

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

Quarterly Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 2014

Commission file number 0-10976

MICROWAVE FILTER COMPANY, INC.
(Exact name of registrant as specified in its charter.)

New York
(State of Incorporation)

16-0928443
(I.R.S. Employer Identification
Number)

6743 Kinne Street, East Syracuse, N.Y.
(Address of Principal Executive
Offices)

13057
(Zip Code)

(315) 438-4700
Registrant's telephone number, including area code

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 ☒ 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ 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 (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if smaller reporting company)

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 ☒

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

Common Stock, \$.10 Par Value - 2,584,522 shares as of May 1, 2014.

MICROWAVE FILTER COMPANY, INC.

Form 10-Q

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PART I. - FINANCIAL INFORMATION

Microwave Filter Company and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2014	September 30, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 896,907	\$ 939,959
Accounts receivable-trade, net of allowance for doubtful accounts of \$26,000 and \$26,000	245,868	201,163
Federal and state income tax recoverable	0	37,085
Inventories, net	565,634	566,500
Prepaid expenses and other current assets	<u>112,250</u>	<u>98,973</u>
Total current assets	1,820,659	1,843,680
Property, plant and equipment, net	<u>518,725</u>	<u>580,750</u>
Total assets	<u><u>\$ 2,339,384</u></u>	<u><u>\$ 2,424,430</u></u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 96,086	\$ 68,632
Customer deposits	45,489	16,362
Accrued payroll and related expenses	78,949	46,453
Accrued compensated absences	94,815	94,272
Notes payable - short term	41,627	40,697
Other current liabilities	<u>35,215</u>	<u>35,199</u>
Total current liabilities	392,181	301,615
Notes payable - long term	<u>431,638</u>	<u>452,771</u>
Total other liabilities	<u>431,638</u>	<u>452,771</u>
Total liabilities	<u>823,819</u>	<u>754,386</u>

Stockholders' Equity:

Common stock, \$.10 par value

Authorized 5,000,000 shares, Issued

4,324,140 shares in 2014 and 2013,

Outstanding 2,584,522 shares in 2014

and 2,585,086 in 2013

432,414

432,414

Additional paid-in capital

3,248,706

3,248,706

Retained deficit

(473,629)

(319,460)

Common stock in treasury, at cost

1,739,618 shares in 2014 and 1,739,054

shares in 2013

(1,691,926)

(1,691,616)

Total stockholders' equity

1,515,565

1,670,044

Total liabilities and stockholders' equity

\$ 2,339,384

\$ 2,424,430

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See Accompanying Notes to Condensed Consolidated Financial Statements

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Microwave Filter Company and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
Net sales	\$ 946,975	\$ 608,343	\$ 1,602,422	\$ 1,379,587
Cost of goods sold	<u>567,856</u>	<u>477,076</u>	<u>1,024,769</u>	<u>1,045,120</u>
Gross profit	379,119	131,267	577,653	334,467
Selling, general and administrative expenses	<u>359,162</u>	<u>442,477</u>	<u>725,709</u>	<u>872,892</u>
Income (loss) from operations	19,957	(311,210)	(148,056)	(538,425)
Other income (expense), net	<u>(2,232)</u>	<u>1,210</u>	<u>(6,113)</u>	<u>3,400</u>
Income (loss) before income taxes	17,725	(310,000)	(154,169)	(535,025)
Provision (benefit) for income taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net income (loss)	<u>\$ 17,725</u>	<u>\$ (310,000)</u>	<u>\$ (154,169)</u>	<u>\$ (535,025)</u>
Per share data:				
Basic and diluted earnings (loss) per common share	<u>\$ 0.01</u>	<u>\$ (0.12)</u>	<u>\$ (0.06)</u>	<u>\$ (0.21)</u>
Shares used in computing net earnings (loss) per common share:				
Basic and diluted	<u>2,584,691</u>	<u>2,585,252</u>	<u>2,584,891</u>	<u>2,585,287</u>

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See Accompanying Notes to Condensed Consolidated Financial Statements

