 30, 2003 were included in the Company's consolidated financial statements and are included in the infrared optics segment.

At any time after July 1, 2005, the Company has a call option to purchase the remaining interest in II-VI/L.O.T. and L.O.T. has a put option to the Company to require the purchase of the remaining interest in II-VI/L.O.T. The price of the remaining interest is based upon a fixed formula based on the average sales of II-VI/L.O.T. for the three fiscal years prior to the exercise of the option.

LITTON SYSTEMS, INC. SILICON CARBIDE GROUP During the quarter ended December 31, 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 of approximately $2.0 million, inventory of approximately $0.1 million and intangible assets of approximately $0.1 million consisting of rights to patented technology that are being amortized over a 5-year useful life.

Note C CONTRACT RECEIVABLES

The components of contract receivables, which are a component of accounts receivable, net, were as follows:

June 30,	2003	2002
($000)		
Billed		
Completed Contracts	$ 75	$ 30
Contracts in Progress	1,526	1,953
	1,601	1,983
Unbilled	1,988	1,598
	$3,589	$3,581

Note D INVENTORIES

The components of inventories were as follows:

June 30,	2003	2002
($000)		
Raw materials	$ 5,729	$ 4,638
Work in process	11,034	8,958
Finished goods	7,621	6,145
	$24,384	$19,741

Note E PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at cost consist of the following:

June 30,	2003	2002
($000)		
Land and land improvements	$ 1,453	$ 1,551
Buildings and improvements	31,642	30,008
Machinery and equipment	72,424	73,041
	105,519	104,600
Less accumulated depreciation	47,565	43,889
	$ 57,954	$60,711

Depreciation expense was $8.8 million, $8.4 million and $6.8 million for the years ended June 30, 2003, 2002 and 2001, respectively.

The Company recorded an impairment charge to operations of approximately $0.3 million, net of tax, in the year ended June 30, 2002.

Interest expense capitalized associated with the construction of buildings and improvements approximated $11,000, $118,000 and $119,000 during the years ended June 30, 2003, 2002 and 2001, respectively.

Note F GOODWILL AND INTANGIBLE ASSETS

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 No. 142. 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, and, therefore, no impairment loss was recorded.

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, 2003 and 2002. Based on the results of these analyses, the Company's goodwill was not impaired as of June 30, 2003 or 2002.

In accordance with SFAS No. 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,	2003	2002	2001
($000 except per share data)			
Net earnings	$ 11,620	$ 7,264	$ 9,491
Add: Effect of goodwill amortization	—	—	1,473
Adjusted net earnings	$ 11,620	$ 7,264	$ 10,964
Basic earnings per share	$ 0.83	$ 0.52	$ 0.69
Add: Effect of goodwill amortization	—	—	0.11
Adjusted basic earnings per share	$ 0.83	$ 0.52	$ 0.80
Diluted earnings per share	$ 0.81	$ 0.51	$ 0.67
Add: Effect of goodwill amortization	—	—	0.10
Adjusted diluted earnings per share	$ 0.81	$ 0.51	$ 0.77

Changes in the carrying amount of goodwill are included below:

Year Ended June 30,	**2003**	**2002**
($000)		
Balance – Beginning of Year	$ 28,987	$ 29,236
Reclassification of intangible assets into goodwill	—	229
Income tax adjustments	—	(478)
Balance – End of Year	$ 28,987	$ 28,987

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 $0.3 million and a reduction in current income tax payable of $0.2 million. These income tax adjustments resulted in a reduction of goodwill of $0.5 million 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, 2003 and 2002 were as follows:

	June 30, 2003			**June 30, 2002**		
($000)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Patents	$1,867	$ (493)	$1,374	$2,193	$ (757)	$1,436
Trademark	1,491	(217)	1,274	1,491	(143)	1,348
Customer Lists	2,360	(557)	1,803	500	(321)	179
Other	750	(558)	192	750	(480)	270
Total	$6,468	$(1,825)	$4,643	$4,934	$ (1,701)	$3,233

In addition to the impairment charge for property, plant and equipment as noted in Note E, an impairment charge of approximately $0.2 million net of income tax for related technology was charged to operations in the year ended June 30, 2002. The Company also wrote off fully amortized assets with an original cost and accumulated amortization of $0.4 million in the year ended June 30, 2003.

