II-VI INC
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

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

Commission File Number: 0-16195

II-VI INCORPORATED

(Exact name of registrant as specified in its charter)

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

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

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

At November 2, 2015, 61,138,290 shares of Common Stock, no par value, of the registrant were outstanding.

II-VI INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

II-VI Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

($000)

	September 30, 2015	June 30, 2015
Assets		
Current Assets		
Cash and cash equivalents	$163,779	$173,634
Accounts receivable - less allowance for doubtful accounts of $1,271 at September 30, 2015 and $1,048 at June 30, 2015	133,305	140,772
Inventories	167,266	164,388
Deferred income taxes	13,141	13,260
Prepaid and refundable income taxes	7,532	6,881
Prepaid and other current assets	12,130	14,033
Total Current Assets	497,153	512,968
Property, plant & equipment, net	201,001	203,812
Goodwill	194,594	195,894
Other intangible assets, net	119,097	122,462
Investment	12,178	11,914
Deferred income taxes	1,013	2,210
Other assets	8,990	8,904
Total Assets	$1,034,026	$1,058,164
Liabilities and Shareholders' Equity		
Current Liabilities		
Current portion of long-term debt	$20,000	$20,000
Accounts payable	39,357	45,275
Accrued compensation and benefits	31,485	39,310
Accrued income taxes payable	10,376	9,310
Deferred income taxes	659	685
Other accrued liabilities	22,921	24,576
Total Current Liabilities	124,798	139,156
Long-term debt	142,493	155,957
Deferred income taxes	5,565	7,105
Other liabilities	26,409	26,865
Total Liabilities	299,265	329,083
Shareholders' Equity		
Preferred stock, no par value; authorized - 5,000,000 shares; none issued	-	-
Common stock, no par value; authorized - 300,000,000 shares; issued - 72,153,590 shares at September 30, 2015; 71,779,704 shares at June 30, 2015	231,369	226,609
Accumulated other comprehensive income	550	8,665

Retained earnings	604,516	587,302
	836,435	822,576
Treasury stock, at cost - 11,052,754 shares at September 30, 2015 and 10,565,209 shares at June 30, 2015	(101,674)	(93,495)
Total Shareholders' Equity	734,761	729,081
Total Liabilities and Shareholders' Equity	$1,034,026	$1,058,164

- See notes to condensed consolidated financial statements.

II-VI Incorporated and Subsidiaries

Condensed Consolidated Statements of Earnings (Unaudited)

($000 except per share data)

	Three Months Ended September 30,	
	2015	2014
Revenues		
Domestic	$70,751	$61,981
International	118,456	123,852
Total Revenues	189,207	185,833
Costs, Expenses and Other Expense (Income)		
Cost of goods sold	118,018	117,974
Internal research and development	13,151	12,943
Selling, general and administrative	36,310	35,520
Interest expense	649	1,204
Other expense (income), net	(1,057)	1,682
Total Costs, Expenses and Other Expense (Income)	167,071	169,323
Earnings Before Income Taxes	22,136	16,510
Income Taxes	4,922	4,208
Net Earnings	$17,214	$12,302
Basic Earnings Per Share:	$0.28	$0.20
Diluted Earnings Per Share:	$0.27	$0.20

- See notes to condensed consolidated financial statements.

II-VI Incorporated and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

($000)

	Three Months Ended September 30,	
	2015	2014
Net earnings	$17,214	$12,302
Other comprehensive income (loss):		
Foreign currency translation adjustments	(8,151)	(2,675)
Pension adjustment, net of taxes of $10 and ($57) for the three months ended, respectively	36	(304)
Comprehensive income	$9,099	$9,323

- See notes to condensed consolidated financial statements.

II-VI Incorporated and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

($000)

	Three Months Ended September 30, 2015	2014
Cash Flows from Operating Activities		
Net earnings	$17,214	$12,302
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	10,345	10,511
Amortization	2,960	3,050
Share-based compensation expense	4,009	3,594
(Gain) Loss on foreign currency remeasurements and transactions	(712)	2,181
Earnings from equity investment	(264)	(267)
Deferred income taxes	(360)	1,979
Excess tax benefits from share-based compensation expense	(30)	-
Increase (decrease) in cash from changes in:		
Accounts receivable	6,459	(30,686)
Inventories	(5,489)	(672)
Accounts payable	(5,073)	2,975
Income taxes	766	159
Other operating net assets	(7,646)	(4,270)
Net cash provided by operating activities	22,179	856
Cash Flows from Investing Activities		
Additions to property, plant & equipment	(9,424)	(21,530)
Other investing activities	25	-
Net cash used in investing activities	(9,399)	(21,530)
Cash Flows from Financing Activities		
Proceeds from borrowings	4,000	-
Payments on borrowings	(17,500)	(5,000)
Purchases of treasury stock	(5,884)	(5,093)
Proceeds from exercises of stock options	766	1,504
Other financing activities	(1,650)	(1,248)
Net cash used in financing activities	(20,268)	(9,837)
Effect of exchange rate changes on cash and cash equivalents	(2,367)	1,266
Net decrease in cash and cash equivalents	(9,855)	(29,245)
Cash and Cash Equivalents at Beginning of Period	173,634	174,660
Cash and Cash Equivalents at End of Period	$163,779	$145,415
Cash paid for interest	$657	$1,169
Cash paid for income taxes	$4,535	$4,440
Non cash transactions:		
Purchases of treasury stock recorded in Other accrued liabilities	$400	$1,200

- See notes to condensed consolidated financial statements.

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e II-VI Incorporated and Subsidiaries

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(000)

	Common Stock		Accumulated Other Comprehensive	Retained	Treasury Stock		
	Shares	Amount	Income	Earnings	Shares	Amount	Total
Balance - June 30, 2015	71,780	$226,609	$ 8,665	$587,302	(10,565)	$(93,495)	$729,081
Shares issued under share-based compensation plans	360	766	-	-	-	-	766
Shares acquired in satisfaction of minimum tax withholding obligations	-	-	-	-	(94)	(1,680)	(1,680)
Net earnings	-	-	-	17,214	-	-	17,214
Purchases of treasury stock	-	-	-	-	(381)	(6,284)	(6,284)
Treasury stock under deferred compensation arrangements	13	215	-	-	(13)	(215)	-
Foreign currency translation adjustments	-	-	(8,151)	-	-	-	(8,151)
Share-based compensation expense	-	4,009	-	-	-	-	4,009
Pension adjustment, net of taxes of $10	-	-	36	-	-	-	36
Tax deficiency from share-based compensation expense	-	(230)	-	-	-	-	(230)
Balance - September 30, 2015	72,153	$231,369	$ 550	$604,516	(11,053)	$(101,674)	$734,761

- See notes to condensed consolidated financial statements.

