

II-VI INC
Form DEF 14A
September 30, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

- Filed by the Registrant
- Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
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- Definitive Proxy Statement
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II-VI INCORPORATED

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

375 Saxonburg Boulevard
Saxonburg, Pennsylvania 16056

Notice of Annual Meeting of Shareholders
to be held on November 7, 2003

TO THE SHAREHOLDERS OF

II-VI INCORPORATED:

The Annual Meeting of Shareholders of II-VI Incorporated will be held at the Treedale Golf & Country Club, One Arnold Palmer Drive, Gibsonia, Pennsylvania 15044, on Friday, November 7, 2003, at 1:30 p.m. local time to consider and act upon the following matters:

1. The election of two (2) directors for a term to expire in 2006;
2. The ratification of the Board of Directors' selection of Deloitte & Touche LLP as auditors for the fiscal year ending June 30, 2004; and
3. A shareholder proposal, if it is properly presented at the meeting.

The shareholders will also be asked to consider such other matters as may properly come before the meeting.

The Board of Directors has established the close of business on Wednesday, September 10, 2003, as the record date for determination of shareholders entitled to notice of and to vote at the Annual Meeting.

IF YOU ARE UNABLE TO ATTEND THE MEETING, IT IS REQUESTED THAT YOU COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE.

BY ORDER OF THE BOARD OF DIRECTORS

Robert D. German, *Secretary*

September 30, 2003

II-VI INCORPORATED

375 Saxonburg Boulevard

Saxonburg, Pennsylvania 16056

**PROXY STATEMENT FOR ANNUAL MEETING
OF SHAREHOLDERS**

November 7, 2003

This proxy statement is being furnished to the shareholders of II-VI Incorporated, a Pennsylvania corporation (the "Company"), in connection with the solicitation by the Board of Directors of the Company of proxies to be voted at the annual meeting of shareholders (the "Annual Meeting") scheduled to be held on Friday, November 7, 2003, at 1:30 p.m. local time at the Treesdale Golf & Country Club, One Arnold Palmer Drive, Gibsonia, Pennsylvania 15044. A shareholder reception will start at 12:45 p.m. This proxy statement was first mailed to shareholders on or about September 30, 2003. A copy of the Company's Annual Report to Shareholders for the fiscal year ended June 30, 2003 is being furnished with this proxy statement.

Only shareholders of record as of the close of business on Wednesday, September 10, 2003, are entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. The outstanding capital stock of the Company on that date consisted of 14,259,161 shares of Common Stock, no par value ("Common Stock"), each entitled to one vote per share.

All shares represented by valid proxies received by the Company prior to the Annual Meeting will be voted as specified in the proxy. If no specification is made, the shares will be voted as described below under the caption "Recommendation of the Board of Directors." Unless otherwise indicated by the shareholder, the proxy card also confers discretionary authority on the Board-appointed proxies to vote the shares represented by the proxy on any matter that is properly presented for action at the Annual Meeting. A shareholder giving a proxy has the power to revoke it any time prior to its exercise by delivering to the Company a written revocation or a duly executed proxy bearing a later date (although no revocation shall be effective until notice thereof has been given to the Secretary of the Company), or by attendance at the meeting and voting his or her shares in person.

Under the Company's Articles of Incorporation and By-Laws, and applicable law, the affirmative vote of shareholders entitled to cast at least a majority of the votes which all shareholders present at the meeting in person or by proxy are entitled to cast generally is required for shareholder approval, including shareholder proposals properly presented at the meeting and the ratification of the selection of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending June 30, 2004. As such, abstentions generally have the effect of a negative vote. Any broker non-votes on a particular matter have no effect since, by definition, they are not entitled to be cast on the matter. With regard to the election of directors, votes may be cast in favor of a candidate or may be withheld. As directors are elected by a plurality, abstentions and broker non-votes have no effect on the election of directors.

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RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors of the Company recommends a vote FOR each of the nominees named below for election as director, FOR the ratification of the Board of Directors selection of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending June 30, 2004, and AGAINST the shareholder proposal presented below.

ELECTION OF DIRECTORS

The Company's By-Laws provide that the Board of Directors shall establish the number of directors which shall be not less than five nor more than nine members. The By-Laws also provide for a board of directors of three classes, each class consisting of as nearly an equal number as practicable, as determined by the Board. At present, the Board of Directors of the Company has determined that the number of directors shall be seven, consisting of two directors each in Classes One and Two and three directors in Class Three.