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Microwave Filter Company and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended	
	March 31	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (154,169)	\$ (535,025)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation	65,515	83,252
Change in operating assets and liabilities:		
Accounts receivable-trade	(44,705)	110,628
Federal and state income tax recoverable	37,085	0
Inventories	866	(47,814)
Prepaid expenses and other assets	(13,277)	26,135
Accounts payable and customer deposits	56,581	52,380
Accrued payroll and related expenses and compensated absences	33,039	(4,687)
Other current liabilities	<u>16</u>	<u>4,372</u>
Net cash used in operating activities	<u>(19,049)</u>	<u>(310,759)</u>
Cash flows from investing activities:		
Property, plant and equipment purchased	<u>(3,490)</u>	<u>(74,345)</u>
Net cash used in investing activities	<u>(3,490)</u>	<u>(74,345)</u>
Cash flows from financing activities:		
Repayment of note payable	(20,203)	0
Purchase of treasury stock	<u>(310)</u>	<u>(120)</u>
Net cash used in financing activities	<u>(20,513)</u>	<u>(120)</u>
Decrease in cash and cash equivalents	(43,052)	(385,224)

Cash and cash equivalents		
at beginning of period	<u>939,959</u>	<u>1,023,017</u>
Cash and cash equivalents		
at end of period	<u>\$ 896,907</u>	<u>\$ 637,793</u>
Supplemental Schedule of Cash Flow Information:		
Interest paid	\$ 5,403	\$ 0

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See Accompanying Notes to Condensed Consolidated Financial Statements

MICROWAVE FILTER COMPANY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014

Note 1. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-K. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the six month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended September 30, 2014. For further information, refer to the condensed consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10K for the year ended September 30, 2013.

Note 2. Industry Segment Data

The Company's primary business segment involves the operations of Microwave Filter Company, Inc. (MFC) which designs, develops, manufactures and sells electronic filters, both for radio and microwave frequencies, to help process signal distribution and to prevent unwanted signals from disrupting transmit or receive operations. Markets served include cable television, television and radio broadcast, satellite broadcast, mobile radio, commercial communications and defense electronics.

Note 3. Inventories

Inventories are stated at the lower of cost determined on the first-in, first-out method or market.

Inventories net of reserve for obsolescence consisted of the following:

	March 31, 2014	September 30, 2013
Raw materials and stock parts	\$ 432,144	\$ 432,871
Work-in-process	24,322	24,137
Finished goods	<u>109,168</u>	<u>109,492</u>
	<u>\$ 565,634</u>	<u>\$ 566,500</u>

The Company's reserve for obsolescence equaled \$400,664 at March 31, 2014 and September 30, 2013. The Company provides for a valuation reserve for certain inventory that is deemed to be obsolete, of excess quantity or otherwise impaired.

Note 4. Income Taxes

The Company accounts for income taxes under FASB ASC 740-10. Deferred tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which are anticipated to be in effect when these differences reverse. The deferred tax provision is the result of the net change in the deferred tax assets and liabilities. A valuation allowance is established when it is necessary to reduce deferred tax assets to amounts expected to be realized. The Company has provided a full valuation allowance against its deferred tax assets.

The Company adopted FASB ASC 740-10. FASB ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax position taken or expected to be taken on a tax return. Additionally, it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company determined it has no uncertain tax positions and therefore no amounts are recorded.

Note 5. Legal Matters

The State of New York Workers' Compensation Board has commenced an action against Microwave Filter Company, Inc. to recover for an underfunded self insured program that Microwave Filter Company, Inc. participated in. Due to the relatively short period of time Microwave Filter Company, Inc. participated in the program and the limited amount of potential exposure, we do not expect the resolution of this action will have a material adverse effect on our financial condition, results of operations or cash flows. The Company has accrued \$12,000 for this action in other current liabilities.

Note 6. Fair Value of Financial Instruments

The carrying values of the Company cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments.

The Company currently does not trade in or utilize derivative financial instruments.

Note 7. Significant Customers

Sales to one customer represented approximately 22% of total sales for the six months ended March 31, 2014 compared to approximately 14% of total sales for the six months ended March 31, 2013.

