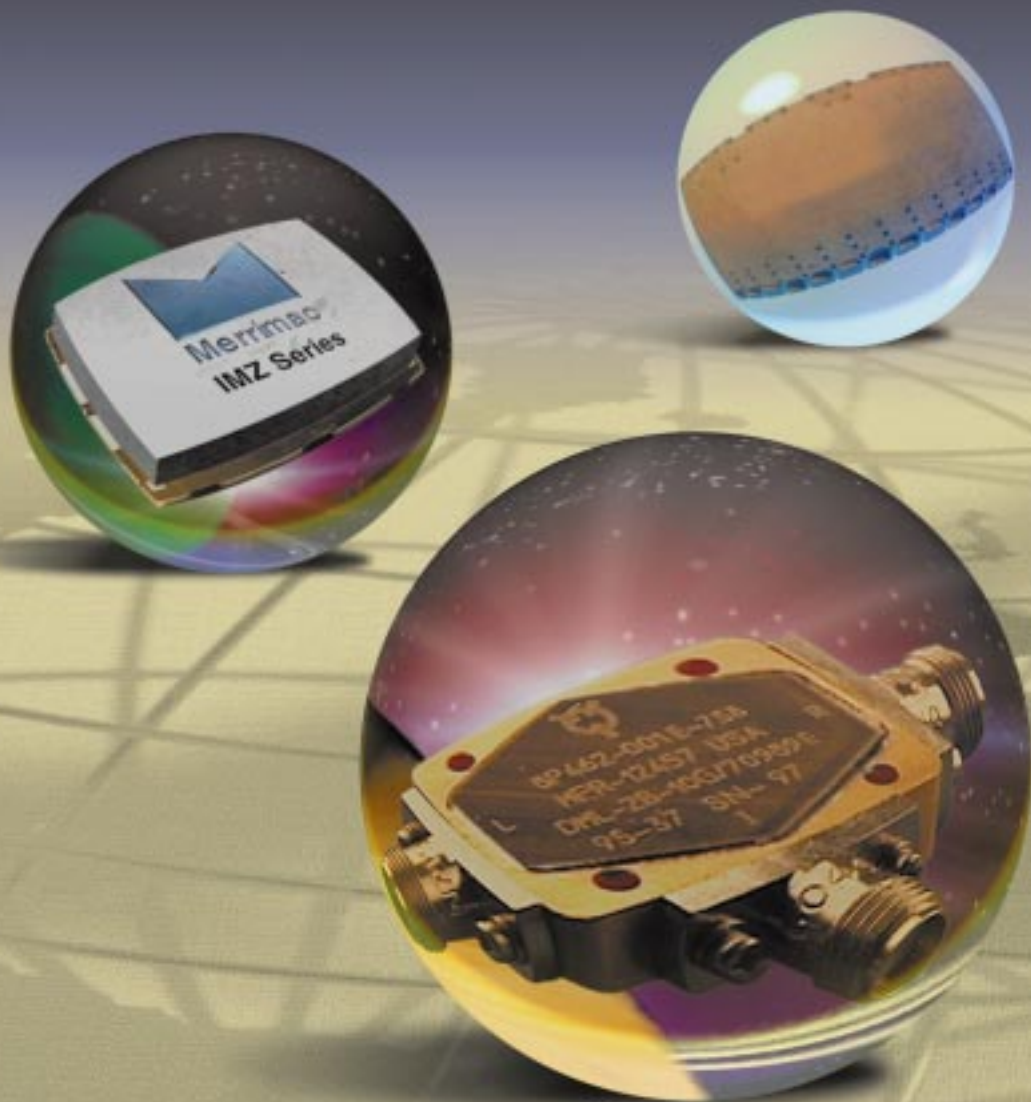


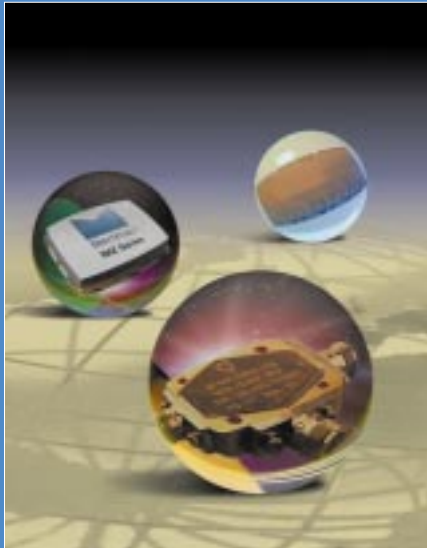
Merrimac

MERRIMAC INDUSTRIES, INC.

1997 ANNUAL REPORT



Selected Financial Data	1
Report to Our Stockholders, Chairman's Letter	2-8
Management's Discussion and Analysis of Financial Condition and Results of Operations	9-10
Consolidated Statements of Income	11
Consolidated Balance Sheets	12
Consolidated Statements of Stockholders' Equity	13
Consolidated Statements of Cash Flows	14
Notes to Consolidated Financial Statements	15-23
Report of Independent Public Accountants	23
Quarterly Financial Information and Common Stock Data	24
Directors, Officers, Key Staff and Corporate Data	Inside Back Cover



About the Cover:

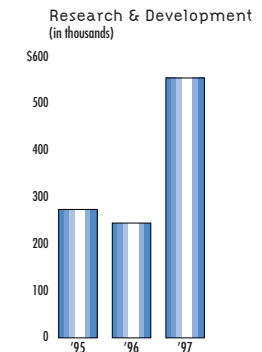
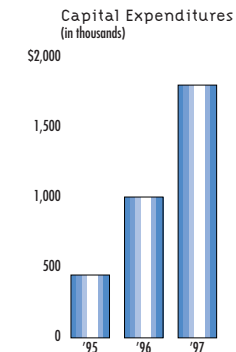
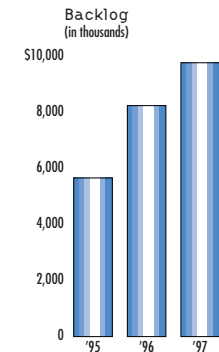
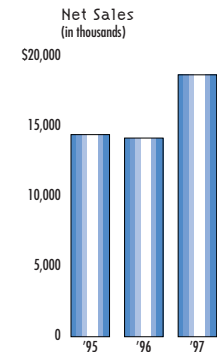
Recent developments in surface mount and multi-layer technologies position Merrimac to be a global leader in advanced communications systems such as GPS (Global Positioning Systems), VSAT (Very Small Aperture Terminal) and ECM (Electronic Countermeasures). Our focus continues to move towards re-engineering business processes, value engineering, and global expansion of production and sales operations.

