2016

LETTER TO THE SHAREHOLDERS

FINANCIAL SECTION

AUDITORS REPORT

MFC

MICROWAVE FILTER COMPANY, INC.

To The Shareholders:

As can be seen in the Annual Report, the operating performance of MFC improved in FY2016. Income from operations increased $171,000, from an operating loss of $200,000 in FY 2015 to an operating loss of $29,000 in FY 2016. The improvement can primarily be attributed to a reduction in selling, general and administrative expenses.

MFC saw slight sales improvements in most major market categories. The wireless and broadcast segments had the largest percentage increase due to the development of new products and we are hopeful for a continuation in that direction. International sales were up substantially from FY2015 with a mix of standard products as well as new products for the wireless market. However, the Company's largest product group, RF/Microwave, sales were down during FY 2016. MFC's RF/Microwave products are sold primarily to Original Equipment Manufacturers that serve the mobile radio, commercial communications and defense electronics markets. Management continues to believe that the sequester of funds imposed upon the Department of Defense has affected sales.

To identify more sales opportunities, the MFC sales staff has been traveling to regional events to meet with many of the large prime contractors. These gatherings provide an opportunity for MFC personnel to meet with and present our capabilities in short sessions with these prime contractors. Because of these meetings and subsequent dialog, MFC has signed several Nondisclosure Agreements as well as being selected as an approved supplier. This opens the door for MFC to bid on existing and new programs. To date we have received well over 300 new contacts because of this effort.

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.

Our strong financial position, backed by a strong cash position provides the resources needed to execute our strategy. The management staff of MFC is optimistic about the future and is particularly appreciative of our employees during this time.

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, 2016.

Product group	Fiscal 2016	Fiscal 2015
Microwave Filter:		
RF/Microwave	$ 1,556,238	$ 1,756,953
Satellite	1,107,036	1,084,255
Cable TV	525,309	472,104
Broadcast TV	348,595	218,978
Niagara Scientific	8,152	8,763
Total	$ 3,545,330	$ 3,541,053
Sales backlog at 9/30	$ 314,717	$ 431,287

FISCAL 2016 COMPARED TO FISCAL 2015

Consolidated net sales for the fiscal year ended September 30, 2016 equaled $3,545,330, an increase of $4,277 or 0.1%, when compared to consolidated net sales of $3,541,053 during the fiscal year ended September 30, 2015.

MFC's RF/Microwave product sales decreased $200,715 or 11.4% to $1,556,238 during the fiscal year ended September 30, 2016 when compared to sales of $1,756,953 during the fiscal year ended September 30, 2015. 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 decreased $166,502 to $995,520 during the fiscal year ended September 30, 2016 representing approximately 28% of total sales when compared to sales of $1,162,022 during the fiscal year ended September 30, 2015 representing approximately 33% of total sales for the fiscal year. The Company continues to invest in production engineering and infrastructure development to penetrate OEM market segments as they become popular. MFC is concentrating its technical resources and product development efforts toward potential high volume customers as part of a concentrated effort to provide substantial long-term growth.

MFC's Satellite product sales increased $22,781 or 2.1% to $1,107,036 during the fiscal year ended September 30, 2016 when compared to sales of $1,084,255 during the fiscal year ended September 30, 2015. The increase can be attributed to an increase in demand for filters which suppress strong out-of-band interference caused by military and civilian radar systems and other sources. Although economic conditions do impact sales, management expects demand for these types of filters to continue with the proliferation of earth stations world wide and increased sources of interference.

MFC's Cable TV product sales increased $53,205 or 11.3% to $525,309 during the fiscal year ended September 30, 2016 when compared to Cable TV product sales of $472,104 during the fiscal year ended September 30, 2015. 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.

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

MFC's Broadcast TV product sales increased $129,617 or 59.2% to $348,595 for the fiscal year ended September 30, 2016 when compared to sales of $218,978 for the fiscal year ended September 30, 2015. The increase can primarily be attributed to the sales of recently developed wireless diplexers whose primary function is to isolate the transmit and receive frequencies that share a common antenna.

At September 30, 2016, the Company's total backlog of orders, which represents firm orders from customers, equaled $314,717 compared to $431,287 at September 30, 2015. The total Company backlog at September 30, 2016 is scheduled to ship during fiscal 2017. 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 $16,969 or 1.3% to $1,300,147 during the fiscal year ended September 30, 2016 when compared to gross profit of $1,317,116 during the fiscal year ended September 30, 2015. As a percentage of sales, gross profit equaled 36.7% during the fiscal year ended September 30, 2016 compared to 37.2% during the fiscal year ended September 30, 2015.

