Microwave Filter Company, Inc.

2021

Financial Statements

To the Shareholders:

FY2021 continued to be a challenging year due to the COVID-19 pandemic. However, MFC sales were much improved over 2020. MFC continued as an essential business from the state of New York pursuant to the revised New York State Executive Order 202.6. MFC remained open following safety guidelines and taking other appropriate actions as needed.

In FY2021 MFC saw an increase in sales of $2,073,143 compared to 2020 resulting in a net operating income of $259,677. It is unclear how much sales was impacted due to the COVID-19 pandemic but MFC believes there was a material impact. MFC did obtain one PPP loan in 2020 and one in 2021. One loan was forgiven in full in fiscal 2021. The cash position of MFC was up $217,411 compared to FY2020.

The Satellite market saw sales increase of $2,063,502 or 206% over 2020, primarily due to product sales for 5G.

The Broadcast TV market saw an increase of $44,519 or 12% over 2020. While MFC is pleased with the increase in sales, MFC continues to believe that the broadcast TV market is still being impacted by spending reductions, including government funds being diverted to combat COVID-19 pandemic.

The Cable TV market saw a decline of $22,193 or 8%. MFC continues to believe that the cable TV market is still being impacted by spending reductions, including government funds being diverted to combat COVID-19 pandemic.

The RF/Microwave market saw a slight decline of $12,685 or 1%.

While the COVID-19 pandemic will continue to affect the economy in the future, MFC continues to be optimistic. The company continues to invest in production engineering, product development and developing OEM partners in key market segments, including 5G, 5G related and other satcom and other RF specialized solutions. We continue to believe that the 5G and satcom segments will lead to our greatest growth opportunities, followed by key broadcast and RF segments.

MFC is in a strong financial position. At this time one PPP loan was forgiven in full in fiscal 2021, and the second loan was forgiven in full on December 2, 2021. MFC believes its cash position is sufficient to provide the resources needed to execute our strategies. The management of MFC is particularly appreciative of our partners and employees during this difficult time.

Sincerely,

Carl F. Fahrenkrug, Jr
Chief Executive Officer

Robert R. Andrews
Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 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. 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 5G, cable television, television and radio broadcast, satellite broadcast, mobile radio and commercial and defense electronics.

THE IMPACT OF COVID-19

The public health crisis caused by the COVID-19 pandemic has impacted MFCs operations and financial results. MFC serves as an essential manufacturing business and has continued to be operational. There continues to be significant uncertainties associated with the COVID-19 pandemic which could have a material impact on MFCs business, financial position, results of operations and cash flows. While MFC cannot reasonably estimate the full impact of COVID-19, MFC has seen an increase in sales and net income for the twelve months ended September 30, 2021.

RESULTS OF OPERATION

The following table sets forth the Company's net sales by major group for each of the fiscal years in the two year period ended September 30, 2021.

Product Group	Fiscal 2021	Fiscal 2020
Satellite	$ 3,064,240	$ 1,000,738
RF/Microwave	1,459,114	1,471,799
Broadcast TV	407,121	362,602
Cable TV	250,278	272,471
Total	$ 5,180,753	$ 3,107,610
Sales backlog at 9/30	$ 2,169,253	$ 631,764

Fiscal 2021 compared to fiscal 2020

Net sales increased $2,073,143, or 66.7%, to $5,180,753 during the year ended September 30, 2021 when compared to sales of $3,107,610 during the year ended September 30, 2020.

Satellite sales increased $2,063,502 to $3,064,240 compared to $1,000,738 last year. The increase can be attributed to an increase in sales of our 5G filters.

RF/Microwave product sales decreased $12,685 to $1,459,114 compared to $1,471,799 last year. MFC's RF/Microwave products are sold primarily to Original Equipment Manufacturers (OEM) that serve the mobile radio, commercial communications and defense electronics markets.

MFC's Broadcast TV product sales increased $44,519 to$407,121 compared to $362,602 last year.

