2017

LETTER TO THE SHAREHOLDERS

FINANCIAL SECTION

AUDITORS REPORT

MICROWAVE FILTER COMPANY, INC.

To the Shareholders:

FY2017 was a disappointing year as MFC saw a decrease in sales in three of our market segments. Overall, sales decreased $509,000 relative to 2016 resulting in a loss of $264,000 for the year.

The satellite market saw the biggest decline as sales for standard products for both domestic and international customers fell by $356,000 or 31%. It is the Company's belief that this trend will be reversed over the next fiscal year as a long term product development was recently completed resulting in pre-production runs that are expected to ramp up over the next several months.

Cable TV product sales were down $212,000 primarily due to orders received from two customers last year that did not reoccur.

The broadcast market was also down with a sales decrease of $91,000 or 25%. This was primarily due to a decrease in wireless diplexer sales which were sold to one international customer last year. Recent activities with regard to UHF band reallocation have resulted in channel reassignments for hundreds of TV stations across the US that need to be completed over the next 3 years. New equipment including filters and combining systems to help facilitate the changeover has already taken place helping to improve the outlook for our broadcast product offering.

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.

There are many challenges ahead for our Company. The Company has increased its advertising and promotional budget and has been working with a Sales Consultant as we reach out to identify new opportunities.

Despite our short-term challenges, the Company's financial condition is sound and the Management of MFC is optimistic about the future. We are particularly appreciative of the efforts of our employees during these challenging times.

Sincerely,

Paul W. Mears
Chief Executive Officer

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. 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, 2017. Certain reclassifications were made to last year's product groupings to conform to the current year presentation.

Product group	Fiscal 2017	Fiscal 2016
Microwave Filter:		
RF/Microwave	$ 1,651,812	$ 1,501,169
Satellite	778,775	1,135,130
Cable TV	322,193	533,922
Broadcast TV	276,443	366,957
Niagara Scientific	7,446	8,152
Total	$ 3,036,669	$ 3,545,330
Sales backlog at 9/30	$ 702,665	$ 314,717

FISCAL 2017 COMPARED TO FISCAL 2016

Consolidated net sales for the fiscal year ended September 30, 2017 equaled $3,036,669, a decrease of $508,661 or 14.3%, when compared to consolidated net sales of $3,545,330 during the fiscal year ended September 30, 2016.

MFC's RF/Microwave product sales increased $150,643 or 10.0% to $1,651,812 during the fiscal year ended September 30, 2017 when compared to sales of $1,501,169 during the fiscal year ended September 30, 2016. MFC's RF/Microwave products are sold primarily to Original Equipment Manufacturers (OEM) that serve the mobile radio, commercial communications and defense electronics markets. Sales to one OEM customer increased $256,485 to $1,252,005, or 41.2% of total sales, during the fiscal year ended September 30, 2017 compared to sales of $995,520, or 28.1% of total sales, during the fiscal year ended September 30, 2016. These sales are in connection with a multiyear program in which the Company is a subcontractor. Sales to the U.S. Government decreased $89,100 to $39,000 for the fiscal year ended September 30, 2017 when compared to sales of $128,100 for the fiscal year ended September 30, 2016. 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. Over the last year, MFC, in conjunction with various OEM's, has developed and supplied prototypes as well as small production runs in support of new programs being introduced to the marketplace. It is our belief that a continuation of this effort will help increase sales as well as reinforcing MFC's position as a quality manufacturer of RF filters and assemblies.

MFC's Satellite product sales decreased $356,355 or 31.4% to $778,775 during the fiscal year ended September 30, 2017 when compared to sales of $1,135,130 during the fiscal year ended September 30, 2016. 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. Despite the decrease in sales, management expects demand for these types of filters to continue with the proliferation of earth stations world wide and increased sources of interference.

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

MFC's Cable TV product sales decreased $211,729 or 39.7% to $322,193 during the fiscal year ended September 30, 2017 when compared to Cable TV product sales of $533,922 during the fiscal year ended September 30, 2016. The decrease in sales can primarily be attributed to orders from two customers with specific cable applications last year. Management continues to project flat or a decrease in demand for Cable TV products due to the shift from analog to digital television. Due to the inherent nature of digital modulation versus analog modulation, fewer filters will be required. The Company has developed filters for digital television and there will still be requirements for analog filters for limited applications in commercial and private cable systems.