Selected Financial Data

	1997*	1996	1995	1994	1993
Net sales	\$18,659,106	\$14,152,970	\$14,396,633	\$13,592,787	\$14,252,309
Operating income (loss)	1,995,145	(588,552)	2,308,549	2,093,853	2,923,212
Income (loss) before income taxes	2,157,409	(491,252)	2,591,066	2,268,196	3,080,988
Net income (loss)	1,402,409	(297,252)	1,652,066	1,431,196	1,983,988
Net income (loss) per share:					
Basic	\$.91	\$(.19)	\$.97	\$.82	\$1.17
Diluted	\$.87	\$(.19)	\$.95	\$.81	\$1.14
Cash dividends per share**	\$.30	\$.40	\$.40	\$.40	\$.30
Weighted average shares outstanding:					
Basic	1,539,421	1,549,218	1,700,422	1,743,792	1,693,239
Diluted	1,618,339	1,575,515	1,730,889	1,765,375	1,734,635
Working capital	\$ 8,736,011	\$ 7,958,440	\$10,024,368	\$ 9,131,157	\$ 5,869,746
Total assets	15,559,804	13,081,765	15,188,512	14,705,444	14,715,859
Stockholders' equity	12,802,831	11,129,022	13,368,883	13,012,463	12,938,921

*All fiscal years presented herein contain 52 weeks, except fiscal year 1997 which consists of 53 weeks.

**Quarterly cash dividends were eliminated in 1997 after quarterly dividends of \$.10 per share were paid for the first three quarters of 1997.





Mason N. Carter



L-Band Mixer — front-end receiver



I&Q Network — military COTS (commercial off-the-shelf) products

“Our performance represents the foundation of a business model that has a promising future...”

To Our Shareholders:

Our challenge for 1997 was very aggressive, when reflecting upon the Company's history. I am very pleased to report to Our Stockholders that the Merrimac Team met and exceeded that challenge.

This success goes far beyond the 32% increase in sales after a dozen years of negative real growth. It goes beyond the important fact that we returned to profitability and achieved a solid return on assets and equity. Our performance represents the foundation of a business model that has a promising future, after so many years of placing that future at great risk. The Goal of Profitable Growth gained great momentum last year supported by the efforts and commitment of our co-workers.

The Highlights for 1997 were many, addressing the varied issues facing the business we inherited. A review of the significant accomplishments should provide you with a meaningful sense of the direction in which your Company is headed. It is crucial to understand that what we have accomplished is part of a process...not an end in itself. Focus and commitment are the central elements. Here are some of those process milestones:

Highlights of the Year

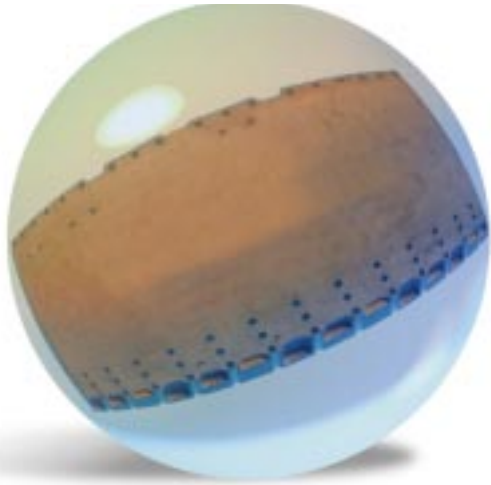
- Focus on Driving-Force Issues...major positive changes have occurred in operations, marketing, culture and capital reinvestment. All of our initiatives outlined a

year ago continue to produce real progress and have made an immediate contribution to our business plan.

- Customer First...every co-worker on our Team understands that the customer always comes first. We have observed some heroic efforts while demonstrating our capabilities to our key accounts.
- From Job Shop to Life-Cycle Partner...the way to convince our customers that we had changed was to show them our greatly expanded capability. The result is new incremental business never awarded in the past.

- Costa Rica Expansion and ISO 9002 Certification...we moved to a 17,000 square-foot facility this January 1. In addition to handling the growth and making a significant contribution last year, the local Team obtained coveted ISO 9002 qualification.
- Empowered Co-Workers...in order to achieve our plans we need to optimize the power of our valued intellectual property, our co-workers. With the creation of "Merrimac University," we averaged during this year twenty-five hours of training per co-worker in West Caldwell and thirty-five hours in San Jose.

“The Goal of Profitable Growth gained great momentum last year supported by the efforts and commitment of our co-workers.”



14 Channel Filter Assembly — high-altitude application

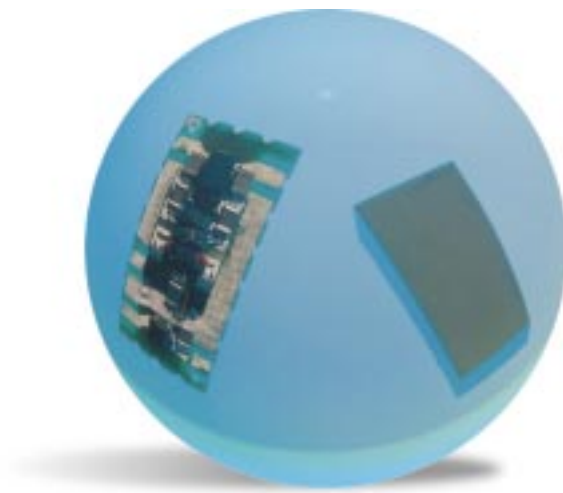
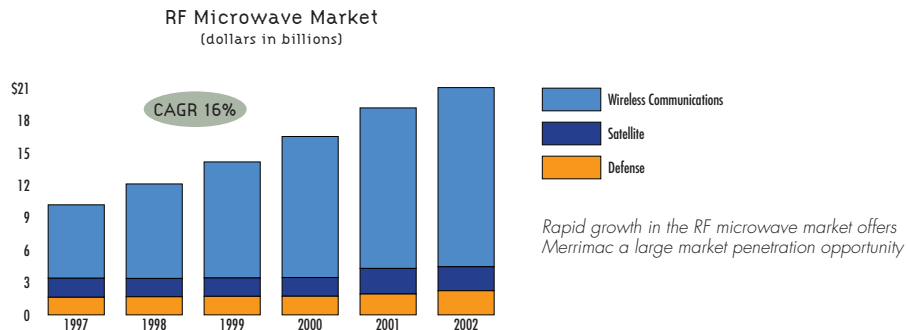


Image Reject Mixer — communications

“We managed our working capital resources wisely and increased inventory turnover...”