Amortization expense recorded on the intangible assets for the years ended June 30, 2003, 2002 and 2001 was $0.5 million, $0.4 million and $0.4 million, respectively. The estimated amortization expense for existing intangible assets for each of the five succeeding years is as follows:

Year Ending June 30,	
($000)	
2004	$499
2005	499
2006	446
2007	347
2008	339

Note G DEBT

The components of debt were as follows:

June 30,	2003	2002
($000)		
Line of credit, interest at the LIBOR Rate, as defined, plus 1.25% and 1.38%, respectively	$ 4,500	$ 10,750
Term loan, interest at the LIBOR Rate, as defined, plus 1.25% and 1.38%, respectively, payable in quarterly installments through August 2005	16,250	21,250
Pennsylvania Industrial Development Authority (PIDA) term note, interest at 3.00%, payable in monthly installments through October 2011	452	499
Yen denominated term note, interest at the Japanese Yen Base Rate, as defined, plus 1.49%, principal payable in full in September 2007	2,503	—
Yen denominated term note, interest at the Japanese Yen Base Rate, as defined, plus 1.49%	—	1,983
Other	—	21
Total debt	23,705	34,503
Current portion of long-term debt	(6,923)	(5,068)
Long-term debt	$16,782	$29,435

The Company has a $45.0 million secured credit agreement, which it obtained in connection with the Company's acquisition of Laser Power Corporation in fiscal 2001. The facility has a five-year term effective August 14, 2000 and contains term and line of credit borrowing options. The facility is collateralized by the Company's accounts receivables and inventories, a pledge of all of the capital stock of each of the Company's 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 2.62% and 3.36%, respectively, at June 30, 2003 and 2002. The average outstanding borrowings under the line of credit were $26.5 million and $33.0 million during the years ended June 30, 2003 and 2002, respectively. The Company had available $15.5 million and $9.3 million under its line of credit as of June 30, 2003 and 2002, 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 denominated term note ("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.

In September 2002, the Company replaced its 237 million Yen loan with a 300 million Yen loan. 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%. The Japanese Yen Base Rate was 0.07% at June 30, 2003.

The Company has a line of credit facility with a Singapore bank which permits maximum borrowings in the local currency of approximately $0.4 million for the fiscal years ended June 30, 2003 and 2002. 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, 2003 and 2002 was 6.00%. At June 30, 2003 and 2002 there were no outstanding borrowings under this facility.

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

Year Ending June 30,	
($000)	
2004	$ 6,923
2005	7,550
2006	6,426
2007	53
2008	2,560
Thereafter	193

Interest and commitment fees paid during the years ended June 30, 2003, 2002 and 2001 totaled approximately $1.0 million, $1.4 million and $2.2 million, respectively.

Note H INCOME TAXES

The components of income tax expense were as follows:

Year Ended June 30,	2003	2002	2001
($000)			
Current:			
Federal	$1,272	$ 423	$2,387
State	531	233	387
Foreign	1,266	690	939
Total Current	$3,069	$1,346	$3,713
Deferred:			
Federal	$1,070	$1,015	$1,119
State	(37)	190	118
Foreign	328	(305)	115
Total Deferred	$1,361	$ 900	$1,352
Total Income Tax Expense	$4,430	$2,246	$5,065

Principal items comprising deferred income taxes were as follows:

June 30,	2003	2002
($000)		
Deferred income tax assets – current		
Prepaid taxes	$ 392	$ 167
Inventory capitalization	1,103	1,004
Non-deductible accruals	1,343	1,416
Intangible assets	106	—
Net-operating loss carryforward – current portion	1,242	870
Valuation allowance	(392)	—
Deferred income taxes – current	$3,794	$ 3,457

Deferred income tax assets and (liabilities) – long-term		
Net-operating loss carryforward	$ 739	$ 1,882
Other	64	—
Valuation allowance	(627)	(468)
Deferred income tax asset – long-term	$ 176	$ 1,414
Tax over book accumulated depreciation	$(4,723)	$(4,333)
Intangible assets	(1,032)	(962)
Deferred income tax liability – long-term	$(5,755)	$(5,295)
Net deferred income taxes – long-term	$(5,579)	$(3,881)

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

Year Ended June 30,	2003	%	2002	%	2001	%
($000)						
Taxes at statutory rate	$ 5,457	34	$ 3,234	34	$ 4,949	34
Increase (decrease) in taxes resulting from:						
State income taxes – net of federal benefit	343	2	279	3	358	3
Extraterritorial Income Exclusion or Foreign Sales Corporation income	(1,112)	(7)	(719)	(7)	(378)	(3)
Excludable foreign income	(472)	(3)	(525)	(6)	(124)	(1)
Foreign taxes	—	—	83	1	126	1
Non-deductible goodwill amortization	—	—	—	—	500	3
Other	214	2	(106)	(1)	(366)	(2)
	$ 4,430	28	$ 2,246	24	$ 5,065	35

During the years ended June 30, 2003, 2002, and 2001, cash paid by the Company for income taxes was approximately $1.2 million, $1.4 million, and $1.7 million, respectively.

Earnings before income taxes of our non-U.S. operations for June 30, 2003, 2002, and 2001 was $7.9 million, $4.5 million, and $3.3 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 $7.0 million and $6.9 million would have been required as of June 30, 2003 and 2002, 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,	2003	2002	2001
($000)			
Depreciation and amortization	$ 337	$ 344	$ 2,232
Inventory capitalization	(99)	252	(872)
Net operating loss carryforward	931	639	729
Other	192	(335)	(737)
	$ 1,361	$ 900	$ 1,352

As of June 30, 2003 and 2002, the Company had federal and state net operating loss carryforwards of approximately $2.6 million and $1.1 million, respectively. The net operating losses will begin to expire in 2018 and 2009, respectively. For the year ended June 30, 2003, the Company utilized approximately $2.0 million of net operating losses to reduce current taxable income.

Note I EARNINGS PER SHARE

The following table sets forth the computation of earnings per share for the periods indicated. Weighted average shares issuable upon the exercise of stock options that were not included in the calculation because they were antidilutive, were immaterial for all periods presented.

Year Ended June 30,	2003	2002	2001
(000 except per share data)			
Net earnings	$11,620	$ 7,264	$ 9,491
Divided by:			
Weighted average common shares outstanding	14,080	13,962	13,737
Basic earnings per share	$ 0.83	$ 0.52	$ 0.69
Net earnings	$11,620	$ 7,264	$ 9,491
Divided by:			
Weighted average common shares outstanding	14,080	13,962	13,737
Dilutive effect of stock options	310	352	423
Dilutive weighted average common shares outstanding	14,390	14,314	14,160
Diluted earnings per share	$ 0.81	$ 0.51	$ 0.67

Note J OPERATING LEASES

The Company leases certain property under operating leases that expire at various dates through the year ending June 30, 2007. Future rental commitments applicable to the operating leases at June 30, 2003 are as follows:

Year Ending June 30,	
($000)	
2004	$1,097
2005	835
2006	720
2007	261

Rent expense was approximately $1.2 million, $1.1 million and $1.0 million for the years ended June 30, 2003, 2002 and 2001, respectively.

Note K 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 906,277 as of June 30, 2003.

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, 2003.

All stock options expire 10 years after the grant date.