MFC's Broadcast TV product sales decreased $90,514 or 24.7% to $276,443 for the fiscal year ended September 30, 2017 when compared to sales of $366,957 for the fiscal year ended September 30, 2016. The decrease can primarily be attributed to a decrease in sales of wireless diplexers which were sold to one customer last year.

At September 30, 2017, the Company's total backlog of orders, which represents firm orders from customers, equaled $702,665 compared to $314,717 at September 30, 2016. The total Company backlog at September 30, 2017 is scheduled to ship during fiscal 2018. 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 $291,478 or 22.4% to $1,008,669 during the fiscal year ended September 30, 2017 when compared to gross profit of $1,300,147 during the fiscal year ended September 30, 2016. The dollar decrease 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 33.2% during the fiscal year ended September 30, 2017 compared to 36.7% during the fiscal year ended September 30, 2016.The decrease can be attributed to higher direct material costs as a percentage of sales primarily due to product sales mix and the lower sales volume this year providing a lower base to absorb expenses.

Selling, general and administrative (SG&A) expenses decreased $67,696 or 5.1% to $1,261,755 during the fiscal year ended September 30, 2017 when compared to SG&A expenses of $1,329,451 during the fiscal year ended September 30, 2016. Planned increases in advertising and promotional expenses were offset by lower payroll and payroll related expenses when compared to the same period last year. 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. As a percentage of sales, SG&A expenses increased to 41.6% during fiscal 2017 compared to 37.5% during fiscal 2016 primarily due to the lower sales volume this year when compared to the same period last year providing a lower base to absorb expenses.

Other income (expense) was an expense of $11,130 for the fiscal year ended September 30, 2017 compared to expense of $6,290 for the fiscal year ended September 30, 2016 primarily due to interest expense of $15,545 offset by miscellaneous non-operating income of $4,415 for the fiscal year ended September 30, 2017 and interest expense of $17,680 offset by miscellaneous non-operating income of $11,390 for the fiscal year ended September 30, 2016. Other income generally consists of interest income, sales of scrap material, the forfeiture of non-refundable deposits and other incidental items.

The Company recorded income taxes of $0 for the fiscal year ended September 30, 2017 compared to a benefit for income taxes of $3,000 for the fiscal year ended September 30, 2016. The benefit for fiscal 2016 can be attributed to a prior year’s federal refund. 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 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.

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

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 and its existing cash balances.

	September 30	
	2017	2016
Cash & cash equivalents	$ 667,940	$ 923,117
Working capital	$ 1,149,368	$ 1,438,068
Current ratio	4.24 to 1	5.20 to 1
Long-term debt	$ 270,172	$ 318,998

Cash and cash equivalents decreased $255,177 to $667,940 at September 30, 2017 when compared to $923,117 at September 30, 2016. The decrease was a result of $151,379 in net cash used in operating activities, $56,335 in net cash used for capital expenditures, $46,652 in net cash used for repayment of a note payable and $811 in net cash used to purchase treasury stock.

The $151,379 in net cash used in operating activities can primarily be attributed to the net loss of $264,216 net of depreciation expense of $81,488 and favorable changes in assets and liabilities. The decrease of $33,815 in prepaid expenses and other current assets can primarily be attributed to the timing of payments. The increase in accounts payable of $42,579 can primarily be attributed to the timing of purchases and payments. The decrease in accrued compensated absences of $48,452 can primarily be attributed to accrued vacation used during the fiscal year. 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 capital expenditures of $56,335 consisted primarily of computer hardware and production equipment.

On July 2, 2013, Microwave Filter Company, Inc. (the "Company") entered into a Ten Year Term Loan with KeyBank National Association in the amount of Five Hundred Thousand and No/100 Dollars ($500,000.00). The amount of all advances outstanding together with accrued interest thereon shall be due and payable on July 2, 2023 ("Maturity"). The Company shall pay interest on the outstanding principal balance of this Note at the rate per annum equal to 4.5%. The net proceeds from the Term Loan will be available to provide working capital as needed. The total amount outstanding as of September 30, 2017 and 2016 was $318,998 and $365,650, respectively.

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

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, 2017 and 2016, 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.

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

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, warranty reserves 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.

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 2017 Annual Report 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.

