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 it's profitability for the sixth straight year in a very challenging environment. Unfortunately, our profitability has decreased by 68.8% or $167,114 and sales also decreased by 11.6% or $585,115. This decrease in profitability was caused by an erosion in sales over the course of FY 2012 from a peak of $1,317,207 for the first quarter to a low of $968,356 for the final quarter of FY 2012. The resultant decrease in sales caused a decrease in profit to $75,801. Indeed, it appears that the whole RF Microwave/Satellite/Cable Television market place experienced such a systemic overall decline even while other parts of the economy were improving.

It is difficult to determine precisely the cause of this systemic erosion in sales and profitability but it is conjectured that the fear engendered by the sequester of budgetary funds for the Defense department had a major impact on MFC's economic environment. It should be remembered that substantial Defense cuts occurred during FY 2012 which have affected the whole communications market place as suppliers to the Defense industry have made the commercial market place more competitive as they have sought to redirect their sales efforts away from Defense. The Management of MFC believes that the decrease in capital expenditures from non-defense oriented companies (such as Cable Television companies) has also contributed to the overall decline and demand across all market segments served by MFC.

In order to mitigate the effects of this decline in demand for our products during this difficult period, management has adopted a plan of cost reduction, as well as, an accelerated development and acquisition of new products. This coupled with an increase in promotional activity for existing and new products will hopefully mitigate the systemic effects of the market place by allowing MFC to increase its market share by virtue of a plethora of products for a wider range of applications and for a larger customer segment. A representative sample of such new products is shown herein.

Our new motto during these difficult times is "More products to sell and more customers to sell them to"!

Operation in an Uncertain Environment

The management of MFC has prudently husbanded the company's resources and our relatively high cash balance and current ratio coupled with no long term debt should well serve the company during these difficult economic times. Indeed, the future application of these resources should hopefully allow MFC to maintain and increase its market share, particularly during an upturn in the economy and a resumption of normal business levels.

Future Prospects

During these uncertain times, it is difficult to prognosticate about the future with any degree of certainty. MFC sells to a diverse market place so that it is not solely dependent upon military or government spending or international demand. Management believes that the best strategy is to emphasize the corporate culture of adaptability and responsiveness to any change in the exogenous variables which may be presented during FY 2013. The management staff of MFC is optimistic about the future and is particularly appreciative of the efforts of our employees during this challenging time.

Sincerely,

Carl F. Fahrenkrug,
President

Robert Andrews,
Chairman of the Board

New Products

Figure 1

Figure 1 – Attenuators

This figure represents a family of 25 new products. These attenuators range in power handling capability from 10 watts to 100 watts, with a frequency range of DC of 3 GHz and attenuations from 3 dB through 60 dB.

Figure 2

Figure 2 – Directional Couplers

This figure represents a family of 4 new directional couplers in the frequency range from 700 to 2700 MHz with coupling values of 5 dB, 10 dB, 20 dB and 30 dB.

Figure 3

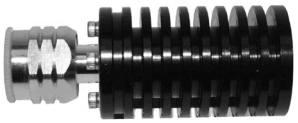

Figure 3 – RF Terminations

This figure represents a family of 5 new RF termination products with a frequency range of DC to 3 GHz and power ratings from 10 watts to 200 watts average (1 Kw Peak).

Figure 4

Figure 4 – Isolators/Circulators

This figure represents a family of 5 isolators/circulators with a frequency range from 595 MHz through 2400 MHz.

Figure 5

Figure 5 – Hybrid Coupler

Figure 5 represents a 3 dB Hybrid Coupler product usable over the frequency range of 700 – 2700 MHz and a power rating of 200 watts.

Figure 6

Figure 6 – Power Dividers

This figure represents a family of 3 power dividers (splitters) representing a 2-way, 3-way, and 4-way power splitter operating in the frequency range from 670 MHz to 2700 MHz.