MFC's Cable TV product sales decreased $22,193 to $250,278 when compared to $272,471 last year.

At September 30, 2021, the Company's total backlog of orders, which represents firm orders from customers, equaled $2,169,253 compared to $631,764 at September 30, 2020. The total Company backlog at September 30, 2021 is scheduled to ship during fiscal 2022. However, backlog is not necessarily indicative of future sales. Accordingly, the Company does not believe that its backlog at any particular date is representative of actual sales for any succeeding period.

Gross profit increased $468,724 to $1,546,260 during the fiscal year ended September 30, 2021 compared to $1,077,536 during the fiscal year ended September 30, 2020, primarily due to the increase in sales. As a percentage of sales, gross profit equaled 29.8% during fiscal 2021 compared to 34.7% during fiscal 2020 primarily due to higher direct material costs incurred during fiscal2021.

Selling, general and administrative (SG&A) expenses decreased $85,436 to $1,279,779 during fiscal 2021 compared to SG&A expenses of $1,365,215 during fiscal 2020 primarily due to payroll costs.

Other income was $301,103 during fiscal 2021 compared to other income of $1,896 during fiscal 2020 primarily due to the Paycheck Protection Program loan forgiveness in the amount of $298,282.

The Company recorded income taxes of $100 and $50 for the fiscal year ended September 30, 2021 and September 30, 2020. Any other 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. See Note 6 to the consolidated financial statements.

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 has been funds provided by operations and its existing cash balances.

	September 30	
	2021	2020
Cash & cash equivalents	$ 981,580	$ 764,169
Working capital	$ 1,549,997	$ 863,028
Current ratio	4.23 to 1	2.15 to 1
Long-term debt	$ 333,882	$ 113,001

Cash & cash equivalents increased $217,411 to $981,580 at September 30, 2021 when compared to $764,169 at September 30, 2020. The increase was a result of $116,272 in net cash provided by operating activities, $152,066 in net cash used for capital expenditures and $253,205 in cash provided by financing activities.

Net cash provided by operating activities fluctuates between periods primarily as a result of differences in sales and net income and the timing of the collection of accounts receivable, purchase of inventory and payment of accounts payable.

The $152,066 in fixed asset purchases consisted of $70,222 in electronic equipment, $73,399 in machinery, $3,195 in computer equipment and $5,250 in tooling.

During 2020, the Company received a loan totaling $298,282 from the Small Business Administration (SBA) under the Paycheck Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act. The loan was forgiven in fiscal 2021.

During 2021, the Company was granted a second PPP loan of $309,682. The loan was forgiven on December 2, 2021.

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, 2021 and 2020 was $109,642 and $165,615, respectively.

The Company has secured this Note by: (a) a Mortgage, Assignment of Rents, Security Agreement and Fixture Filing which creates a 1^{st} 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, 2021 and 2020, the Company did not have any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special entities, which might have been established for the purpose of facilitates off-balance sheet arrangements.

MICROWAVE FILTER COMPANY, INC.

AND

SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

* * *

SEPTEMBER 30, 2021 AND 2020

DANNIBLE & McKEE, LLP
Certified Public Accountants and Consultants
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Independent Accountant's Review Report

December 2, 2021

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

We have reviewed the accompanying consolidated financial statements of Microwave Filter Company, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Microwave Filter Company, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Dannible & McKee, LLP