Note 8. Notes Payable

On July 2, 2013, Microwave Filter Company, Inc. (the “Company”) entered into a Ten Year Term Loan with KeyBank National Association in the amount of Five Hundred Thousand and No/100 Dollars (\$500,000.00). The amount of all advances outstanding together with accrued interest thereon shall be due and payable on July 2, 2023 (“Maturity”). The Company shall pay interest on the outstanding principal balance of this Note at the rate per annum equal to 4.5%. The net proceeds from the Term Loan will be available to provide working capital as needed. The total amount outstanding as of March 31, 2014 and 2013 was \$473,265 and \$0, respectively. Interest accrued as of March 31, 2014 and 2013 was \$1,648 and \$0, respectively.

The Company has secured this Note by: (a) a Mortgage, Assignment of Rents, Security Agreement and Fixture Filing which creates a 1st lien on real property situated in the Town of Dewitt, County of Onondaga, and State of New York and known as 6743 Kinne Street, East Syracuse, New York; (b) a General Assignment of Rents and Leases; (c) an Environmental Compliance and Indemnification; and (d) such other security as may now or hereafter be given to Lender as collateral for the loan.

Note 9. Earnings Per Share

The Company presents basic earnings per share (“EPS”), computed based on the weighted average number of common shares outstanding for the period, and when applicable diluted EPS, which gives the effect to all dilutive potential shares outstanding (i.e. options) during the period after restatement for any stock dividends. Income (loss) used in the EPS calculation is net income (loss) for each period. There were no dilutive potential shares outstanding for the periods ending March 31, 2014 and 2013.

Note 10. Recent Accounting Pronouncements

None applicable.

MICROWAVE FILTER COMPANY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Microwave Filter Company, Inc. operates primarily in the United States and principally in one industry. The Company extends credit to business customers based upon ongoing credit evaluations. Microwave Filter Company, Inc. (MFC) designs, develops, manufactures and sells electronic filters, both for radio and microwave frequencies, to help process signal distribution and to prevent unwanted signals from disrupting transmit or receive operations. Markets served include cable television, television and radio broadcast, satellite broadcast, mobile radio, commercial communications and defense electronics.

Critical Accounting Policies

The Company's condensed consolidated financial statements are based on the application of United States generally accepted accounting principles (GAAP). GAAP requires the use of estimates, assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. The Company believes its use of estimates and underlying accounting assumptions adhere to GAAP and are consistently applied. Valuations based on estimates are reviewed for reasonableness and adequacy on a consistent basis throughout the Company. Primary areas where financial information of the Company is subject to the use of estimates, assumptions and the application of judgment include revenues, receivables, inventories, and taxes. Note 1 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013 describes the significant accounting policies used in preparation of the condensed consolidated financial statements. The most significant areas involving management judgments and estimates are described below and are considered by management to be critical to understanding the financial condition and results of operations of the Company.

Revenues from product sales are recorded as the products are shipped and title and risk of loss have passed to the customer, provided that no significant vendor or post-contract support obligations remain and the collection of the related receivable is probable. Billings in advance of the Company's performance of such work are reflected as customer deposits in the accompanying condensed consolidated balance sheet.

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances.

The Company's inventories are stated at the lower of cost determined on the first-in, first-out method or market. The Company uses certain estimates and judgments and considers several factors including product demand and changes in technology to provide for excess and obsolescence reserves to properly value inventory.

The Company established a warranty reserve which provides for the estimated cost of product returns based upon historical experience and any known conditions or circumstances. Our warranty obligation is affected by product that does not meet specifications and performance requirements and any related costs of addressing such matters.

The Company accounts for income taxes under FASB ASC 740-10. Deferred tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which are anticipated to be in effect when these differences reverse. The deferred tax provision is the result of the net change in the deferred tax assets and liabilities. A valuation allowance is established when it is necessary to reduce deferred tax assets to amounts expected to be realized. The Company has provided a full valuation allowance against its deferred tax assets.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2014 vs. THREE MONTHS ENDED MARCH 31, 2013

The following table sets forth the Company's net sales by major product group for the three months ended March 31, 2014 and 2013.