Selling, general and administrative (SG&A) expenses decreased $187,276 or 12.3% to $1,329,451 during the fiscal year ended September 30, 2016 when compared to SG&A expenses of $1,516,727 during the fiscal year ended September 30, 2015. The decrease can be attributed to lower payroll and payroll related expenses primarily due to the retirement of the Company’s CEO in January 2016, lower depreciation expense, planned decreases in media advertising and direct mail and lower auditing fees this year when compared to the same period last year. As a percentage of sales, SG&A expenses decreased to 37.5% during fiscal 2016 compared to 42.8% during fiscal 2015.

Other income (expense) was an expense of $6,290 for the fiscal year ended September 30, 2016 compared an expense of $5,139 for the fiscal year ended September 30, 2015. Interest expense equaled $17,680 for the fiscal year ended September 30, 2016 compared to interest expense of $19,622 for the same period last year. Miscellaneous non-operating income consists primarily of sales of scrap material and the forfeiture of non-refundable deposits.

The Company recorded a benefit for income taxes of $3,000 for the fiscal year ended September 30, 2016 compared to a benefit for income taxes of $2,068 for the fiscal year ended September 30, 2015. The benefit for both fiscal years 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.

	September 30	
	2016	2015
Cash & cash equivalents	$ 923,117	$ 896,667
Working capital	$ 1,438,068	$ 1,434,405
Current ratio	5.20 to 1	5.14 to 1
Long-term debt	$ 318,998	$ 365,650

Cash and cash equivalents increased $26,450 to $923,117 at September 30, 2016 when compared to $896,667 at September 30, 2015. The increase was a result of $82,917 in net cash provided by operating activities, $11,704 in net cash used for capital expenditures, $44,528 in net cash used for repayment of a note payable and $235 in net cash used to purchase treasury stock.

The $82,917 in net cash provided by operating activities can primarily be attributed to the net loss of $32,594 net of depreciation expense of $94,848 and favorable changes in assets and liabilities. The decrease of $46,255 in accounts receivable can primarily be attributed to the timing of shipments and collections.

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, 2016 and 2015 was $365,650 and $410,178, 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, 2016 and 2015, 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 2016 Annual Report and Form 10-K for the fiscal year ended September 30, 2016 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

FIVE YEAR SUMMARY OF FINANCIAL DATA

	2016	2015	2014	2013	2012
Net Sales	$ 3,545,330	$ 3,541,053	$ 3,627,445	$ 2,872,491	$ 4,458,819
Net (Loss) Income	$ (32,594)	$ (202,682)	$ 38,567	$ (551,473)	$ 75,801
Total Assets	$ 2,132,101	$ 2,216,236	$ 2,497,294	$ 2,424,430	$ 2,599,344
Equity	$ 1,471,001	$ 1,503,830	$ 1,707,708	$ 1,670,044	$ 2,221,661
Long Term Debt	$ 318,998	$ 365,650	$ 410,178	$ 452,771	$ 0
Basic Earnings (Loss)					
Per Share	$ (0.01)	$ (0.08)	$ 0.01	$ (0.21)	$ 0.03
Diluted Earnings (Loss)					
Per Share	$ (0.01)	$ (0.08)	$ 0.01	$ (0.21)	$ 0.03
Shares Used In Computing Net					
Earnings (Loss) Per Share:					
Basic	2,581,168	2,581,864	2,584,564	2,585,204	2,585,845
Diluted	2,581,168	2,581,864	2,584,564	2,585,204	2,585,845
Cash ($) Dividends Paid Per					
Share	$ 0	$ 0	$ 0	$ 0	$ 0.05

Net income (loss) as a percentage of:	2016	2015	2014	2013	2012
Net Sales	(0.92%)	(5.72%)	1.06%	(19.20%)	1.70%
Assets	(1.53%)	(9.15%)	1.54%	(22.75%)	2.90%
Equity	(2.22%)	(13.48%)	2.26%	(33.02%)	3.40%

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 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

Fiscal 2015	High	Low
Oct. 1, 2014 to Dec. 31, 2014	$ 0.71	$ 0.25
Jan. 1, 2015 to Mar. 31, 2015	0.65	0.45
Apr. 1, 2015 to June 30, 2015	0.59	0.45
July 1, 2015 to Sept. 30, 2015	0.53	0.35

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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. as of September 30, 2016 and 2015, 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. 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 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. as of September 30, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dannible & McKee, LLP