Two directors of Class One are to be elected to hold office for a term of three years, and each until their respective successors are elected and qualified, subject to the right of the shareholders to remove any director as provided in the By-Laws. A vacancy in the office of a director may be filled by the remaining directors then in office, even if less than a quorum, or by the sole remaining director. Any director elected by the Board of Directors to fill a vacancy shall serve until his successor is elected and has qualified or until his or her earlier death, resignation or removal. If the Board of Directors increases the number of directors, any vacancy so created may be filled by the Board of Directors.

The holders of Common Stock have cumulative voting rights in the election of directors. In voting for directors, a shareholder has the right to multiply the total number of shares which the shareholder is entitled to vote by the number of directors to be elected in each class, and to cast the whole number of votes so determined for one nominee in the class or to distribute them among the nominees if more than one nominee is named in such class. The two Class One nominees receiving the greatest number of affirmative votes will be elected as a Class One director whose term expires in 2006. Unless otherwise indicated by the shareholder, a vote for the nominees of the Board of Directors will give the named proxies discretionary authority to cumulate all votes to which the shareholder is entitled and to allocate them after the total vote counts are available in favor of any one or more such nominees as the named proxies determine, with a view to maximizing the number of nominees of the Board of Directors who are elected. The effect of cumulation and voting in accordance with that discretionary authority may be to offset the effect of a shareholder's having withheld authority to vote for an individual nominee or nominees because the proxies will be able to allocate votes of shareholders who have not withheld authority to vote in any manner they determine among such nominees. If a shareholder desires specifically to allocate votes among one or more nominees, the shareholder should so specify on the proxy card.

The persons named as proxies on the enclosed proxy card were selected by the Board of Directors and have advised the Board of Directors that, unless authority is withheld, they intend to vote the shares represented by them at the Annual Meeting: for the election of Duncan A.J. Morrison, who has served as director of the Company since 1982; and for the election of Marc Y.E. Pelaez, who has served as director of the Company since 2002.

The Board of Directors knows of no reason why any nominee for director would be unable to serve as director. If at the time of the Annual Meeting any of the named nominees are unable or unwilling to serve as directors of the Company, the persons named as proxies intend to vote for such substitutes as may be nominated by the Board of Directors.

The following sets forth certain information concerning each nominee for election as a director of the Company and each director whose term of office will continue after the meeting.

Nominees for Class One Director Whose Term Expires 2006

Duncan A.J. Morrison, 66, has served as a Director of the Company since 1982. Mr. Morrison has been Chairman of ARRI Canada Ltd. since 2001. Previously, he was President at ARRI Canada Ltd. from 1994 to 2001. He was a Vice President of Corporate Financial Consulting with Seapoint Financial Corporation in Toronto, Canada from 1990 to 1994. From 1987 until 1990, Mr. Morrison was the Chief Financial Officer of the CTV Television Network Ltd. in Toronto, Canada. From 1976 until 1986, Mr. Morrison was the Vice President/Controller of Copperweld Corporation in Pittsburgh, Pennsylvania. He was Vice President, Treasurer and the Comptroller of Kysor Industrial Corporation in Cadillac, Michigan from 1966 to 1976. Mr. Morrison is a director of 5N Plus Inc. Mr. Morrison was born in Canada and graduated from Westerveld Business College in London, Ontario, with a B.A. in Accounting.

Marc Y.E. Pelaez, 57, has served as a Director of the Company since 2002. Mr. Pelaez is a retired Rear Admiral of the United States Navy. Rear Admiral Pelaez currently is a private consultant to defense and commercial companies. He was Vice President of Engineering and later of Business and Technology Development for Newport News Shipbuilding from 1996 until 2001, when Northrop Grumman Corporation acquired Newport News Shipbuilding. From 1993 to 1996 Rear Admiral Pelaez served as Chief of Naval Research. He served as the Executive Assistant to the Assistant Secretary of the Navy from 1990 to 1993. From 1968 to 1990 he held numerous positions in the United States Navy. Rear Admiral Pelaez serves on the Board of Trustees of the Old Dominion University Foundation. He is a graduate of the United States Naval Academy.

Existing Class Three Directors Whose Terms Expire 2005

Carl J. Johnson, 61, 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 served as 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.