Stock option activity relating to the plans during the years ended June 30, 2003, 2002 and 2001 were as follows:

Options	Number of Shares Subject to Option	Weighted Average Exercise Price
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 – June 30, 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
Granted	272,300	$14.04
Exercised	(167,100)	$ 3.24
Forfeited	(56,200)	$16.97
Outstanding – June 30, 2003	1,110,281	$ 9.81
Exercisable – June 30, 2003	675,284	$ 7.10
Exercisable – June 30, 2002	744,620	$ 5.76
Exercisable – June 30, 2001	737,569	$ 4.41

Outstanding and exercisable options at June 30, 2003 were as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 1.00 - $ 2.00	183,600	1.27	$ 1.56	183,600	$ 1.56
$ 4.25 - $ 5.50	209,426	4.25	$ 5.29	180,861	$ 5.26
$ 6.09 - $10.50	192,620	4.11	$ 9.00	183,220	$ 9.14
$11.00 - $15.74	299,040	8.15	$13.30	64,133	$12.58
$16.00 - $23.00	225,595	7.91	$16.78	63,470	$16.96
	1,110,281	5.53	$ 9.81	675,284	$ 7.10

Note L 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.

Effective July 1, 2002, the Company changed its segment reporting to better reflect operational changes and to reflect how the Company's management manages its businesses. Prior period segment information has been restated.

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 the following reportable segments: Infrared Optics, which is the Company's II-VI and Laser Power infrared optics and material products businesses; Near-Infrared Optics, which is the Company's VLOC subsidiary; and Military Infrared Optics, which is the Company's Exotic Electro-Optics subsidiary. The "Other" category is primarily the aggregation of the Company's eV PRODUCTS division, the Company's Wide Band Gap (WBG) development group, the Company's corporate research and development group and remaining corporate activities.

The Infrared Optics segment is divided into the geographic locations within the United States, Singapore, China, Germany, Japan, Belgium 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 Infrared Optics segment designs, manufactures and markets optical and electro-optical components and materials sold under the II-VI and Laser Power brand names and used primarily in high-power CO_2 lasers.

The Near-Infrared Optics segment is located in the United States. The Near-Infrared Optics segment is directed by a general manager. The Near-Infrared Optics segment is further divided into production and administrative units that are directed by managers. The Near-Infrared Optics segment designs, manufactures and markets near-infrared and visible-light products for industrial, scientific and medical instruments and laser gain material and products for solid-state YAG and YLF lasers at the Company's VLOC subsidiary.

The Military Infrared Optics segment is located in the United States. The Military Infrared Optics segment is directed by a general manager. The Military Infrared Optics segment is further divided into production and administrative units that are directed by managers. The Military Infrared Optics segment designs, manufactures and markets infrared products for military applications under the Exotic Electro-Optics brand name.

All entities comprised in the "Other" category are located in the United States. The Company's eV PRODUCTS division manufactures and markets solid-state x-ray and gamma-ray detection materials and products for use in medical, security monitoring, industrial, environmental and scientific applications. The Company's WBG group manufactures and markets single crystal silicon carbide substrates for use in solid-state lighting, wireless infrastructure, RF electronics and power switching industries.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note A). Substantially all of the Company's corporate expenses are allocated to the segments. The Company evaluates segment performance based upon reported segment earnings or loss, which is defined as earnings before income taxes, interest and other income or expense. Inter-segment sales and transfer have been eliminated.