- Creating Customer Value through Advanced Technology... we designed twelve new products on our own initiative last year and are commercializing these currently. Our major technology development program will be announced and described later this year and is expected to provide broad, new core competencies and open new high-growth market opportunities.
- Commercial Satellite Concentration...business increased to record levels last year. While this is clearly a great accomplishment, we have positioned ourselves to attack this fast-growth market segment with cutting-edge products and services.
- Major Account Penetration...we succeeded in opening new key accounts and achieving increased sales to existing key accounts by targeting programs.
- A Plan for the Future...a three-year strategic plan, the first in the Company's history, was developed. This plan outlines the model for achieving our Goal of Profitable Growth. Every co-worker received a summary of the plan, assuring a Company-wide understanding of, and encouraging a total commitment to, our future.
- Increase in Market Segment Focus...as part of reinventing Merrimac, we are clearly defining which market segments and niches to pursue vigorously.
- Key Account Focus...refining our customer base from 1,000 diverse accounts to 75 key accounts allows us to concentrate our resources on fast-growth customers. Reaction from our key accounts has been positive and has rewarded us with a greater volume of their business.
- Globalization...a great opportunity exists for us to grow internationally. We have established Merrimac Europe Limited, based in London, and we expect it to be an important contributor to our plans. We anticipate a Pacific Rim presence in the near future. Our key accounts, all multinationals, appreciate that we have a presence where they are doing business.
- Board Composition...appointing two new outside members to our Board of Directors reflects our intent of having more independent directors.

“Our major technology development program will be announced and described later this year and is expected to provide broad, new core competencies.”



Phase Shifter — commercial telecommunications signal distribution network

“We **strive** to move beyond our comfort zone, taking **action** to gain a market leadership position.”

During the year, our solid operating performance, together with an additional assist from the elimination of the cash dividend, provided the necessary cash flow to fund our investments in capital equipment, new product development and co-worker training. We managed our working capital resources wisely and increased inventory turnover. We began the next fiscal year with a solid cash position.

On the financial front, a new \$7 million revolving credit and term loan facility provided by our new banking relationship, along with earnings reinvestment, gives us ample resources to fuel business expansion.

Moving the Process Forward...Challenges and Opportunities

The greatest challenges we face are staying current with the rapid pace of change, focusing on our plan, and capitalizing on opportunities. These challenges involve our customer relations, technology changes, process refinements, competitive actions, economic conditions, and, most importantly, our own ability to execute.

Old paradigms are abandoned as we recognize that change is continuous and inevitable. We strive to move beyond our comfort zone, taking action to gain a market leadership position.

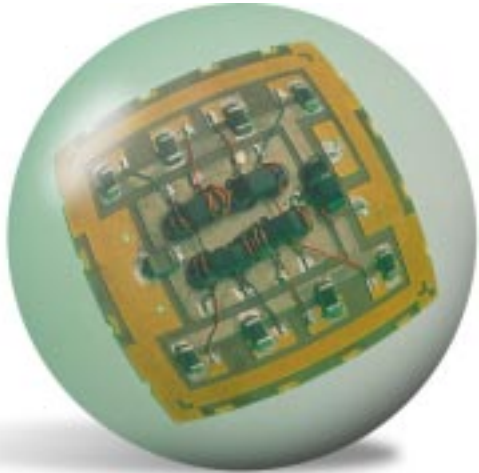
Last year we began to focus on reducing our account base and we are implementing a fundamental discipline of customer intimacy. This is a proactive effort to respond to customer needs through an in-depth understanding of their business. This transformation from the traditional product sales approach has resulted in customer appreciation that translates into orders.

Supporting our customer-intimacy focus is a commitment to technological innovation and process excellence. Significant investments of time, effort and capital have enabled us to emerge as “product life-cycle partners” to our key account customers rather than as the “job shop” resource of the past.

As our customers rationalize and right-size their businesses, while redefining their core competencies, Merrimac now provides products, processes, and a customer-centered business model that responds rapidly to changing customer needs. Reaction to the new Merrimac has brought earlier involvement in customers’ planning and new business opportunities. We hear this theme from our customers: “This is a different Merrimac and a much improved one.”

We are indeed a new and different Merrimac, but the redesign is far from over. We are developing an infrastructure based on simplified processes throughout the organization. Key account customers receive comprehensive service within

“Supporting our **customer-intimacy** focus is a commitment to **technological innovation** and **process excellence**.”



8-way Power Divider — base station



*Ku-Band Bi-phase Modulator
(patent pending) — satellite application*

the required response time, coupled with the quality and customization demanded. We are creating a company that understands that the customer comes first, and we are committed, above all, to satisfy our customers' needs.

Our Goal is Profitable Growth. Our objective is to satisfy our key account customers by committing our resources to providing the best total integrated packaging solution, while improving our value contribution with each new opportunity. Delivering on our objective assures us of achieving our Goal.

Based on the Merrimac Team's success in 1997, the opportunity envisioned a year ago has been greatly enhanced, and we are positioning ourselves advantageously.

Thank you for your continued support and confidence,

Mason N. Carter
Chairman, President and
Chief Executive Officer

“Our objective is to satisfy our key account customers by committing our resources to providing the best total integrated packaging solution.”

Management's Discussion and Analysis of Financial Condition and Results of Operations

1997 compared to 1996

Results of operations reflect increases in net sales of \$4,506,000 or 31.8% and operating income (before the 1996 restructuring charge) of \$1,202,000 or 151%. Net income of \$1,402,000 compares to a net loss of \$297,000 after the restructuring charge reported in 1996 and diluted net income of \$.87 per share compares to diluted net loss of \$.19 per share in the prior year.

Net foreign sales amounted to \$5,731,000 or 30.7% of net sales, an increase of \$1,341,000 or 30.6% compared to prior year's net foreign sales of \$4,390,000. Net domestic sales amounted to \$12,928,000 or 69.3% of net sales, an increase of \$3,165,000 or 32.4% compared to prior year's net domestic sales of \$9,763,000. The increases in net sales were attributable to increased shipments of orders from a higher order backlog, process improvement initiatives, customer service focus and reduction of total-cycle-time to market.

Orders increased \$3,457,000 or 20.7% to \$20,186,000 in 1997 and the backlog of firm unfilled orders increased \$1,527,000 or 18.6% to \$9,758,000 at year-end.

As a result of the increases in net sales, cost of sales increased \$1,707,000 or 20.7%. Cost of sales as a percentage of net sales decreased 4.9% to 53.3% for 1997. The decrease in cost of sales as a percentage of net sales when compared to the prior year is the result of volume-related improved efficiencies in the manufacturing cycle, a higher concentration of productive labor utilized in completing customer orders and a reduction of non-productive labor associated with training and instruction programs during the prior year.

