

# **ISOMET CORPORATION**

## **2020 ANNUAL REPORT**



To Share Holders and Employees,

Covid-19 had a significant impact on business throughout 2020. Revenues dropped by a hefty 30%. The company was able to survive thanks to funding provided through the US Payroll Protection Program (PPP) and a Bounce-Back Loan (BBL) provided by the UK Government. These government loan amounts totalling \$374,215 are presented as a separate debt on the Balance Sheet. During 2021, Isomet Corp applied to the Small Business Administration to have the US debt forgiven. On September 29, 2021, we received confirmation that the application had been approved and that our loan had been paid in full by the Small Business Administration. The BBL loan benefitted our UK operations. Repayment is fixed at 2.5% interest and 5-year payback period.

The company has continued to operate throughout the pandemic, employing a mix of working from home and Covid safe practices in the workplace. Product development continued despite Covid-19 related delays to many customer programs. We are seeing encouraging signs that these programs are now back on track. Our backlog and order booking have returned to pre-covid levels. However, we are not immune to global supply chain issues and subsequent increases in material, energy, and labor costs. Our future pricing will have to reflect these cost increases.

I would like to thank all our highly skilled staff for their hard work, dedication, and care over a very difficult year. We continue to face uncertain times but confident that we have the products and capability to prosper as the marketplace adapts to the new post pandemic norms.

Michael Hillier  
President

**ISOMET CORPORATION**  
**CONSOLIDATED BALANCE SHEET**

	<u>As of December 31,</u>	
	2020	2019
<b>ASSETS</b>		
Cash and Investments	\$ 103,462	\$ 129,595
Accounts Receivable	229,258	201,771
Other Assets	45,462	44,396
Precious Metals	281,698	213,221
Inventories	2,723,511	2,678,094
<b>Total Current Assets</b>	<b>3,383,390</b>	<b>3,267,077</b>
<b>Net Fixed Assets</b>	<b>614,516</b>	<b>556,975</b>
<b>Total Assets</b>	<b>\$ 3,997,907</b>	<b>\$ 3,824,052</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Notes Payable	\$ 1,555,000	\$ -
Government Loans, COVID19	374,215	-
Accounts Payable	169,635	181,147
Accrued Liabilities	1,325,800	1,131,710
Customer Advances	51,907	54,910
<b>Total Liabilities</b>	<b>3,476,557</b>	<b>2,922,766</b>
<b>Stockholders' Equity</b>		
Common Stock	1,978,090	1,978,090
Paid-in Capital	4,471,243	4,471,243
Accumulated Deficit	(5,900,657)	(5,464,614)
Foreign Exchange Adjustment	(27,326)	(83,433)
<b>Total Stockholders' Equity</b>	<b>521,349</b>	<b>901,286</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 3,997,907</b>	<b>\$ 3,824,052</b>

This statement is unaudited.

**ISOMET CORPORATION**  
**CONSOLIDATED STATEMENT OF EARNINGS**  
Year Ended December 31,

	2020	2019
<b>Revenue</b>		
Sales	\$ 2,551,317	\$ 3,645,438
Interest	18	39
Other Income	-	-
<b>Total</b>	<b>2,551,335</b>	<b>3,645,477</b>
<b>Expenses</b>		
Cost of Sales	1,431,749	2,322,680
Selling Expenses	71,486	89,429
General Administrative	1,359,743	1,293,776
Interest Expense	124,400	127,453
<b>Total</b>	<b>2,987,377</b>	<b>3,833,337</b>
<b>Income (Loss) Before Taxes</b>	<b>(436,043)</b>	<b>(187,860)</b>
<b>Benefit (Charges) Equivalent to Return of Income Taxes</b>	<b>-</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>\$ (436,043)</b>	<b>\$ (187,860)</b>
<b>Weighted Number of Shares Outstanding</b>	<b>1,978,090</b>	<b>1,978,090</b>
<b>Basic Net Income (Loss) Per Share</b>	<b>\$ (0.22)</b>	<b>\$ (0.09)</b>

**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 includes 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 remained unpaid. Operationally it has had no effect. Each year the Company has accrued the interest expense but has made no payments in ten years. The majority 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 for every year from 2007 through 2020 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 at December 31, 2019:

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	<u>\$ 1,555,000</u>

**3. Government Loans – COVID-19**

During the Covid Pandemic, Isomet applied for and received Payroll Protection Program funding of \$305,000. The Company would not have been able to survive without this funding. It is presented as a separate debt on the Balance Sheet. 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 Company’s subsidiary in the United Kingdom received a Bounce-Back Loan (BBLs). Once it begins, payment will be over a period of five years at a 2.5% fixed rate of interest.

**4. Income taxes**

The Company has domestic net operating loss carry forwards in excess of \$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 were used in full during 2008.

**5. Lease Commitments**

In the United States, the manufacturing facility and offices have been moved 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'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 30 days notice.

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 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.