Figure 7

Figure 7 – Reactive Power Divider

Figure 7 represents a family of 6 reactive power dividers for frequency ranges from 350 MHz through 2700 MHz with 2-way, 3-way and 4-way power splitting capability.

Figure 8

Figure 8 – Waveguide Terminations

This figure represents a family of 14 waveguide terminations covering a range from 2 GHz to 40 GHz with power handling capability from 0.5 watts through 2 watts (average).

Figure 9

Figure 9 – Model 18524 GSM 1800 MHz Full Band Transmit Filter

Figure 10

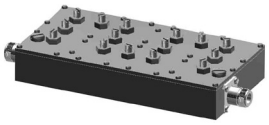

Figure 10 – Model 18525 GSM 1800 MHz Full Band Receive Filter

Figure 11

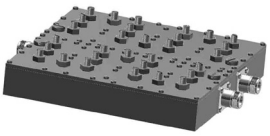

Figure 11 – Model 18526 GSM 1800 MHz Full Band Diplexer

Figure 12

Figure 12 – Model 18527 GSM 850 MHz Full Band Transmit Filter

Figure 13

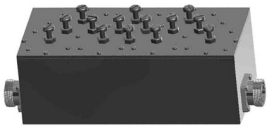

Figure 13 – Model 18528 GSM 850 MHz Full Band Receive Filter

Figure 14

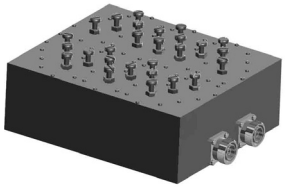

Figure 14 – Model 18529 GSM 850 MHz Full Band Diplexer

Figure 15

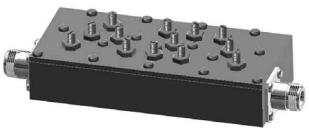

Figure 15 – Model 18530 UMTS Full Band Transmit Filter

Figure 16

Figure 16 – Model 18531 UMTS Full Band Receive Filter

Figure 17

Figure 17 – Model 18532 UMTS Full Band Diplexer

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. NSI's sales consist 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, 2012.

Product group (in thousands)	**Fiscal 2012**	**Fiscal 2011**
Microwave Filter:		
RF/Microwave	$1,712	$1,915
Satellite	1,335	1,651
Cable TV	1,281	1,377
Broadcast TV	124	98
Niagara Scientific:	7	3
Total	$4,459	$5,044
Sales backlog at 9/30	$ 272	$ 644

FISCAL 2012 COMPARED TO FISCAL 2011

Consolidated net sales for the fiscal year ended September 30, 2012 equaled $4,458,819, a decrease of $585,115 or 11.6%, when compared to consolidated net sales of $5,043,934 during the fiscal year ended September 30, 2011. The Company has been experiencing a slowdown in orders which management attributes to the specific decrease in the economic activity in the military/aerospace sector and related international markets.

MFC's RF/Microwave product sales decreased $203,645 or 10.6% to $1,711,596 during the fiscal year ended September 30, 2012 when compared to sales of $1,915,241 during the fiscal year ended September 30, 2011. MFC'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. The Company is also actively sourcing complimentary products to distribute to augment sales. Sales to one OEM customer represented approximately 21% of total sales for the fiscal year ended September 30, 2012 compared to approximately 18% of total sales for the fiscal year ended September 30, 2011.

MFC's Satellite product sales decreased $315,395 or 19.1% to $1,335,367 during the fiscal year ended September 30, 2012 when compared to sales of $1,650,762 during the fiscal year ended September 30, 2011. 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 current economic conditions have

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 $95,024 or 6.9% to $1,281,548 during the fiscal year ended September 30, 2012 when compared to Cable TV product sales of $1,376,572 during the fiscal year ended September 30, 2011. The decrease can be attributed to one large order received from an international distributor last year and the shift from analog to digital television. 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" (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; however, the demand for these filters is expected to decline.