Selling, general and administrative expenses increased \$1,675,000 or 33.2% and as a percentage of net sales increased .4% to 36.0%. Increases in selling costs were related to higher sales commissions due to increased sales revenues. General and administrative expenses partially increased due to additional compensation expenses related to the hiring of additional administrative personnel and higher compensation expenses resulting from mid-year merit increases to certain employees. Certain transitional costs associated with further restructuring and re-engineering also increased selling, general and administrative expenses.

Research and development expenses for new products were \$556,000 for 1997, an increase of \$309,000 or 126% from prior year. The Company settled litigation relating to a 1992 acquisition claim and obtained a worldwide release for current and any future claims of any nature arising from the utilization of acquired technology. The cost of the settlement, including expenses, was \$122,000 and was charged to operations this year.

1996 compared to 1995

In 1996 net sales were \$14,153,000 compared to \$14,397,000 in 1995. Operations generated a loss of \$589,000 in 1996. After excluding the \$1,382,000 restructuring charge recognized in 1996, operations generated income of \$793,000 compared to operating income of \$2,309,000 in 1995. A net loss of \$297,000 in 1996 compared to net income of \$1,652,000 in 1995. The operating loss was primarily due to the increases in cost of sales and selling, general and administrative expenses coupled with the restructuring charge.

Net foreign sales amounted to \$4,390,000 or 31.0% of net sales, an increase of \$161,000 or 3.8% compared to prior year's foreign sales of \$4,229,000. Net domestic sales amounted to \$9,763,000 or 69.0% of net sales, a decrease of \$405,000 or 4.0% compared to prior year's domestic sales of \$10,168,000. Management attributed approximately \$200,000 of the decrease to the continued decline of net domestic defense activity.

Orders increased \$1,776,000 or 11.9% to \$16,729,000 in 1996 and the backlog of firm unfilled orders increased \$2,575,000 or 45.5% to \$8,231,000 at year-end.

Cost of sales as a percentage of net sales increased 8.1% to 58.2%, which amounted to an increase of \$1,032,000. The primary reasons for the increases were the loss of production time from Total Quality Management (TQM) and ISO 9001 quality standards program training and implementation, as well as the setup costs for the new manufacturing facility in Costa Rica, which items in the aggregate were \$811,000. In addition, higher compensation rates due to the merit pay increases that became effective at mid-year 1995; additional manufacturing personnel hired to reduce the number of backlog ship days; the doubling of the matching contribution rate by the Company to the Company's 401(k) Plan; and fixed overhead increases not fully absorbed because of a shipment shortfall impacted cost of sales.

Selling, general and administrative expenses increased \$331,000 and as a percentage of net sales increased from 32.7% in 1995 to 35.6% in 1996. The increases are due primarily to aggregate costs of \$464,000 for TQM and ISO 9001 training, instruction and implementation costs and a comprehensive marketing analysis utilizing an outside consulting firm, as well as higher compensation expenses resulting from 1995 mid-year merit increases to all employees.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's financial condition remained strong throughout 1997. The Company had liquid resources comprised of cash and cash equivalents (including investments in available-for-sale securities in 1996) totaling approximately \$2,400,000 in both 1997 and 1996. The Company's working capital was approximately \$8,700,000 and its current ratio was 4.7 at the end of 1997 compared to approximately \$8,000,000 and 5.7, respectively, in 1996.

The Company's operating activities generated cash flows of \$1,621,000 in 1997 compared to \$792,000 in 1996. Primary reasons for the increase in cash flows in 1997 were increases in net income plus depreciation and current liabilities which partly offset increases in accounts receivable and inventories. Investments in property, plant and equipment were \$1,800,000 in 1997 compared to \$1,003,000 in 1996. Proceeds from the exercise of stock options were \$593,000 for 65,400 shares of common stock in 1997 compared to \$286,000 for 36,300 shares in 1996.

The Company paid cash dividends of \$459,000 in 1997 compared to \$617,000 in 1996 at the quarterly rate of \$.10 per share. The Company issued a news release on August 28, 1997 regarding the Board of Directors review of its strategy for growth and relationship to its cash dividend policy. The Board of Directors decision was to reinvest all future earnings in the Company and eliminate the cash dividend. During 1996 the Company made open market purchases of 154,100 shares of its common stock at a cost of \$1,630,000. No shares were repurchased in 1997.

The Company recently entered into a \$7,000,000 revolving credit and term loan agreement with Summit Bank, at one-half percent below the bank's floating prime rate. Up to \$2,500,000 of borrowings may be used for capital expenditures under the term loan. The full line is available for future borrowing needs of the Company for working capital and general corporate purposes.

Management believes that with the liquid resources and the unused line of credit available, along with cash flows expected to be generated from operations, the Company will have sufficient resources for currently contemplated operations in 1998. Expansion of the Company's manufacturing facility in Costa Rica, that became operational during the second half of 1996, is currently underway with completion anticipated early in 1998.

The Company's capital expenditures for new projects and production equipment are anticipated to exceed its depreciation and amortization expenses in 1998.

The Company recognizes the need to assure that its operations will not be adversely impacted by Year 2000 software failures. The impact on operations has been evaluated and plans have been formulated to ensure Year 2000 compliance before the end of 1998. Beginning in 1998, existing mission-critical software will be revised to process dates for 1999 and beyond without any disruption to the business. Software revisions will be performed by Company employees and the total estimated cost for achieving Year 2000 compliance has not been and is not anticipated to be material to the Company's financial position or results of operations.

The Company was authorized on November 1, 1996 to purchase up to 100,000 shares of its common stock, depending on market conditions, and has purchased 4,100 shares to date under such authorization.

Periodically, the Company explores the possibility of acquiring similar manufacturers of electronic devices or companies in related fields, although it currently has no definitive plans or agreements. Management believes that any such acquisitions and business operation expansion could be financed through its liquid and capital resources currently available as previously discussed and/or through additional borrowing or issuance of equity or debt securities. The additional debt from any acquisitions, if consummated, would increase the Company's debt-to-equity ratio and such debt or equity securities might, at least in the near term, have a dilutive effect on net income per share.

Certain statements in this annual report are forward-looking statements based on current management expectations and are subject to risks and uncertainties. Factors that could cause future results to differ from these expectations include general economic and industry conditions, competitive products and pricing pressures, risks relating to governmental regulatory actions in communications and defense programs, and inventory risks due to technological innovation. Additional factors to which the Company's performance is subject are described in the Company's reports filed from time to time with the Securities and Exchange Commission.