Product group	Fiscal 2014	Fiscal 2013
Microwave Filter (MFC):		
RF/Microwave	\$ 506,403	\$ 191,279
Satellite	278,068	279,622
Cable TV	106,206	97,192
Broadcast TV	55,406	38,089
Niagara Scientific (NSI):	<u>892</u>	<u>2,161</u>
Total	<u>\$ 946,975</u>	<u>\$ 608,343</u>
Sales backlog at March 31	<u>\$ 1,049,592</u>	<u>\$ 298,866</u>

Net sales for the three months ended March 31, 2014 equaled \$946,975, an increase of \$338,632 or 55.7%, when compared to net sales of \$608,343 for the three months ended March 31, 2013. The increase in sales can be attributed to the increase in the Company's RF/Microwave product sales.

MFC's RF/Microwave product sales increased \$315,124 or 164.7% to \$506,403 for the three months ended March 31, 2014 when compared to RF/Microwave product sales of \$191,279 during the same period last year. The increase can primarily be attributed to a \$1,157,072 order received from an Original Equipment Manufacturer (OEM) during the quarter ended December 31, 2013 with shipments beginning in February 2014 and ending in December 2014. The Company's RF/Microwave products are sold primarily to Original Equipment Manufacturers that serve the mobile radio, commercial communications and defense electronics markets. The Company continues to invest in production engineering and infrastructure development to penetrate OEM market segments as they become popular. MFC is concentrating its technical resources and product development efforts toward potential high volume customers as part of a concentrated effort to provide substantial long-term growth. Sales to one OEM customer represented approximately 31% of total sales for the three months ended March 31, 2014 and approximately 4% of total sales for the three months ended March 31, 2013.

MFC's Satellite product sales decreased \$1,554 or 0.6% to \$278,068 for the three months ended March 31, 2014 when compared to Satellite product sales of \$279,622 during the same period last year. Management expects demand for these types of filters to continue with the proliferation of earth stations world wide and increased sources of interference.

MFC's Cable TV product sales increased \$9,014 or 9.3% to \$106,206 for the three months ended March 31, 2014 when compared to Cable TV product sales of \$97,192 during the same period last year. Management continues to project a decrease in demand for Cable TV products due to the shift from analog to digital television. Due to the inherent nature of digital modulation versus analog modulation, fewer filters will be required. The Company has developed filters for digital television and there will still be requirements for analog filters for limited applications in commercial and private cable systems. Management also believes that the decrease in capital expenditures from Cable Television companies has also contributed to the decline in sales.

MFC's Broadcast TV/Wireless Cable product sales increased \$17,317 to \$55,406 for the three months ended March 31, 2014 when compared to sales of \$38,089 during the same period last year. The increase can be attributed to an increase in demand for UHF Broadcast products which are primarily sold to system integrators for rural communities.

MFC's sales order backlog equaled \$1,049,592 at March 31, 2014 compared to sales order backlog of \$298,866 at March 31, 2013. However, backlog is not necessarily indicative of future sales. Accordingly, the Company does not believe that its backlog as of any particular date is representative of actual sales for any succeeding period. Approximately 72% of the total sales order backlog at March 31, 2014 is scheduled to ship by September 30, 2014.

Gross profit for the three months ended March 31, 2014 equaled \$379,119, an increase of \$247,852 or 188.8%, when compared to gross profit of \$131,267 for the three months ended March 31, 2013. As a percentage of sales, gross profit equaled 40.0% for the three months ended March 31, 2014 compared to 21.6% for the three months ended March 31, 2013. The increase in gross profit can primarily be attributed to the higher sales volume this year when compared to the same period last year providing a higher base to absorb fixed expenses.