Thomas E. Mistler, 61, has served as a Director of the Company since 1977. Mr. Mistler has been an operating partner for Buckingham Capital Partners since August 2003. Previously, Mr. Mistler was President, Chief Executive Officer and a Director of ESCO Holding Corp. and Engineered Arresting Systems Corporation from 1999 to 2003. Previously, he was Senior Vice President of Energy Systems Business for Westinghouse Electric Corporation and from 1965 to 1998, Mr. Mistler served in various engineering, marketing and general management capacities with Westinghouse Electric Corporation. He was located in Riyadh from 1981 to 1984 where he served as President of Westinghouse Saudi Arabia Limited. Mr. Mistler graduated from Kansas State University with B.S. and M.S. degrees in Engineering. Mr. Mistler is a trustee and former vice-chairman of Brothers Brother Foundation, an international charitable organization. Mr. Mistler serves as a director of PaR Systems which is a robotics application company.

Joseph J. Corasanti, 39, has served as Director of the Company since 2002. Mr. Corasanti has served as President and Chief Operating Officer of CONMED Corporation, a publicly traded company, since 1999. From 1998 to 1999 he was Executive Vice President/General Manager of CONMED Corporation. He served as General Counsel and Vice President-Legal Affairs for CONMED Corporation from 1993 to 1998. From 1990 to 1993 he was an Associate Attorney with the Los Angeles office of the law firm of Morgan, Wenzel & McNicholas. Mr. Corasanti holds a B.A. degree in Political Science from Hobart College and a J.D. degree from Whittier College School of Law. He is a director of CONMED Corporation.

Existing Class Two Directors Whose Terms Expire 2004

Peter W. Sognefest, 62, has served as a Director of the Company since 1979. Mr. Sognefest is President and Chief Executive Officer of South East Asia Manufacturing Operations Consultancy (SEAMOC) and Vice-Chairman of Xymox Technologies, Inc. From 1996 to 2002, he was President and Chief Executive Officer of Xymox Technologies, Inc. From 1994 until 1996, he was President and Chief Executive Officer of LH Research, Inc. From 1992 until 1994, he was President and Chief Executive Officer of IRT Corporation. Until 1992, Mr. Sognefest was Chairman of Digital Appliance Controls, Inc. (DAC); He founded DAC in 1984 to design, manufacture and market digital appliance controls and sold DAC to Emerson Electric Company in July 1991. Mr. Sognefest was previously Vice President and General Manager of the Industrial Electronics Division of Motorola, Inc. from 1982 to 1984, having joined Motorola in 1977. From 1967 to 1977, he was with Essex Group, Inc., a wholly owned subsidiary of United Technologies Corporation, where he held the position of General Manager of Semi-Conductor Operations. Mr. Sognefest holds B.S. and M.S. degrees in Electrical Engineering from the University of Illinois. Mr. Sognefest serves as a director of Pillar Industries.

Francis J. Kramer, 54, has served as a Director of the Company since 1989. Mr. Kramer has been employed by the Company since 1983 and has been its President and Chief Operating Officer since 1985. 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.

BOARD OF DIRECTORS AND BOARD COMMITTEES

The Company's Board of Directors held four (4) meetings during the fiscal year ended June 30, 2003. Each director attended at least 75% of the meetings of the Board of Directors and any committee of which he is a member.

Directors who are not also employees of the Company receive an annual retainer of \$3,000, a fee of \$1,250 per day for attending meetings of the Board of Directors, plus reimbursement of expenses. Some of the Board's meetings are held over a two-day period. In addition, eligible nonemployee directors may receive a grant of options to purchase shares of the Company's Common Stock at the fair market value of such Common Stock on the date of grant.

The Chairman of the Audit Committee receives an annual retainer of \$4,000. Members of the Audit Committee of the Board of Directors are paid \$850 per meeting if held on a day other than a day on which a Board meeting is held, plus reimbursement of expenses. No additional compensation is paid to members of the Compensation or Nominating and Corporate Governance Committees.

Audit Committee

The Board has a separately designated, standing Audit Committee of independent, non-management directors currently consisting of Duncan A.J. Morrison (Chairman), Joseph J. Corasanti and Thomas E. Mistler. The Audit Committee's duties, in accordance with its written Audit Committee Charter, include monitoring performance of the Company's business plan, reviewing the Company's internal accounting methods and procedures and reviewing certain business strategies. A copy of the Audit Committee Charter is contained in Exhibit A. The Audit Committee met three times in fiscal 2003.