II-VI Incorporated and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

The condensed consolidated financial statements of II-VI Incorporated (“II-VI” or the “Company”) for the three months ended September 30, 2015 and 2014 are unaudited. In the opinion of management, all adjustments considered necessary for a fair presentation for the periods presented have been included. All adjustments are of a normal recurring nature unless disclosed otherwise. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2015. The consolidated results of operations for the three months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full fiscal year. The June 30, 2015 Condensed Consolidated Balance Sheet information was derived from the Company’s audited financial statements.

Note 2. Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update simplifies the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new inventory measurement requirements will be effective for the Company’s 2018 fiscal year and will replace the current inventory valuation guidance that requires the use of a lower of cost or market framework. The adoption of this ASU is not expected to have a material effect on the Company’s Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance about whether a cloud computing arrangement includes a software license. The update will be effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The update allows for the use of either a prospective or retrospective adoption approach. Management is currently evaluating the available transition methods and the potential impact of adoption on the Company’s Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. This ASU requires entities to present debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability, consistent with debt discounts. The guidance does not address situations in which debt issuance costs do not have an associated debt liability or exceed the carrying amount of the associated debt liability. The update will be effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of this ASU is not expected to have a material effect on the Company’s Consolidated Financial Statements.

In February 2015, the FASB issued, ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which affects reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The update will be effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The update allows for the use of either a full retrospective or a modified retrospective adoption approach. The adoption of this ASU is not expected to have a material effect on the Company’s Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09: Revenue from Contracts with Customers (Topic 606) which supersedes virtually all existing revenue recognition guidance under U.S. GAAP. The update's core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update allows for the use of either the retrospective or modified retrospective approach of adoption. On July 9, 2015 the FASB approved a one year deferral of the effective date of the update. The update will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (the first quarter of our fiscal year 2019). We have not yet selected a transition method and are currently evaluating the impact of this guidance on the Company’s Consolidated Financial Statements.

In April 2014, the FASB issued ASU 2014-08: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The new standard was effective for the Company in the first quarter of fiscal year 2016. The adoption of this standard did not have a significant impact on the Company's Consolidated Financial Statements.

Note 3. Investment

The Company has an equity investment of 20.2% in Guangdong Fuxin Electronic Technology ("Fuxin") based in Guangdong Province, China, which is accounted for under the equity method of accounting. The total carrying value of the investment recorded at September 30, 2015 and June 30, 2015 was $12.2 million and $11.9 million, respectively. During each of the three months ended September 30, 2015 and 2014, the Company's pro-rata share of earnings from this investment was $0.3 million and was recorded in Other expense (income), net in the Condensed Consolidated Statements of Earnings.

Note 4. Inventories

The components of inventories were as follows ($000):

	September 30, 2015	June 30, 2015
Raw materials	$ 68,811	$ 71,210
Work in progress	57,106	52,726
Finished goods	41,349	40,452
	$ 167,266	$ 164,388

Note 5. Property, Plant and Equipment

Property, plant and equipment consists of the following ($000):

	September 30, 2015	June 30, 2015
Land and land improvements	$ 4,568	$ 4,566
Buildings and improvements	91,060	91,171
Machinery and equipment	366,827	366,560
Construction in progress	22,164	17,749
	484,619	480,046

Less accumulated depreciation	(283,618)	(276,234)
	$201,001	$203,812

During fiscal year 2015, as part of the Company's restructuring of its military related businesses in the Performance Products segment, the Company implemented a plan to sell one of its manufacturing facilities located in New Port Richey, Florida. The Company anticipates completing the sale within twelve months, has reclassified the carrying value of the land and building of approximately $1.2 million as assets held for sale and has included the carrying value in Prepaid and other current assets in the Condensed Consolidated Balance Sheets for the periods presented.

Note 6. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill were as follows ($000):

	Three Months Ended September 30, 2015			
	II-VI Laser Solutions	II-VI Photonics	II- VI Performance Products	Total
Balance-beginning of period	$43,578	$ 99,426	$ 52,890	$195,894
Foreign currency translation	2	(1,302)	-	(1,300)
Balance-end of period	$43,580	$ 98,124	$ 52,890	$194,594

Note 1 of the Notes to Consolidated Financial Statements in the Company's most recent Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management has evaluated goodwill for indicators of impairment and has concluded that there are no indicators of impairment as of September 30, 2015.

The gross carrying amount and accumulated amortization of the Company's intangible assets other than goodwill as of September 30, 2015 and June 30, 2015 were as follows ($000):

	September 30, 2015			June 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Technology and Patents	$50,136	$ (19,632)	$30,504	$50,520	$ (18,838)	$31,682
Trademarks	15,732	(1,130)	14,602	15,869	(1,111)	14,758
Customer Lists	102,187	(28,303)	73,884	102,489	(26,583)	75,906
Other	1,572	(1,465)	107	1,572	(1,456)	116
Total	$169,627	$ (50,530)	$119,097	$170,450	$ (47,988)	$122,462

Amortization expense recorded on the Company's intangible assets was $3.0 million and $3.1 million for the three months ended September 30, 2015 and 2014, respectively. The technology and patents are being amortized over a range of 60 to 240 months, with a weighted average remaining life of approximately 106 months. The customer lists are being amortized over a range of approximately 120 months to 240 months with a weighted average remaining life of approximately 138 months. The gross carrying amount of trademarks includes $14.2 million of acquired trade names with indefinite lives that are not amortized but tested annually for impairment or more frequently if a triggering event occurs. Included in the gross carrying amount and accumulated amortization of the Company's intangible assets is the effect of foreign currency translation on that portion of the intangible assets relating to the Company's German and Chinese subsidiaries.

At September 30, 2015, the estimated amortization expense for existing intangible assets for each of the five succeeding fiscal years is as follows ($000):

Year Ending June 30,	
Remaining 2016	$9,226
2017	11,607
2018	11,139
2019	10,706
2020	10,593

Note 7. Debt

The components of debt for the periods indicated were as follows ($000):

	September 30, 2015	June 30, 2015
Line of credit, interest at LIBOR, as defined, plus 1.25%	$ 100,000	$ 108,500
Term loan, interest at LIBOR, as defined, plus 1.25%	60,000	65,000
Yen denominated line of credit, interest at LIBOR, as defined, plus 0.625%	2,493	2,457
Total debt	162,493	175,957
Current portion of long-term debt	(20,000)	(20,000)
Long-term debt, less current portion	$ 142,493	$ 155,957

The Company’s Second Amended and Restated Credit Agreement (the “Credit Facility”) provides for a revolving credit facility of $225 million, as well as a $100 million Term Loan. The Term Loan is being repaid in consecutive quarterly principal payments on the first business day of each January, April, July and October, with the first payment having commenced on October 1, 2013, as follows: (i) twenty consecutive quarterly installments of $5 million and (ii) a final installment of all remaining principal due and payable on the maturity date of September 10, 2018. The Credit Facility is unsecured, but is guaranteed by each existing and subsequently acquired or organized wholly-owned domestic subsidiary of the Company. The Company has the option to request an increase to the size of the

Credit Facility in an aggregate additional amount not to exceed $100 million. The Credit Facility has a five-year term through September 10, 2018 and has an interest rate of LIBOR, as defined in the agreement, plus 0.75% to 1.75% based on the Company's ratio of consolidated indebtedness to consolidated EBITDA. Additionally, the facility is subject to certain covenants, including those relating to minimum interest coverage and maximum leverage ratios. As of September 30, 2015, the Company was in compliance with all financial covenants under its Credit Facility.