Consolidated Statements of Income

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

	1997	1996	1995
Net sales	\$18,659,106	\$14,152,970	\$14,396,633
Cost and expenses:			
Cost of sales	9,947,774	8,240,639	7,208,152
Selling, general and administrative	6,716,187	5,041,606	4,710,752
Amortization of intangible assets		77,568	169,180
Restructuring charge		1,381,709	
	16,663,961	14,741,522	12,088,084
Operating income (loss)	1,995,145	(588,552)	2,308,549
Interest and other income, net	162,264	97,300	282,517
Income (loss) before income taxes	2,157,409	(491,252)	2,591,066
Provision (credit) for income taxes	755,000	(194,000)	939,000
Net income (loss)	\$ 1,402,409	\$ (297,252)	\$ 1,652,066
Net income (loss) per common share – basic	\$.91	\$ (.19)	\$.97
Net income (loss) per common share – diluted	\$.87	\$ (.19)	\$.95
Weighted average number of shares outstanding – basic	1,539,421	1,549,218	1,700,422
Weighted average number of shares outstanding – diluted	1,618,339	1,575,515	1,730,889

See accompanying notes.

Consolidated Balance Sheets

January 3, 1998 and December 28, 1996

	1997	1996
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,414,725	\$ 1,265,581
Investments in available-for-sale securities		1,140,832
Accounts receivable	3,091,287	1,850,042
Inventories	4,508,569	4,165,818
Other current assets	173,203	271,810
Deferred tax assets	919,500	968,000
Total current assets	11,107,284	9,662,083
Property, plant, and equipment, at cost	13,856,825	12,668,930
Less accumulated depreciation and amortization	9,663,081	9,326,688
Net property, plant and equipment	4,193,744	3,342,242
Deferred tax assets	65,000	47,000
Other assets	193,776	30,440
Total Assets	\$15,559,804	\$13,081,765
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,141,779	\$ 750,763
Accrued liabilities	1,193,669	952,880
Income taxes payable	45,825	
Total current liabilities	2,381,273	1,703,643
Deferred compensation	375,700	249,100
Total liabilities	2,756,973	1,952,743
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.50 per share:		
5,000,000 shares authorized; 2,651,131 and 2,585,749 shares issued	1,325,566	1,292,875
Additional paid-in capital	9,709,244	9,005,330
Retained earnings	10,995,086	10,051,720
Unrealized holding gain on available-for-sale securities, net		6,162
	22,029,896	20,356,087
Less treasury stock, at cost - 1,074,839 shares	9,227,065	9,227,065
Total stockholders' equity	12,802,831	11,129,022
Total Liabilities and Stockholders' Equity	\$15,559,804	\$13,081,765

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

	Common Stock		Additional	Unrealized	Retained	Treasury Stock	
	Shares	Amount	paid-in	holding	earnings	Shares	Amount
			capital	gain (loss)			
Balance, December 31, 1994	2,521,196	\$1,260,598	\$8,537,460	\$(213,720)	\$9,989,697	830,735	\$6,561,572
Net income					1,652,066		
Exercise of options	28,256	14,128	164,364				
Tax benefit - stock options*			21,300				
Effect of change in fair value of available-for-sale securities				215,620			
Cash dividends					(676,013)		
Purchase of common stock						90,004	1,035,045
Balance, December 30, 1995	2,549,452	1,274,726	8,723,124	1,900	10,965,750	920,739	7,596,617
Net loss					(297,252)		
Exercise of options	36,297	18,149	268,206				
Tax benefit - stock options*			14,000				
Effect of change in fair value of available-for-sale securities				4,262			
Cash dividends					(616,778)		
Purchase of common stock						154,100	1,630,448
Balance, December 28, 1996	2,585,749	1,292,875	9,005,330	6,162	10,051,720	1,074,839	9,227,065
Net income					1,402,409		
Issuance of stock options **			12,000				
Exercise of options	65,382	32,691	559,914				
Tax benefit - stock options*			132,000				
Effect of change in fair value of available-for-sale securities				(6,162)			
Cash dividends					(459,043)		
Balance, January 3, 1998	2,651,131	\$1,325,566	\$9,709,244	-	\$10,995,086	1,074,839	\$9,227,065

* Tax benefit resulting from the exercise and disposition of stock options and subsequent disposition of stock.

** Compensation expense, net of tax effects, from the issuance of stock options at a discount from fair market value.

See accompanying notes.

Consolidated Statements of Cash Flows

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

	1997	1996	1995
Cash flows from operating activities:			
Net income (loss)	\$1,402,409	\$ (297,252)	\$1,652,066
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	953,705	890,859	850,637
Loss (gain) on sale of available-for-sale securities	(65,006)	17,650	
Write-off of intangible assets		244,500	
Deferred compensation	238,600	279,100	
Deferred income taxes	22,000	(473,000)	(47,000)
Stock-based compensation expense	20,700		
Changes in operating assets and liabilities:			
Accounts receivable	(1,241,245)	523,139	(321,528)
Inventories	(342,751)	(245,808)	(272,180)
Other current assets	98,607	(145,595)	74,685
Deferred tax assets	(8,700)		
Other assets	(163,336)	(2,178)	15,253
Accounts payable	391,016	364,460	68,053
Accrued liabilities	158,789	(32,397)	120,067
Income taxes payable	186,325	(331,797)	52,871
Deferred compensation	(30,000)		
Net cash provided by operating activities	1,621,113	791,681	2,192,924
Cash flows from investing activities:			
Purchase of capital assets	(1,805,294)	(1,012,259)	(450,997)
Proceeds from sales of capital assets	5,461	9,071	3,690
Proceeds from sales and maturities of available-for-sale securities	1,340,454	2,272,070	1,292,983
Purchase of available-for-sale securities	(146,152)	(1,129,297)	
Net cash provided by (used in) investing activities	(605,531)	139,585	845,676
Cash flows from financing activities:			
Repurchase of common stock		(1,630,448)	(1,035,045)
Proceeds from the issuance of common stock	592,605	286,355	178,492
Payments of dividends	(459,043)	(616,778)	(676,013)
Net cash provided by (used in) financing activities	133,562	(1,960,871)	(1,532,566)
Net increase (decrease) in cash and cash equivalents	1,149,144	(1,029,605)	1,506,034
Cash and cash equivalents at beginning of year	1,265,581	2,295,186	789,152
Cash and cash equivalents at end of year	\$2,414,725	\$1,265,581	\$2,295,186
Supplemental disclosure of cash flows information:			
Cash paid during the year for:			
Income taxes	\$675,000	\$712,500	\$833,776
Supplemental disclosure of non-cash investing activity:			
Unrealized holding gain on available-for-sale securities, less deferred tax provision of \$4,200 and \$143,000 in 1996 and 1995	-	\$4,262	\$215,620

See accompanying notes.

