

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
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**II-VI INCORPORATED**

Edgar Filing: II-VI INC - Form DEF 14A

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

Edgar Filing: II-VI INC - Form DEF 14A

---

(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.

Edgar Filing: II-VI INC - Form DEF 14A

**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

## Edgar Filing: II-VI INC - Form DEF 14A

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

Edgar Filing: II-VI INC - Form DEF 14A

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.

## Edgar Filing: II-VI INC - Form DEF 14A

- (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.

	<b>Base Year</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
II-VI Inc.	100.00	66.67	339.48	245.61	207.30	319.16
Peer Group Index	100.00	119.91	310.38	168.06	117.90	98.56
NASDAQ Index	100.00	143.67	212.41	115.14	78.51	87.33

The above graph represents and compares the value, through June 30, 2003, of a hypothetical investment of \$100 made at the closing price on June 30, 1998, in each of (i) the Company's Common Stock, (ii) the Nasdaq Market Index, (iii) the companies comprising the Peer Group and

## Edgar Filing: II-VI INC - Form DEF 14A

assuming, in each case, the reinvestment of dividends. The cumulative shareholder return through June 30, 2003 indicates that the Company has outperformed the Nasdaq Market Index and the Peer Group.

---

**RATIFICATION OF SELECTION OF AUDITORS**

Unless otherwise directed by the shareholders, proxies will be voted for the ratification of the Board of Directors' selection of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending June 30, 2004. The affirmative vote of the holders of at least a majority of the votes which all shareholders present at the Annual Meeting are entitled to cast is required to ratify such selection. A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting to respond to appropriate questions and will have the opportunity to make a statement if such person so desires.

During fiscal 2003, the Company incurred the following fees for services performed by Deloitte & Touche, LLP the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively "Deloitte") during the fiscal years ended June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Audit Fees	\$ 226,000	226,000
Audit-Related Fees (1)	7,000	4,000
Tax Fees (2)	284,000	367,000
All Other Fees		
	<u>                    </u>	<u>                    </u>
<b>Total Fees</b>	<b>\$ 517,000</b>	<b>\$ 536,000</b>

(1) Audit-related fees represented audits of the Company's Profit Sharing Plan.

(2) Tax fees consisted of fees for tax compliance and consulting services including transfer pricing studies and corporate reorganizations.

The Audit Committee pre-approves the retention of the auditors, and the auditor's fees for all audit and non-audit services provided by the auditor and determines whether the provision of non-audit services is compatible with maintaining the independence of the auditor.

**SHAREHOLDER PROPOSAL**

The Company received a shareholder proposal from Mr. James Hollister. Mr. Hollister requested that the Company include the proposal in this proxy statement. Following SEC rules, other than minor formatting changes, the Company is reprinting the proposal and supporting statements as they were submitted to us. The Company takes no responsibility for Mr. Hollister's proposal, which is as follows:

The shareholders of II-VI Incorporated request that the Board of Directors rescind the so-called "Shareholder Rights Plan" passed by the Board of Directors and announced to the public August 14, 2001 and refrain from passing future such resolutions unless previously approved by a majority of the shareholders.

In my opinion, the Board resolution may make a hostile takeover of II-VI Incorporated very difficult. In my view, II-VI Incorporated already had mechanisms in place which may have made a hostile takeover difficult. Management currently owns over 19% of outstanding stock, and management's continued employment could be considered important to the future success of a high-tech company such as II-VI Incorporated. Also, elections of the II-VI Incorporated's Board of Directors are staggered and, under Pennsylvania Business Corporation Law Section 515, the board may consider the interests of all stakeholders when evaluating takeover proposals. In my opinion, it makes no sense to risk depressing demand for II-VI common stock via a needless impairment of shareholder rights.



---

**BOARD OF DIRECTORS STATEMENT OF OPPOSITION**

**The Board of Directors recommends a vote AGAINST the shareholder proposal for the following reasons:**

The Board of Directors believes that our Shareholder Rights Plan better enables the Board to act in the best interests of the Company, taking into account all pertinent factors, including (i) the interests of the Company's shareholders, customers, employees, creditors, suppliers and the communities in which it is located, (ii) the short-term and long-term interests of the Company, including benefits that may accrue to the Company from its long-term plans and the possibility that those interests may be best served by the continued independence of the Company and (iii) the resources, intent and conduct (past, stated and potential) of any person seeking to acquire control of the Company.