Compensation Committee

The Board has a Compensation Committee, comprised of non-management directors, which is responsible for determining the compensation of the Company's executive officers and management. The Compensation Committee duties also include administering and interpreting the Company's Stock Option Plan of 2001 and the Company's Amended and Restated Employee Stock Purchase Plan. The duties relating to the Company's Stock Option Plan of 2001 include selecting from eligible employees those persons to whom options will be granted and determining the type of option, the number of shares to be included in each option any restrictions or exercise for some or all of the shares subject to the option and the option price. The duties under the Company's Amended and Restated Employee Stock Purchase Plan include proscribing, amending and rescinding rules and regulations relating to the Purchase Plan; suspending the operation of the Purchase Plan; and making all other determinations necessary to the administration of the Purchase Plan, including the appointment of individuals to facilitate the day-to-day operation thereof. A copy of the Compensation Committee Charter is contained in Exhibit B. The Compensation Committee is comprised of Peter W. Sognefest (Chairman), Joseph J. Corasanti, Thomas E. Mistler and Duncan A.J. Morrison. The Compensation Committee met twice in fiscal 2003.

Nominating and Corporate Governance Committee

The Board has a Nominating and Corporate Governance Committee, comprised of a majority of non-management directors. The Nominating and Corporate Governance Committee succeeded the Nominating Committee which was established in August 2002. The Nominating and Corporate Governance Committee develops and implements policies and processes regarding corporate governance matters, assesses board membership needs and makes recommendations regarding potential director candidates to the Board of Directors. A copy of the Nominating and Corporate Governance Committee Charter is contained in Exhibit C. The current members of the Nominating and Corporate Governance Committee are Thomas E. Mistler (Chairman), Francis J. Kramer, Marc Y.E. Pelaez and Peter W. Sognefest. The Nominating and Corporate Governance Committee met 4 times in fiscal 2003.

The Company's By-Laws describe the procedures to be followed by a shareholder in recommending nominees for director. In general, such recommendations can only be made by a shareholder entitled to notice of and to vote at a meeting at which directors are to be elected, must be in writing and must be received by the Chairman of the Company no later than (i) with respect to the election of directors at an annual meeting, 90 days prior to the anniversary date of the prior year's annual meeting, or (ii) with respect to the election of directors at a special meeting, within 10 days after notice of such meeting is given to shareholders or publicly disseminated. Furthermore, the recommendation must include certain information regarding the nominating shareholder and the nominee including their relationship and any understanding between such persons regarding such nomination, the shares owned by the nominating shareholder, the number of shares to be voted for such nominee and information concerning such nominee that would be required in a proxy statement filed with the Securities and Exchange Commission.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following table sets forth all cash compensation paid by the Company, as well as other compensation paid or accrued, to each of its executive officers (the Named Executive Officers) for services rendered in all capacities during the fiscal years ended June 30, 2003, 2002 and 2001:

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	All Other Compensation (2)
		Salary	Bonus (1)	Securities Underlying Options	
		(\$)	(\$)	(#)	(\$)
CARL J. JOHNSON Chairman and Chief Executive Officer	2003	261,000	631,000	10,000	26,000
	2002	251,000	89,000		15,000
	2001	228,000	507,000	5,000	18,000
FRANCIS J. KRAMER President and Chief Operating Officer	2003	238,000	492,000	10,000	24,000
	2002	230,000	74,000		15,000
	2001	209,000	392,000	5,000	17,000
HERMAN E. REEDY Executive Vice President Infrared Optics	2003	162,000	224,000	6,000	20,000
	2002	154,000	47,000		13,000
	2001	146,000	170,000	4,000	16,000
JAMES MARTINELLI Vice President Government and Military Businesses	2003	154,000	51,000	6,000	87,000
	2002	150,000	57,000		33,000
	2001	137,000	178,000	6,000	40,000
CRAIG A. CREATURO Chief Accounting Officer and Treasurer	2003	91,000	104,000	6,000	11,000
	2002	85,000	35,000		14,000
	2001	75,000	71,000	3,000	9,000