Notes to Consolidated Financial Statements

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

1. Summary of significant accounting policies

Principles of consolidation: The financial statements include the accounts of the Company, Industrias Merrimac Incorporada, S.A., a wholly-owned subsidiary located in San Jose, Costa Rica, and Merrimac International, Inc. FSC, a wholly-owned foreign sales corporation. All intercompany accounts have been eliminated in consolidation.

Cash and cash equivalents: The Company considers all highly liquid securities with an original maturity of less than three months to be cash equivalents. The Company maintains cash deposits with banks that at times exceed applicable insurance limits. The Company reduces its exposure to credit risk by maintaining such deposits with high quality financial institutions. Because of their liquidity and short-term maturities, the carrying value of these financial instruments approximates their fair value.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contract revenues: Sales and related cost of sales under fixed-price contracts are recorded as deliveries are made. Prior to shipment, manufacturing costs incurred on such contracts are recorded as work in process inventory. Anticipated future losses on contracts are charged to income when identified.

Investments: The Company has adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and classified its portfolio of investment securities as available-for-sale securities. Available-for-sale securities are carried at quoted market values. Unrealized gains and losses are included as a separate component of stockholders' equity. Realized gains and losses, determined using the specific identification method, are included in income in the period incurred.

Inventories: Inventories are valued at the lower of average cost or market and consist of the following:

	1997	1996
Finished goods	\$ 778,675	\$ 885,863
Work in process	2,571,426	2,134,013
Raw materials and purchased parts	1,158,468	1,145,942
	\$4,508,569	\$4,165,818

Total inventories are net of valuation allowances for obsolescence of \$1,533,000 in 1997 and \$1,761,000 in 1996.

Depreciation: Depreciation is computed for financial statement purposes on the straight-line method, while accelerated methods are used, where applicable, for tax purposes. The following estimated useful lives are used for financial statement purposes:

Land improvements	10 years
Building	25 years
Machinery and equipment	3-10 years
Office equipment, furniture and fixtures	5-10 years

Assets under construction are not depreciated until placed into service. Fully depreciated assets included in property, plant and equipment at January 3, 1998 and December 28, 1996 amounted to \$6,818,000 and \$6,040,000, respectively.

Long-lived assets: Effective December 31, 1995, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Under Statement No. 121, impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts.

During 1996, the Company determined that its intangible assets, comprised primarily of the excess of cost over the fair value of net assets of acquired businesses, had become impaired and estimated that they would not generate any significant cash flows in future periods. Accordingly, the carrying value of the impaired assets of \$244,500 was written off in conjunction with certain other restructuring charges (see Note 12). Prior to such determination, the intangible assets were being amortized on a straight-line basis over a period of five years. The implementation of Statement No. 121 did not have any effect on the determination of the amount written off.

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

1. Summary of significant accounting policies (continued)

Advertising: The Company expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations were \$139,000 in 1997, \$150,000 in 1996 and \$140,000 in 1995.

Income taxes: The Company uses the asset and liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Savings and Investment Plan: The Company's Savings and Investment Plan is a 401(k) plan (the "Plan") that provides eligible employees with the option to defer and invest up to 16% of their compensation, with 50% of the first 6% of such savings matched by the Company. Company contributions to the Plan were \$147,000 in 1997, \$142,000 in 1996 and \$105,000 in 1995. The Board of Directors may also authorize a discretionary amount to be contributed to the Plan and allocated to eligible employees annually. Amounts contributed to the Plan were \$200,000 in 1997, \$145,000 in 1996 and \$288,000 in 1995.

Stock-based compensation: Effective December 31, 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation," which permitted the Company to elect to account for stock-based compensation arising under its stock option and stock subscription plans by using a fair value based method or continuing to measure compensation expense using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has elected to continue using the intrinsic value method and make the pro forma disclosures required by Statement No. 123 of net income and net income per share as if the fair value based method of accounting had been applied (see Note 6). Since the Company generally grants options and rights to subscribe to purchase shares at or near the market price of the underlying share on the date of grant, it will not be required to recognize compensation expense as a result of such grants.

Research and development: Research and development expenditures of \$556,000 in 1997, \$246,000 in 1996 and \$275,000 in 1995 were expensed as incurred.

Interest expense: Interest expense was not material in 1997, 1996 and 1995.

Net income (loss) per share: Effective January 3, 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share," which establishes the new standard for computation and presentation of net income (loss) per common share. Under the new requirements both basic and diluted net income (loss) per common share are presented. All prior period net income (loss) per common share information has been restated.

Basic net income (loss) per common share is calculated by dividing net income (loss), less dividends on preferred stock, if any, by the weighted average common shares outstanding during the period.

The calculation of diluted net income (loss) per common share is similar to that of basic net income (loss) per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, principally those issuable under stock options, were issued during the reporting period (see Note 6).

Accounting period: The Company's fiscal year is the 52-53 week period ending on the Saturday closest to December 31. There were 53 weeks in fiscal year 1997 and 52 weeks in fiscal year 1996 and 1995.

2. Investments in available-for-sale securities

The amortized cost of the Company's portfolio of available-for-sale investments in marketable equity securities at December 28, 1996 was reconciled to the fair market value, which was also the carrying value, of the portfolio at December 28, 1996 as follows:

	1996
Amortized cost	\$1,130,470
Gross unrealized gains	10,876
Gross unrealized losses	(514)
Fair market value	\$1,140,832

The net unrealized gains of \$10,362 in 1996 were included as a separate component of stockholders' equity, net of deferred tax effects. Sales of securities totaled \$1,275,000 in 1997, \$2,275,000 in 1996 and \$993,000 in 1995. Realized gains in 1997 were \$65,000, and realized gains and losses in 1996 and 1995 were not material.

Notes to Consolidated Financial Statements

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

3. Property, plant and equipment

Property, plant and equipment consists of the following:

	1997	1996
Land and land improvements	\$ 547,446	\$ 547,446
Building	2,375,680	2,238,868
Machinery and equipment	6,169,081	5,850,630
Office equipment, furniture and fixtures	4,764,618	4,031,986
	\$13,856,825	\$12,668,930

4. Accrued liabilities

Accrued liabilities consist of the following:

	1997	1996
Commissions	\$ 152,871	\$140,656
Vacation	82,969	185,853
Savings Plan contribution	162,204	144,525
Employee compensation	278,382	164,820
Warranty reserve	150,000	150,000
Deferred compensation	112,000	30,000
Other	255,243	137,026
	\$1,193,669	\$952,880

5. Line of credit

The Company has a \$7,000,000 unsecured bank line of credit agreement with interest payable at one-half percent below the lending bank's prime rate. There were no borrowings outstanding under this line of

credit agreement or any previous line of credit agreements as of the end or during any of the last three fiscal years.