MICROWAVE FILTER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2021	September 30, 2020*
Assets		
Current assets:		
Cash and cash equivalents (Note 1)	$ 981,580	$ 764,169
Trade accounts receivable, net of allowance (Note 1)	606,503	411,567
Inventories (Notes 1 and 2)	367,443	371,643
Prepaid expenses and other current assets	70,667	66,561
Current portion right-of-use lease asset (Notes 1 and 4)	3,358	-
Total current assets	2,029,551	1,613,940
Property, plant and equipment, net (Notes 1 and 3)	421,426	317,624
Right-of-use lease asset, net of current portion (Notes 1 and 4)	-	9,851
	$ 2,450,977	$ 1,941,415
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 142,413	$ 166,318
Customer deposits (Note 1)	50,241	54,182
Current portion lease liability (Notes 1 and 4)	3,358	6,493
Current portion of Paycheck Protection Program loans (Note 1)	26,696	298,282
Current portion of long-term debt (Note 5)	58,746	55,972
Accrued expenses	198,100	169,665
Total current liabilities	479,554	750,912
Long-term debt (Note 5)	50,896	109,643
Paycheck Protection Program loan, long-term (Note 1)	282,986	-
Lease liability, net of current portion	-	3,358
Total liabilities	813,436	863,913
Stockholders' equity:		
Common Stock, $.10 par value - 5,000,000 shares authorized, Issued 4,324,140 in 2021 and 2020, Outstanding 2,577,531 in 2021 and 2,578,630 in 2020	432,414	432,414
Additional paid-in capital	3,248,706	3,248,706
Accumulated deficit	(347,537)	(908,217)
Treasury stock, at cost (Note 1) 1,746,609 shares in 2021 and 1,745,510 in 2020	(1,696,042)	(1,695,401)
	1,637,541	1,077,502
	$ 2,450,977	$ 1,941,415

*Reclassified - See Note 1.

See accompanying notes and independent accountant's review report.

MICROWAVE FILTER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended September 30, 2021	2020
Net sales	$ 5,180,753	$ 3,107,610
Cost of goods sold	3,634,493	2,030,074
Gross profit	1,546,260	1,077,536
Selling, general and administrative expenses (Note 1)	1,279,779	1,365,215
Operating lease expense (Note 4)	6,804	6,804
Income (loss) before other income (expense)	259,677	(294,483)
Other income (expense):		
Interest income	-	6,092
Interest expense	(5,866)	(8,719)
Other income	8,687	4,523
Paycheck Protection Program loan forgiveness (Note 1)	298,282	-
	301,103	1,896
Income (loss) before provision for income taxes	560,780	(292,587)
Provision for income taxes (Note 6)	(100)	(50)
Net income (loss)	$ 560,680	$ (292,637)

See accompanying notes and independent accountant's review report.

MICROWAVE FILTER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balance at September 30, 2019	4,324,140	$ 432,414	$ 3,248,706	$ (615,580)	1,744,961	$ (1,695,022)	$ 1,370,518
Net loss	-	-	-	(292,637)	-	-	(292,637)
Purchase of treasury stock	-	-	-	-	549	(379)	(379)
Balance at September 30, 2020	4,324,140	432,414	3,248,706	(908,217)	1,745,510	(1,695,401)	1,077,502
Net income	-	-	-	560,680	-	-	560,680
Purchase and donation of treasury stock	-	-	-	-	1,099	(641)	(641)
Balance at September 30, 2021	4,324,140	$ 432,414	$ 3,248,706	$ (347,537)	1,746,609	$ (1,696,042)	$ 1,637,541

See accompanying notes and independent accountant's review report.

MICROWAVE FILTER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30, 2021	2020*
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:-		
Consolidated net income (loss)	$ 560,680	$ (292,637)
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	48,264	37,020
Income from donation of treasury stock (Note 1)	(137)	-
(Increase) decrease in trade accounts receivable	(194,936)	79,217
(Increase) decrease in inventories	30,946	(38,105)
Increase (decrease) in inventory obsolescence provision	(26,746)	42,209
Increase in prepaid expenses and other current assets	(4,106)	(16,197)
Paycheck Protection Program loan forgiveness (Note 1)	(298,282)	-
Increase (decrease) in accounts payable	(23,905)	40,467
Decrease in customer deposits	(3,941)	(23,947)
Increase in accrued liabilities	28,435	18,899
Net cash provided by (used for) operating activities	116,272	(153,074)
Cash flows from investing activities:		
Capital expenditures	(152,066)	(45,275)

- CONTINUED -

*Reclassified - See Note 1.