MFC's Broadcast TV product sales increased $25,620 or 26.1% to $123,738 for the fiscal year ended September 30, 2012 when compared to sales of $98,118 for the fiscal year ended September 30, 2011. These products are primarily sold to system integrators for rural communities.

At September 30, 2012, the Company's total backlog of orders, which represents firm orders from customers, equaled $272,138 compared to $643,925 at September 30, 2011. The total Company backlog at September 30, 2012 is scheduled to ship during fiscal 2013. The Company has been experiencing a slowdown in orders which management attributes to the specific decrease in the economic activity in the military/aerospace sector and related international markets. 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 decreased $199,992 or 10.8% to $1,657,434 during the fiscal year ended September 30, 2012 when compared to gross profit of $1,857,426 during the fiscal year ended September 30, 2011. The decrease in gross profit can primarily be attributed to the lower sales volume this year when compared to the same period last year. As a percentage of sales, gross profit equaled 37.2% during the fiscal year ended September 30, 2012 compared to 36.8% during the fiscal year ended September 30, 2011. The higher gross profit as a percentage of sales in fiscal 2012 can primarily be attributed to product cost improvements and product sales mix.

Selling, general and administrative (SG&A) expenses decreased $1,969 or 0.1% to $1,648,388 during the fiscal year ended September 30, 2012 when compared to SG&A expenses of $1,650,357 during the fiscal year ended September 30, 2011. As a percentage of sales, SG&A expenses equaled 37.0% during fiscal 2012 compared to 32.7% during fiscal 2011 primarily due to the lower sales volume this year when compared to last year.

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

Income from operations equaled $9,046 for the fiscal year ended September 30, 2012 compared to income from operations of $207,069 during the fiscal year ended September 30, 2011. The decrease can primarily be attributed to the lower sales volume this year when compared to last year.

Other income increased $19,699 to $28,173 for the fiscal year ended September 30, 2012 when compared to other income of $8,474 for the fiscal year ended September 30, 2011. The increase can be attributed to a $20,000 gain on the sale of a fixed asset.

The Company recorded a benefit for income taxes of $38,582 for the fiscal year ended September 30, 2012 compared to a benefit for income taxes of $27,372 for the fiscal year ended September 30, 2011. The benefit for the current fiscal year can be attributed to a New York State qualified research expenses tax credit. Any provision for income tax expense was fully offset by a reversal of a portion of the Company's valuation allowance. 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

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	
	2012	2011
Cash & cash equivalents	$ 1,023,017	$ 1,258,885
Working capital	$ 1,549,136	$ 1,658,110
Current ratio	5.10 to 1	3.59 to 1
Long-term debt	$ 0	$ 0

Cash and cash equivalents decreased $235,868 to $1,023,017 at September 30, 2012 when compared to $1,258,885 at September 30, 2011. The decrease was a result of $86,598 in net cash provided by operating activities, $192,398 in net cash used for capital expenditures, $129,273 in net cash used to pay a special cash dividend and $795 in net cash used to purchase treasury stock.

The net decrease of $88,669 in accounts receivable at September 30, 2012, when compared to September 30, 2011, can be attributable to the lower shipments during the quarter ended September 30, 2012 when compared to the quarter ended September 30, 2011. Sales for the quarter ended September 30, 2012 equaled $968,356 compared to sales of $1,311,555 for the quarter ended September 30, 2011.

The net decrease of $38,186 in inventories at September 30, 2012, when compared to September 30, 2011, can be attributable to the lower sales order backlog this year when compared to last year.

The decrease of $103,210 in accounts payable at September 30, 2012, when compared to September 30, 2011, can primarily be attributed to timing and the lower inventories at September 30, 2012 when compared to September 30, 2011.

The decrease of $78,245 in accrued compensated absences at September 30, 2012, when compared to September 30, 2011, can primarily be attributed to accrued vacation used or paid during the fiscal year ended September 30, 2012. Due to the lower sales volume, 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 to supplement their lost wages or elect to use accrued vacation.