Dannible & McKee, LLP
Syracuse, New York
December 7, 2016

Microwave Filter Company and Subsidiaries
Consolidated Balance Sheets

	September 30, 2016	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 923,117	$ 896,667
Accounts receivable-trade, net of allowance for doubtful accounts of $4,000 and $4,000	346,633	392,888
Inventories, net of obsolete inventory reserve of $435,528 and $429,255	448,747	447,507
Prepaid expenses and other current assets	61,673	44,099
Total current assets	1,780,170	1,781,161
Property, plant and equipment, net	351,931	435,075
Total Assets	$ 2,132,101	$ 2,216,236
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 61,770	$ 74,610
Customer deposits	28,818	7,391
Accrued payroll and related expenses	43,646	56,371
Accrued compensated absences	144,942	139,315
Notes Payable - Short Term	46,652	44,528
Other current liabilities	16,274	24,541
Total current liabilities	342,102	346,756
Notes Payable - Long Term	318,998	365,650
Total other liabilities	318,998	365,650
Total liabilities	661,100	712,406
Stockholders' equity:		
Common stock, $.10 par value. Authorized 5,000,000 shares Issued 4,324,140 in 2016 and 2015, Outstanding 2,581,007 in 2016 and 2,581,466 in 2015	432,414	432,414
Additional paid-in capital	3,248,706	3,248,706
Accumulated deficit	(516,169)	(483,575)
Common stock in treasury, at cost, 1,743,133 shares in 2016 and 1,742,674 shares in 2015	(1,693,950)	(1,693,715)
Total stockholders' equity	1,471,001	1,503,830
Total Liabilities and Stockholders' Equity	$ 2,132,101	$ 2,216,236

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	
	2016	2015
Net sales	$ 3,545,330	$ 3,541,053
Cost of goods sold	2,245,183	2,223,937
Gross profit	1,300,147	1,317,116
Selling, general and administrative expenses	1,329,451	1,516,727
Loss from operations	(29,304)	(199,611)
Non-operating Income (Expense)		
Interest income	2,396	2,443
Interest expense	(17,680)	(19,622)
Miscellaneous	8,994	12,040
Loss before income taxes	(35,594)	(204,750)
Benefit from income taxes	(3,000)	(2,068)
NET LOSS	$ (32,594)	$ (202,682)
Per share data:		
Basic and Diluted Earnings (Loss) Per Common Share	$ (0.01)	$ (0.08)
Shares used in computing net earnings (loss) per common share: Basic and diluted	2,581,168	2,581,864

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, 2016 and 2015

	Common Stock		Additional Paid-in	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amt	Capital	Deficit	Shares	Amt	Equity
Balance September 30, 2014	4,324,140	$ 432,414	$ 3,248,706	$ (280,893)	1,740,633	$ (1,692,519)	$ 1,707,708
Net loss				(202,682)			(202,682)
Purchase of treasury stock					2,041	(1,196)	(1,196)
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

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	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (32,594)	$ (202,682)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	94,848	110,150
Inventory obsolescence provision	6,272	15,808
Changes in assets and liabilities:		
Accounts receivable-trade	46,255	(15,415)
Inventories	(7,512)	10,524
Prepaid and other current assets	(17,574)	45,622
Accounts payable and customer deposits	8,587	(23,723)
Accrued payroll, compensated absences and related expenses	(7,098)	(3,451)
Other current liabilities	(8,267)	(7,413)
Net cash provided by (used in) operating activities	82,917	(70,580)
Cash flows from investing activities:		
Capital expenditures	(11,704)	(70,531)
Net cash used in investing activities	(11,704)	(70,531)
Cash flows from financing activities:		
Repayment of note payable	(44,528)	(42,593)
Purchase of treasury stock	(235)	(1,196)
Net cash used in financing activities	(44,763)	(43,789)
Net increase (decrease) in cash and cash equivalents	26,450	(184,900)
Cash and cash equivalents at beginning of year	896,667	1,081,567
Cash and cash equivalents at end of year	$ 923,117	$ 896,667
Supplemental disclosures of cash flows:		
Cash paid during the year for :		
Interest	$ 17,836	$ 19,771

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

Microwave Filter Company and Subsidiaries
Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nature of Business