See accompanying notes and independent accountant's review report.

MICROWAVE FILTER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(- CONTINUED -)

	Year ended September 30, 2021	2020
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loans (Note 1)	309,682	298,282
Principal payments on long-term borrowings	(55,973)	(53,456)
Purchase of treasury stock (Note 1)	(504)	(379)
Net cash provided by financing activities	253,205	244,447
Net increase in cash and cash equivalents	217,411	46,098
Cash and cash equivalents, beginning of year	764,169	718,071
Cash and cash equivalents, end of year	$ 981,580	$ 764,169
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 6,196	$ 8,908
Cash paid during the year for taxes	$ 50	$ 50

See accompanying notes and independent accountant's review report.

MICROWAVE FILTER COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of significant accounting policies

Nature of business - Microwave Filter Company, Inc. ("MFC") and its wholly-owned Subsidiaries (Niagara Scientific, Inc. ["NSI"] and Microwave Filter International, LTD. ["MFI"], collectively, the "Company"), are engaged in the business of designing, developing, manufacturing and selling electronic filters, both for radio and microwave frequencies, to help process signal distribution and to prevent unwanted signals from disrupting transmit or receive operations.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of MFC and its wholly-owned subsidiaries, NSI and MFI, a dormant entity. The Company is located in Syracuse, New York. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassification - Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

Cash and cash equivalents - For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments, with a maturity of three months or less, when purchased, to be cash equivalents.

Accounts receivable and credit policies - The Company extends credit to business customers based upon ongoing credit evaluations. Accounts receivable are unsecured customer obligations due under normal trade terms, generally requiring payment within thirty (30) days from the invoice date. Accounts receivable are stated at the amount billed to the customer, and interest is not charged on the accounts. Customer account balances with invoices dated over ninety (90) days old are considered delinquent. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews customer accounts receivable that exceed ninety (90) days and estimates the portion that will not be collected. Management also calculates a reserve for returns and other customer allowances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts receivable is shown net of an allowance for doubtful accounts, credits and discounts of approximately $4,000 at September 30, 2021 and 2020.

Economic dependency and concentration of credit risk - The Company had sales to two customers representing 50% of total sales for the year ended September 30, 2021, compared to one customer that represented 38% of total sales for the year ended September 30, 2020. Accounts receivable at September 30, 2021 and 2020, included $453,505 and $229,120, respectively, that was due from these customers.

The Company maintains cash in bank accounts at various financial institutions. Amounts held in these accounts may, at times, exceed the amounts insured by the Federal Deposit Insurance Corporation (FDIC). Amounts in excess of FDIC insurance limits are subject to normal credit risk.

Revenue recognition - The Company recognizes revenue at a point-in-time once control over the finished product has transferred to the customer. Accordingly, revenue is recognized when the customer takes title and assumes the risks and rewards of ownership, generally at the time of shipment When revenue is recognized in accordance with the above terms, the trade receivable is recorded.

Inventories - Inventories are valued at the lower of cost (first-in, first-out [FIFO] method) or net realizable value. Net realizable value is determined as the estimated selling price in the normal course of business, minus the cost of completion, disposal and transportation. Work in process and finished goods include materials, direct labor and allocated factory overhead. See Note 2.

Property, plant and equipment - Property, plant and equipment are recorded at cost. Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the assets, while for income tax purposes, depreciation is computed using methods and lives prescribed by the appropriate income tax regulations.

Depreciation for financial statement purpose was computed using asset lives as follows:

Buildings	10 to 30 years
Machinery & equipment	3 to 10 years
Office equipment & fixtures	3 to 10 years

Expenditures for maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property, plant or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in income; see Note 3.

Customer deposits - Customer deposits consist of down payments from customers on future orders. The deposits remain as liabilities to the Company until the customer orders are completed.