6. Stock option and stock purchase plans

Under the Company's 1993 Stock Option Plan, 300,000 shares of common stock were initially reserved for issuance. The 1993 Option Plan provides for issuance of qualified and non-qualified options. The qualified options may not be issued at less than 100% of the fair market value of the shares on the date of grant and they may be exercised at any time between one and ten years from the date of grant. The non-qualified options may be granted to employees at an exercise price determined by the Stock Option Committee of the Board of Directors which may not be less than par value. Such options may become exercisable immediately after the grant and/or at any time before the tenth anniversary of the grant.

The non-qualified options may also be granted to non-employee directors, provided the option price is at least

equal to the closing price on the date the option is granted. Such options are exercisable after the grant or at any time before the fifth anniversary of the grant.

As of January 3, 1998, options for the purchase of a total of 227,350 shares remained outstanding and exercisable under the 1993 Option Plan, and options for 16,550 shares were available for future grant. In addition, (i) qualified options for the purchase of a total of 4,962 shares remained outstanding and exercisable under the Company's 1983 Key Employee Stock Option Plan (however, options can no longer be granted under this plan); and (ii) non-qualified options for the purchase of 50,000 shares remained outstanding and exercisable as a result of grants by the Board of Directors in 1996 to non-employee directors at fair market value on the date of grant.

Notes to Consolidated Financial Statements

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

6. Stock option and stock purchase plans (continued)

A summary of all stock option activity and information related to all options outstanding follows:

	1997		1996		1995	
	Weighted average exercise price	Shares or price per share	Weighted average exercise price	Shares or price per share	Weighted average exercise price	Shares or price per share
Outstanding, beginning of year	\$9.76	181,612	\$8.90	140,684	\$8.59	54,527
Granted	12.32	156,400	10.97	64,500	9.00	97,000
Exercised	9.17	(47,400)	7.82	(20,572)	5.50	(3,493)
Cancelled	8.67	(1,400)	9.10	(3,000)	7.51	(7,350)
Outstanding at end of year	11.24	289,212	9.76	181,612	8.90	140,684
Exercisable at end of year	\$11.24	282,312	\$9.76	181,612	\$8.72	49,684
Option price range at end of year	\$5.50-\$15.00		\$5.50-\$11.00		\$5.50-\$10.88	
Weighted average fair value of options granted during the year	\$4.71		\$1.98		\$2.88	

The approximate weighted average of the remaining contractual life of outstanding options at January 3, 1998 was 8.8 years.

In 1995, the Company's stockholders approved a stock purchase plan pursuant to which 200,000 shares of the Company's common stock were initially reserved for sale to eligible employees. Under this plan, the Company may grant employees the right to subscribe to purchase shares of common stock from the Company at 85% of the market value on specified dates and pay for the shares over a period of up to 27 months.

In 1997, the Company's stockholders approved a long term incentive plan ("LTIP") pursuant to which 250,000 shares of the Company's common stock were initially reserved for grant to eligible employees. The LTIP

provides for issuance of Incentive Stock Options, Non-qualified Stock Options, Bonus Stock and Discounted Stock Options. Under this plan, the Company may grant to employees who hold positions no more senior than mid-level management, discounted stock options for up to 100,000 shares of common stock, with the option price per share of common stock to be at least greater than or equal to 50% of the fair market value of the common stock on the date of grant. During 1997, discounted stock options for the purchase of 6,900 shares were granted at \$14.00, a discount of \$3.00 below the fair market value at the date of grant.

A summary of stock purchase plan subscription activity follows:

	1997		1996		1995	
	Weighted average exercise price	Shares or price per share	Weighted average exercise price	Shares or price per share	Weighted average exercise price	Shares or price per share
Subscribed, beginning of year	\$8.66	18,274	\$7.30	16,932	\$7.01	43,442
Subscribed	10.09	17,923	9.46	18,649		
Purchased	8.82	(17,982)	7.98	(15,725)	6.43	(24,763)
Cancelled	9.70	(2,159)	8.70	(1,582)	9.24	(1,747)
Subscribed at end of year	\$9.93	16,056	\$8.66	18,274	\$7.30	16,932
Subscription price range, end of year	\$9.46-\$10.09		\$6.69-\$9.46		\$6.69-\$9.24	
Weighted average fair value of rights granted during the year	\$3.75		\$3.10			

Notes to Consolidated Financial Statements

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

6. Stock option and stock purchase plans (continued)

The weighted average remaining contractual life of an outstanding stock subscription at January 3, 1998 was approximately one year.

As explained in Note 1, the Company has adopted the disclosure-only provisions of Statement No. 123. Accordingly, no earned or unearned compensation cost was recognized in the accompanying consolidated financial statements for stock options and stock

purchase plan subscription rights granted in 1997 and 1996, except for the discounted stock options granted in 1997.

The table below sets forth the pro forma net income (loss) and the pro forma diluted net income (loss) per share information as calculated in accordance with Statement No. 123.

	1997	1996	1995
Net income (loss) - as reported	\$1,402,409	\$(297,252)	\$1,652,066
Net income (loss) - pro forma	1,212,409	(495,252)	1,395,066
Net income (loss) per share - as reported - diluted	\$.87	\$(.19)	\$.95
Net income (loss) per share - pro forma - diluted	\$.75	\$(.31)	\$.80

The Statement No. 123 method of accounting has not been applied to options granted in periods prior to January 1, 1995 and the resulting pro forma compensation expense may not be indicative of pro forma expense in future years.

The fair value of each of the options and purchase plan subscription rights granted in 1997, 1996 and 1995 was estimated on the date of grant using the Black-Scholes option valuation model. For 1997, the following weighted average assumptions were utilized: no dividend yield; expected volatility of 30%; a risk free interest rate of 6%; and expected lives of five years. For 1996 and 1995, the following weighted average assumptions were utilized: dividend yield of 3.4%; expected volatility of 25%; a risk free interest rate of 6%; and expected lives of two years. However, the Black-Scholes option valuation model was developed for use in estimating the fair value of traded

options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and subscription rights have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and subscription rights.