(1) The amounts shown include management bonuses determined at the discretion of the Board of Directors based on the Company's performance; amounts received under the Bonus Incentive Plan and under the Management-By-Objective Plan for services rendered in the fiscal year; and bonuses deferred under the Deferred Compensation Plan. Under the Bonus Incentive Plan, each participant receives a cash bonus based on a formula percentage of the Company's

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operating profits determined annually by the Board of Directors. 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 by the Board of Directors. Bonus payments are pro-rated according to each participant's annual base compensation. Under the Company's Management-By-Objective Plan, a formula percentage of the Company's operating profits is determined annually by the Board of Directors and awarded to selected employees. These awards are based on graded performance of recipients measured against pre-established goals. Under the Deferred Compensation Plan, eligible participants can elect to defer a percentage of certain bonus compensation.

- (2) Amounts shown are for premiums paid for life and disability insurance and certain relocation expenses. The amounts shown also include payments made pursuant to the Company's Profit Sharing Plan, which is qualified under Section 401 of the Internal Revenue Code of 1986, as amended.

Option Plan

The Company's Board of Directors and shareholders in 1982 adopted an Incentive Stock Option Plan which was amended and restated by the Board and approved by the shareholders in 1987 as the II-VI Incorporated Stock Option Plan of 1987, in 1990 as the II-VI Incorporated Stock Option Plan of 1990, in 1997 as the II-VI Incorporated Stock Option Plan of 1997 and in 2001 as the II-VI Incorporated Stock Option Plan of 2001 (the Option Plan). The Option Plan currently provides for the issuance of up to 3,120,000 shares of the Company's Common Stock. As of June 30, 2003, approximately 250 officers and employees of the Company were eligible for consideration to receive options under the Option Plan.

The following table sets forth information with respect to each of the Company's Named Executive Officers concerning the exercise of options during fiscal 2003 and unexercised options held as of June 30, 2003:

**Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values**

Name	Shares Acquired on Exercise	Value Realized	Value of Unexercised	
			In-the-Money	
			Number of Securities Underlying Unexercised Options at Fiscal Year End	Options at Fiscal Year End
			Exercisable/Unexercisable	Exercisable/Unexercisable (1)
	(#)	(\$)	(#)	(\$)
CARL J. JOHNSON			67,000/10,000	1,255,176/95,600
FRANCIS J. KRAMER			63,000/10,600	1,168,232/95,600
HERMAN E. REEDY	4,000	54,064	23,600/6,400	361,308/60,192
JAMES MARTINELLI	30,000	577,212	54,800/7,200	1,032,204/65,856
CRAIG A. CREAURO			6,000/6,000	71,325/57,360

(1) Calculated on the basis of the fair market value of the underlying securities at fiscal year end, minus the exercise price.

The following table sets forth information with respect to each of the Company's named Executive Officers regarding options granted in the last fiscal year.

Option Grants in Last Fiscal Year

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term	
	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price per Share	Expiration Date	5%	10%
					(\$)	(\$)
	(#)					
CARL J. JOHNSON	10,000	4%	\$ 12.90	8/9/12	81,000	206,000
FRANCIS J. KRAMER	10,000	4%	\$ 12.90	8/9/12	81,000	206,000
HERMAN E. REEDY	6,000	2%	\$ 12.90	8/9/12	49,000	123,000
JAMES MARTINELLI	6,000	2%	\$ 12.90	8/9/12	49,000	123,000
CRAIG A. CREAURO	6,000	2%	\$ 12.90	8/9/12	49,000	123,000

Employment Agreements

Carl J. Johnson, Francis J. Kramer and Herman E. Reedy have employment agreements with the Company, terminable by either party on thirty days prior written notice, which contain, among other matters, provisions for payment of compensation and benefits in the discretion of the Company, and agreements regarding confidentiality, non-competition and assignment of inventions. The employment agreements also provide that in the event the employee is terminated by the Company for any reason except for fraud, theft, embezzlement or any other dishonest act, the employee will continue to receive his base salary at the time of termination for up to nine months after the date of termination.

Report of the Compensation Committee

The Compensation Committee has the responsibility of recommending to the Board of Directors appropriate salaries and bonuses for all executive officers and top management of the Company. The Option Committee has the responsibility of granting stock options to eligible employees including the executive officers. Both committees are comprised of all of the non-management directors of the Company.

Compensation Philosophy

To link the interests of executives and managers to the interests of shareholders and other potential investors.