Leases - The Company has recognized right-of-use assets and lease liabilities resulting from operating leases where the Company is the lessee, as described in Note 4. The Company has made an accounting policy election to not recognize lease assets and lease liabilities for leases with a term of 12 months or less.

Product warranty - The Company has established a warranty reserve which provides for the estimated cost of product returns based upon historical experience and any known conditions or circumstances. No revenues are recognized in connection with the performance of the warranty repair or fulfillment function. The warranty obligation is affected by product that does not meet specifications and performance requirements and any related costs of addressing such matters. Products must be returned within one year of the date of purchase. The warranty liability was insignificant at September 30, 2021 and 2020.

Research and development - Research and development expenditures were approximately $343,300 and $372,000 for the years ended September 30, 2021 and 2020, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

Advertising - The Company expenses advertising costs as incurred. Advertising expenses were approximately $20,600 and $23,700 for the years ended September 30, 2021 and 2020, respectively, and is included in selling, general and administrative expenses in the consolidated statements of operations.

Income taxes - The Company has elected to be taxed as a C Corporation for Federal and state income tax purposes, as explained in Note 6. Accordingly, the Company provides for income taxes using the liability method. Under the liability method, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the financial reporting basis and income tax basis of property and equipment. Deferred income taxes are also recognized for operating losses that are available to offset future taxable income. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Valuation allowances are established to reserve for deferred tax assets, which may not be realized. The Company has provided a full valuation allowance against its deferred tax assets. Deferred income taxes are recorded using currently enacted income tax rates applicable to the period in which the deferred tax asset or liability is expected to be realized or settled. As changes in tax laws are enacted, deferred income taxes are adjusted through the provision for income taxes in the year of the change.

The Company has reviewed its operations for uncertain tax positions and believes there are no significant exposures. The Company will include interest on income tax liabilities in interest expense and penalties in selling, general and administrative expenses, if such amounts arise. There were no interest or penalties for the years ended September 30, 2021 and 2020. The Company is no longer subject to Federal or New York State examinations by tax authorities for the closed tax years before 2018.

Retirement 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. The maximum corporate match was 6% of an employee's compensation during fiscal 2021.

The Company's matching contributions to the 401(k) plan for the years ended September 30, 2021 and 2020, were approximately $66,000 and $65,000, respectively. Additionally, the Company may make discretionary contributions to the non-contributory profit-sharing plan. There were no discretionary contributions in 2021 and 2020.

Treasury stock - The Company purchased 927 shares and 549 shares from various shareholders during the years ended September 30, 2021 and 2020, respectively. The purchased shares increased Treasury stock on the consolidated balance sheets in the amount of $504 and $379 at September 30, 2021 and 2020, respectively. Additionally, the Company was gifted 172 shares by a shareholder during the year ended September 30, 2021. These shares were valued at fair market value of $137 at the date of transfer and was recognized as income included in other income on the consolidated statements of operations for the year ended September 30, 2021, and an increase in treasury stock on the consolidated balance sheet as of September 30, 2021.

Use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Paycheck Protection Program loans - On March 27, 2020, the Coronavirus Aid, Relief, and Economic Securities ("CARES") Act was enacted to provide emergency assistance for individuals, families and organizations affected by the Coronavirus pandemic. The Paycheck Protection Program ("PPP") established by the U.S. Small Business Administration ("SBA") created through the CARES Act, provided qualified organizations with loans to assist them to pay certain qualified expenses. Under the terms of the CARES Act and PPP, the Company can apply for and be granted forgiveness for all of a portion of the loan to the extent the proceeds are used for qualifying expenses, including payment of eligible payroll costs, mortgage payments, lease payments, utility payments or interest payments on other business debts that were in place before February 15, 2020.