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

COMMON STOCK PRICES

The Company's securities are currently quoted on the OTC marketplace (www.otcmarkets.com) under the symbol "MFCO."

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 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 2017	High	Low
Oct. 1, 2016 to Dec. 31, 2016	$ 0.65	$ 0.55
Jan. 1, 2017 to Mar. 31, 2017	0.79	0.60
Apr. 1, 2017 to June 30, 2017	0.70	0.61
July 1, 2017 to Sept. 30, 2017	0.65	0.59

Fiscal 2016	High	Low
Oct. 1, 2015 to Dec. 31, 2015	$ 0.55	$ 0.44
Jan. 1, 2016 to Mar. 31, 2016	0.66	0.48
Apr. 1, 2016 to June 30, 2016	0.75	0.55
July 1, 2016 to Sept. 30, 2016	0.70	0.40

The Company had 549 holders of record of its common stock at November 16, 2017. Included in this number are shares held in "nominee" or "street" name and, therefore, the number of beneficial owners of the common stock is believed to be substantially in excess of the foregoing number.

Payment of future dividends, if any, will be at the discretion of the Board of Directors after taking into consideration various factors, including the Company's financial condition, operating results and current and anticipated cash needs.

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 subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the entity's management. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the two-year period ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dannible & McKee, LLP

Dannible & McKee, LLP
Syracuse, New York
December 6, 2017

Microwave Filter Company and Subsidiaries
Consolidated Balance Sheets

	September 30, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 667,940	$ 923,117
Accounts receivable-trade, net of allowance for doubtful accounts of $4,000 and $4,000	350,703	346,633
Inventories, net of obsolete inventory reserve of $445,393 and $435,528	458,158	448,747
Prepaid expenses and other current assets	27,858	61,673
Total current assets	1,504,659	1,780,170
Property, plant and equipment, net	326,778	351,931
Total Assets	$ 1,831,437	$ 2,132,101
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 104,349	$ 61,770
Customer deposits	43,893	28,818
Accrued payroll and related expenses	39,710	43,646
Accrued compensated absences	96,490	144,942
Notes Payable - Short Term	48,826	46,652
Other current liabilities	22,023	16,274
Total current liabilities	355,291	342,102
Notes Payable - Long Term	270,172	318,998
Total other liabilities	270,172	318,998
Total liabilities	625,463	661,100
Stockholders' equity:		
Common stock, $.10 par value. Authorized 5,000,000 shares Issued 4,324,140 in 2017 and 2016, Outstanding 2,579,684 in 2017 and 2,581,007 in 2016	432,414	432,414
Additional paid-in capital	3,248,706	3,248,706
Accumulated deficit	(780,385)	(516,169)
Common stock in treasury, at cost, 1,744,456 shares in 2017 and 1,743,133 shares in 2016	(1,694,761)	(1,693,950)
Total stockholders' equity	1,205,974	1,471,001
Total Liabilities and Stockholders' Equity	$ 1,831,437	$ 2,132,101

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	
	2017	2016
Net sales	$ 3,036,669	$ 3,545,330
Cost of goods sold	2,028,000	2,245,183
Gross profit	1,008,669	1,300,147
Selling, general and administrative expenses	1,261,755	1,329,451
Loss from operations	(253,086)	(29,304)
Non-operating Income (Expense)		
Interest income	1,880	2,396
Interest expense	(15,545)	(17,680)
Miscellaneous	2,535	8,994
Loss before income taxes	(264,216)	(35,594)
Benefit from income taxes	(0)	(3,000)
NET LOSS	$ (264,216)	$ (32,594)
Per share data:		
Basic and Diluted Earnings (Loss) Per Common Share	$ (0.10)	$ (0.01)
Shares used in computing net earnings (loss) per common share:		
Basic and diluted	2,580,271	2,581,168

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, 2017 and 2016

	Common Stock Shares	Common Stock Amt	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amt	Total Stockholders' Equity
Balance September 30, 2015	4,324,140	$ 432,414	$ 3,248,706	$ (483,575)	1,742,674	$ (1,693,715)	$ 1,503,830
Net loss				(32,594)			(32,594)
Purchase of treasury stock					459	(235)	(235)
Balance September 30, 2016	4,324,140	432,414	3,248,706	(516,169)	1,743,133	(1,693,950)	1,471,001
Net loss				(264,216)			(264,216)
Purchase of treasury stock					1,323	(811)	(811)
Balance September 30, 2017	4,324,140	$ 432,414	$ 3,248,706	$ (780,385)	1,744,456	$ (1,694,761)	$ 1,205,974

