ISOMET CORPORATION

2023 ANNUAL REPORT

To Share Holders and Employees,

Our results for 2023 improved significantly over the results for 2022. Revenue was up over $400,000 to $3,512,772. Earnings per share were at the highest level in over 10 years. This success was primarily due to increased shipments to customers in Europe. Our other markets remained stable, consistent with 2022.

Internally, we are focused on improving productivity through upgrading our key manufacturing equipment. Also, we continue to be successful at bringing aboard talented young staff members who are allowing us to maximize the efficiency of our systems.

We see no internal operating issues that might hold us back from continued improvements. However, at the strategic level the risks are significant. We have longtime customers in China and important suppliers in Ukraine. We are working to reduce the impact of those risks. Covid-19 is far behind us, and we are doing well without government support.

I would like to thank all our very dedicated staff for their creative thinking, diligence, and continued hard work as we march into our 69th year of operation.

Michael Hillier
President

May 2, 2024

ISOMET CORPORATION
CONSOLIDATED BALANCE SHEET

	As of December 31,	
	2023	2022
ASSETS		
Cash and Investments	$ 129,087	$ 149,925
Accounts Receivable	254,544	162,785
Other Assets	9,168	60,570
Precious Metals	151,606	202,590
Inventories	2,880,250	2,762,667
Total Current Assets	3,424,656	3,338,535
Net Fixed Assets	597,227	498,351
Total Assets	$ 4,021,882	$ 3,836,887
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes Payable	$ 1,555,000	$ 1,555,000
Government Loans, COVID19	30,340	59,268
Accounts Payable	149,038	169,158
Accrued Liabilities	315,052	339,128
Accrued Interest	1,309,675	1,185,275
Customer Advances	- 0 -	69,590
Total Liabilities	3,359,104	3,377,418
Stockholders' Equity		
Common Stock	1,978,090	1,978,090
Paid-in Capital	4,471,243	4,471,243
Accumulated Deficit	(5,621,782)	(5,805,085)
Foreign Exchange Adjustment	(164,773)	(184,779)
Total Stockholders' Equity	662,778	459,468
Total Liabilities and Stockholders' Equtiy	$ 4,021,882	$ 3,836,887

This statement is unaudited.

ISOMET CORPORATION
CONSOLIDATED STATEMENT OF EARNINGS
Year Ended December 31,

	2023	2022
Revenue		
Sales	$ 3,512,772	$ 3,112,287
Interest	17	41
PPP Loans Forgiven	-	289,407
Total	3,512,789	3,401,735
Expenses		
Cost of Sales	1,991,268	1,778,780
Selling & Administrative Expense	1,213,818	1,433,776
Interest Expense	124,400	127,519
Total	3,329,486	3,340,075
Income (Loss) Before Taxes	183,303	61,661
Benefit (Charges) Equivalent to Return of Income Taxes	-	-
Net Income (Loss)	$ 183,303	$ 61,661
Weighted Number of Shares Outstanding	1,978,090	1,978,090
Basic Net Income (Loss) Per Share	$ 0.09	$ 0.03

This statement is unaudited.

1. Organization and significant accounting policies

Organization: Isomet Corporation and its Subsidiary (the Company) produce and sell laser equipment, systems, and laser accessory components for laser-based applications.

Basis of consolidation: The Company has a wholly owned subsidiary in the United Kingdom. The consolidated financial statements include the accounts of Isomet and its subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

Revenue recognition: The Company recognizes revenue at the time goods are shipped and title passes to the customer, including goods shipped under multiple delivery fixed-price contracts. The Company's only obligation after goods are shipped is a one-year warranty. The Company's experience has been that subsequent warranty costs are not significant, and the Company expenses these costs as they are incurred.

Inventories: Inventories of parts are stated at cost determined on a first-in, first-out basis, which does not exceed market. Work in process and finished goods are stated at the lower of standard costs (which approximate average costs) or market.

Precious metals: The Company's manufacturing processes include the growth of crystals that are subsequently fabricated and used in laser beam modulation. The growth of the crystals in a laboratory environment requires the use of containers, wire and parts that can withstand extremely high temperatures or have high conductivity characteristics. These materials are the precious metals reported on the balance sheet and are reported at market price based on quoted prices at year end as provided by the Company's principal suppliers.

Property and equipment: Depreciation and amortization of property and equipment is recorded using the straight-line method over estimated useful lives as follows:

Equipment and furniture	10 years
Vehicles	3-5 years
Leasehold improvements	Remaining term of lease

Property and equipment represent the Company's only long-lived assets.

Foreign currency translation: The assets and liabilities of the Company's foreign operations are translated at rates of exchange in effect at year end, and revenue, expenses, gains and losses are translated at the average rates of exchange for the year. Gains and losses from translation are accumulated as a separate component of stockholders' equity until the foreign entity is sold or liquidated.