On May 5, 2020, the Company was granted a PPP loan from a financial institution in the amount of $298,282. The Company expended the entire loan proceeds for qualifying expenses over the 24-week covered period, applied for forgiveness for the entire loan amount, and was granted full forgiveness by the SBA in July 2021. Therefore, the Company has included the entire PPP loan proceeds of $298,282 in other income on the consolidated statements of operations for the year ended September 30, 2021. The Company previously included the entire PPP loan proceeds as a current liability on the consolidated balance sheet as of September 30, 2020. The loan forgiveness is subject to review by the SBA for six years from the date the loan is forgiven.

On December 27, 2020, The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venue Act (the "Economic Aid Act") was enacted, extending the authority to make PPP loans through March 31, 2021, revising certain PPP requirements, and permitting second draw PPP loans. Under the terms of the CARES Act, Economic Aid Act and PPP, the Company can apply for and be granted forgiveness for all or a portion of the second PPP loan to the extent the proceeds are used for qualifying expenses, including payment of eligible payroll costs, mortgage payments, lease payments, utility payments or interest payments on other business debts that were in place before February 15, 2020.

On March 10, 2021, the Company was granted a second PPP loan of $309,682 from a financial institution. The second PPP loan has an initial payment deferment period of ten months from the end of the 24-week covered period. If no application for forgiveness is submitted to the SBA within the deferment period (May 2021 through March 2022), then monthly repayments of approximately $6,900, including interest at 1%, will begin to become due through the loan's maturity date of March 10, 2026.

Under the terms of the second PPP, certain amounts and/or all of the loans may be forgiven if they are used for qualifying expenses as described in the Economic Aid Act. The Company has accounted for the second PPP loan as a liability in the consolidated balance sheet as of

September 30, 2021. An amount of $26,696 has been shown reflecting the current portion of the second PPP loan, while $282,986 is reflected as the long-term portion of the second PPP loan.

The Company expended the entire second PPP loan proceeds for qualifying expenses over the 24-week covered period, applied for forgiveness in May 2021 and was granted full forgiveness by the SBA in December 2021. The loan forgiveness of the second PPP loan will be recorded as other income in fiscal 2022. The loan forgiveness is subject to review by the SBA for six years from the date the loan is forgiven.

Risks and uncertainties - During fiscal 2021, local, U.S. and world governments have encouraged self-isolation to curtail the spread of the global pandemic, Coronavirus Disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel, size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. During the COVID-19 pandemic, the Company's services have been considered essential in nature and have not been materially interrupted. As the situation evolves, the Company continues to closely monitor the impact of the COVID-19 pandemic on all aspects of the business, including how it impacts customers, vendors and employees. The situation surrounding COVID-19 remains fluid and, if disruptions do arise, they could further materially adversely impact business.

Subsequent events - As explained above, the Company was granted forgiveness for the second PPP loan on December 2, 2021. Management has evaluated subsequent events through December 2, 2021, the date that the consolidated financial statements were available for issue.

Note 2 - Inventories

Inventories consisted of the following:

	September 30,	
	2021	2020
Raw materials and stock parts	$ 641,059	$ 670,873
Work-in-process	109,247	91,102
Finished goods	123,963	143,240
	874,269	905,215
Reserve for obsolesence	(506,826)	(533,572)
	$ 367,443	$ 371,643

Note 3 - Property, plant and equipment

Property, plant and equipment consisted of the following:

	September 30, 2021	September 30, 2020
Land	$ 143,000	$ 143,000
Buildings	2,057,549	2,057,549
Machinery and equipment	3,659,045	3,510,175
Office equipment and fixtures	1,928,794	1,925,598
	7,788,388	7,636,322
Less - Accumulated depreciation	(7,366,962)	(7,318,698)
	$ 421,426	$ 317,624

Depreciation expense was $48,264 and $37,020 for the years ended September 31, 2021 and 2020, respectively.

Note 4 - Operating lease commitments

The Company entered into an operating lease arrangement for office equipment in Syracuse, New York beginning January 1, 2019. During both the years ended September 30, 2021 and 2020, rent expenses were recognized associated with the operating lease as fixed rent expense of $6,804.