Selling, general and administrative (SGA) expenses for the three months ended March 31, 2014 equaled \$359,162, a decrease of \$83,315 or 18.8%, when compared to SGA expenses of \$442,477 for the three months ended March 31, 2013. The decrease can primarily be attributed to planned decreases in catalog printings and mailings, attendance at trade shows and lower payroll expenses. The Company has been participating in the New York State Shared Work program which allows employers to reduce the hours of all or a particular group of employees. The employees whose hours are reduced can receive partial unemployment insurance benefits or elect to use accrued vacation. As a percentage of sales, SGA expenses decreased to 37.9% for the three months ended March 31, 2014 when compared to 72.7% for the three months ended March 31, 2013 due to the higher sales volume this year providing a higher base to absorb expenses and the lower expenses this year when compared to the same period last year.

The Company recorded income from operations of \$19,957 for the three months ended March 31, 2014 compared to a loss from operations of \$311,210 for the three months ended March 31, 2013. The improvement in operating income can primarily be attributed to the higher sales volume this year when compared to the same period last year.

Other income (expense) was an expense of \$2,232 for the three months ended March 31, 2014 compared to income of \$1,210 for the three months ended March 31, 2013 primarily due to interest expense of \$5,302 and \$0 for the three months ended March 31, 2014 and 2013, respectively. Other income generally consists of sales of scrap material, stock transfer fees, the forfeiture of non-refundable deposits and other incidental items.

The (benefit) provision for income taxes equaled \$0 for the three months ended March 31, 2014 and March 31, 2013. We have not recognized any (benefit) provision for income taxes. Any benefit for losses has been subject to a valuation allowance since the realization of the deferred tax benefit is not considered more likely than not. As required by FASB ASC 740 (Prior Authoritative Literature: SFAS 109, Accounting for Income Taxes), the Company has evaluated the positive and negative evidence bearing upon the realization of its deferred tax assets. The Company has determined that, at this time, it is more likely than not that the Company will not realize all of the benefits of federal and state deferred tax assets, and, as a result, a valuation allowance was established.

SIX MONTHS ENDED MARCH 31, 2014 vs. SIX MONTHS ENDED MARCH 31, 2013

The following table sets forth the Company's net sales by major product group for the six months ended March 31, 2014 and 2013.

Product group	Fiscal 2014	Fiscal 2013
Microwave Filter (MFC):		
RF/Microwave	\$ 747,752	\$ 515,406
Satellite	583,694	522,752
Cable TV	190,891	280,582
Broadcast TV	76,988	56,716
Niagara Scientific (NSI):	<u>3,097</u>	<u>4,131</u>
Total	<u>\$ 1,602,422</u>	<u>\$ 1,379,587</u>
Sales backlog at March 31	<u>\$ 1,049,592</u>	<u>\$ 298,866</u>

Net sales for the six months ended March 31, 2014 equaled \$1,602,422, an increase of \$222,835 or 16.2%, when compared to net sales of \$1,379,587 for the six months ended March 31, 2013.

MFC's RF/Microwave product sales increased \$232,346 or 45.1% to \$747,752 for the six months ended March 31, 2014 when compared to RF/Microwave product sales of \$515,406 during the same period last year. The increase can primarily be attributed to a \$1,157,072 order received from an Original Equipment Manufacturer (OEM) during the quarter ended December 31, 2013 with shipments beginning in February 2014 and ending in December 2014. MFC's RF/Microwave products are sold primarily to OEMs that serve the mobile radio, commercial communications and defense electronics markets. The Company continues to invest in production engineering and infrastructure development to penetrate OEM market segments as they become popular. MFC is concentrating its technical resources and product development efforts toward potential high volume customers as part of a concentrated effort to provide substantial long-term growth. Sales to one OEM customer represented approximately 22% of total sales for the six months ended March 31, 2014 compared to approximately 14% of total sales for the six months ended March 31, 2013.

MFC's Satellite product sales increased \$60,942 or 11.7% to \$583,694 for the six months ended March 31, 2014 when compared to satellite product sales of \$522,752 during the same period last year. The increase can be attributed to an increase in demand for the Company's filters which suppress strong out-of-band interference caused by military and civilian radar systems and other sources. Although economic conditions do impact sales, management expects demand for these types of filters to continue with the proliferation of earth stations world wide and increased sources of interference.