To provide incentives for working toward increasing short-term and long-term shareholder value through growth-driven financial compensation.

To provide incentives for innovation, quality management, responsiveness to customer needs, environmental, health and safety performance and an action-oriented approach to opportunities in the marketplace.

To attract and retain individuals with the leadership and technical skills required to carry the Company into the future, and to grow the business.

To provide compensation in a manner that allows for shared risks by the executives and managers but also the potential for shared rewards.

Executive Compensation

The Company uses a three-pronged approach to its executive compensation program: 1) base salary; 2) potential for cash or stock bonuses; and 3) incentive stock. The Company's compensation plans tie a significant portion of executive compensation to performance goals. In fact, executive officers collectively have over 25% to 50% of their compensation package at-risk, which means it is not guaranteed but rather is received through bonuses or incentive stock based on the Company's performance. In the aggregate, 62%, 26% and 62% of the executive officer's compensation for fiscal 2003, 2002 and 2001, respectively, on average, came from at-risk incentive directly related to Company performance. During the course of each year, the Committee meets with the CEO and COO of the Company to review recommendations on changes, if any, in the base salary of each executive officer. Based on the Committee's judgment and knowledge of salary practices, national surveys and an individual's performance and contribution to the Company, the Committee modifies or approves such recommendations.

Base Salary: The Company sets base salary levels for executive management each year based on a number of factors, including the status of the competitive marketplace for such positions, the responsibilities of the position, the experience of the individual, the individual's performance during the past year, and equity in relationship to other executive positions within the Company.

Cash Bonuses: The Company awards cash bonuses under a Bonus Incentive Plan which is based on a formula percentage of the Company's profits determined annually by the Board of Directors. The Company also awards bonuses under a Management-By-Objective Plan which is based on a formula percentage of operating profits, determined annually by the Board, based on achievement of certain strategic objectives integral to the annual operating plan.

Incentive Stock: The Company has a variable compensation plan covering all employees, including executive officers, based on achievement of certain objectives. On average, once every two fiscal years the Option Committee may consider granting executive officers of the Company awards under the Option Plan. These options, which generally vest over time, are awarded to officers based on their continued contribution to

the Company's achievement of financial and operating objectives. These awards are designed to align the interests of the Company's shareholders and to motivate the Company's executive officers to remain focused on the overall long-term performance of the Company.

Chief Executive Officer and Chief Operating Officer

In setting compensation for the Chief Executive Officer and Chief Operating Officer, the Compensation Committee considers objective criteria including performance of the business, accomplishments of long-term strategic goals and the development of management. The Compensation Committee considers the Company's revenue growth and earnings to be the most important factors in determining the Chief Executive Officer's and Chief Operating Officer's compensation package. Along with the financial performance factors, the Compensation Committee also considers achievement of long-term strategic goals, including enhancing the Company's reputation among both its customer and investor bases during the year, and the market base salary of comparable positions. The base salary has normally been 75-80% of the market base salary due to the at risk portion of the compensation mentioned earlier.

Compensation Committee

Peter W. Sognefest, *Chairman*

Joseph J. Corasanti

Thomas E. Mistler

Duncan A.J. Morrison

Report of the Audit Committee

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended June 30, 2003, included in the Company's Annual Report on Form 10-K. The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference in such filing.

Membership and Role of Audit Committee

Each of the members of the Audit Committee is independent as defined under the National Association of Securities Dealers' listing standards. The Audit Committee operates under a written charter adopted by the Board of Directors.

Review with Management

The Audit Committee has reviewed and discussed the Company's audited financial statements with management.

Review and Discussions with Independent Accountants

The Audit Committee has discussed with Deloitte & Touche LLP, the Company's auditors, the matters required to be discussed by Statement on Auditing Standards (SAS) No. 61 which includes, among other items, matters related to the conduct of the audit of the Company's financial statements.

The Audit Committee has also received written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standards No. 1 (which relates to the accountant's independence from the Company and its related entities) and has discussed with Deloitte & Touche LLP their independence from the Company.

Conclusion

Based on review and discussions referred to above, the Audit Committee recommended to the Company's Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

Audit Committee

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Duncan A.J. Morrison, *Chairman*

Joseph J. Corasanti

Thomas E. Mistler

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information available to the Company as of August 15, 2003, regarding the ownership of the Company's Common Stock by (i) each of the Company's directors and nominees; (ii) each of the Company's Named Executive Officers; (iii) all executive officers and directors of the Company as a group; and (iv) each person or group known by the Company to beneficially own more than five percent (5%) of the Common Stock.