Contrary to the proponent's contentions, the Shareholder Rights Plan is not intended to deter a friendly takeover of the Company, and will not operate to do so. The Shareholder Rights Plan will not interfere with a merger or other business combination transaction approved by the Company's Board of Directors. The existence of the Shareholder Rights Plan should not affect any prospective bidder making an offer at a full and fair price that is willing to negotiate with the Board of Directors. To the contrary, past studies have shown that in many cases premiums paid to acquire target companies with rights plans were higher than premiums paid to target companies without rights plans and that rights plans do not reduce the likelihood of a company becoming an acquisition target.

The Shareholder Rights Plan is designed to deal with a very specific and serious problem. It operates to deter unilateral actions by hostile acquirers which are calculated to deprive the Company and its shareholders of their ability to determine the destiny of the Company. The Board of Directors believes that the maintenance of our Shareholder Rights Plan is essential to preventing hostile takeovers that are not in the best interest of the Company, including takeovers that are abusive, coercive or unfair (because the price offered to shareholders is inadequate or otherwise detrimental). Our Shareholder Rights Plan provides an additional degree of control in these situations and permits the Board to exercise its fiduciary duties to act in the best interests of the Company.

In summary, this proposal would deny the Board the degree of control and flexibility, which is necessary to effectively respond to hostile bids, so as to act in the best interests of the Company. Additionally, requiring the Board to seek shareholder approval with respect to future resolutions concerning shareholder rights plans would undermine the Board's ability to quickly respond to hostile takeover bids in a manner which most effectively protects the interests of the Company.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THE SHAREHOLDER PROPOSAL FOR THE REASONS DISCUSSED ABOVE.**

---

**FORM 10-K ANNUAL REPORT TO THE SECURITIES  
AND EXCHANGE COMMISSION**

A copy of the Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2003, as filed with the Securities and Exchange Commission is included in the Annual Report to Shareholders which is being furnished with this proxy statement. A shareholder may obtain additional copies of the Form 10-K without charge and a copy of any exhibits thereto upon payment of a reasonable charge limited to the Company's costs of providing such exhibits by writing to Craig A. Creaturo, Chief Accounting Officer and Treasurer of II-VI Incorporated, 375 Saxonburg Boulevard, Saxonburg, Pennsylvania 16056.

**OTHER MATTERS**

The Company knows of no other matters to be presented for action at the meeting. However, if any other matters should properly come before the meeting it is intended that votes will be cast pursuant to the proxy in respect thereto in accordance with the best judgment of the persons acting as proxies.

The Company will pay the expense in connection with the printing, assembling and mailing to the holders of capital stock of the Company the notice of meeting, this proxy statement and the accompanying form of proxy. In addition to the use of the mails, proxies may be solicited by directors, officers or regular employees of the Company personally or by telephone or telegraph. The Company may request the persons holding stock in their names, or in the names of their nominees, to send proxy material to and obtain proxies from their principals, and will reimburse such persons for their expense in so doing.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who beneficially own more than ten percent of a class of the Company's registered equity securities to file with the Securities and Exchange Commission and deliver to the Company initial reports of ownership and reports of changes in ownership of such registered equity securities.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, the Company's directors, executive officers and more than ten percent shareholders filed all reports due under Section 16(a) for the period from July 1, 2002, through June 30, 2003, with the exception of a delinquent report by Carl J. Johnson of a private non-market purchase under a buy-sell agreement from a third party and a one-day delinquent report by Herman E. Reedy of a stock option transaction.

**Shareholder Proposals**

Proposals by shareholders intended for inclusion in the Company's proxy statement and form of proxy for the Annual Meeting of the Company expected to be held in November 2004 must be delivered to Robert D. German, Secretary of II-VI Incorporated, 375 Saxonburg Boulevard, Saxonburg, Pennsylvania 16056, by June 2, 2004. Rules under the Securities Exchange Act of 1934, as amended, describe the standards as to the

## Edgar Filing: II-VI INC - Form DEF 14A

submission of shareholder proposals. Additionally, the Board-appointed proxies will have discretionary authority to vote on any proposals by shareholders that are not intended to be included in the Company's proxy materials for the 2004 Annual Meeting, but are intended to be presented by the shareholder from the floor, unless notice of the intent to make such proposal is received by Mr. German at the address above on or before August 16, 2004.

