

2010

COMPANY OVERVIEW

LETTER TO THE SHAREHOLDERS

FINANCIAL SECTION

AUDITORS REPORT

CORPORATE INFORMATION



MICROWAVE FILTER COMPANY, INC.

Microwave Filter Company, Inc.



Overview

Since MFC was founded in 1967, the Company's mission has been to provide its customers with the highest quality and most economically priced products delivered on time. The Company has always worked closely with its customers to provide the exact products necessary for their changing needs. As a result, the Company has grown to become a state of the art manufacturing facility which produces large and small filter orders in frequency ranges up to 50 GHz. It is this commitment to the customer that has kept the Company in business for over 40 years.

MFC manufactures filters for eliminating interference and signal processing for such markets as Cable Television, Satellite, Broadcast, Mobile Communications, Avionics, Radar, Navigation and Defense Electronics. The Company designs waveguide, stripline/microstrip, transmission line, miniature/subminiature and lumped constant filters in such filter styles as: bandpass, highpass, lowpass, bandstop, multiplexers, tunable notch, tunable bandpass, high power filters, filter networks, amplitude equalized and delay equalized.

Located in East Syracuse, NY, MFC occupies a 40,000 square foot plant where state of the art equipment, engineering, manufacturing and a strong emphasis on employee training form the foundation for providing quality products that meet or often exceed specifications.

To the Shareholders:

I am pleased to report that MFC has continued to increase its profitability for the fourth straight year in a very challenging environment. While sales essentially remained flat for FY2010 as compared to FY2009, profitability increased by 79.5% or \$64,784 to \$146,291.

During FY10, management prudently controlled costs in a very competitive market environment by reducing selling, general and administrative expense by \$10,531 or 6.7%. Cost of goods sold also decreased from 64.6% of sales in FY09 to 63.9% of sales in FY10.

While it is important that prudent cost containment continue, it is also necessary to emphasize top line sales growth as the sustainable source of profitability improvement.

As mentioned in previous Annual Report letters, management believes that sales growth can be achieved by implementation of a number of strategies. They include (but are not limited to): 1.) new product development; 2.) new market segment development; 3.) the encouragement of OEM relationships and 4.) increased penetration in existing markets.

New Product Development:

During FY2010 a number of new products were developed. For example, eight new standard products were developed for our "Satcom" catalog and related MFC website. Similarly, other new products have been developed for the CATV, broadcast, OEM and communications markets. These new products (as well as, improved existing products) increase the probability that our customers will find a filter solution to solve their particular spectral problem. This is the case with our CATV digital channel deletion filters which augment our older analog channel deletion filters.

New Market Segments:

As the frequency spectrum becomes more crowded, the allocation of spectrum is changed by the FCC to achieve more optimal utilization of this precious and finite resource. In general, there is a tendency to utilize higher frequencies and more efficient modulation techniques to "pack" more information into existing frequency channels. A byproduct of these efforts is unwanted interference between different emitters which necessitate some form of filtering to provide optimal suppression of unwanted or spurious frequencies and signal to noise improvement of desired "received" frequencies. MFC designs and manufactures filters and related components to meet the needs of these evolving market segments, as well as, providing filters for the inevitable migration to higher frequencies. MFC is currently capable of providing products to 50 GHz. This is discussed further in the MD&A.

OEM Relationships:

As also mentioned in previous Annual Reports, management believes that it is a prudent and necessary strategy to work with OEM customers early in their project development process in order to raise the probability that MFC products will be utilized when their project goes into the production phase. To this end, MFC continues to work with OEM customers by providing prototypes, encouraging interactive design with the customers engineering staff and generally building a mutually beneficial relationship. During FY2010, MFC provided prototype and engineering support to a number of existing customers and new OEM "target" customers.

In fact, our continuing commerce with our two largest customers is the result of this "symbiotic" relationship. Most of these "target customers" are Fortune 1000 members and represent a "Who's Who" in the Microwave/RF systems market place. Current "target" OEM customers include, but are not limited to, Cobham, L3, Lockheed Martin, General Dynamics, Rockwell Collins, Motorola, Northrup Grumman, Raytheon and Boeing.

Increasing Market Penetration:

The MFC market penetration strategy is relatively simple and is based upon the thesis that we sell "solutions" to customer problems. In general this is usually associated with the suppression of unwanted RF signals and/or the enhancement of desirable signals. Most of our non-OEM customers are able to utilize one or more filters from our large selection of standard products. Thus the market penetration problem frequently becomes the communication of salient information to a potential customer so a technical and value judgment can be made.

To this end MFC uses targeted advertizing, direct mail and Web based promotion to inform potential customers of the existence of an MFC solution. MFC is finding an increasing need for our products internationally as our value proposition is both technically competitive and economical.