The Company's Yen denominated line of credit is a 500 million Yen (approximately $4.1 million) facility. The Yen line of credit was extended in September 2015 through August 2020 on substantially the same terms. The interest rate is equal to LIBOR, as defined in the loan agreement, plus 0.625% to 1.50%. At September 30, 2015 and June 30, 2015, the Company had 300 million Yen borrowed. Additionally, the facility is subject to certain covenants, including those relating to minimum interest coverage and maximum leverage ratios. As of September 30, 2015, the Company was in compliance with all financial covenants under its Yen facility.

The Company had aggregate availability of $125.1 million and $116.6 million under its lines of credit as of September 30, 2015 and June 30, 2015, respectively. The amounts available under the Company's lines of credit are reduced by outstanding letters of credit. As of September 30, 2015 and June 30, 2015, total outstanding letters of credit supported by these credit facilities were $1.5 million.

The weighted average interest rate of total borrowings was 1.5% and 1.9% for the three months ended September 30, 2015 and 2014, respectively.

Remaining annual principal payments under the Company's existing credit facilities as of September 30, 2015 were as follows:

Period	Term Loan	Yen Line of Credit	U.S. Dollar Line of Credit	Total
Year 1	$20,000	$-	$-	$20,000
Year 2	20,000	-	-	20,000
Year 3	20,000	-	100,000	120,000
Year 4	-	-	-	-
Year 5	-	2,493	-	2,493
Total	$60,000	$2,493	$100,000	$162,493

Note 8. Income Taxes

The Company's year-to-date effective income tax rate at September 30, 2015 and 2014 was 22.2% and 25.5%, respectively. The variations between the Company's effective tax rate and the U.S. statutory rate of 35.0% were primarily due to the consolidation of the Company's foreign operations, which are subject to income taxes at lower statutory rates.

U.S. GAAP clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of September 30, 2015 and June 30, 2015, the Company's gross unrecognized income tax benefit was $4.5 million and $4.0 million, respectively. The Company has classified the uncertain tax positions as noncurrent income tax liabilities, as the amounts are not expected to be paid within one year. If recognized, substantially all of the gross unrecognized tax benefits at September 30, 2015 would impact the effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in the income tax provision on the Condensed Consolidated Statements of Earnings. The amount of accrued interest and penalties included in the $4.5 million and $4.0 million of gross unrecognized income tax benefit at September 30, 2015 and June 30, 2015, respectively, was immaterial. Fiscal years 2012 to 2015 remain open to examination by the United States Internal Revenue Service, fiscal years 2011 to 2015 remain open to examination by certain state jurisdictions, and fiscal years 2008 to 2015 remain open to examination by certain foreign taxing jurisdictions. The Company's fiscal year 2011 and 2012 California state income tax returns are currently under examination by the state of California's Franchise Tax Board. The Company's fiscal year 2012 and 2013 German income tax returns are currently under examination.

Note 9. Earnings Per Share

The following table sets forth the computation of earnings per share for the periods indicated. Weighted average shares issuable upon the exercises of stock options and the release of performance and restricted shares not included in the calculation because they were anti-dilutive totaled approximately 232,000 and 877,000 for the three months ended September 30, 2015 and 2014, respectively ($000 except per share data):

	Three Months Ended September 30,	
	2015	2014
Net earnings	$17,214	$12,302
Divided by:		
Weighted average shares	61,223	61,508
Basic earnings per common share:	$0.28	$0.20
Net earnings	$17,214	$12,302
Divided by:		
Weighted average shares	61,223	61,508
Dilutive effect of common stock equivalents	1,506	1,281
Diluted weighted average common shares	62,729	62,789
Diluted earnings per common share:	$0.27	$0.20

Note 10. Segment Reporting

The Company reports its business segments using the “management approach” model for segment reporting. This means that the Company determines its reportable business segments based on the way the chief operating decision maker organizes business segments within the Company for making operating decisions and assessing performance.

The Company reports its financial results in the following three segments: (i) II-VI Laser Solutions, (ii) II-VI Photonics, and (iii) II-VI Performance Products, and the Company’s chief operating decision maker receives and reviews financial information based on these segments. The Company evaluates business segment performance based upon segment operating income, which is defined as earnings before income taxes, interest and other income or expense. The segments are managed separately due to the market, production requirements and facilities unique to each segment.

The II-VI Laser Solutions segment is located in the U.S., Singapore, China, Germany, Switzerland, Japan, Belgium, the U.K., Italy, South Korea and the Philippines. II-VI Laser Solutions is directed by the President of II-VI Laser Solutions, while each geographic location is directed by a general manager, and is further divided into production and administrative units that are directed by managers. II-VI Laser Solutions designs, manufactures and markets optical and electro-optical components and materials sold under the II-VI Infrared brand name and used primarily in high-power CO_2 lasers. II-VI Laser Solutions also manufactures fiber-delivered beam delivery systems and processing tools and direct diode lasers for industrial lasers sold under the II-VI HIGHYAG and II-VI Laser Enterprise brand names.

The II-VI Photonics segment is located in the U.S., China, Vietnam, Germany, Japan, the U.K., Italy and Hong Kong. II-VI Photonics is directed by the President of II-VI Photonics and is further divided into production and administrative units that are directed by managers. II-VI Photonics manufactures crystal materials, optics, microchip lasers and opto-electronic modules for use in optical communication networks and other diverse consumer and commercial applications. In addition, the segment also manufactures pump lasers, and optical amplifiers and micro-optics for optical amplifiers for both terrestrial and submarine applications within the optical communications market.

The II-VI Performance Products segment is located in the U.S., Vietnam, Japan, China, Germany and the Philippines. II-VI Performance Products is directed by a Corporate Executive Vice President, while each geographic location is directed by a general manager. II-VI Performance Products is further divided into production and administrative units that are directed by managers. II-VI Performance Products designs, manufactures and markets infrared optical components and high-precision optical assemblies for military, medical and commercial laser imaging applications. In addition, the segment designs, manufactures and markets unique engineered materials for thermo-electric and silicon carbide applications servicing the semiconductor, military and medical markets.

The accounting policies of the segments are the same as those of the Company. The Company's corporate expenses are allocated to the segments. The Company evaluates segment performance based upon reported segment operating income, which is defined as earnings from continuing operations before income taxes, interest and other income or expense. Inter-segment sales and transfers have been eliminated.