The following table summarizes selected financial information of the Company's operations by segment:

	Infrared Optics	Near-Infrared Optics	Military Infrared Optics	Other	Total
($000)					
2003					
Revenues	$73,638	$22,844	$23,003	$8,725	$128,210
Segment earnings (loss)	19,965	1,698	(65)	(4,402)	17,196
Interest expense	—	—	—	—	(849)
Other expense, net	—	—	—	—	(297)
Earnings before income taxes	—	—	—	—	16,050
Depreciation and amortization	4,170	2,053	1,662	1,442	9,327
Segment assets	69,547	23,957	39,750	29,539	162,793
Expenditures for property, plant and equipment	3,152	558	1,403	1,904	7,017
Equity investment	—	—	—	1,792	1,792
Goodwill	5,516	1,927	21,544	—	28,987
2002					
Revenues	$61,840	$22,724	$22,008	$7,116	$113,688
Segment earnings (loss)	12,650	1,276	1,574	(4,135)	11,365
Interest expense	—	—	—	—	(1,444)
Other expense, net	—	—	—	—	(411)
Earnings before income taxes	—	—	—	—	9,510
Depreciation and amortization	3,992	2,063	1,613	1,124	8,792
Segment assets	61,242	26,505	34,475	29,679	151,901
Expenditures for property, plant and equipment	4,763	1,086	869	1,945	8,663
Equity investment	—	—	—	1,751	1,751
Goodwill	5,516	1,927	21,544	—	28,987
2001					
Revenues	$69,879	$25,125	$18,999	$ 9,331	$123,334
Segment earnings (loss)	13,734	3,373	3,563	(2,402)	18,268
Interest expense	—	—	—	—	(2,330)
Other expense, net	—	—	—	—	(1,382)
Earnings before income taxes	—	—	—	—	14,556
Depreciation and amortization	3,765	1,928	2,275	736	8,704
Segment assets	57,224	27,434	42,559	20,956	148,173
Expenditures for property, plant and equipment	9,745	4,792	1,200	962	16,699
Goodwill	5,516	1,927	—	22,022	29,465

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,	**2003**	**2002**	**2001**
($000)			
United States	$83,915	$89,659	$97,753
Non-United States:			
Germany	15,180	—	—
Singapore	12,382	9,714	8,230
Japan	11,866	8,301	11,668
United Kingdom	2,573	1,709	2,223
Belgium	2,280	4,305	3,460
China	14	—	—
Total Non - United States	44,295	24,029	25,581
	$128,210	$113,688	$123,334

	Long-Lived Assets		
Year Ended June 30,	**2003**	**2002**	**2001**
($000)			
United States	$85,714	$88,570	$86,606
Non-United States:			
Germany	1,675	—	—
Singapore	2,141	2,390	2,801
Japan	19	27	17
United Kingdom	4	7	10
Belgium	509	472	476
China	1,522	1,465	1,443
Total Non - United States	5,870	4,361	4,747
	$91,584	$92,931	$91,353

Note M EMPLOYEE BENEFIT PLANS

Eligible employees of the Company participate in a profit sharing retirement plan. Contributions to the plan are made at the discretion of the Company's board of directors and were approximately $1.3 million, $0.7 million and $1.1 million for the years ended June 30, 2003, 2002 and 2001, respectively.

The Company has an employee stock purchase plan available for employees who have completed six months of continuous employment with the Company. The employee may purchase the common stock at 5% below the prevailing market price. The amount of shares which may be bought by an employee is limited to 10% of the employee's base pay for each fiscal year. This plan, as amended, limits the number of shares of common stock available for purchase to 400,000 shares. There were 196,942 and 206,454 shares of common stock available for purchase under the plan at June 30, 2003 and 2002, 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 $0.4 million, $0.1 million and $0.4 million for the years ended June 30, 2003, 2002, and 2001, respectively. Other Liabilities and Other Assets in the accompanying consolidated balance sheets included $1.0 million and $0.8 million related to the Plan at June 30, 2003 and 2002, respectively.

Note N COMMITMENTS AND 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.

During the year ended June 30, 2003, the Company entered into a fifty-four month purchase agreement for the supply of a raw material at fixed prices. The agreement requires minimum amounts to be purchased on both an annual basis and over the term of the agreement. Minimum purchase amounts are $0.3 million, $0.6 million, $0.7 million and $1.4 million in each of the years ending June 30, 2004, 2005, 2006 and 2007, respectively.