Continuing Efforts:

We are optimistic for the future prospect of MFC and are particularly appreciative of the efforts of our employees during these challenging times.

Sincerely,



Carl F. Fahrenkrug,
President



Robert Andrews,
Chairman of the Board

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

Microwave Filter Company, Inc. (MFC) operates primarily in the United States and principally in one industry. The Company extends credit to business customers, including original equipment manufacturers (OEMs), distributors and other end users, based upon ongoing credit evaluations. Microwave Filter Company, Inc. 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 and commercial and defense electronics. Niagara Scientific, Inc. (NSI), a wholly owned subsidiary, custom designs case packing machines to automatically pack products into shipping cases. Customers are processors of food and other commodity products with a need to reduce labor cost with a modest investment and quick payback. For the last three years, NSI's sales have consisted of spare parts orders.

RESULTS OF OPERATIONS

The following table sets forth the Company's net sales by major product group for each of the fiscal years in the two year period ended September 30, 2010.

Product group (in thousands)	Fiscal 2010	Fiscal 2009
Microwave Filter:		
Satellite	\$1,547	\$1,559
Cable TV	1,470	1,561
RF/Microwave	1,440	1,296
Broadcast TV	228	184
Niagara Scientific:	6	10
Total	<u>\$4,691</u>	<u>\$4,610</u>
Sales backlog at 9/30	<u>\$ 413</u>	<u>\$ 480</u>

FISCAL 2010 COMPARED TO FISCAL 2009

Consolidated net sales for the fiscal year ended September 30, 2010 equaled \$4,691,522, an increase of \$81,209 or 1.8%, when compared to consolidated net sales of \$4,610,313 during the fiscal year ended September 30, 2009.

MFC's Satellite product sales decreased \$12,698 or 0.8% to \$1,547,037 during the fiscal year ended September 30, 2010 when compared to sales of \$1,559,735 during the fiscal year ended September 30, 2009. The decrease can be attributed to a decrease in demand for filters which suppress strong out-of-band interference caused by military and civilian radar systems and other sources. Although the current economic slowdown has impacted 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 \$90,850 or 5.8% to \$1,470,202 during the fiscal year ended September 30, 2010 when compared to Cable TV product sales of \$1,561,052 during the fiscal year ended September 30, 2009. The decrease can primarily be attributed to the shift from analog to digital television and the current economic slowdown. Digital Television (DTV) is a new type of broadcasting modulation that will transform television viewing. DTV enables broadcasters and cable operators to offer television with movie-quality picture and sound (HDTV). It also offers greater multicasting and interactive capabilities. DTV is a more flexible and efficient technology than the NTSC "analog" modulation system. Rather than being limited to providing one analog programming channel, a broadcaster or cable operator will be able to provide a super sharp "high definition"

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(HDTV) program or multiple "standard definition" DTV programs simultaneously using the RF spectrum more efficiently. Providing several program streams on one cable or broadcast channel is called "multicasting." The number of programs a station can send on one digital channel depends on the level of picture detail, also known as "resolution." DTV can provide interactive video and data services that are not possible with "analog" technology. Converting to DTV will eventually free up parts of the scarce and valuable broadcast airwaves. Those portions of the spectrum can then be used for other important services, such as advanced wireless and public safety services (police, fire, rescue squads, etc.). 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. The demand for these filters is unknown at this time but is expected to decline.

MFC's RF/Microwave product sales increased \$144,187 or 11.1% to \$1,440,021 during the fiscal year ended September 30, 2010 when compared to sales of \$1,295,834 during the fiscal year ended September 30, 2009. The Company's RF/Microwave products are primarily sold to original equipment manufacturers (OEMs) that serve the mobile radio and commercial and defense electronics markets. Typical customers include the U.S. Government, General Dynamics, Motorola, Rockwell Collins, Lockheed Martin, Northrup Gruman and Raytheon. 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.

MFC's Broadcast TV product sales increased \$43,895 or 23.9% to \$227,819 for the fiscal year ended September 30, 2010 when compared to sales of \$183,924 for the fiscal year ended September 30, 2009. These products are primarily sold to system integrators for rural communities.

At September 30, 2010, the Company's total backlog of orders, which represents firm orders from customers, equaled \$413,159 compared to \$479,861 at September 30, 2009. The total Company backlog at September 30, 2010 is scheduled to ship during fiscal 2011. 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.

Gross profit increased \$64,281 or 3.9% to \$1,695,109 during the fiscal year ended September 30, 2010 when compared to gross profit of \$1,630,828 during the fiscal year ended September 30, 2009. As a percentage of sales, gross profit increased to 36.1% during the fiscal year ended September 30, 2010 compared to 35.4% during the fiscal year ended September 30, 2009. The increases in gross profit can primarily be attributed to the higher sales volume this year resulting in a higher base to absorb fixed expenses.