The decrease of $52,346 in other current liabilities at September 30, 2012, when compared to September 30, 2011, can primarily be attributed the payment of a profit sharing contribution of $50,000 which was accrued at September 30, 2011.

Capital expenditures consisted primarily of machinery and equipment.

At September 30, 2012, 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.

OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2012 and 2011, 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

None applicable.

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 2012 Annual Report and Form 10-K for the fiscal year ended September 30, 2012 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, 2012. 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.

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

FIVE YEAR SUMMARY OF FINANCIAL DATA

	September 30				
	2012	2011	2010	2009	2008
Net Sales	$ 4,458,819	$ 5,043,934	$ 4,691,522	$ 4,610,313	$ 5,231,125
Net Income	$ 75,801	$ 242,915	$ 146,291	$ 81,507	$ 39,516
Total Assets	$ 2,599,344	$ 2,914,960	$ 2,963,224	$ 2,833,345	$ 2,816,736
Equity	$ 2,221,661	$ 2,275,928	$ 2,425,568	$ 2,280,684	$ 2,354,667
Long Term Debt	$ 0	$ 0	$ 0	$ 0	$ 0
Basic Earnings Per Share	$ .03	$ .09	$ .06	$ .03	$ .01
Diluted Earnings Per Share	$ .03	$ .09	$ .06	$ .03	$ .01
Shares Used In Computing Net Earnings Per Share:					
Basic	2,585,845	2,587,807	2,592,723	2,612,152	2,894,214
Diluted	2,585,845	2,587,807	2,592,723	2,612,152	2,967,274
Cash ($) Dividends Paid Per Share	$ .05	$ .15	$ .00	$ .00	$ .00

Net income as a percentage of:	2012	2011	2010	2009	2008
Net Sales	1.70%	4.80%	3.10%	1.80%	0.70%
Assets	2.90%	8.30%	4.90%	2.90%	1.40%
Equity	3.40%	10.70%	6.00%	3.60%	1.70%

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.

Fiscal 2012	High	Low
Oct. 1, 2011 to Dec. 31, 2011	$ 1.05	$ 0.63
Jan. 1, 2012 to Mar. 31, 2012	1.10	0.75
Apr. 1, 2012 to June 30, 2012	1.25	0.83
July 1, 2012 to Sept. 30, 2012	1.05	0.85

Fiscal 2010	High	Low
Oct. 1, 2010 to Dec. 31, 2010	$ 1.08	$ 0.45
Jan. 1, 2011 to Mar. 31, 2011	1.10	0.76
Apr. 1, 2011 to June 30, 2011	1.05	0.61
July 1, 2011 to Sept. 30, 2011	1.05	0.62

Microwave Filter Company and Subsidiaries

Consolidated Balance Sheets

	September 30	
Assets	**2012**	**2011**
Current assets:		
Cash and cash equivalents	$ 1,023,017	$ 1,258,885
Accounts receivable-trade, net of allowance for doubtful accounts of $26,000 and $26,000	263,385	352,054
Federal and state income tax recoverable	0	24,828
Inventories, net of obsolete inventory reserve of $408,340 and $392,703	529,075	567,261
Prepaid expenses and other current assets	111,342	94,114
Total current assets	1,926,819	2,297,142
Property, plant and equipment, net	672,525	617,818
Total Assets	$ 2,599,344	$ 2,914,960
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 92,325	$ 195,535
Customer deposits	30,563	51,886
Accrued payroll and related expenses	51,289	57,514
Accrued compensated absences	172,198	250,443
Other current liabilities	31,308	83,654
Total current liabilities	377,683	639,032
Total liabilities	377,683	639,032
Stockholders' equity:		
Common stock, $.10 par value. Authorized 5,000,000 shares Issued 4,324,140 in 2012 and 2011, Outstanding 2,585,321 in 2012 and 2,586,227 in 2011	432,414	432,414
Additional paid-in capital	3,248,706	3,248,706
Retained earnings	232,013	285,485
Common stock in treasury, at cost, 1,738,819 shares in 2012 and 1,737,913 shares in 2011	(1,691,472)	(1,690,677)
Total stockholders' equity	2,221,661	2,275,928
Total Liabilities and Stockholders' Equity	$ 2,599,344	$ 2,914,960