The Company purchased $0.8 million of this raw material under this agreement during the year ended June 30, 2003.

Note O SUBSEQUENT EVENT

On September 11, 2003, the Company entered into an agreement to acquire certain assets, equipment, intellectual property and rights from Coherent, Inc. (Coherent) relating to Coherent's business of growing and fabricating materials used for ultra-violet (UV) filters. UV filters assist aircraft in the early detection of missile threats. Under the terms of this asset purchase the Company will pay $2.0 million to Coherent. The payment of the purchase price is subject to certain terms and conditions, including delivery of the equipment and qualification of materials. The major assets to be acquired are equipment, inventory and a patent for crystal growth.

SCHEDULE II

II-VI INCORPORATED AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2001, 2002, AND 2003
(IN THOUSANDS OF DOLLARS)

	Balance at Beginning of Year	Additions: Charged to Expense	Additions: Charged to Other Accounts[1]	Deduction from Reserves[2]	Balance at End of Year
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	$ 749	$ 158	$ 42	$ 102[2]	$ 847
Other[3]	—	$ 780	—	$ 88	$ 692
YEAR ENDED JUNE 30, 2003:					
Allowance for doubtful accounts & warranty returns	$ 847	$ 486	$ 79	$ 146[2]	$ 1,266
Other[3]	$ 692	$ 182	$ (59)	$ 605	$ 210

[1] Amounts primarily relate to businesses acquired, warranty returns and the effects of foreign currency translation.
[2] Uncollectible accounts written off, net of recovery
[3] 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 2003

QUARTER ENDED	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003
($000 except per share data)				
Net revenues	$31,571	$31,431	$32,356	$32,852
Cost of goods sold	20,331	19,672	20,064	19,777
Internal research and development	959	552	435	714
Selling, general and administrative	7,195	6,692	7,664	6,959
Interest expense	278	247	174	150
Other expense (income) – net	(114)	601	(93)	(97)
Earnings before income taxes	2,922	3,667	4,112	5,349
Income taxes	716	898	1,093	1,723
Net earnings	$ 2,206	$ 2,769	$ 3,019	$ 3,626
Basic earnings per share	$ 0.16	$ 0.20	$ 0.21	$ 0.26
Diluted earnings per share	$ 0.15	$ 0.19	$ 0.21	$ 0.25

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.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this annual report on Form 10-K, the Company's management evaluated, with the participation of Carl J. Johnson, the Company's Chairman and Chief Executive Officer and Craig A. Creaturo, the Company's Chief Accounting Officer and Treasurer (and principal financial officer), the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The Company's disclosure controls were designed to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls' stated goals. Based on that evaluation, Messrs. Johnson and Creaturo concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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 2003 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 2003 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	1,110,281	$9.81	1,026,277
Equity compensation plans not approved by security holders	0	0	0
Total	1,110,281	$9.81	1,026,277

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 2003 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 2003 Annual Meeting of Shareholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the information set forth under the caption "Ratification of Selection of Auditors" in the Company's definitive proxy statement for the 2003 Annual Meeting of Shareholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

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, 2003 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.

(3) Exhibits.

Exhibit Number	Description of Exhibit	
3.01	Amended and Restated Articles of Incorporation of II-VI Incorporated	Incorporated herein by Exhibit 3.02 to reference is Registration Statement No. 33-16389 on Form S-1.
3.02	Amended and Restated By-Laws of II-VI Incorporated	Incorporated herein by reference is II-VI's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.
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 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.

Exhibit Number	Description of Exhibit	
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.
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.

Exhibit Number	Description of Exhibit	
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.
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	Incorporated herein by reference as filed with II-VI's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.
21.01	List of Subsidiaries of II-VI Incorporated	Filed herewith.
23.01	Consent of Deloitte & Touche LLP	Filed herewith.
31.01	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.02	Certification of the principal financial officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.01	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.02	Certification of the principal financial officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.