The following tables summarize selected financial information of the Company's operations by segment ($000):

	Three Months Ended September 30, 2015				
	II-VI Laser Solutions	II-VI Photonics	II-VI Performance Products	Eliminations	Total
Revenues	$71,583	$71,895	$ 45,729	$ -	$189,207
Inter-segment revenues	4,530	3,031	2,395	(9,956)	-
Operating income	12,175	6,284	3,269	-	21,728
Interest expense	-	-	-	-	(649)
Other income (expense), net	-	-	-	-	1,057
Income taxes	-	-	-	-	(4,922)
Net earnings	-	-	-	-	17,214
Depreciation and amortization	3,704	5,093	4,508	-	13,305
Segment assets	331,159	429,764	273,103	-	1,034,026
Expenditures for property, plant and equipment	5,880	2,152	1,392	-	9,424
Investment	-	-	12,178	-	12,178
Goodwill	43,580	98,124	52,890	-	194,594

	Three Months Ended September 30, 2014				
	II-VI Laser Solutions	II-VI Photonics	II-VI Performance Products	Eliminations	Total
Revenues	$72,824	$ 63,613	$ 49,396	$ -	$185,833
Inter-segment revenues	5,064	2,820	2,228	(10,112)	-
Operating income	12,923	2,072	4,401	-	19,396
Interest expense	-	-	-	-	(1,204)
Other income (expense), net	-	-	-	-	(1,682)
Income taxes	-	-	-	-	(4,208)
Net earnings	-	-	-	-	12,302
Depreciation and amortization	3,533	5,522	4,506	-	13,561
Expenditures for property, plant and equipment	16,066	2,893	2,571	-	21,530

Note 11. Share-Based Compensation

The Board of Directors adopted the II-VI Incorporated Amended and Restated 2012 Omnibus Incentive Plan (the “Plan”) which was approved by the shareholders at the Annual Meeting in November 2014. The Plan provides for the grant of non-qualified stock options, stock appreciation rights, restricted share awards, restricted share units, deferred share awards, performance share awards and performance share units to employees, officers and directors of the Company. The maximum number of shares of the Company’s common stock authorized for issuance under the Plan is limited to 4,900,000 shares of common stock, not including any remaining shares forfeited under the predecessor plans that many be rolled into the Plan. The Company records share-based compensation expense for these awards in accordance with U.S. GAAP, which requires the recognition of grant-date fair value of share-based compensation in net earnings and over the requisite service period of the individual grantees, which generally equals the vesting period. The Company accounts for cash-based stock appreciation rights, cash-based restricted share unit awards and cash-based performance share unit awards as liability awards, in accordance with applicable accounting standards.

Share-based compensation expense is allocated approximately 20% to cost of goods sold and 80% to selling, general and administrative expense, based on the employee classification of the grantees. Share-based compensation expense for the periods indicated was as follows ($000):

	Three Months Ended	
September 30,	2015	2014
Stock Options and Cash-Based Stock Appreciation Rights	$2,386	$2,119
Restricted Share Awards and Cash-Based Restricted Share Unit Awards	1,231	1,096
Performance Share Awards and Cash-Based Performance Share Unit Awards	248	410
	$3,865	$3,625

Note 12. Fair Value of Financial Instruments

The FASB defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous markets for the asset and liability in an orderly transaction between market participants at the measurement date. The Company estimates fair value of its financial instruments utilizing an established three-level hierarchy in accordance with U.S. GAAP. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date as follows:

- Level 1 – Valuation is based upon unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurements.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. At September 30, 2015, the Company had foreign currency forward contracts recorded at fair value. The fair values of these instruments were measured using valuations based upon quoted prices for similar assets and liabilities in active markets (Level 2) and are valued by reference to similar financial instruments, adjusted for credit risk and restrictions and other terms specific to the contracts. Foreign currency gain related to these contracts was immaterial for the three months ended September 30, 2015.

The Company had Level 2 foreign currency forward contract liabilities of $195,000 as of September 30, 2015 and assets of $130,000 as of June 30, 2015, respectively.

The Company's policy is to report transfers into and out of Levels 1 and 2 of the fair value hierarchy at fair values as of the beginning of the period in which the transfers occur. There were no transfers in and out of Levels 1 and 2 of the fair value hierarchy during the three months ended September 30, 2015.

The fair values of cash and cash equivalents are considered Level 1 among the fair value hierarchy and approximate fair value because of the short-term maturity of those instruments. The Company's borrowings are considered Level 2 among the fair value hierarchy and are variable interest rates and accordingly their carrying amounts approximate fair value.

Note 13. Derivative Instruments

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

The Company has recorded the fair market value of these contracts in the Company's condensed consolidated financial statements. These contracts had a total notional amount of $11.2 million and $10.8 million at September 30, 2015 and June 30, 2015, respectively. As of September 30, 2015, these forward contracts had expiration dates ranging from October 2015 through January 2016, with Japanese Yen denominations individually ranging from 300 million Yen to 350 million Yen. The Company does not account for these contracts as hedges as defined by U.S. GAAP, and records the change in the fair value of these contracts in Other expense (income), net in the Condensed Consolidated Statements of Earnings as they occur. The fair value measurement takes into consideration foreign currency rates and the current creditworthiness of the counterparties to these contracts, as applicable, and is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments and thus represents a Level 2 measurement. These contracts are recorded in Other liabilities in the Company's Condensed Consolidated Balance Sheets. The change in the fair value of these contracts for the three months ended September 30, 2015 and 2014 was insignificant.

Note 14. Commitments and Contingencies

The Company records a warranty reserve as a charge against earnings based on a percentage of sales utilizing actual warranty claims over the last twelve months. The following table summarizes the change in the carrying value of the Company's warranty reserve, which is a component of Other accrued liabilities in the Company's Condensed Consolidated Balance Sheets ($000):

	Three Months Ended September 30, 2015
Balance-beginning of period	$ 3,251
Payments made during the period	(917)
Additional warranty liability recorded during the period	961
Balance-end of period	$ 3,295

Note 15. Post-Retirement Benefits

The Company has a pension plan (the "Swiss Plan") covering employees of the Zurich, Switzerland subsidiary. The unfunded pension liability of $7.2 million is recorded in Other liabilities in the Condensed Consolidated Balance Sheet at September 30, 2015. Net periodic pension costs associated with the Swiss Plan included the following ($000):

	Three Months Ended September 30,	
	2015	2014
Service cost	$683	$680
Interest cost	111	181

Expected return on plan assets	(280)	(270)
Net amortization	46	(361)
Net periodic pension costs	$560	$230

During the three months ended September 30, 2015, the Company contributed $0.5 million to the Swiss Plan. The Company currently anticipates contributing an additional estimated amount of approximately $1.5 million to the Swiss Plan during the remainder of fiscal year 2016.

Note 16. Share Repurchase Program

In August 2014, the Company's Board of Directors authorized the Company to purchase up to $50 million of its Common Stock through a share repurchase program (the "Program") that calls for shares to be purchased in the open market or in private transactions from time to time. The Program has no expiration and may be suspended or discontinued at any time. Shares purchased by the Company are retained as treasury stock and available for general corporate purposes. As of September 30, 2015, the Company has purchased 1,318,987 shares of its Common Stock pursuant to the Program for approximately $19.0 million.