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	
	2012	**2011**
Net sales	$4,458,819	$5,043,934
Cost of goods sold	2,801,385	3,186,508
Gross profit	1,657,434	1,857,426
Selling, general and administrative expenses	1,648,388	1,650,357
Income from operations	9,046	207,069
Non-operating Income		
Interest income	4,282	6,664
Miscellaneous	23,891	1,810
Income before income taxes	37,219	215,543
(Benefit) provision for income taxes	(38,582)	(27,372)
NET INCOME	$75,801	$242,915
Per share data:		
Basic and Diluted Earnings Per Common Share	$0.03	$0.09
Shares used in computing net earnings per common share: Basic and diluted	2,585,845	2,587,807

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, 2012 and 2011

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amt	Capital	Earnings	Shares	Amt	Equity
Balance, September 30, 2010	4,324,140	$432,414	$3,248,706	$430,504	1,732,654	($1,686,056)	$2,425,568
Net income				242,915			242,915
Purchase of treasury stock					5,259	(4,621)	(4,621)
Cash dividend paid ($.15) per share				(387,934)			(387,934)
Balance, September 30, 2011	4,324,140	432,414	3,248,706	285,485	1,737,913	(1,690,677)	2,275,928
Net income				75,801			75,801
Purchase of treasury stock					906	(795)	(795)
Cash dividend paid ($.05) per share				(129,273)			(129,273)
Balance September 30, 2012	4,324,140	$432,414	$3,248,706	$232,013	1,738,819	($1,691,472)	$2,221,661

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	
	2012	**2011**
Cash flows from operating activities:		
Net income	$75,801	$242,915
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	157,691	107,902
Gain on sale of fixed assets	(20,000)	0
Provision for doubtful accounts	0	8,390
Inventory obsolescence provision	15,637	(10,892)
Changes in assets and liabilities:		
Accounts receivable-trade	88,669	63,222
Federal and state income tax recoverable	24,828	(27,372)
Inventories	22,549	(20,365)
Prepaid and other current assets	(17,228)	(1,697)
Accounts payable and customer deposits	124,533	46,127
Accrued payroll, compensated absences and related expenses	84,470	9,970
Other current liabilities	52,346	47,823
Net cash provided by operating activities	86,598	466,023
Cash flows from investing activities:		
Capital expenditures	(212,398)	(281,302)
Proceeds from sale of fixed assets	20,000	0
Net cash used in investing activities	(192,398)	(281,302)
Cash flows from financing activities:		
Purchase of treasury stock	(795)	(4,621)
Cash dividend paid	(129,273)	(387,934)
Net cash used in financing activities	(130,068)	(392,555)
Net decrease in cash and cash equivalents	(235,868)	(207,834)
Cash and cash equivalents at beginning of year	$1,258,885	$1,466,719
Cash and cash equivalents at end of year	$1,023,017	$1,258,885
Supplemental disclosures of cash flows:		
Cash paid during the year for:		
Interest	$0	$0
Income taxes	$0	$13,030

The accompanying notes are an integral part of the 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 deposits 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.

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 $408,335 and $428,693 for the fiscal years 2012 and 2011, 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. There were no dilutive potential shares outstanding for the years ended September 30, 2012 and 2011.

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 $7,000 and $5,000 for the fiscal years ended September 30, 2012 and 2011, 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, 2012 and 2011.

q. New Accounting Pronouncements

None applicable.