MFC's Cable TV product sales decreased \$89,691 or 32.0% to \$190,891 for the six months ended March 31, 2014 when compared to Cable TV product sales of \$280,582 during the same period last year. Management continues to project a decrease in demand for Cable TV products due to the shift from analog to digital television. Due to the inherent nature of digital modulation versus analog modulation, fewer filters will be required. The Company has developed filters for digital television and there will still be requirements for analog filters for limited applications in commercial and private cable systems. Management also believes that the decrease in capital expenditures from Cable Television companies has also contributed to the decline in sales.

MFC's Broadcast TV/Wireless Cable product sales increased \$20,272 or 35.7% to \$76,988 for the six months ended March 31, 2014 when compared to sales of \$56,716 during the same period last year. The increase can be attributed to an increase in demand for UHF Broadcast products which are primarily sold to system integrators for rural communities.

MFC's sales order backlog equaled \$1,049,592 at March 31, 2014 compared to sales order backlog of \$298,866 at March 31, 2013. However, backlog is not necessarily indicative of future sales. Accordingly, the Company does not believe that its backlog as of any particular date is representative of actual sales for any succeeding period. Approximately 72% of the total sales order backlog at March 31, 2014 is scheduled to ship by September 30, 2014.

Gross profit for the six months ended March 31, 2014 equaled \$577,653, an increase of \$243,186 or 72.7%, when compared to gross profit of \$334,467 for the six months ended March 31, 2013. As a percentage of sales, gross profit equaled to 36.0% for the six months ended March 31, 2014 compared to 24.2% for the six months ended March 31, 2013. The increases in gross profit can primarily be attributed to the higher sales volume this year when compared to the same period last year providing a higher base to absorb fixed expenses.

SG&A expenses for the six months ended March 31, 2014 equaled \$725,709, a decrease of \$147,183 or 16.9%, when compared to SG&A expenses of \$872,892 for the six months ended March 31, 2013. The decrease can primarily be attributed to planned decreases in catalog printings and mailings, attendance at trade shows and lower payroll and payroll related expenses. The Company has been participating in the New York State Shared Work program which allows employers to reduce the hours of all or a particular group of employees. The employees whose hours are reduced can receive partial unemployment insurance benefits or elect to use accrued vacation. As a percentage of sales, SGA expenses decreased to 45.3% for the six months ended March 31, 2014 compared to 63.3% for the six months ended March 31, 2013 due to the higher sales volume this year providing a higher base to absorb expenses and the lower expenses this year when compared to the same period last year.

The Company recorded a loss from operations of \$148,056 for the six months ended March 31, 2014 compared to a loss from operations of \$538,425 for the six months ended March 31, 2013. The improvement in operating income can primarily be attributed to the higher sales volume this year when compared to the same period last year.

Other income (expense) was an expense of \$6,113 for the six months ended March 31, 2014 compared to income of \$3,400 for the six months ended March 31, 2013 primarily due to interest expense of \$10,900 and \$0 for the six months ended March 31, 2014 and 2013, respectively. Other income generally consists of sales of scrap material, stock transfer fees, the forfeiture of non-refundable deposits and other incidental items.

The (benefit) provision for income taxes equaled \$0 for the six months ended March 31, 2014 and March 31, 2013. We have not recognized any (benefit) provision for income taxes. Any benefit for losses has been subject to a valuation allowance since the realization of the deferred tax benefit is not considered more likely than not. As required by FASB ASC 740 (Prior Authoritative Literature: SFAS 109, Accounting for Income Taxes), the Company has evaluated the positive and negative evidence bearing upon the realization of its deferred tax assets. The Company has determined that, at this time, it is more likely than not that the Company will not realize all of the benefits of federal and state deferred tax assets, and, as a result, a valuation allowance was established.

Off-Balance Sheet Arrangements

At March 31, 2014 and 2013, the Company did not have any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which might have been established for the purpose of facilitating off-balance sheet arrangements.