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

Microwave Filter Company and Subsidiaries
Consolidated Statements of Cash Flows

	For the Years Ended September 30	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (264,216)	$ (32,594)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	81,488	94,848
Inventory obsolescence provision	9,865	6,272
Changes in assets and liabilities:		
Accounts receivable-trade	(4,070)	46,255
Inventories	(19,276)	(7,512)
Prepaid and other current assets	33,815	(17,574)
Accounts payable and customer deposits	57,654	8,587
Accrued payroll, compensated absences and related expenses	(52,388)	(7,098)
Other current liabilities	5,749	(8,267)
Net cash (used in) provided by operating activities	(151,379)	82,917
Cash flows from investing activities:		
Capital expenditures	(56,335)	(11,704)
Net cash used in investing activities	(56,335)	(11,704)
Cash flows from financing activities:		
Repayment of note payable	(46,652)	(44,528)
Purchase of treasury stock	(811)	(235)
Net cash used in financing activities	(47,463)	(44,763)
Net (decrease) increase in cash and cash equivalents	(255,177)	26,450
Cash and cash equivalents at beginning of year	923,117	896,667
Cash and cash equivalents at end of year	$ 667,940	$ 923,117
Supplemental disclosures of cash flows:		
Cash paid during the year for :		
Interest	$ 15,712	$ 17,836

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. (MFC) 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. 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 two years, NSI's sales have consisted of spare parts orders and are insignificant during the year.

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

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.

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. Cash and cash equivalents consist of cash in banks and money market funds. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. 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. 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 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.

f. 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 three 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.

g. Research and Development

Costs in connection with research and development, which amount to $326,965 and $360,437 for the fiscal years 2017 and 2016, respectively, are charged to operations as incurred.

h. 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 10 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.

i. Income Taxes

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

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

j. Earnings Per Share

The Company presents basic earnings per share ("EPS"), computed based on the weighted average number of common shares outstanding for the period, and when applicable diluted EPS, which gives the effect to all dilutive potential shares outstanding (i.e. options) during the period after restatement for any stock dividends. Income (loss) used in the EPS calculation is net income (loss) for each year. There were no dilutive potential shares outstanding for the years ended September 30, 2017 and 2016.

k. 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 carrying value of the Company's note payable approximates its fair value.

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

l. Miscellaneous Non-operating Income

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

m. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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.

n. 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 $5,000 and $6,000 for the fiscal years ended September 30, 2017 and 2016, respectively.

o. 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, 2017 and 2016.

p. New Accounting Pronouncements

Update 2015-11- *Inventory (Topic 330): Simplifying the Measurement of Inventory,* is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Under the new standard, businesses that use the first-in, first-out (FIFO) or average cost method are required to measure inventory at the lower of cost or net realizable value ("NRV"), as defined, instead of at the lower of cost or market value. Management feels the updated standard, to be adopted on a prospective basis, would not represent a material impact to the Company's financial statements.

Update 2015-14- *Revenue from Contracts with Customers (Topic 606)*: affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is applicable to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

Update 2015-17 - *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* addresses the requirement to reclassify all current deferred income tax assets and liabilities on the balance sheet as non-current assets and liabilities, and is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. As explained in Note 7, the Company has provided a full valuation allowance against its deferred tax assets, and thus there will be no impact from the adoption of this updated standard in the current year or on the balance sheet of any of the periods presented.

In February 2016, the FASB issued FASB ASU No. 2016-02, *Leases (Topic 842)*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For operating leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

2. INVENTORIES

Inventories net of provision for obsolescence consisted of the following:

	September 30 2017	September 30 2016
Raw materials and stock parts	$ 337,462	$ 324,749
Work-in-process	21,861	54,716
Finished goods	98,835	69,282
	$ 458,158	$ 448,747

The Company's reserve for obsolescence equaled $445,393 at September 30, 2017 and $435,528 at September 30, 2016.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	September 30 2017	September 30 2016
Land	$ 143,000	$ 143,000
Building and improvements	1,928,599	1,928,599
Machinery and equipment	3,497,015	3,485,413
Office equipment and fixtures	1,916,740	1,872,007
	7,485,354	7,429,019
Less: Accumulated depreciation	7,158,576	7,077,088
Property, plant and equipment, net	$ 326,778	$ 351,931
Depreciation expense	$ 81,488	$ 94,848