Note 17. Accumulated Other Comprehensive Income (Loss)
The changes in accumulated other comprehensive income ("AOCI") by component, net of tax, for the three months ended September 30, 2015 were as follows ($000):

	Foreign Currency Translation Adjustment	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Income
AOCI - June 30, 2015	$ 9,466	$ (801)	$ 8,665
Other comprehensive income before reclassifications	(8,151)	-	(8,151)
Amounts reclassified from AOCI	-	36	36
Net current-period other comprehensive income	(8,151)	36	(8,115)
AOCI - September 30, 2015	$ 1,315	$ (765)	$ 550

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management’s Discussion and Analysis of Financial Condition and Results of Operations (“Management’s Discussion and Analysis”), contains forward-looking statements as defined by Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding projected growth rates, markets, product development, financial position, capital expenditures and foreign currency exposure. Forward-looking statements are also identified by words such as “expects,” “anticipates,” “intends,” “plans,” “projects” or similar expressions.

Although our management considers these expectations and assumptions to be reasonable, actual results could differ materially from any such forward-looking statements included in this Quarterly Report on Form 10-Q or otherwise made by our management due to the following factors, among others: dependency on international sales and successful management of global operations, the development and use of new technology, the timely release of new products and acceptance of such new products by the market, our ability to devise and execute strategies to respond to market conditions, the impact of acquisitions on our business and our ability to assimilate recently acquired businesses, the impact of impairment in goodwill and indefinite-lived intangible assets in one or more of our segments, adverse changes in economic or industry conditions generally (including capital markets) or in the markets served by the Company, our ability to protect our intellectual property, governmental regulation, including that related to the environment, the impact of a data breach incident on our operations, supply chain issues, the actions of competitors, the purchasing patterns of customers and end-users, the occurrence of natural disasters and other catastrophic events outside of our control, and changes in local market laws and practices. There are additional risk factors that could materially affect the Company’s business, results of operations or financial condition as set forth in Part I, Item 1A of the Company’s most recent Annual Report on Form 10-K as filed with the Securities and Exchange Commission on August 28, 2015.

In addition, we operate in a highly competitive and rapidly changing environment; therefore, new risk factors can arise, and it is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statement. The forward-looking statements included in this Quarterly Report on Form 10-Q are based only on information currently available to us and speak only as of the date of this Report. We do not assume any obligation, and do not intend to, update any forward-looking statements, whether as a result of new information, future developments or otherwise, except as may be required by the securities laws. Investors should, however, consult any further disclosures of a forward-looking nature that the Company may make in its subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, or other disclosures filed with or furnished to the SEC.

Investors should also be aware that, while the Company does communicate with securities analysts, from time to time, such communications are conducted in accordance with applicable securities laws. Investors should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report.

Introduction

II-VI Incorporated (“II-VI,” the “Company,” “we,” “us” or “our”), a worldwide leader in engineered materials and opto-electronic components, is a vertically integrated manufacturing company that develops innovative products for diversified applications in the industrial, optical communications, military, life sciences, semiconductor equipment, and consumer markets. The Company produces a wide variety of application-specific photonic and electronic materials and components, and deploys them in various forms, including as integrated with advanced software.

The Company generates revenues, earnings and cash flows from developing, manufacturing and marketing engineered materials and opto-electronic components for precision use in industrial, optical communications, military, semiconductor, medical and consumer applications. We also generate revenue, earnings and cash flows from government-funded research and development contracts relating to the development and manufacture of new technologies, materials and products.

Our customer base includes original equipment manufacturers (“OEMs”), laser end users, system integrators of high-power lasers, manufacturers of equipment and devices for industrial, optical communications, security and monitoring applications, U.S. government prime contractors, various U.S. government agencies and thermoelectric solutions suppliers.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the Company’s discussion and analysis of its financial condition and results of operations require the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its condensed consolidated financial statements and accompanying notes. Note 1 of the Notes to Consolidated Financial Statements in the Company's most recent Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

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

The Company recognizes revenues in accordance with U.S. GAAP. Revenues for product shipments are realizable when the Company has persuasive evidence of a sales arrangement, the product has been shipped or delivered, the sales price is fixed or determinable and collectability is reasonably assured. In most cases, title and risk of loss passes from the Company to its customers at the time of shipment, with the exception of certain customers for whom title does not pass and revenue is not recognized until the customer has received the product at its physical location. The Company's revenue recognition policy is consistently applied across the Company's segments, product lines and geographical locations. Further, we do not have any significant post-shipment obligations such as training or installation, customer acceptance provisions, credits and discounts, rebates and price protection or other similar privileges. Our distributors and agents are not granted price protection. Our distributors and agents, who comprise less than 10% of consolidated revenue, have no additional product return rights beyond the right to return defective products covered by our warranty policy. Revenues generated from transactions other than product shipments are contract-related and have historically accounted for less than 2% of the Company's consolidated revenues. We believe our revenue recognition practices have adequately considered and reflect the requirements under U.S. GAAP.

The Company establishes an allowance for doubtful accounts based on historical experience and believes the collection of revenues, net of this reserve, is reasonably assured. The allowance for doubtful accounts is an estimate for potential non-collection of accounts receivable based on historical experience. The Company's allowance for doubtful accounts balance at September 30, 2015 was approximately $1.3 million. The Company's allowance for doubtful accounts reserve estimates have historically been proven to be materially correct based upon actual charges incurred.

The Company records a warranty reserve as a charge against earnings based on a historical percentage of revenues utilizing actual returns over a period that approximates historical warranty experience. If actual returns in the future are not consistent with the historical data used to calculate these estimates, additional warranty reserves could be required. The Company's warranty reserve balance at September 30, 2015 was approximately $3.3 million. The Company's warranty reserve estimates have historically been proven to be materially correct based upon actual charges incurred.

New Accounting Standards

See "Note 2. Recent Accounting Pronouncements" to our unaudited financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements.

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Results of Operations (in millions, except per-share data)

The following table sets forth bookings and select items from our Condensed Consolidated Statements of Earnings for the three months ended September 30, 2015 and 2014, respectively:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Bookings	$187.2	$181.7

		% of Revenues		% of Revenues
Total Revenues	$189.2	100.0 %	$185.8	100.0 %
Cost of goods sold	118.0	62.4	118.0	63.5
Gross margin	71.2	37.6	67.8	36.5
Operating expenses:				
Internal research and development	13.2	7.0	12.9	6.9
Selling, general and administrative	36.3	19.2	35.5	19.1
Interest and other, net	(0.5)	(0.3)	2.9	1.6
Earnings before income tax	22.2	11.7	16.5	8.9
Income taxes	5.0	2.6	4.2	2.3
Net Earnings	$17.2	9.1 %	$12.3	6.6 %
Diluted earnings per share:	$0.27		$0.20	

Executive Summary

Net earnings for the three months ended September 30, 2015 were $17.2 million ($0.27 per-share diluted), compared to $12.3 million ($0.20 per-share diluted) for the same period last fiscal year. The increase in net earnings for the three months ended September 30, 2015 compared to the same period last year was primarily the result of improved operational performance from the Company's II-VI Photonics segment driven by the Chinese broadband program and the build out of undersea networks which resulted in increased revenues, realized operational synergies and cost saving initiatives from our prior fiscal year restructuring activities that positively impacted current operating margins. The Company also benefitted during the current fiscal quarter from favorable foreign currency gains of approximately $0.01 per-share diluted as the U.S. dollar strengthened against certain local foreign currencies of the Company.

