

REPORT TO STOCKHOLDERS

Second Quarter and the First Six Months of 2003 Results of Operations

Second quarter 2003 sales of \$6,613,000 increased 2.3 % compared to second quarter 2002 sales of \$6,462,000. Expenses associated with bank modification agreements entered into during the second quarter and additional professional fee expenses were incurred totaling approximately \$300,000 and impacted the second quarter and first six months of 2003 results. In addition, a personnel restructuring charge of \$74,000 was taken during the second quarter of 2003. Operating loss in the second quarter of 2003 was \$529,000 compared to an operating loss of \$153,000 in the second quarter of 2002. The Company recognized a gain on the disposition of assets of \$71,000 during the second quarter of 2003.

Net loss for the second quarter of 2003 was \$475,000 or \$.15 per share, compared to a net loss of \$54,000 or \$.02 per share, recorded for the second quarter of 2002.

For the first six months of 2003 sales of \$13,124,000 decreased 1.4 % compared to sales of \$13,313,000 for the first six months of 2002. Operating loss for the first six months of 2003 was \$1,006,000, which takes into account a second quarter personnel restructuring charge of \$74,000, compared to operating income of \$122,000, which takes into account a second quarter restructuring charge of \$240,000 for the first six months of 2002.

Net loss for the first six months of 2003 was \$930,000 or \$.30 per share, giving effect to the impact of the \$.02 per share second quarter personnel restructuring charge and the \$.02 per share second quarter gain on the disposition of assets, compared to net income of \$89,000 or \$.03 per share, giving effect to the impact of a \$.05 per share personnel restructuring charge in the second quarter of 2002 for the first six months of 2002.

While the sales, order input and backlog for the quarter showed improvement we are still managing the economic challenges faced by our industry. We are focused on targeted key account penetration, product development and cost reduction.

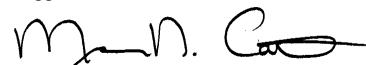
The backlog at the end of the second quarter of 2003 was \$12.1 million, an increase of \$2.1 million or 21.0 % compared to year-end 2002, and \$1.0 million or 9.0 % when compared to the backlog of \$11.1 million at the end of the second quarter of 2002. Orders received during the second quarter of 2003, totaling \$7.1 million, exceeded the second quarter of 2003 sales level by approximately 7.3 %.

Orders received for the first six months of 2003, totaling \$15.2 million, exceeded sales in the first six months of 2003 by approximately 16%, reflecting the defense contracts awarded to Merrimac during the first six months of 2003.

Management of the Company has implemented certain cost and capital expenditure reductions and is contemplating additional cost reductions as a means to improve cash flow. Management also believes that the potential exists for various financing alternatives, including but not limited to obtaining secured financing from an asset based lender and/or a sale and lease-back of certain property. While management believes any one of these financing alternatives, combined with current liquid resources and the expected cash flows from operations, should be sufficient to meet the obligations to Fleet Bank (\$5,807,000 and any revolving credit balance due January 31, 2004) and currently contemplated operations during the next twelve months, there can be no assurance that any alternative financings can be obtained by the Company.

In Costa Rica we built a state-of-the-art manufacturing facility that provides us with the capability and capacity to be very competitive and responsive to our customers as the wireless market rebounds. We made this decision to expand in Costa Rica in 2000 based on our expectation that the telecommunications industry would experience continued growth, a decision which was bolstered by our relationship with Ericsson. No one anticipated the subsequent monumental industry downturn. At long last, there are many indications that telecommunications is starting to recover. Notwithstanding the challenges in managing the increased overhead of our Costa Rica facility, we believe we made the correct strategic investment. We are poised to deliver high-volume, cost effective production with this facility.

Thank you for your continued support and confidence,



Mason N. Carter
Chairman and CEO

August 12, 2003

Note: This report contains statements relating to future results of the Company (including certain projections and business trends) that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties. 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, particularly its Multi-Mix products; the risk that the Company will not be able to refinance or retire its existing indebtedness or consummate alternate financing in order to fund its operations as currently contemplated by its business strategy; general economic and industry conditions; slower than anticipated penetration into the satellite communications, defense and wireless markets; the risk that the benefits expected from the acquisition of Filtran Microcircuits Inc. are not realized; the ability to protect proprietary information and technology; competitive products and pricing pressures; risks relating to governmental regulatory actions in communications and defense programs; and inventory risks due to technological innovation and product obsolescence, 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.

SUMMARY QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Quarter Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Net sales	\$ 6,612,597	\$ 6,462,328	\$ 13,124,241	13,312,915
Gross profit	2,554,080	2,985,607	5,006,021	6,179,887
Selling, general and administrative	2,584,877	2,286,887	4,914,271	4,630,667
Research and development	424,254	612,104	1,023,985	1,187,651
Restructuring charges	74,180	240,000	74,180	240,000
Income (loss) before income taxes	(511,655)	(194,199)	(1,048,040)	18,638
Provision (benefit) for income taxes	(36,685)	(140,000)	(117,685)	(70,000)
Net income (loss)	(474,970)	(54,199)	(930,355)	88,638
Net income (loss) per common share - basic and diluted	\$ (.15)	\$ (.02)	\$ (.30)	\$.03
Weighted average number of shares outstanding	3,120,591	3,186,387	3,120,343	3,092,809

**SUMMARY CONSOLIDATED
BALANCE SHEETS (Unaudited)**
June 28, 2003 and June 29, 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,891,110	\$ 1,610,514
Income tax refunds receivable	44,273	213,496
Accounts receivable, net	5,358,558	4,827,260
Inventories	3,860,526	4,685,550
Other current assets	496,789	306,631
Deferred tax assets	945,000	548,000
Total current assets	12,596,256	12,191,451
Property, plant and equipment, net	18,644,050	19,689,986
Other assets	689,524	838,477
Deferred tax assets, non-current	1,109,000	1,194,000
Goodwill, net	2,967,239	2,586,892
Total Assets	\$ 36,006,069	\$ 36,500,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Current portion of long-term debt	\$ 5,989,469	\$ 390,775
Other current liabilities	3,197,897	3,636,671
Total current liabilities	9,187,366	4,027,446
Long-term debt	406,280	3,749,067
Deferred compensation	106,793	139,136
Deferred liabilities	48,014	183,538
Deferred tax liabilities	1,737,000	958,000
Total liabilities	11,485,453	9,057,187
Stockholders' equity:		
Common stock	32,027	31,902
Common stock warrants	837,200	837,200
Additional paid-in capital	17,848,697	17,783,905
Retained earnings	6,465,623	9,620,083
Comprehensive income (loss)	478,935	(116,776)
	25,662,482	28,156,314
Less treasury stock, at cost	(573,866)	(128,695)
Less officer-stockholder loan	(568,000)	(584,000)
Total stockholders' equity	24,520,616	27,443,619
Total Liabilities and Stockholders' Equity	\$ 36,006,069	\$ 36,500,806



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