4. NOTES PAYABLE

On July 2, 2013, Microwave Filter Company, Inc. (the "Company") entered into a Ten Year Term Loan with KeyBank National Association in the amount of Five Hundred Thousand and No/100 Dollars ($500,000.00). The amount of all advances outstanding together with accrued interest thereon shall be due and payable on July 2, 2023 ("Maturity"). The Company shall pay interest on the outstanding principal balance of this Note at the rate per annum equal to 4.5%. The net proceeds from the Term Loan will be available to provide working capital as needed. The total amount outstanding as of September 30, 2017 and 2016 was $318,998 and $365,650 respectively. Interest accrued as of September 30, 2017 and 2016 was $1,113 and $1,280 respectively.

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

Year Ended September 30,	Principal Payments	Interest Payments	Total Payments
2018	$ 48,826	$ 13,538	$ 62,364
2019	51,101	11,263	62,364
2020	53,456	8,908	62,364
2021	55,972	6,392	62,364
2022	58,680	3,684	62,364
Thereafter	50,963	1,007	51,970
	$ 318,998	$ 44,792	$ 363,790

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 2017. The maximum corporate match was 6% of an employee's compensation during fiscal 2017.

The Company's matching contributions to the 401-K plan for the years ended September 30, 2017 and 2016 were $70,316 and $84,508, respectively. Additionally, the Company may make discretionary contributions to the non-contributory profit sharing plan. These contributions were $0 in 2017 and 2016.

6. OBLIGATIONS UNDER OPERATING LEASES

The Company leases equipment under an operating lease agreement expiring on December 31, 2018. Rental expense under this lease for the year ended September 30, 2017 was $4,930.

Minimum rental commitments at September 30, 2017 for this lease are:

Year Ended September 30	Lease Payments
2018	$ 4,930
2019	1,232
	$ 6,162

7. INCOME TAXES

The components of the benefit from income taxes in the accompanying consolidated statements of operations are as follows:

	Year Ended September 30, 2017	2016
Currently payable:		
Federal	$ 0	$ (3,000)
State	0	0
Deferred (credit)	0	0
	$ 0	$ (3,000)

The provision for income taxes differs from the amount that would result from applying the federal statutory rate for the periods ended September 30, 2017 and 2016 as follows:

	2017 Amount	2017 %	2016 Amount	2016 %
Statutory tax rate	$ (89,833)	(34.0 %)	$ (12,102)	(34.0 %)
Research and development tax credits	(13,883)	(5.2 %)	(15,347)	(43.1 %)
Prior years federal refund	0	0.0 %	(3,000)	(8.4 %)
Valuation allowance change	103,647	39.2 %	27,412	77.0 %
Permanent differences	69	0.0 %	37	0.1 %
	$ 0	0.0 %	$ (3,000)	(8.4 %)

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

	2017	2016
Inventory	$ 157,515	$ 154,364
Accrued warranty	4,250	4,250
Accrued vacation	26,347	42,820
Accounts receivable	1,432	1,432
Valuation allowance	(189,544)	(202,866)
Net deferred tax assets (liabilities) - current	$ 0	$ 0
Accelerated depreciation	$ 27,320	$ 17,111
Research and development tax credit carry forward	288,369	274,486
AMT credit carry forward	37,521	37,521
NOL carry forward	268,666	175,789
Valuation allowance	(621,876)	(504,907)
Net deferred tax assets (liabilities) – noncurrent	$ 0	$ 0
Net deferred tax assets	$ 0	$ 0

As required by FASB ASC 740 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 development tax credit carry forwards and NOL carry forwards of approximately $288,000 and $830,000 expire in 2036. At September 30, 2017, 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, 2015 through September 30, 2017. The Company has no uncertain tax positions. As of September 30, 2017 and 2016 there is no accrual for interest or penalties related to uncertain tax positions.

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 41.2% of total sales for the fiscal year ended September 30, 2017 compared to 28.1% of total sales for the fiscal year ended September 30, 2016. A loss of this customer or programs related to this customer could materially impact the Company.

10. LEGAL MATTERS

None.

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