Selling, general and administrative (SG&A) expenses decreased \$10,531 or 0.7% to \$1,555,408 during the fiscal year ended September 30, 2010 when compared to SG&A expenses of \$1,565,939 during the fiscal year ended September 30, 2009. As a percentage of sales, SG&A expenses decreased to 33.2% during fiscal 2010 compared to 34.0% during fiscal 2009 primarily due to the higher sales volume this year compared to last year.

Income from operations equaled \$139,701 for the fiscal year ended September 30, 2010 compared to income from operations of \$64,889 during the fiscal year ended September 30, 2009. The improvement can primarily be attributed to the higher sales volume this year when compared to last year.

Other income decreased \$10,293 to \$6,850 for the fiscal year ended September 30, 2010 when compared to other income of \$17,143 for the fiscal year ended September 30, 2009. Other income is primarily interest income earned on invested cash balances. The decrease

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in other income can primarily be attributed to lower market interest rates this year when compared to the same period last year. Other income may fluctuate based on market interest rates and levels of invested cash balances.

The Company recorded a provision for income taxes of \$260 for the fiscal year ended September 30, 2010 compared to a provision for income taxes of \$525 for the fiscal year ended September 30, 2009. 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.

LIQUIDITY AND CAPITAL RESOURCES

MFC defines liquidity as the ability to generate adequate funds to meet its operating and capital needs. The Company's primary source of liquidity has been funds provided by operations.

	September 30	
	2010	2009
Cash & cash equivalents	\$ 1,466,719	\$ 1,476,318
Working capital	\$ 1,981,150	\$ 1,882,933
Current ratio	4.68 to 1	4.41 to 1
Long-term debt	\$ 0	\$ 0

Cash and cash equivalents decreased \$9,599 to \$1,466,719 at September 30, 2010 when compared to \$1,476,318 at September 30, 2009. The decrease was a result of \$136,683 in net cash provided by operating activities, \$144,875 in net cash used for capital expenditures and \$1,407 in net cash used to purchase treasury stock.

The net increase of \$175,961 in accounts receivable at September 30, 2010, when compared to September 30, 2009, can be attributable to the higher shipments during the quarter ended September 30, 2010 when compared to the quarter ended September 30, 2009. Sales for the quarter ended September 30, 2010 equaled \$1,433,608 compared to sales of \$1,115,994 for the quarter ended September 30, 2009.

The decrease of \$68,588 in inventory at September 30, 2010, when compared to September 30, 2009, can be attributable to the higher shipments during the quarter ended September 30, 2010.

The decrease of \$33,455 in accrued compensated absences at September 30, 2010, when compared to September 30, 2009, can be attributed to vacation days used during the fiscal year ended September 30, 2010.

At September 30, 2010, the Company had unused aggregate lines of credit totaling \$750,000 collateralized by all inventory, equipment and accounts receivable.

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

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OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2010 and 2009, 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.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are based on the application of accounting principles generally accepted in the United States of America (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.

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 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 valued at the lower of cost 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 has deferred tax assets that are reviewed for recoverability and valued accordingly. These assets are evaluated by using estimates of future taxable income streams and the impact of tax planning strategies. Valuations related to tax accruals and assets can be impacted by changes to tax codes, changes in statutory tax rates and the Company's future taxable income levels. The Company has provided a full valuation allowance against its deferred tax assets.

NEW ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, Revenue Recognition: Multiple-Deliverable Revenue Arrangements ("ASU 2009-13"), which amends ASC Topic 605, Revenue Recognition. ASU 2009-13 revises the current accounting treatment to specifically address how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This guidance is applicable to revenue arrangements entered into or materially modified during the first fiscal year that begins after June 15, 2010. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

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In October 2009, the FASB issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements ("ASU 2009-14"), which amends ASC Topic 985, Software. ASU 2009-14 amends the ASC to change the accounting model for revenue arrangements that include both tangible products and software elements, such that tangible products containing both software and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of software revenue guidance. The changes to the ASC as a result of this update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In December 2009, the FASB issued ASU 2009-17, which amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R), to require a comprehensive qualitative analysis be performed to determine whether a holder of variable interests in a variable interest entity also has a controlling financial interest in that entity. In addition, the amendments require the same type of analysis be applied to entities that were previously designated as qualified special-purpose entities. This guidance is effective as of the start of the first annual reporting period beginning after November 15, 2009, for interim periods within the first annual reporting period, and for all subsequent annual and interim reporting periods. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures ("ASU 2010-06"), which amends ASC Topic 820, Fair Value Measurements and Disclosures, adding new requirements for disclosures for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010; although, early adoption is permitted. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events - Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-09") that amends ASC Subtopic 855-10, Subsequent Events - Overall. ASU 2010-09 requires an SEC filer to evaluate subsequent events through the date that the financial statements are issued but removed the requirement to disclose this date in the notes to the entity's financial statements. The amendments are effective upon issuance of the final update and accordingly, the Company has adopted the provisions of ASU 2010-09. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In March 2010, the FASB issued ASU No. 2010-11, Derivatives and Hedging ("ASU 2010-11"): Scope Exception Related to Credit Derivatives. ASU 2010-11 improves disclosures originally under SFAS No. 161. ASU 2010-11 is effective for interim and annual periods beginning after June 15, 2010. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