Microwave Filter Company, Inc. operates primarily in the United States and principally in one industry. The Company extends credit to business customers based upon ongoing credit evaluations. Microwave Filter Company, Inc. (MFC) designs, develops, manufactures and sells electronic filters, both for radio and microwave frequencies, to help process signal distribution and to prevent unwanted signals from disrupting transmit or receive operations. Markets served include cable television, television and radio broadcast, satellite broadcast, mobile radio, commercial communications and defense electronics. Niagara Scientific, Inc. (NSI), a wholly owned subsidiary, custom designs case packing machines to automatically pack products into shipping cases. Customers are processors of food and other commodity products with a need to reduce labor cost with a modest investment and quick payback. For the last 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

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. 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 $360,437 and $350,651 for the fiscal years 2016 and 2015, 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. FASB ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax position taken or expected to be taken on a tax return. Additionally, it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company determined it has no uncertain tax positions and therefore no amounts are recorded.

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, 2016 and 2015.

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 $6,000 and $8,500 for the fiscal years ended September 30, 2016 and 2015, 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, 2016 and 2015.

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.

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:

	2016	2015
Raw materials and stock parts	$ 324,749	$ 367,344
Work-in-process	54,716	19,884
Finished goods	69,282	60,279
	$ 448,747	$ 447,507

The Company's reserve for obsolescence equaled $435,528 at September 30, 2016 and $429,255 at September 30, 2015.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	September 30	
	2016	2015
Land	$ 143,000	$ 143,000
Building and improvements	1,928,599	1,928,599
Machinery and equipment	3,485,413	3,474,938
Office equipment and fixtures	1,872,007	1,870,778
	7,429,019	7,417,315
Less: Accumulated depreciation	7,077,088	6,982,240
Property, plant and equipment, net	$ 351,931	$ 435,075
Depreciation expense	$ 94,848	$ 110,150

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, 2016 and 2015 was $365,650 and $410,178 respectively. Interest accrued as of September 30, 2016 and 2015 was $1,280 and $1,436 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
2017	$ 46,652	$ 15,712	$ 62,364
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
Thereafter	109,643	4,857	114,500
	$ 365,650	$ 60,670	$ 426,320

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 2016. The maximum corporate match was 6% of an employee's compensation during fiscal 2016.

The Company's matching contributions to the 401-K plan for the years ended September 30, 2016 and 2015 were $84,508 and $62,326, respectively. Additionally, the Company may make discretionary contributions to the non-contributory profit sharing plan. These contributions were $0 in 2016 and 2015.

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, 2016 was $9,173.

Minimum rental commitments at September 30, 2016 for this lease are:

Year Ended September 30	Lease Payments
2017	$ 9,173
2018	9,173
2019	2,293
	$ 20,639

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, 2016	2015
Currently payable:		
Federal	$ (3,000)	$ (2,068)
State	0	0
Deferred (credit)	0	0
	$ (3,000)	$ (2,068)

The provision for income taxes differs from the amount that would result from applying the federal statutory rate for the periods ended September 30, 2016 and 2015 as follows:

	Year ended September 30, 2016		2015	
	Amount	%	Amount	%
Statutory tax rate	$ (12,102)	(34.0 %)	$ (69,615)	(34.0 %)
State income tax net of:				
Federal benefit	0	0 %	0	0 %
Research and development tax credits	(15,347)	(43.1 %)	(15,899)	(7.7 %)
Prior years federal refund	(3,000)	(8.4 %)	(2,068)	(1.0 %)
NOL carryforward true up	0	%	0	%
Valuation allowance change	27,412	77.0 %	85,455	41.7 %
Permanent differences	37	0.1 %	59	0 %
	$ (3,000)	(8.4 %)	$ (2,068)	(1.0 %)

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

	2016	2015
Inventory	$ 154,364	$ 151,909
Accrued warranty	4,250	4,250
Accrued vacation	42,820	40,907
Accounts receivable	1,432	1,432
Valuation allowance	(202,866)	(198,498)
Net deferred tax assets (liabilities) - current	$ 0	$ 0
Accelerated depreciation	$ 17,111	$ 4,163
Research and development tax credit carry forward	274,486	259,139
AMT credit carry forward	37,521	37,521
NOL carry forward	175,789	181,040
Valuation allowance	(504,907)	(481,863)
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 expire in 2035. At September 30, 2016, 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, 2014 through September 30, 2016. The Company has no uncertain tax positions. As of September 30, 2016 and 2015 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 approximately 28% of total sales for the fiscal year ended September 30, 2016 compared to approximately 33% of total sales for the fiscal year ended September 30, 2015. A loss of this customer or programs related to this customer could materially impact the Company.

10. LEGAL MATTERS

None.

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