	Beneficial Ownership of Common Stock (1)	
	Shares	Percent
CARL J. JOHNSON (2)	2,252,560	15.8%
c/o II-VI Incorporated		
375 Saxonburg Boulevard Saxonburg, Pennsylvania 16056		
JOSEPH J. CORASANTI	0	*
FRANCIS J. KRAMER (3)	158,186	1.1%
THOMAS E. MISTLER (3) (4)	477,317	3.3%
DUNCAN A.J. MORRISON (3) (5)	43,420	*
MARC Y.E. PELAEZ	0	*
PETER W. SOGNEFEST (3) (6)	22,712	*
HERMAN E. REEDY (7)	76,682	*
JAMES MARTINELLI (7) (8)	94,683	*
CRAIG A. CREATURO (7)	6,200	*
DAVID L. BABSON & COMPANY INC. (10)	1,094,430	7.7%
One Memorial Drive		
Cambridge, Massachusetts 02142-1300		
KERN CAPITAL MANAGEMENT, LLC (11)	716,800	5.0%
114 West 47th Street, Suite 1926		
New York, NY 10036		
ALL EXECUTIVE OFFICERS AND DIRECTORS AS A GROUP		
(TEN PERSONS) (2)-(9)	3,131,760	22.0%

* Less than 1%

(1) Unless otherwise indicated, each of the shareholders named in the table has sole voting and investment power with respect to the shares beneficially owned, subject to the information contained in the footnotes to the table.

(2) Includes 1,801,367 shares of Common Stock over which Dr. Johnson has sole voting and investment power, 67,000 shares subject to stock options held by Dr. Johnson and exercisable within 60 days of August 15, 2003 under the Option Plan, and 139,933 shares in a charitable trust over which Dr. Johnson has shared voting and investment power. Also includes 244,260 shares held by Dr. Johnson's wife, as to which shares he disclaims beneficial ownership.

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- (3) Includes 63,000 shares subject to stock options held by Mr. Kramer, 15,000 shares subject to stock options held by Mr. Mistler, 20,000 shares subject to stock options held by Mr. Morrison and 15,000 shares subject to stock options held by Mr. Sognefest and exercisable within 60 days of August 15, 2003.
- (4) Includes 87,374 shares held in trust and 374,943 shares held in limited partnerships in which Mr. Mistler is a general partner.
- (5) Includes 1,000 shares held by Mr. Morrison's wife, as to which shares he disclaims beneficial ownership.
- (6) Includes 580 shares held by Mr. Sognefest's son, as to which shares he disclaims beneficial ownership.
- (7) Includes 23,600 shares, 54,800 shares and 6,000 shares subject to stock options held by Messrs. Reedy, Martinelli, and Creaturo, respectively, and exercisable within 60 days of August 15, 2003.
- (8) Includes 2,800 shares over which Mr. Martinelli has shared voting and investment power.
- (9) Includes 264,400 shares subject to stock options held by executive officers and directors as a group and exercisable within 60 days of August 15, 2003.
- (10) Based on its schedule 13G filed with the Securities and Exchange Commission on January 31, 2003, David L. Babson & Company, Inc., a registered investment advisor (Babson), reports sole voting power over 1,055,930 shares of Common Stock, sole dispositive power over 1,094,430 shares of Common Stock and shared voting power over 38,500 shares of Common Stock. Such shares are owned by various investment companies, trusts and accounts to which Babson provides investment advice.
- (11) Based on its schedule 13G filed with the Securities and Exchange Commission on February 14, 2003, Kern Capital Management, LLC., a registered investment advisor (Kern Capital) reports sole voting and dispositive power over 716,800 shares of Common Stock. Such shares are owned by various investment companies, trusts and accounts to which Kern Capital provides investment advice.

PERFORMANCE GRAPH

The following graph compares cumulative total stockholder return on the Company's Common Stock with the cumulative total shareholder return of the companies listed in the Nasdaq Market Index and with a peer group of companies constructed by the Company for the period from June 30, 1998, through June 30, 2003. The Peer Group includes AXT, Inc., Coherent Inc., Electro Scientific Industries, Inc., Excel Technology Inc. and Rofin-Sinar.