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In April 2010, the FASB issued ASU No. 2010-17, Milestone Method of Revenue Recognition ("ASU 2010-17") to (i) limit the scope of this ASU to research or development arrangements and (ii) require that guidance in this ASU be met for an entity to apply the milestone method (record the milestone payment in its entirety in the period received). However, the FASB clarified that, even if the requirements in ASU 2010-17 are met, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy that results in the deferral of some portion of the arrangement consideration. ASU 2010-17 will apply to milestones in both single-deliverable and multiple-deliverable arrangements involving research or development transactions. ASU 2010-17 will be effective for fiscal years (and interim periods within those fiscal years) beginning on or after June 15, 2010; although, early adoption is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption; however, retrospective application to all prior periods is also permitted. The Company is currently evaluating the impact, if any, that adoption of ASU 2010-17 will have on its financial statements.

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 Annual Report on Form 10-K may include 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 2010 Annual Report and Form 10-K for the fiscal year ended September 30, 2010 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has limited exposure to market risk as the Company has no long term debt as of September 30, 2010. The Company's available line of credit is based on a factor of the prime rate; however, there are no outstanding borrowings under the line of credit. The Company does not trade in derivative financial instruments. Investments generally consist of commercial paper, government backed obligations and other guaranteed commercial debt that have an original maturity of more than three months and a remaining maturity of less than one year. Investments are carried at cost which approximates market. The Company's policy is to hold investments until maturity. The Company's practice is to invest cash with financial institutions that have acceptable credit ratings.

FIVE YEAR SUMMARY OF FINANCIAL DATA**September 30**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net Sales	\$ 4,691,522	\$ 4,610,313	\$ 5,231,125	\$ 4,634,233	\$ 4,536,715
Net Income (Loss)	\$ 146,291	\$ 81,507	\$ 39,516	\$ (292,993)	\$ (411,349)
Total Assets	\$ 2,963,224	\$ 2,833,345	\$ 2,816,736	\$ 2,826,042	\$ 3,126,373
Long Term Debt	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Basic Earnings (Loss) Per Share	\$.06	\$.03	\$.01	\$ (.10)	\$ (.14)
Diluted Earnings (Loss) Per Share	\$.06	\$.03	\$.01	\$ (.10)	\$ (.13)
Shares Used In Computing Net Earnings (Loss) Per Share:					
Basic	2,592,723	2,612,152	2,894,214	2,889,660	2,905,355
Diluted	2,592,723	2,612,152	2,967,274	3,038,098	3,043,903
Cash (\$) Dividends Paid Per Share	\$.00	\$.00	\$.00	\$.00	\$.10

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net income (loss) as a percentage of:					
Net Sales.....	3.1%	1.8%	0.7%	(6.3%)	(9.1%)
Assets	4.9%	2.9%	1.4%	(10.4%)	(13.2%)
Equity.....	6.0%	3.6%	1.7%	(12.6%)	(15.7%)

COMMON STOCK PRICES

The Company's securities are currently quoted on The Pink OTC Markets (www.otcmarkets.com), an electronic quotation service for securities traded over-the-counter, and the OTCBB (www.otcbb.com).

The following table shows the high and low closing sales prices for MFC's common stock for each full quarterly period within the two most recent fiscal years. The information set forth was obtained from statements provided by the NASD and the OTCBB. The quotations represent prices in the over-the-counter market between dealers in securities. They do not include retail mark-ups, mark-downs or commissions.

<u>Fiscal 2010</u>	<u>High</u>	<u>Low</u>
Oct. 1, 2009 to Dec. 31, 2009	\$ 1.00	\$.51
Jan. 1, 2010 to Mar. 31, 2010	1.01	.70
Apr. 1, 2010 to June 30, 2010	.99	.42
July 1, 2010 to Sept. 30, 2010	.88	.42

<u>Fiscal 2009</u>	<u>High</u>	<u>Low</u>
Oct. 1, 2008 to Dec. 31, 2008	\$.81	\$.52
Jan. 1, 2009 to Mar. 31, 2009	.79	.51
Apr. 1, 2009 to June 30, 2009	.94	.53
July 1, 2009 to Sept. 30, 2009	.94	.75