* 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

Date: September 26, 2003

By: /s/ Carl J. Johnson
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officer:

Date: September 26, 2003

By: /s/ Carl J. Johnson
Carl J. Johnson
Chairman, Chief Executive Officer and Director

Principal Financial and Accounting Officer:

Date: September 26, 2003

By: /s/ Craig A. Creaturo
Craig A. Creaturo
Chief Accounting Officer and Treasurer

Date: September 26, 2003

By: /s/ Francis J. Kramer
Francis J. Kramer
President, Chief Operating Officer and Director

Date: September 26, 2003

By: /s/ Joseph J. Corasanti
Joseph J. Corasanti
Director

Date: September 26, 2003

By: /s/ Thomas E. Mistler
Thomas E. Mistler
Director

Date: September 26, 2003

By: /s/ Duncan A. J. Morrison
Duncan A. J. Morrison
Director

Date: September 26, 2003

By: /s/ RADM Marc Y. E. Pelaez
RADM Marc Y. E. Pelaez
Director

Date: September 26, 2003

By: /s/ Peter W. Sognefest
Peter W. Sognefest
Director

Exhibit 31.01

CERTIFICATIONS

I, Carl J. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K of II-VI Incorporated;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) [omitted in accordance with SEC Release No. 33-8238/34-47986];

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedure, as of the end of the period covered by this report based on such evaluation; and;

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 26, 2003

By: /s/ Carl J. Johnson
Carl J. Johnson
Chairman and Chief Executive Officer

Exhibit 31.02

CERTIFICATIONS

I, Craig A. Creaturo, certify that:

1. I have reviewed this annual report on Form 10-K of II-VI Incorporated;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) [omitted in accordance with SEC Release No. 33-8238/34-47986];

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedure, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 26, 2003

By: /s/ Craig A. Creaturo
Craig A. Creaturo
Chief Accounting Officer and Treasurer
(principal financial officer)

Exhibit 32.01

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of II-VI Incorporated (the “Corporation”) on Form 10-K for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: September 26, 2003

/s/ Carl J. Johnson
Carl J. Johnson
Chairman and Chief Executive Officer

*This certification is made solely for purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

Exhibit 32.02

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of II-VI Incorporated (the "Corporation") on Form 10-K for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: September 26, 2003 /s/ Craig A. Creaturo

Craig A. Creaturo
Chief Accounting Officer and Treasurer
(principal financial officer)

*This certification is made solely for purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

Board of Directors

Joseph J. Corasanti
President and Chief Operating Officer
CONMED Corporation

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

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

Thomas E. Mistler
Operating Partner
Buckingham Capital Partners

Duncan A.J. Morrison
Chairman
ARRI Canada Ltd.

Marc Y.E. Pelaez
Rear Admiral of the United States Navy (retired)

Peter W. Sognefest
President and Chief Executive Officer
South East Asia Manufacturing
Operations Consultancy (SEAMOC)

Executive Officers

Carl J. Johnson
Chairman and Chief Executive Officer

Francis J. Kramer
President and Chief Operating Officer

Herman E. Reedy
Executive Vice President – Infrared Optics

James Martinelli
Vice President – Government and Military Businesses

Craig A. Creaturo
Chief Accounting Officer and Treasurer

Annual Meeting

Friday, November 7, 2003
Treesdale Golf & Country Club
One Arnold Palmer Drive
Gibsonia, PA 15044
Shareholder Reception at 12:45 PM EST
Shareholder Meeting at 1:30 PM EST

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 (phone)

Independent Auditors

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

Corporate Counsel

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

Securities and Exchange Commission Counsel

Buchanan Ingersoll PC
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

888-558-1504 (toll-free)
724-352-4455 (phone)

www.ii-vi.com