Consolidated

Bookings. Bookings for the three months ended September 30, 2015 increased 3% to $187.2 million, compared to $181.7 million for the same period last fiscal year. Bookings are defined as customer orders received that are expected to be converted to revenues over the next twelve months. For long-term customer orders, the Company does not include in bookings the portion of the customer order that is beyond twelve months, due to the inherent uncertainty of an order that far out in the future. The increases in bookings were mostly attributable to increased demand for products used in the military, semiconductor and thermoelectric cooler markets in the II-VI Performance Products segment, which experienced higher bookings of $7.5 million. Specifically, the increase in bookings was driven by new blanket orders from one of the Company's power and radio frequency ("RF") customers in the silicon carbide ("SiC") substrate business as well as a large production order in the Company's military business with expected shipments to occur over the next several fiscal quarters. Somewhat offsetting these increased bookings were a $1.1 million decline in bookings for optical communication and life science products of the II-VI Photonics segment and a $0.9 million decline in bookings for optics and components used in CO_2 fiber and direct diode laser systems of the II-VI Laser Solutions segment.

Revenues. Revenues for the three months ended September 30, 2015 increased 2% to $189.2 million compared to $185.8 million for the same period last fiscal year. The increase in revenues during the current three months ended compared to the same period last fiscal year was the result of the Chinese broadband initiative and the build out of undersea networks, which resulted in increased revenues from the Company's II-VI Photonics segment.

Gross margin. Gross margin for the three months ended September 30, 2015 was $71.2 million or 37.6% of total revenues, compared to $67.8 million or 36.5% of total revenues for the same period last fiscal year. The increase in gross margin as a percentage of revenues for the current three months compared to the same period last fiscal year was primarily the result of increased revenues and operational improvements following the acquisitions of II-VI Laser Enterprise and II-VI Network Solutions. Product mix at II-VI Photonics shifted towards higher margin products relating to the undersea network build out and $0.7 million reduction in cost of goods sold relating to the receipt of the insurance proceeds from the prior year's flooding contributed to the improvement in gross margin.

Internal research and development. Company-funded internal research and development expenses for the three months ended September 30, 2015 were $13.2 million, or 7.0% of revenues, compared to $12.9 million, or 6.9% of revenues, for the same period last fiscal year. Research and development expense as a percentage of revenues was consistent with the same period last fiscal year, on a percentage of revenue basis. During the current quarter, the Company continued to make investments in new product development and process improvements across all of the Company's business units.

Selling, general and administrative. Selling, general and administrative expenses for the three months ended September 30, 2015 were $36.3 million or 19.2% of revenues, compared to $35.5 million, or 19.1% of revenues for the same period last fiscal year. Selling, general, and administrative expenses during the current quarter were consistent with the same period last fiscal year, on a percentage of revenue basis.

Interest and other, net. Interest and other, net for the three months ended September 30, 2015 was income of $0.5 million, compared to $2.9 million of other expenses for the three months ended September 30, 2014. Included in interest and other, net for the three months ended September 30, 2015 and 2014 were earnings from the Company's equity investment in Fuxin, interest expense on borrowings, interest income on excess cash reserves, unrealized gains and losses on the Company sponsored deferred compensation plan and foreign currency gains and losses. The majority of the favorable change during the three months ended September 30, 2015 compared to the same period last fiscal year was due to unrealized gains on foreign currency transactions as well as lower levels of interest expense as the Company continues to pay down outstanding amounts under its existing Credit Facility.

Income taxes. The Company's year-to-date effective income tax rate at September 30, 2015 was 22.2%, compared to an effective tax rate from continuing operations of 25.5% for the same period last fiscal year. During the current year, the Company benefited from a lower world-wide income tax rate as a result of the mix of pre-tax income derived from lower foreign taxing jurisdictions. The variation between the Company's effective tax rate and the U.S. statutory rate of 35% was primarily due to the Company's foreign operations, which are subject to income taxes at lower statutory rates.

Segment Reporting

Bookings, revenues and operating income for the Company's reportable segments are discussed below. Operating income differs from net earnings in that operating income excludes certain operational expenses included in other expense (income) – net as reported. Management believes operating income to be a useful measure for investors, as it reflects the results of segment performance over which management has direct control and is used by management in its evaluation of segment performance. See "Note 10. Segment Reporting," to our unaudited financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the Company's reportable segments and for the reconciliation of operating income to net earnings, which is incorporated herein by reference.

II- VI Laser Solutions (in millions)

	Three Months Ended September 30,		% (Decrease)
	2015	2014	

Bookings	$69.1	$70.0	(1	%)
Revenues	$71.6	$72.8	(2	%)
Operating income	$12.2	$12.9	(5	%)

Bookings for the three months ended September 30, 2015 for II-VI Laser Solutions decreased 1% to $69.1 million, compared to $70.0 million for the same period last fiscal year. The decreases in bookings compared to the same period last fiscal year were mostly attributable to a shortfall in demand for diamond based products and slowing laser utilization in the II-VI Infrared Optics division.

Revenues for the three months ended September 30, 2015 for II-VI Laser Solutions decreased 2% to $71.6 million, compared to revenues of $72.8 million for the same period last fiscal year. The decrease in revenues for the current fiscal quarter compared to the same period last year was mostly attributable to the segment's CO_2 laser business, which has seen slowdown in laser utilization among the installed base.

Operating income for the three months ended September 30, 2015 for II-VI Laser Solutions decreased 5% to $12.2 million, compared to $12.9 million for the same period last fiscal year. The decrease in operating income for the current fiscal quarter compared to the same period last year was a combination of lower revenues as well as higher share-based compensation expense allocation during the current fiscal quarter.

II- VI Photonics (in millions)

	Three Months Ended September 30, 2015	2014	% (Decrease) Increase	
Bookings	$65.2	$66.3	(2	%)
Revenues	$71.9	$63.6	13	%
Operating income	$6.3	$2.1	200	%

Bookings for the three months ended September 30, 2015 for II-VI Photonics decreased 2% to $65.2 million, compared to $66.3 million for the same period last fiscal year. The decrease in bookings was primarily due to lower than usual book to bill orders received for the quarter due to temporarily lost production capacity as a result of the flooding in Fuzhou, China that occurred in August 2015 as the result of super typhoon Soudelor. The financial impact to operations was not material.