Microwave Filter Company and Subsidiaries

Consolidated Balance Sheets

	September 30	
Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 1,466,719	\$ 1,476,318
Accounts receivable-trade, net of allowance for doubtful accounts of \$18,000 and \$18,000	423,666	247,705
Inventories	536,004	604,592
Prepaid expenses and other current assets	92,417	106,979
Total current assets	2,518,806	2,435,594
Property, plant and equipment, net	444,418	397,751
Total Assets	\$ 2,963,224	\$ 2,833,345
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 161,676	\$ 144,485
Customer deposits	39,618	33,026
Accrued federal and state income taxes	2,544	1,700
Accrued payroll and related expenses	52,932	60,568
Accrued compensated absences	245,055	278,510
Other current liabilities	35,831	34,372
Total current liabilities	537,656	552,661
Total liabilities	537,656	552,661
Commitments (Note 6)		
Stockholders' equity:		
Common stock, \$.10 par value. Authorized 5,000,000 shares Issued 4,324,140 in 2010 and 2009, Outstanding 2,591,486 in 2010 and 2,593,253 in 2009	432,414	432,414
Additional paid-in capital	3,248,706	3,248,706
Retained earnings	430,504	284,213
Common stock in treasury, at cost, 1,732,654 shares in 2010 and 1,730,887 shares in 2009	(1,686,056)	(1,684,649)
Total stockholders' equity	2,425,568	2,280,684
Total Liabilities and Stockholders' Equity	\$ 2,963,224	\$ 2,833,345

The accompanying notes are an integral part of the consolidated financial statements.

Microwave Filter Company and Subsidiaries
Consolidated Statements of Operations

For the Years Ended September 30

	<u>2010</u>	<u>2009</u>
Net sales	\$4,691,522	\$4,610,313
Cost of goods sold	<u>2,996,413</u>	<u>2,979,485</u>
Gross profit	1,695,109	1,630,828
Selling, general and administrative expenses	<u>1,555,408</u>	<u>1,565,939</u>
Income from operations	139,701	64,889
Non-operating Income		
Interest income	5,158	15,171
Miscellaneous	<u>1,692</u>	<u>1,972</u>
Income before income taxes	146,551	82,032
Provision for income taxes	<u>260</u>	<u>525</u>
NET INCOME	<u>\$146,291</u>	<u>\$81,507</u>
Per share data:		
Basic and Diluted Earnings Per Common Share	<u>\$0.06</u>	<u>\$0.03</u>
Shares used in computing net earnings per common share:		
Basic and diluted	2,592,723	2,612,152

The accompanying notes are an integral part of the consolidated financial statements.

Microwave Filter Company and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Years Ended September 30, 2010 and 2009

	Common Stock		Additional	Retained	Treasury Stock		Total
	<u>Shares</u>	<u>Amt</u>	Paid-in <u>Capital</u>	<u>Earnings</u>	<u>Shares</u>	<u>Amt</u>	Stockholders' <u>Equity</u>
Balance, September 30, 2008	4,324,140	\$432,414	\$3,248,706	\$202,706	1,431,682	(\$1,529,159)	\$2,354,667
Net income				81,507			81,507
Purchase of treasury stock					299,205	(155,490)	(155,490)
Balance, September 30, 2009	4,324,140	432,414	3,248,706	284,213	1,730,887	(1,684,649)	2,280,684
Net income				146,291			146,291
Purchase of treasury stock					1,767	(1,407)	(1,407)
Balance September 30, 2010	<u>4,324,140</u>	<u>\$432,414</u>	<u>\$3,248,706</u>	<u>\$430,504</u>	<u>1,732,654</u>	<u>(\$1,686,056)</u>	<u>\$2,425,568</u>

The accompanying notes are an integral part of the consolidated financial statements.

Microwave Filter Company and Subsidiaries
Consolidated Statements of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents

For the Years Ended September 30

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net income	\$146,291	\$81,507
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	98,208	82,626
Provision for doubtful accounts	0	4,968
Inventory obsolescence provision	2,274	(3,136)
Changes in assets and liabilities:		
Accounts receivable-trade	(175,961)	53,403
Federal and state income taxes	844	525
Inventories	66,314	(1,047)
Other assets	14,562	(7,253)
Accounts payable and customer deposits	23,783	3,970
Accrued payroll, compensated absences and related expenses	(41,091)	82,424
Other current liabilities	1,459	3,673
Net cash provided by (used in) operating activities	136,683	301,660
Cash flows from investing activities:		
Capital expenditures	(144,875)	(87,123)
Net cash (used in) provided by investing activities	(144,875)	(87,123)
Cash flows from financing activities:		
Purchase of treasury stock	(1,407)	(155,490)
Net cash (used in) provided by financing activities	(1,407)	(155,490)
Net increase (decrease) in cash and cash equivalents	(9,599)	59,047
Cash and cash equivalents at beginning of year	1,476,318	1,417,271
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$1,466,719</u>	<u>\$1,476,318</u>
Supplemental disclosures of cash flows:		
Cash paid (refunded) during the year for (approximately):		
Interest	\$0	\$0
Income taxes	\$0	\$0

The accompanying notes are an integral part of the consolidated financial statements.