**EXHIBIT A**

**II-VI INCORPORATED**

**AUDIT COMMITTEE CHARTER**

**Article 1. Organization**

The Audit Committee of the Board of Directors of II-VI Incorporated (the Company) shall be a permanent committee of the Board of Directors.

**Article 2. Membership**

The members of the Audit Committee shall be appointed by the Board of Directors on recommendations from the Nominating and Corporate Governance Committee recognizing the need for continuity of membership from year to year.

The Audit Committee shall consist of a minimum of three independent, non-management members of the Board of Directors. No member of the Audit Committee shall be an active employee of the Company or any of its affiliates during the current year or any of the past three years.

Each member of the Audit Committee shall be free of any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out their responsibilities as a director. Applicable laws, regulations and listing standards (collectively, Laws) shall be followed in evaluating a member's independence.

Each member of the Audit Committee shall be generally knowledgeable in financial, accounting and auditing matters and able to read and understand fundamental financial statements, including the Company's balance sheet, statement of earnings and statement of cash flows. Qualification of Audit Committee members will require the Audit Committee to embody sufficient financial expertise as determined by the Board of Directors to perform its assigned oversight function of financial measures and controls. At least one member shall have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background.

One member of the Audit Committee will serve as Chairman of the Audit Committee and shall be appointed by the Board of Directors upon the recommendation of the Nominating and Corporate Governance Committee. The Chairman of the Audit Committee shall be responsible for leadership of the Audit Committee, including, but not limited to, preparation of meeting agendas, presiding over the meetings, making committee assignments, reporting to the Board of Directors and maintaining open communication with the independent auditors and management of the Company. The Chairman of the Audit Committee shall also oversee the administration of the Company's Code of Ethics for Senior Financial Officers and its Compliance Hotline. The Chairman of the Audit Committee shall also review at least annually the suitability of the financial and other expertise of the Audit Committee in accordance with applicable statutory standards in effect at that time.



Article 3. Roles and Duties

It shall be the role of the Audit Committee to assist the Board of Directors in discharging its oversight responsibilities of the quality and integrity of the accounting, auditing and financial reporting practices of the Company and other such duties as directed by the Board of Directors. The duties and responsibilities of a member of the Audit Committee are in addition to those duties set out for a member of the Board of Directors.

The Audit Committee shall promote the development and maintenance of an effective financial control environment, in concert with the management of the Company, to support the Company's objectives through an appropriate system of risk assessment and internal controls.

The Audit Committee shall recommend to the Board of Directors the selection, appointment and, if necessary, replacement of a firm of independent auditors to perform an annual audit of the Company.

The Audit Committee shall preapprove all auditing services and permitted non-audit services to be performed for the Company by its independent auditors in accordance with applicable Law. The Audit Committee may delegate such preapproval authority to one or more Audit Committee members, provided that the decisions of such delegate shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee shall maintain open communications with the independent auditors of the Company and the management of the Company. At least annually, the Audit Committee shall meet with the independent auditors of the Company without the presence of the management of the Company.

The Audit Committee shall notify the independent auditors of the Company at least annually that they have unrestricted access to the Audit Committee and the independent auditors are expected to keep the Audit Committee informed in a timely manner regarding any significant audit findings.

The Audit Committee shall review the annual audit plans of the independent auditors.

The Audit Committee shall review the results of the annual audit of the independent auditors and recommend any action or responses deemed necessary.

The Audit Committee shall obtain at least annually a formal written statement from the independent auditors confirming their independence from the Company and disclosing all relationships and services which may impact the independent auditor's objectivity and independence.

The independent auditor shall report the following to the Audit Committee prior to the filing of audit reports with the Securities and Exchange Commission (the Commission): (i) all critical accounting policies and practices to be used; (ii) all alternative treatments within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and (iii) other material written communications between the independent auditor and management. The Audit Committee shall consider and discuss such reports with the independent auditor.