2. INVENTORIES

Inventories net of provision for obsolescence consisted of the following:

	September 30	
	2012	**2011**
Raw materials and stock parts	$455,000	$499,622
Work-in-process	13,554	14,056
Finished goods	60,521	53,583
	$529,075	$567,261

The Company's reserve for obsolescence equaled $408,340 at September 30, 2012 and $392,703 at September 30, 2011.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	September 30	
	2012	**2011**
Land	$143,000	$143,000
Building and improvements	1,865,502	1,865,502
Machinery and equipment	3,407,157	3,295,490
Office equipment and fixtures	1,830,781	1,805,196
	7,246,440	7,109,188
Less: Accumulated depreciation	6,573,915	6,491,370
Property, plant and equipment, net	$672,525	$617,818
Depreciation expense	$157,691	$107,902

4. CREDIT FACILITIES

The Company has unused aggregate lines of credit totaling $750,000 collateralized by inventory, equipment and accounts receivable. The variable interest rate is the "prime rate" as published each business day in the "Money Rates" column of the Wall Street Journal.

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 2012. The maximum corporate match was 6% of an employee's compensation during fiscal 2012.

The Company's matching contributions to the 401-K plan for the years ended September 30, 2012 and 2011 were $96,709 and $103,188, respectively. Additionally, the Company may make discretionary contributions to the non-contributory profit sharing plan. These contributions were $0 and $50,000 in 2012 and 2011, respectively.

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, 2012 and 2011 amounted to $9,290 and $9,290, respectively.

Minimum rental commitments at September 30, 2012 for these leases are:

Year Ended September 30	Lease Payments
2013	$9,290
2014	1,490
	$10,780

7. INCOME TAXES

The provision for income taxes consisted of the following:

	Year Ended September 30	
	2012	2011
Currently payable:		
Federal	$ 0	$13,030
State	(38,582)	(40,402)
Deferred (credit)	0	0
	($38,582)	($27,372)

The provision for income taxes differs from the amount that would result from applying the federal statutory rate for the periods ended September 30, 2012 and 2011 as follows:

	Year ended September 30			
	2012		2011	
	Amount	%	Amount	%
Statutory tax rate	$ 12,654	34.0%	$ 73,285	34.0%
State income tax net of:				
Federal benefit	(25,464)	(68.4%)	(26,665)	(12.4%)
Research and experimentation tax credits	(26,784)	(72.0%)	(27,865)	(12.9%)
Federal graduated rate differential	0	0.0%	(10,152)	(4.7%)
Valuation allowance change	685	1.8%	(114,754)	(53.2%)
NOL true up	0	0.0%	78,577	36.5%
Permanent differences	327	0.9%	202	0.0%
	$ (38,582)	(103.7%)	$ (27,372)	(12.7%)

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

	2012	2011
Inventory	$ 144,338	$ 139,354
Accrued warranty	4,250	4,250
Accrued vacation	71,683	98,286
Accounts receivable	8,895	8,895
Valuation allowance	(229,166)	(250,785)
Net deferred tax assets (liabilities) - current	$ 0	$ 0
Accelerated depreciation	$ (55,691)	$ (32,634)
Research and experimentation tax credit carry forward	224,187	197,403
AMT credit carry forward	39,399	39,399
NOL carryforward	18,577	0
Valuation allowance	(226,472)	(204,168)
Net deferred tax assets (liabilities) - noncurrent	$ 0	$ 0
Net deferred tax assets	$ 0	$ 0

As required by FASB ASC 740 (Prior Authoritative Literature: SFAS 109, Accounting for 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 2031. At September 30, 2012, the Company's federal AMT credit can be carried forward indefinitely. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the fiscal years September 30, 2010 through September 30, 2012.

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 21% of total sales during fiscal 2012 compared to approximately 18% of total sales for the fiscal year ended September 30, 2011.

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. The Company has accrued $12,000 for this action in other current liabilities.

Report Of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Microwave Filter Company, Inc.

We have audited the accompanying consolidated balance sheets of Microwave Filter Company, Inc. and Subsidiary as of September 30, 2012 and 2011, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended September 30, 2012. Microwave Filter Company, Inc.'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 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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. as of September 30, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
December 20, 2012