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nature of Business

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. Niagara Scientific, Inc. (NSI), a wholly owned subsidiary, custom designs case packing machines to automatically pack products into shipping cases. Customers are processors of food and other commodity products with a need to reduce labor cost with a modest investment and quick payback. For the last three years, NSI's sales have consisted of spare parts orders.

b. Basis of Consolidation

The consolidated financial statements include the accounts of Microwave Filter Company, Inc. (MFC) and its wholly-owned subsidiaries, Niagara Scientific, Inc. (NSI) and Microwave Filter International, LTD. (MFI) (dormant); located in Syracuse, New York. All significant intercompany balances and transactions have been eliminated in consolidation.

c. Revenue Recognition

The Company recognizes revenue at the time products are shipped to customers and title and risk of loss have passed to the customer. The Company is not required to install any of its products. Payments received from customers in advance of products shipped are recorded as customer advance payments until earned.

d. Cash and Cash Equivalents

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and accounts receivable. The Company's cash is held at federally insured institutions and balances may periodically exceed insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash. The Company also routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited.

e. Investments

Investments generally consist of commercial paper, government backed obligations and other guaranteed commercial debt that have an original maturity of more than three months and a remaining maturity of less than one year. Investments are carried at cost which approximates market. The Company's policy is to hold investments until maturity. The Company's practice is to invest cash with financial institutions that have acceptable credit ratings.

f. Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

g. Inventories and Reserve for Obsolescence

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

The Company records a reserve for obsolete or excess inventory. The Company considers inventory quantities greater than a one-year supply based on current year activity as well as any additional specifically identified inventory to be excess. The Company also provides for the total value of inventories that are determined to be obsolete based on criteria such as customer demand and changing technologies.

h. Research and Development

Costs in connection with research and development, which amount to \$448,901 and \$437,412 for the fiscal years 2010 and 2009, respectively, are charged to operations as incurred.

i. Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. Buildings and building improvements are depreciated over an estimated service life of 20 to 30 years. Machinery and equipment are depreciated over an estimated useful life of 3 to 10 years. Office equipment and fixtures are depreciated over an estimated useful life of 3 to 10 years. At the time of sale or retirement, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recognized in income.

j. Income Taxes

The Company accounts for income taxes under FASB ASC 740-10 (Prior Authoritative Literature: Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes). 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 (Prior Authoritative Literature: FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109 (FIN 48) as of October 1, 2007. 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. No adjustments were required upon adoption.

k. 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 used in the EPS calculation is net income for each year.

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

l. 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.

m. Miscellaneous Non-operating Income

Miscellaneous non-operating income generally consists of sales of scrap material, stock transfer fees, the forfeiture of non-refundable deposits and other incidental items.

n. Use of 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o. Warranty Costs

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. Warranty costs were approximately \$8,000 and \$4,000 for the fiscal years ended September 30, 2010 and 2009, respectively.

p. Impairment of Long-Lived Assets

The carrying values of long-lived assets other than goodwill are generally evaluated for impairment only if events or changes in facts and circumstances indicate that carrying values may not be recoverable. Any impairment determined would be recorded in the current period and would be measured by comparing the fair value of the related asset to its carrying value. Fair value is generally determined by identifying estimated undiscounted cash flows to be generated by those assets. No impairments have been recorded for the fiscal years ended September 30, 2010 and 2009.

q. New Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, Revenue Recognition: Multiple-Deliverable Revenue Arrangements ("ASU 2009-13"), which amends ASC Topic 605, Revenue Recognition. ASU 2009-13 revises the current accounting treatment to specifically address how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This guidance is applicable to revenue arrangements entered into or materially modified during the first fiscal year that begins after June 15, 2010. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In October 2009, the FASB issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements ("ASU 2009-14"), which amends ASC Topic 985, Software. ASU 2009-14 amends the ASC to change the accounting model for revenue arrangements that include both tangible products and software elements, such that tangible products containing both software and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of software revenue guidance. The changes to the ASC as a result of this update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