The Audit Committee shall review whether management has sought a second opinion regarding a significant accounting issue from a source other than the independent auditor of the Company, and, if so, obtain the rationale for the particular accounting treatment chosen in light of the auditors' findings and the second opinion.

The Audit Committee shall prepare the report required by the rules of the Commission to be included in the annual proxy statement solicited by the Company.

The Audit Committee shall review disclosures made to the Audit Committee by the Company's principal executive officer and principal financial officer during their certification process for the Company's annual and quarterly reports filed with the Commission.

## Edgar Filing: II-VI INC - Form DEF 14A

The Audit Committee shall review compliance by directors, officers, and management with the Company's Insider Trading Policy on at least an annual basis.

The Audit Committee shall review at least annually with management and the Board of Directors the investor communication policies of the Company.

The Audit Committee shall be empowered to investigate any matter brought to its attention within its scope of responsibilities, with full power to retain outside legal counsel and/or experts in fulfilling this purpose.

The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding the Company's financial statements or accounting policies.

### Article 4. Meetings

The Audit Committee is expected to meet in person or by teleconference as often as it determines, but not less frequently than once each fiscal quarter. All meetings will be called by the Chairman of the Audit Committee, with the Audit Committee having sole authority to invite members of the Company's management, the independent auditors or others as determined necessary.

**Article 5. Voting**

Each member of the Audit Committee shall have an equal vote on all matters requiring voting. A simple majority in attendance will decide the vote. In the case of a tie vote, the Chairman of the Audit Committee shall be empowered to decide the outcome of the vote.

**Article 6. Charter Review**

This charter shall be reviewed and assessed for adequacy and updated, if necessary, at least annually based on applicable Laws and approved by the Board of Directors at the first meeting of the Board of Directors each fiscal year. The charter shall be published in accordance with applicable Laws.

**Article 7. Scope of Duties**

Notwithstanding any of the responsibilities and duties set forth in this charter, it is not the duty of the Audit Committee to plan, direct or conduct audits or to determine whether the Company's financial statements are complete, accurate and in accordance with generally accepted accounting principles. This duty lies with management and the independent auditors.

February 7, 2003

**EXHIBIT B**

**II-VI INCORPORATED**  
**COMPENSATION COMMITTEE CHARTER**

**Article 1. Organization**

The Compensation Committee of the Board of Directors of II-VI Incorporated (the Company) shall be a permanent committee of the Board of Directors.

**Article 2. Membership**

The members of the Compensation Committee shall be appointed by the Board of Directors on recommendations from the Nominating and Corporate Governance Committee.

The Compensation Committee shall consist of a minimum of three members of the Board of Directors. A majority of the members of the Compensation Committee shall be independent directors.

Each member of the Compensation Committee shall be free of any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out their responsibilities as a director. Applicable laws, regulations and listing standards (collectively, Laws) shall be followed in evaluating a member's independence.

One member of the Compensation Committee will serve as Chairman of the Compensation Committee and shall be appointed by the Board of Directors upon the recommendation of the Nominating and Corporate Governance Committee. The Chairman of the Compensation Committee shall be responsible for leadership of the Compensation Committee, including, but not limited to, preparation of meeting agendas, presiding over the meetings, making committee assignments and reporting to the Board of Directors.

**Article 3. Roles and Duties**

It shall be the role of the Compensation Committee to assist the Board of Directors in discharging its oversight responsibilities for the compensation of the Company's officers, directors and key employees in accordance with the Company's stated compensation strategy and philosophy, corporate goals and objectives, competitive practices and regulatory requirements. The Compensation Committee shall review, provide advice on and, where appropriate, approve compensation objectives, plans and levels.