Revenues for the three months ended September 30, 2015 for II-VI Photonics increased 13% to $71.9 million, compared to $63.6 million for the same period last fiscal year. The increase in revenues for the three months ended September 30, 2015 compared to the same period last fiscal year was mainly attributable to increased customer demand for optical components and modules for the new deployment of CATV optical networks, the launch of the China broadband program by the government to extend the FTTH (fiber to the home) deployment, 4G wireless deployment, and accelerated 5G wireless development.

Operating income for the three months ended September 30, 2015 for II-VI Photonics increased 200% to $6.3 million, compared to $2.1 million for the same period last fiscal year. The increase in operating income was mostly due to incremental margin realized on the $8.3 million increase in revenues as well as a $0.7 million reduction in cost of goods sold from the insurance proceeds received from the Fuzhou, China flood that occurred in early fiscal year 2015.

II-VI Performance Products (in millions)

	Three Months Ended September 30, 2015	2014	% Increase (Decrease)

Bookings	$52.9	$45.4	17	%
Revenues	$45.7	$49.4	(7	%)
Operating income	$3.3	$4.4	(25	%)

Bookings for the three months ended September 30, 2015 for II-VI Performance Products increased 17% to $52.9 million, compared to $45.4 million for the same period last fiscal year. The increase was driven by a new blanket order by one of the Company's power and RF customers in the SiC substrate business as well as a new Department of Defense development contract to support the transition to the manufacture of larger SiC diameter substrates. Additionally, the segment received large production orders in the Company's military business with shipments spread over several fiscal quarters.

Revenues for the three months ended September 30, 2015 for II-VI Performance Products decreased 7% to $45.7 million, compared to $49.4 million for the same period last fiscal year. The decrease in revenues was due to the customer order pull from the current period ended September 30, 2015 into the previous fiscal year ended June 30, 2015 in the personal comfort business.

Operating income for the three months ended September 30, 2015 for II-VI Performance Products decreased 25% to $3.3 million, compared to $4.4 million for the same period last fiscal year. The decrease in operating income was primarily the result of the lower revenues realized in the current fiscal quarter compared to the same period fiscal last year.

Liquidity and Capital Resources

Historically, our primary sources of cash have been from operations and long-term borrowing. Other sources of cash include proceeds received from the exercises of stock options and sale of equity instruments. Our historic uses of cash have been for capital expenditures, investment in research and development, business acquisitions, payments of principal and interest on outstanding debt obligations and purchases of treasury stock. Supplemental information pertaining to our sources and uses of cash for the periods indicated is presented as follows (in millions):

	Three Months Ended September 30, 2015	2014
Net cash provided by operating activities	$22.2	$0.9
Additions to property, plant and equipment	(9.4)	(21.5)
Net payments on long-term borrowings	(13.5)	(5.0)
Purchases of treasury shares	(5.9)	(5.1)
Proceeds from exercises of stock options	0.8	1.5
Minimum tax withholding payments	(1.7)	(1.2)
Effect of exchange rate changes on cash and cash equivalents	(2.4)	1.2

Net cash provided by operating activities:

Net cash provided by operating activities was $22.2 million for the three months ended September 30, 2015, compared to net cash provided by operating activities of $0.9 million for the same period last fiscal year. The increase in cash provided by operating activities was due in part to higher levels of net earnings during the three months ended September 30, 2015, which increased $4.9 million from the same period last fiscal year. In addition, working capital improvements, specifically in the area of accounts receivable, contributed to the increase in cash provided by operations. During December 2014, the Company finalized its settlement agreement relating to its acquisitions of II-VI Laser Enterprise and II-VI Network Solutions resulting in collection of certain accounts receivable and payment of certain accounts payable that were subject to the settlement negotiations that were outstanding as of September 30, 2014.

Net cash used in investing activities:

Net cash used in investing activities was $9.4 million for the three months ended September 30, 2015, compared to net cash used of $21.5 million for the same period last fiscal year. The net cash used in investing activities during the three months ended September 30, 2015 and 2014 consisted mostly of cash paid for capital expenditures. Included in the capital expenditures for the three months ended September 30, 2014 was $13.4 million related to the purchase of the Company’s manufacturing facility in Berlin, Germany.

Net cash used in financing activities:

Net cash used in financing activities was $20.3 million for the three months ended September 30, 2015, which was mostly composed of $13.5 million of net payments on borrowings, $5.9 million of treasury stock purchases and $1.7 million of minimum tax withholding payments on vesting of employees’ restricted and performance shares offset by

$0.8 million of cash proceeds from stock option exercises. Net cash used in financing activities of $9.8 million for the same period last fiscal year was mostly composed of $5.0 million of repayments on borrowings, $5.1 million of treasury stock purchases and $1.2 million of minimum tax withholding payments on vesting of employee’s restricted and performance shares offset by $1.5 million of cash proceeds from stock option exercises.

The Company’s current Credit Facility provides for a revolving credit facility of $225 million, as well as a $100 million Term Loan. The Term Loan is repaid in consecutive quarterly principal payments on the first business day of each January, April, July and October, with the first payment having commenced on October 1, 2013, as follows: (i) twenty consecutive quarterly installments of $5 million and (ii) a final installment of all remaining principal due and payable on the maturity date of September 10, 2018. The Credit Facility is unsecured, but is guaranteed by each existing and subsequently acquired or organized wholly-owned domestic subsidiary of the Company. The Company has the option to request an increase to the size of the Credit Facility in an aggregate additional amount not to exceed $100 million. The Credit Facility has a five year term through September 10, 2018 and has an interest rate of LIBOR, as defined in the agreement, plus 0.75% to 1.75% based on the Company’s ratio of consolidated indebtedness to consolidated EBITDA. Additionally, the Credit Facility is subject to certain covenants, including those relating to minimum interest coverage and maximum leverage ratios. As of September 30, 2015, the Company was in compliance with all financial covenants under its Credit Facility.

The Company’s Yen denominated line of credit is a 500 million Yen (approximately $4.1 million) facility. The Yen line of credit was extended in September 2015 through August 2020 on substantially the same terms. The interest rate is equal to LIBOR, as defined in the loan agreement, plus 0.625% to 1.50%. At September 30, 2015 and June 30, 2015, the Company had 300 million Yen borrowed. Additionally, the facility is subject to certain covenants, including those relating to minimum interest coverage and maximum leverage ratios. As of September 30, 2015, the Company was in compliance with all financial covenants under its Yen facility.

The Company had aggregate availability of $125.1 million and $116.6 million under its lines of credit as of September 30, 2015 and June 30, 2015, respectively. The amounts available under the Company’s lines of credit are reduced by outstanding letters of credit. As of September 30, 2015 and June 30, 2015, total outstanding letters of credit supported by the credit facilities were $1.5 million.

The weighted average interest rate of total borrowings under all credit facilities was 1.5% and 1.9% for the three months ended September 30, 2015 and 2014, respectively.