beginning on or after June 15, 2010. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In December 2009, the FASB issued ASU 2009-17, which amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R), to require a comprehensive qualitative analysis be performed to determine whether a holder of variable interests in a variable interest entity also has a controlling financial interest in that entity. In addition, the amendments require the same type of analysis be applied to entities that were previously designated as qualified special-purpose entities. This guidance is effective as of the start of the first annual reporting period beginning after November 15, 2009, for interim periods within the first annual reporting period, and for all subsequent annual and interim reporting periods. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures ("ASU 2010-06"), which amends ASC Topic 820, Fair Value Measurements and Disclosures, adding new requirements for disclosures for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010; although, early adoption is permitted. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events - Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-09") that amends ASC Subtopic 855-10, Subsequent Events - Overall. ASU 2010-09 requires an SEC filer to evaluate subsequent events through the date that the financial statements are issued but removed the requirement to disclose this date in the notes to the entity's financial statements. The amendments are effective upon issuance of the final update and accordingly, the Company has adopted the provisions of ASU 2010-09. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In March 2010, the FASB issued ASU No. 2010-11, Derivatives and Hedging ("ASU 2010-11"): Scope Exception Related to Credit Derivatives. ASU 2010-11 improves disclosures originally under SFAS No. 161. ASU 2010-11 is effective for interim and annual periods beginning after June 15, 2010. The Company does not anticipate the adoption of this guidance to have a material impact on the financial statements.

In April 2010, the FASB issued ASU No. 2010-17, Milestone Method of Revenue Recognition ("ASU 2010-17") to (i) limit the scope of this ASU to research or development arrangements and (ii) require that guidance in this ASU be met for an entity to apply the milestone method (record the milestone payment in its entirety in the period received). However, the FASB clarified that, even if the requirements in ASU 2010-17 are met, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy that results in the deferral of some portion of the arrangement consideration. ASU 2010-17 will apply to milestones in both single-deliverable and multiple-deliverable arrangements involving research or development transactions. ASU 2010-17 will be effective for fiscal years (and interim periods within those fiscal years) beginning on or after June 15, 2010; although, early adoption is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption; however, retrospective application to all prior periods is also permitted. The Company is currently evaluating the impact, if any, that adoption of ASU 2010-17 will have on its financial statements.

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

2. INVENTORIES

Inventories net of provision for obsolescence consisted of the following:

	September 30	
	<u>2010</u>	<u>2009</u>
Raw materials and stock parts	\$414,331	\$500,353
Work-in-process	25,740	24,439
Finished goods	95,933	79,800
	<u>\$536,004</u>	<u>\$604,592</u>

The Company's reserve for obsolescence equaled \$403,595 at September 30, 2010 and \$401,321 at September 30, 2009.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	September 30	
	<u>2010</u>	<u>2009</u>
Land	\$143,000	\$143,000
Building and improvements	1,818,633	1,818,633
Machinery and equipment	3,150,555	3,048,112
Office equipment and fixtures	1,727,587	1,685,156
	<u>6,839,775</u>	<u>6,694,901</u>
Less: Accumulated depreciation	6,395,357	6,297,150
	<u>\$444,418</u>	<u>\$397,751</u>

4. CREDIT FACILITIES

The Company has unused aggregate lines of credit totaling \$750,000 collateralized by inventory, equipment and accounts receivable.

5. PROFIT SHARING AND 401-K PLANS

The Company maintains both a non-contributory profit sharing plan and a contributory 401-K plan for all employees over the age of 21 with one year of service. Annual contributions to the profit sharing plan are determined by the Board of Directors and are made from current or accumulated earnings, while contributions to the 401-K plan were matched at a rate of 100% of an employee's first 6% of contributions during fiscal 2010. The maximum corporate match was 6% of an employee's compensation during fiscal 2010.

The Company's matching contributions to the 401-K plan for the years ended September 30, 2010 and 2009 were \$101,049 and \$90,164, respectively. Additionally, the Company may make discretionary contributions to the non-contributory profit sharing plan. These contributions were \$0 in 2010 and 2009.

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

6. OBLIGATIONS UNDER OPERATING LEASES

The Company leases equipment under operating lease agreements expiring at various dates through September 30, 2014. Rental expense under these leases for the years ended September 30, 2010 and 2009 amounted to \$8,940 and \$10,640, respectively.

Minimum rental commitments at September 30, 2010 for these leases are:

Year Ended September 30	Lease Payments
2011	8,496
2012	8,496
2013	8,496
2014	1,368
	<u>\$ 26,856</u>

7. INCOME TAXES

The provision for income taxes consisted of the following:

	Year Ended September 30	
	<u>2010</u>	<u>2009</u>
Currently payable:		
Federal	\$29,599	\$194
State	260	525
Deferred (credit)	(29,599)	(184)
	<u>\$260</u>	<u>\$525</u>

A reconciliation of the statutory federal income tax rate and the Company's effective income tax rate is as follows:

	Year ended September 30			
	<u>2010</u>		<u>2009</u>	
	Amount	%	Amount	%
Statutory tax rate	\$ 49,827	34.0%	\$ 27,891	34.0%
Surtax exemption				
State income tax net of:				
Federal benefit	172	0.1%	347	1.2%
Research and experimentation tax credits	(29,179)	(19.9%)	(28,432)	(101.9%)
Valuation allowance	(20,560)	(14.0%)	541	1.9%
Federal AMT rate differential	0	0.0%	0	0.0%
Other			178	0.6%
	<u>\$ 260</u>	<u>0.1%</u>	<u>\$ 525</u>	<u>1.3%</u>