Financial statement estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial condition: The Company incurred losses from operations from 2001 through 2009 of approximately $5,500,000 due primarily to a weak economy for new technology equipment. The Company adjusted its operations in response to these conditions by implementing cost containment plans to enhance products and by acquiring new customers. While operating at below breakeven levels for much of that time, the Company met its cash requirements through recoveries of income taxes paid in prior years, renegotiation of the terms of certain debt to extend its maturity, obtaining new debt through convertible notes in 2004 and 2005 and obtaining new debt from its president in 2005. In January 2006, the president of the Company died. The life insurance proceeds collected were used to repay the revolving credit facility in full.

During 2007, 2008 and 2009, management continued to cut costs, allowing the Company to operate at a breakeven level. Improvement in the world economy brought increased sales and resulting profits beginning in 2010.

However, the very old debt remains unpaid. Operationally it has had no effect. Each year the Company has accrued the interest expense but has made no payments in over ten years. Most of the debt is owed to two family groups that control about 40% of the company's shares. Until other arrangements are made, the Company will continue to accrue the interest.

Audited Financial Statements: It has been the practice of the Company to have an outside accounting firm audit the Company's financial statements on an annual basis. Due to timing complications and cash flow shortage at the end of 2007 and continuing cash flow concerns in subsequent years, the Company did not undergo formal audits. However, the Company's subsidiary in the United Kingdom has been audited as required by law in that jurisdiction. One third of the consolidated revenue of the Company is generated by that subsidiary.

2. Notes payable

Notes payable consisted of the following on December 31, 2023:

Notes payable – Convertible into shares of the Company's common stock at a rate of $1.60 per share and are subordinated to other indebtedness of the Company as defined. The notes were due on June 30, 2009.	$ 750,000
Note payable – Convertible into shares of the Company's common stock at a rate of $1.60 per share and is subordinated to other indebtedness of the Company as defined. The note was due on February 20, 2011.	$ 370,000
Note payable – Non-convertible bridge loan. The note is secured by all the assets of the Company. The note was due on December 31, 2015.	$ 300,000
Note payable – Line of Credit Promissory Note The note is secured by all the assets of the Company. The note was due on December 31, 2016.	$ 60,000
Note payable – Line of Credit Promissory Note The note is secured by all the assets of the Company. The note was due on December 31, 2019.	$ 75,000
Total	$ 1,555,000

3. Government Loans – COVID-19

During the Covid Pandemic, Isomet applied for Payroll Protection Program funding of $305,000. The funds were received on April 21, 2020. The Company would not have been able to survive without this funding. During 2021, the Company applied to the Small Business Administration to have the debt forgiven. On September 29, 2021, the Company received a letter from Truist Bank stating that the application had been approved and that the loan had been paid in full by the Small Business Administration. The resulting income was presented as a separate line item on the Income Statement for the 12 months ended December 31, 2021.

During 2021, Isomet applied for an additional Payroll Protection Program loan of $289,407. The funds were received on May 3, 2021. During 2022, the Company applied to the Small Business Administration to have the debt forgiven. On November 9, 2022, the Company received a letter from Truist Bank stating that the application had been approved and that the loan had been paid in full by the Small Business Administration. It is presented as a separate line item on the Income Statement.

The Company's subsidiary in the United Kingdom received a Bounce-Back Loan (BBLS) in the original amount of approximately $65,000. Payment will be over a period of five years at a 2.5% fixed rate of interest. It is presented as a separate debt on the Balance Sheet.

4. Income taxes

The Company has domestic net operating loss carry forwards of more than $8,000,000 that may be used to offset future taxable income. The net operating loss carry forwards begin to expire in 2023. Foreign (United Kingdom) net operating loss carry forwards remaining from prior years have been used in full.

5. Lease Commitments

In the United States, the manufacturing facility and offices moved in 2018 to a new location with significantly lower occupancy costs. The new building is leased through November 30, 2027. In the United Kingdom, the manufacturing facility and offices have renewed their lease through December 16, 2028.

6. Retirement plans

The Company maintains a contributory plan pursuant to Section 401(k) of the Internal Revenue Code. The plan is available to all employees of the parent company who have completed one month of service. Participants may elect to make contributions to the Plan in an amount not to exceed the maximum amounts specified by law. The Company matches employee contributions in an amount not to exceed 2% of annual compensation. The Company may make additional contributions at its discretion. Participants are vested 100% in their contributions. Vesting in employer contributions is 20% per year with 100% vesting after five years.

The Company's U.K. subsidiary maintains a defined contribution retirement plan which is available to all employees of the subsidiary. The plan is funded through the purchase of a group annuity insurance policy. Employer contributions are discretionary. Employees may contribute to the plan in an amount that does not exceed 15% of the employee's annual compensation and vest 100% in their own contributions. Vesting in the employer contributions does not occur until the employee's normal retirement date, as defined. The plan is cancelable upon notice of 30 days.