In August 2014, the Company’s Board of Directors authorized the Company to purchase up to $50 million of its issued and outstanding common stock through a share repurchase program (the “Program”) that calls for shares to be purchased in the open market or in private transactions from time to time. The Program has no expiration date and may be suspended or discontinued at any time. Shares purchased by the Company are retained as treasury stock and available for general corporate purposes. As of September 30, 2015, the Company has purchased 1,318,987 shares of its Common Stock pursuant to the Program for approximately $19.0 million.

The Company’s cash position, borrowing capacity and debt obligations for the periods indicated were as follows (in millions):

	September 30, 2015	June 30, 2015
Cash and cash equivalents	$ 163.8	$ 173.6
Available borrowing capacity	125.1	116.6
Total debt obligation	162.5	176.0

The Company believes cash flow from operations, existing cash reserves and available borrowing capacity will be sufficient to fund its working capital needs, capital expenditures, share repurchases and growth objectives for the next twelve months. The Company’s cash and cash equivalent balances are generated and held in numerous locations throughout the world, including amounts held outside the United States. As of September 30, 2015 and June 30, 2015, the Company held approximately $135 million and $145 million, respectively, of cash and cash equivalents outside of the United States. Cash balances held outside the United States could be repatriated to the United States, but, under current law, would potentially be subject to United States federal income tax, less applicable foreign tax credits. The

Company has not recorded deferred income taxes related to the majority of its undistributed earnings outside of the United States, as the majority of the earnings of the Company's foreign subsidiaries are indefinitely reinvested.

Contractual Obligations

The following table presents information about the Company’s contractual obligations and commitments as of September 30, 2015.

Tabular-Disclosure of Contractual Obligations

	Payments Due By Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
($000)					
Long-term debt obligations	$162,493	$20,000	$140,000	$-	$2,493
Interest payments(1)	6,071	2,287	3,675	75	34
Capital lease obligations	-	-	-	-	-
Operating lease obligations(2)	49,670	11,821	15,336	6,720	15,793
Purchase obligations(3)	11,473	8,106	3,367	-	-
Other long-term liabilities reflected on the Registrant's balance sheet under GAAP	-	-	-	-	-
Total	$229,707	$42,214	$162,378	$6,795	$18,320

(1) Variable rate interest obligations are based on the interest rate in place at September 30, 2015 and relate to the Credit Facility.
(2) Includes an obligation for the use of two parcels of land related to II-VI Performance Metals. The lease obligations extend through 2039 and 2056.
(3) A purchase obligation is defined as an agreement to purchase goods or services that is enforceable and legally binding on the Company and that specifies all significant terms, including fixed or minimum quantities to be purchased, minimum or variable price provisions, and the approximate timing of the transaction. These amounts are primarily composed of open purchase order commitments to vendors for the purchase of supplies and materials.

A $4.5 million gross unrecognized income tax benefit at September 30, 2015 has been excluded from the table above because the Company is not currently able to reasonably estimate the amount by which the liability will increase or decrease over time; however, at this time, the Company does not expect a significant payment related to these obligations within the next year.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risks

The Company is exposed to market risks arising from adverse changes in foreign currency exchange rates and interest rates. In the normal course of business, the Company uses a variety of techniques and derivative financial instruments as part of its overall risk management strategy, which is primarily focused on its exposure to the Japanese Yen. No significant changes have occurred in the techniques and instruments used other than those described below.

In the normal course of business, the Company enters into foreign currency forward exchange contracts with its financial institutions. The purpose of these contracts is to hedge ordinary business risks regarding foreign currencies on product sales. Foreign currency exchange contracts are used to limit transactional exposure to changes in currency rates. The Company enters into foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts provide the Company with an economic hedge in which settlement will occur in future periods, thereby limiting the Company's exposure. These contracts had a total notional amount of $11.2 million and $10.8 million at September 30, 2015 and June 30, 2015, respectively. The Company continually monitors its positions and the credit ratings of the parties to these contracts. While the Company may be exposed to potential losses due to risk in the event of non-performance by the counterparties to these financial instruments, it does not currently anticipate such losses.

A 10% change in the Yen to U.S. dollar exchange rate would have changed revenues in the range from a decrease of $1.2 million to an increase of $1.5 million for the three months ended September 30, 2015.

The Company has short-term intercompany notes that are denominated in U.S. dollars with certain European subsidiaries. A 10% change in the Euro to U.S. dollar exchange rate would have changed net earnings in the range from a decrease of $1.6 million to an increase of $2.0 million for the three months ended September 30, 2015.

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

Interest Rate Risks

As of September 30, 2015, the Company's total borrowings of $162.5 million were from a line of credit of $2.5 million denominated in Japanese Yen, borrowings under a term loan of $60.0 million denominated in U.S. dollars and a line of credit borrowing of $100.0 million denominated in U.S. dollars. As such, the Company is exposed to market risks arising from changes in interest rates. A change in the interest rate of these borrowings of 1% would have resulted in additional interest expense of $0.3 million for the three months ended September 30, 2015, respectively.

Item 4. CONTROLS AND PROCEDURES

The Company's management evaluated, with the participation of Francis J. Kramer, the Company's Chairman and Chief Executive Officer, and Mary Jane Raymond, the Company's Chief Financial Officer and Treasurer, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. The Company's disclosure controls were designed to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls' stated goals. Based on that evaluation, Mr. Kramer and Ms. Raymond concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. No changes in the Company's internal control over financial reporting were implemented during the Company's most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Part II – Other Information

Item 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2015, which could materially affect our business, financial condition or future results. Those risk factors are not the only risks facing the Company. Additional risks and uncertainties not currently known or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth repurchases of our common stock during the quarter ended September 30, 2015:

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Dollar Value of Shares That May Yet be Purchased Under the Plan or Program
July 1, 2015 to July 31, 2015	-		$ -	-	$37,255,646
August 1, 2015 to August 31, 2015	228,443	(b)	$ 17.22	134,608	$34,937,696
September 1, 2015 to September 30, 2015	245,930		$ 16.39	245,930	$30,906,904
Total	474,373		$ 16.79	380,538	

(a) Shares repurchased as part of the Company's previously announced program to purchase up to $50 million of the Company's Common Stock, which was approved by the Board of Directors and announced in August 2014.

(b) Includes 93,835 shares of our Common Stock transferred to the Company from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted or performance stock awards.

Item 6. EXHIBITS

Exhibit Number	Description of Exhibit	Reference
10.01	First Amendment to Credit Agreement, dated as of September 18, 2015, by and among II-VI Japan Incorporated, the Guarantors party thereto, the Banks party thereto, and PNC Bank, National Association, as agent	Filed herewith.
31.01	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.02	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.01	Certification of the Chief Executiv e Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith.
32.02	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith.
101	Interactive Data File	Filed herewith.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	II-VI INCORPORATED (Registrant)
Date: November 6, 2015	By: /s/ Francis J. Kramer Francis J. Kramer Chairman and Chief Executive Officer
Date: November 6, 2015	By: /s/ Mary Jane Raymond Mary Jane Raymond Chief Financial Officer and Treasurer

EXHIBIT INDEX

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