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

The temporary differences which give rise to deferred tax assets and (liabilities) at September 30 are as follows:

	<u>2010</u>	<u>2009</u>
Inventory	\$ 143,816	\$ 143,316
Accrued warranty	4,250	4,250
Accrued vacation	96,454	85,080
Accounts receivable	6,043	6,043
Valuation allowance	<u>(250,563)</u>	<u>(238,689)</u>
Net deferred tax assets (liabilities) - current	<u>\$ 0</u>	<u>\$ 0</u>
Accelerated depreciation	\$ 9,949	\$ 30,602
Research and experimentation tax credit carry forward	191,219	191,219
AMT credit carry forward	39,399	39,399
NOL carryforward	78,577	99,397
Valuation allowance	<u>(319,144)</u>	<u>(360,617)</u>
Net deferred tax assets (liabilities) - noncurrent	<u>\$ 0</u>	<u>\$ 0</u>
Net deferred tax assets	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

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. The research and experimentation tax credit carry forwards and NOL carry forwards expire in 2029. At September 30, 2010, the Company's federal AMT credit can be carried forward indefinitely.

8. 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.

9. SIGNIFICANT CUSTOMERS

Sales to one customer represented approximately 15% of total sales during fiscal 2010.

10. 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.

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

11. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following table sets forth certain unaudited quarterly financial information for the years ended September 30, 2010 and 2009:

	2010 Quarter Ended			
	Dec. 31	March 31	June 30	Sept. 30
Net sales	\$ 1,135,058	\$ 1,093,697	\$ 1,029,159	\$ 1,433,608
Cost of sales	\$ 714,459	\$ 731,550	\$ 695,020	\$ 855,384
Net income (loss)	\$ 14,084	\$ (19,228)	\$ (49,037)	\$ 200,472
Earnings (loss) per common share:	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ 0.08

	2009 Quarter Ended			
	Dec. 31	March 31	June 30	Sept. 30
Net sales	\$ 1,249,703	\$ 1,223,401	\$ 1,021,215	\$ 1,115,994
Cost of sales	\$ 820,695	\$ 807,708	\$ 635,060	\$ 716,022
Net income (loss)	\$ (7,593)	\$ 37,138	\$ 35,346	\$ 16,616
Earnings (loss) per common share:	\$ (.00)	\$.01	\$.01	\$.01

Report Of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Microwave Filter Company, Inc. and Subsidiaries
East Syracuse, New York 13057

We have audited the accompanying consolidated balance sheets of Microwave Filter Company, Inc. and Subsidiaries as of September 30, 2010 and 2009, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended September 30, 2010. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Microwave Filter Company, Inc. and Subsidiaries, as of September 30, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
December 15, 2010

Microwave Filter Company, Inc. Corporate Information

MFC Board of Directors:

Robert Andrews, Chairman
Trudi Berwick Artini
Sidney Chong
Carl F. Fahrenkrug, PE
Daniel Galbally
Perry Harvey
Richard Jones
John Kennedy
Frank Markovich

MFC Officers:

Carl F. Fahrenkrug, PE
President and Chief Executive Officer
Richard Jones
Vice President, Chief Financial Officer and
Corporate Secretary
Paul Mears
Vice President, Engineering
Carl F. Fahrenkrug, Jr.
Vice-President, Manufacturing

Niagara Scientific, Inc. Officers:

Carl F. Fahrenkrug, PE
President and Chief Executive Officer

Niagara Scientific, Inc. Board of Directors:

Carl F. Fahrenkrug, PE
Richard Jones

Attorney:

James J. Gascon, Esq.
Costello, Cooney & Fearon, LLP
Salina Place
205 South Salina St.
Syracuse, NY 13202-1327

Auditors:

EFP Rotenberg, LLP
280 Kenneth Drive
Rochester, NY 14623

Bank:

Key Bank of Central New York
201 South Warren St.
Syracuse, NY 13202

Plant Location:

6743 Kinne Street
East Syracuse, NY 13057
800-448-1666
315-438-4700

Form 10K:

The annual report (Form 10K)
filed with the Securities and
Exchange Commission may be
obtained without charge upon
written request to:
Linda DeCoursey
Microwave Filter Company, Inc
6743 Kinne St.
East Syracuse, NY 13057

Stock Ownership Questions:

Can be directed to Richard
Jones at the plant location

Registrar and Transfer Agent:

Microwave Filter Company, Inc
6743 Kinne St.
East Syracuse, NY 13057

Stock:

Over-the-Counter
Symbol: MFCO