LIQUIDITY and CAPITAL RESOURCES

	March 31, 2014	September 30, 2013
Cash & cash equivalents	\$896,907	\$939,959
Working capital	\$1,428,478	\$1,542,065
Current ratio	4.64 to 1	6.11 to 1
Long-term debt	\$431,638	\$452,771

Cash and cash equivalents decreased \$43,052 to \$896,907 at March 31, 2014 when compared to cash and cash equivalents of \$939,959 at September 30, 2013. The decrease was a result of \$19,049 in net cash used in operating activities, \$3,490 in net cash used for capital expenditures, \$20,203 in net cash used for repayment of a note payable and \$310 used to purchase treasury stock.

The increase in accounts receivable of \$44,705 at March 31, 2014 when compared to September 30, 2013 can primarily be attributed to the increase in sales for the month ended March 31, 2014 when compared to the month ended September 30, 2013. The increase in accounts payable of \$27,454 at March 31, 2014 when compared to September 30, 2013 can primarily be attributed to the timing of purchases and payments to vendors.

On July 2, 2013, Microwave Filter Company, Inc. (the "Company") entered into a Ten Year Term Loan with KeyBank National Association in the amount of Five Hundred Thousand and No/100 Dollars (\$500,000.00). The amount of all advances outstanding together with accrued interest thereon shall be due and payable on July 2, 2023 ("Maturity"). The Company shall pay interest on the outstanding principal balance of this Note at the rate per annum equal to 4.5%. The net proceeds from the Term Loan will be available to provide working capital as needed.

Management believes that its working capital requirements for the foreseeable future will be met by its existing cash balances and future cash flows from operations.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In an effort to provide investors a balanced view of the Company's current condition and future growth opportunities, this Quarterly Report on Form 10-Q includes comments by the Company's management about future performance. These statements which are not historical information are "forward-looking statements" pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These, and other forward-looking statements, are subject to business and economic risks and uncertainties that could cause actual results to differ materially from those discussed. These risks and uncertainties include, but are not limited to: risks associated with demand for and market acceptance of existing and newly developed products as to which the Company has made significant investments; general economic and industry conditions; slower than anticipated penetration into the satellite communications, mobile radio and commercial and defense electronics markets; competitive products and pricing pressures; increased pricing pressure from our customers; risks relating to governmental regulatory actions in broadcast, communications and defense programs; as well as other risks and uncertainties, including but not limited to those detailed from time to time in the Company's Securities and Exchange Commission filings. These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. You are encouraged to review Microwave Filter Company's 2013 Annual Report and Form 10-K for the fiscal year ended September 30, 2013 and other Securities and Exchange Commission filings. Forward looking statements may be made directly in this document or "incorporated by reference" from other documents. You can find many of these statements by looking for words like "believes," "expects," "anticipates," "estimates," or similar expressions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company" we are not required to provide information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

In making this assessment, our management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission under the 1992 Framework (COSO).

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent 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 1. Legal Proceedings

The State of New York Workers' Compensation Board has commenced an action against Microwave Filter Company, Inc. to recover for an underfunded self insured program that Microwave Filter Company, Inc. participated in. Due to the relatively short period of time Microwave Filter Company, Inc. participated in the program and the limited amount of potential exposure, we do not expect the resolution of this action will have a material adverse effect on our financial condition, results of operations or cash flows. The Company has accrued \$12,000 for this action in other current liabilities.

Item 1A. Risk Factors

Not applicable.

Item 2. Changes in Securities

None during this reporting period.

Item 3. Defaults Upon Senior Securities

The Company has no senior securities.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

a. Exhibits

31.1 Section 13a-14(a)/15d-14(a) Certification of Carl F. Fahrenkrug

31.2 Section 13a-14(a)/15d-14(a) Certification of Richard L. Jones

32.1 Section 1350 Certification of Carl F. Fahrenkrug

32.2 Section 1350 Certification of Richard L. Jones

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

MICROWAVE FILTER COMPANY, INC.

May 13, 2014 (Date)	Carl F. Fahrenkrug ----- Carl F. Fahrenkrug Chief Executive Officer
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May 13, 2014 (Date)	Richard L. Jones ----- Richard L. Jones Chief Financial Officer
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