## Edgar Filing: II-VI INC - Form DEF 14A

The Compensation Committee shall approve all aspects of Total Compensation (defined as compensation, benefits and perquisites) for the Chief Executive Officer (CEO) and Chief Operating Officer (COO) of the Company, including, but not limited to:

a. A review of corporate and individual goals and objectives relevant to CEO and COO Total Compensation, an evaluation of the CEO's and COO's performance relative to those goals and objectives, and a determination of the CEO's and COO's Total Compensation level based on this evaluation.

b. In determining the long-term incentive component of CEO and COO Total Compensation, the Compensation Committee will consider the Company's performance, relative shareholder return, the value of long-term incentive compensation given to CEO's and COO's at comparable companies, and the awards given to the CEO and COO in past years.

The Compensation Committee shall review and approve proposals made by the CEO and COO with regard to the Total Compensation of senior executives of the Company, such review to include, at a minimum, the Section 16 officers whose compensation treatment is disclosed in the proxy statement of the Company.

The Compensation Committee shall make recommendations to the Board with respect to incentive compensation and equity-based incentive plans that require shareholder approval, and will govern the Company's shareholder-approved award and options plan(s). The plan governance role of the Compensation Committee shall include the authority to adopt, administer, approve, and ratify awards, including amendments to the awards made under any such plans, and the review and monitoring of awards under such plans. These duties shall include administering and interpreting the Company's Stock Option Plan of 2001, 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 restriction on exercise for some or all of the shares subject to the option, the option price and the period in which each option may be exercised, either in whole or in part.

The Compensation Committee's duties shall include administering and interpreting the Company's Amended and Restated Employee Stock Purchase Plan (the "Purchase Plan"); 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.

The Compensation Committee shall review and have sole authority to approve the retention (including the fees and terms of such retention) and/or termination of any compensation consultant to be used to assist in the evaluation of director, CEO, COO or senior executive compensation.

The Compensation Committee is responsible for the periodic review of succession plans for the CEO, COO and other senior executives as deemed necessary. The Compensation Committee is to periodically report to the Board of Directors on these matters.

The Compensation Committee shall review the annual report on senior executive compensation for inclusion in the in the Company's proxy statement in accordance with all applicable rules and regulations.

The Compensation Committee shall also perform such other duties and responsibilities as may be assigned to it, from time to time, by the Board of Directors of the Company.

#### **Article 4. Meetings**

The Compensation Committee is expected to meet in person or by teleconference as often as it determines, but not less frequently than twice each fiscal year. All meetings will be called by the Chairman of the Compensation Committee, with the Compensation Committee having sole authority to invite members of the Company's management and others as determined necessary.

#### **Article 5. Voting**

Each member of the Compensation Committee shall have an equal vote on all matters requiring voting. A simple majority in attendance will decide the vote. In the case of a tie vote, the Chairman of the Compensation Committee shall be empowered to decide the outcome of the vote.

Article 6. Charter Review

This charter shall be reviewed and assessed for adequacy and updated, if necessary, at least annually based on applicable Laws and approved by the Board of Directors at the first meeting of the Board of Directors each fiscal year. The charter shall be published in accordance with applicable Laws.

May 17, 2003



**EXHIBIT C**

**II-VI INCORPORATED**

**NOMINATING AND CORPORATE GOVERNANCE**

**COMMITTEE CHARTER**

**Article 1. Organization**

The Nominating and Corporate Governance Committee of the Board of Directors of II-VI Incorporated (the Company ) shall be a permanent committee of the Board of Directors.

**Article 2. Membership**

The members of the Nominating and Corporate Governance Committee shall be appointed by the Board of Directors on recommendations from this Committee.

The Committee shall consist of a minimum of three members of the Board of Directors. A majority of the members of the Nominating and Corporate Governance Committee shall be independent directors.

One member of the Committee will serve as Chairman and shall be appointed by the Board of Directors upon the recommendation of the Nominating and Corporate Governance Committee. The Chairman of the Nominating and Corporate Governance Committee shall be responsible for leadership of the Committee, including, but not limited to, preparation of meeting agendas, presiding over the meetings, making committee assignments and reporting to the Board of Directors.

**Article 3. Roles and Duties**

The purpose of the Nominating and Corporate Governance Committee is to ensure that the Board of Directors is appropriately constituted to meet its fiduciary obligations to the shareholders and the Company. To accomplish this purpose, 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.