Amounts recognized as a right-of-use asset related to the operating lease are included as a current asset, while related lease liabilities are shown as current liabilities and long-term liabilities. As of September 30, 2021 and 2020, right-of-use lease assets and lease liabilities relating to the operating lease were as follows:

	September 30, 2021	September 30, 2020
Operating lease asset:		
Current portion right-of-use lease asset	$ 3,358	$ -
Right-of-use lease asset, net of current portion	-	9,851
Operating lease liabilities:		
Current portion of lease liability	3,358	6,493
Lease liability, net of current portion	-	3,358

During the years ended September 30, 2021 and 2020, the Company had the following cash and non-cash activities associated with operating leases:

	September 30,			
	2021		2020	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating lease	$	6,804	$	6,804

There was no non-cash activity for the years ended September 30, 2021 and 2020.

The future minimum annual payments due under the operating lease as of September 30, 2021, is as follows:

Fiscal 2022	$	3,402
Less amount representing interest		(44)
	$	3,358

As of September 30, 2021 and 2020, the weighted-average remaining lease term for all operating leases is 0.5 and 1.5 years, respectively.

Because the Company does not have access to the rate implicit in the lease, the incremental borrowing rate is utilized as the discount rate. The weighted average discount rate associated with the operating lease as of September 30, 2021 and 2020 is 4.50%.

Note 5 - Long-term debt

	September 30,			
	2021		2020	
Note payable to KeyBank, payable in monthly installments of $5,197, including interest at 4.50% through July 2023; secured by real property owned and guaranteed by Microwave Filter Company, Inc. and Subsidiaries	$	109,642	$	165,615
Less - Current portion		58,746		55,972
	$	50,896	$	109,643

Future maturities of long-term debt subsequent to fiscal 2022 are as follows:

2023	$	50,896

The Company is required to comply with various restrictions and covenants, including a loan covenant requiring submission to the bank of audited consolidated financial statements subsequent to year- end. The Company has received a waiver of noncompliance with this covenant for the years ended September 30, 2021 and 2020.

Note 6 - Income taxes

The components of the provision for income taxes in the accompanying consolidated statements of operations are as follows:

	Year ended September 30,	
	2021	2020
Currently payable:		
Federal	$ -	$ -
State	100	50
Deferred	-	-
	$ 100	$ 50

As explained in Note 1, the Company elected to be taxed as a C Corporation. The Company generated taxable income of approximately $54,600 for the year ended September 30, 2021, before net operating loss (NOL) carryforwards reduced taxable income to zero. For the year ended September 30, 2020, the Company had an NOL of approximately $223,300.

The accompanying consolidated balance sheets include the following components of net deferred taxes:

	September 30,	
	2021	2020
Deferred tax assets	$ 668,200	$ 734,100
Deferred tax liabilities	(3,100)	-
Valuation allowance	(665,100)	(734,100)
Net deferred taxes	$ -	$ -

Deferred tax (expense) benefit consisted of the following:

	Year ended September 30, 2021	2020
Expense from change in temporary differences	$ (64,600)	$ (1,200)
(Expense) benefit from change in tax credit carryforwards and net operating losses	(4,400)	22,000
Decrease (increase) in valuation allowance	69,000	(20,800)
Deferred tax expense	$ -	$ -

The Company's Federal AMT credit carryforward of approximately $35,000 was utilized to offset regular tax liabilities for the year ended September 30, 2021.

The research and development tax credit carryforwards and NOL carryforwards generated through September 30, 2021, of approximately $352,000 and $761,000, respectively, expire at various times through 2038. As required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, the Company has evaluated the positive and negative evidence bearing upon the realization of its net 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 net deferred tax assets, and, as a result, a valuation allowance was established. Pursuant to the CARES Act, there is no limit to the usage of the Company's NOL's originating through the fiscal tax years ending on or before September 30, 2020. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service (IRS) for the fiscal years September 30, 2018, through September 30, 2021.