The responsibilities of the Committee shall be as follows:

## Edgar Filing: II-VI INC - Form DEF 14A

- a. Evaluate the current composition, organization and governance of the Board of Directors and its Committees, determine future requirements and make recommendations to the Board for approval.
  
- b. Determine desired board skills and attributes and conduct searches for prospective board members whose skills and attributes reflect those desired. Evaluate and propose nominees for election to the Board of Directors.
  
- c. Administer the Board performance evaluation process including conducting surveys of director observations, suggestions and preferences.
  
- d. Evaluate and make recommendations to the Board of Directors concerning the appointment of Directors to Board Committees and the selection of Board Committee Chairs.
  
- e. Monitor Board and Committee meeting schedules.

f. Evaluate and consider matters relating to the qualifications, compensation and retirement of Directors, including compliance with any rules and regulations issued by the National Association of Securities Dealers, Inc.

g. The Nominating and Corporate Governance Committee shall review and assess its performance on a periodic basis.

**Article 4. Meetings**

The Nominating and Corporate Governance Committee is expected to meet in person or by teleconference as often as it determines. All meetings will be called by the Chairman of the Nominating and Corporate Governance Committee, with the Committee having sole authority to invite members of the Company's management and others as determined necessary.

**Article 5. Voting**

Each member of the Nominating and Corporate Governance Committee shall have an equal vote on all matters requiring voting. A simple majority in attendance will decide the vote. In the case of a tie vote, the Chairman of the Nominating and Corporate Governance Committee shall be empowered to decide the outcome of the vote.

**Article 6. Charter Review**

This charter shall be reviewed and assessed for adequacy and updated, if necessary, at least annually based on applicable Laws and approved by the Board of Directors at the first meeting of the Board of Directors each fiscal year. The charter shall be published in accordance with applicable Laws.

May 17, 2003

**P  
R  
O  
X  
Y**

**II-VI INCORPORATED**

**THIS PROXY IS SOLICITED ON BEHALF OF THE  
BOARD OF DIRECTORS OF THE COMPANY**

The undersigned hereby appoints Carl J. Johnson and Thomas E. Mistler or either of them, with power of substitution to each, as proxies to represent and to vote as designated on the reverse all of the shares of Common Stock held of record at the close of business on September 10, 2003 by the undersigned at the annual meeting of shareholders of II-VI Incorporated to be held at the Treesdale Golf & Country Club, One Arnold Palmer Drive, Gibsonia, Pennsylvania 15044, on November 7, 2003, and at any adjournment thereof.

**(PLEASE SIGN ON REVERSE SIDE AND RETURN PROMPTLY)**

**Please date, sign and mail your  
proxy card back as soon as possible!**

**Annual Meeting of Shareholders**

**II-VI INCORPORATED.**

**November 7, 2003**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS NUMBERED 1 AND 2 AND AGAINST THE PROPOSAL NUMBERED 3.**

**X**

Please mark your votes as in this example.

1. ELECTION OF CLASS ONE DIRECTORS

FOR

..

WITHHOLD

**AUTHORITY**

••

**Nominees:**

Duncan A.J. Morrison

Marc Y.E. Pelaez

**FOR, except vote withheld from the following nominee(s):**

---

**2. Ratification of the Board of Directors selection of Deloitte & Touche LLP as auditors for the Company and its subsidiaries for the 2004 fiscal year.**

**FOR**

••

**AGAINST**

••

**ABSTAIN**

••

**3. A shareholder proposal**

••

••

••

Unless otherwise specified in the squares provided, the proxies shall vote in the election of directors for the nominees listed at left hereof, for ratification of the selection of Deloitte & Touche LLP as auditors and against the shareholder proposal. Proxies also shall have discretionary power to vote upon such other matters as may properly come before the meeting or any adjournment thereof.

A majority of such proxies who shall be present and shall act at the meeting (or if only one shall be present and act, then that one) may exercise all powers hereunder.

PLEASE MARK, SIGN, DATE AND RETURN IMMEDIATELY.

SIGNATURE

\_\_\_\_\_

Date: \_\_\_\_\_, 2003

SIGNATURE IF HELD JOINTLY

\_\_\_\_\_

Date: \_\_\_\_\_, 2003

Important: Shareholders sign here exactly as name appears hereon.