7. Income taxes

The provision (credit) for income taxes consists of the following components:

	1997	1996	1995
Current tax provision:			
Federal	\$569,000	\$214,000	\$767,000
State	164,000	65,000	219,000
	733,000	279,000	986,000
Deferred tax provision (credit):			
Federal	17,000	(369,000)	(46,000)
State	5,000	(104,000)	(1,000)
	22,000	(473,000)	(47,000)
Provision (credit) for income taxes	\$755,000	\$(194,000)	\$939,000

Notes to Consolidated Financial Statements

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

7. Income taxes (continued)

Temporary differences which gave rise to a significant portion of deferred tax assets and liabilities at January 3, 1998 and December 28, 1996 are as follows:

	1997	1996
Current deferred tax assets:		
Inventory valuation allowance	\$685,000	\$755,000
Depreciation and amortization		17,800
Capitalized inventory costs	87,100	69,600
Warranty costs	64,500	64,500
Deferred compensation	12,900	131,300
Other	70,000	66,000
	919,500	1,104,200
Non-current deferred tax assets:		
Deferred compensation	196,800	
Non-current deferred tax liabilities:		
Depreciation and amortization	(45,000)	
State income taxes	(86,800)	(89,100)
	65,000	(89,100)
Net deferred tax assets	\$984,500	\$1,015,100

The statutory federal income tax rate is reconciled to the effective tax rate computed by dividing the provision (credit) for income taxes by income (loss) before income taxes as follows:

	1997	1996	1995
Statutory rate	34.0%	(34.0)%	34.0%
Effect of:			
State income taxes, net of federal income tax effects	5.2	(5.2)	5.5
Tax exempt dividends and interest	(.5)	(6.2)	(2.2)
Foreign sales corporation income	(2.7)	(3.3)	(1.6)
Foreign subsidiary losses		7.6	
Research and development credits	(.8)		
Other	(.2)	1.5	.5
Effective tax rate	35.0%	(39.6)%	36.2%

8. Cash dividends

During 1997, the Company paid a \$.10 per share dividend in each of the first three quarters. The dividend was eliminated by a decision of the Board of

Directors on August 28, 1997. The Company had previously paid dividends of \$.10 per share in each of the four quarters of fiscal 1996 and 1995.

Notes to Consolidated Financial Statements

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

9. Nature of business

Management considers the Company to be in one business segment: the design, manufacture and sale of electronic devices offering extremely broad frequency coverage and high performance characteristics. The Company primarily sells to customers in the communications, defense and aerospace industries.

Foreign sales amounted to approximately \$5,731,000 in 1997, \$4,390,000 in 1996 and \$4,229,000 in 1995. Sales to any one foreign geographic area did not exceed 10% of net sales for 1997, 1996 and 1995.

Sales to Lockheed Martin in 1997 and 1996 amounted to 13.4% and 10.8% of net sales, respectively. No one customer accounted for more than 10% of net sales in 1995.

Accounts receivable are financial instruments that expose the Company to a concentration of credit risk. A substantial portion of the Company's accounts receivable are from customers in the defense industry, and 30% of its receivables at January 3, 1998 were from five customers. Exposure to credit risk is limited by the large number of customers comprising the remainder of the Company's customer base, their geographical dispersion and by ongoing customer credit evaluations performed by the Company.

10. Net income (loss) per common share

The following table summarizes the calculation of basic and diluted net income (loss) per common share for 1997, 1996 and 1995:

	1997	1996	1995
Numerator:			
Net income (loss) available to common stockholders	\$1,402,409	\$(297,252)	\$1,652,066
Denominator:			
Weighted average shares outstanding for basic net income (loss) per share	1,539,421	1,549,218	1,700,422
Effect of dilutive securities - stock options	78,918	26,297	30,467
Weighted average shares outstanding for diluted net income (loss) per share	1,618,339	1,575,515	1,730,889
Net income (loss) per share - basic	\$.91	\$(.19)	\$.97
Net income (loss) per share - diluted	\$.87	\$(.19)	\$.95

At December 30, 1995, there were 21,150 stock options outstanding excluded from the calculation of dilutive securities because the exercise prices of the options were greater than the average market value of the common shares.

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

11. Commitments and contingencies

Lease commitments:

The Company leases real estate and equipment under operating leases expiring at various dates through December 2002. The leases include provisions for rent escalation, renewals and purchase options, and the Company is generally responsible for taxes, insurance, maintenance and repairs. Aggregate rental expense charged to operations amounted to \$54,000 in 1997. Rental expense in 1996 and 1995 was not material.

Future minimum lease payments under noncancellable operating leases with an initial term exceeding one year are as follows:

1998	\$95,000
1999	122,000
2000	100,000
2001	106,000
2002	113,000

Purchase obligations:

The Company has issued purchase order commitments to processing equipment manufacturing vendors for approximately \$900,000 of capital equipment and building improvements. The Company anticipates the equipment will be purchased and become operational during the second half of 1998.

Consulting and employment agreements; deferred compensation:

The Company is party to an employment agreement with its Chairman, President and Chief Executive Officer. The agreement provides for a minimum annual salary of \$200,000 and the initial term ends on December 31, 1999 and automatically renews for successive twelve month periods thereafter unless terminated pursuant to the terms of the agreement.

The Company is party to an employment agreement with its Vice Chairman and Chief Technology Officer, which initial term ends on December 31, 1999 and renews from year-to-year thereafter unless otherwise terminated pursuant to the terms of the agreement. The agreement provides for a minimum annual salary of \$180,000 and

continuation of salary and health benefits for eighteen months upon termination of the agreement. In addition, upon termination of the agreement, the agreement provides for the commencement of a ten-year consulting agreement for payments of \$90,000 per year including health, disability and death benefits. The Company maintains a key-man life insurance policy on the executive pursuant to the terms of the agreement.

The Company is party to a consulting agreement with a former Vice President, which initial term ends February 2001 and automatically renews for successive twelve month periods thereafter unless otherwise terminated pursuant to the terms of the agreement. The agreement provides for an initial distribution valued at approximately \$44,000 and minimum payments of \$24,000 per year thereafter and includes health and other certain benefits.

The Company is party to a retirement agreement that became effective January 1997 with its former Vice President, Secretary and Controller, which provides for annual payments of \$30,000 for ten years.

In connection with the consulting and retirement agreements described above, the Company recognized expense of approximately \$239,000 in 1997 and \$279,000 in 1996. The Company accrues the present value of the estimated future payments over the periods of the projected term of each of the respective agreements. The minimum benefits payable in 1998 are estimated to be \$112,000 and the present value of the estimated future consulting and retirement benefits payable beyond 1998 and accrued as of January 3, 1998 is approximately \$376,000.

Litigation:

The Company is a party to lawsuits, both as a plaintiff and a defendant, arising from the normal course of business. It is the opinion of management, that the disposition of these various lawsuits will not materially affect the consolidated financial position or results of operations of the Company.

Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

12. Restructuring and related charge

The restructuring of engineering responsibilities and its attendant refocus of product lines during 1996 impacted the valuation of inventories. An additional review by management of inventories, certain intangibles arising from acquired product designs, a non-compete agreement and deferred compensation for a retiring senior officer resulted in aggregate charges of \$1,382,000, and charges, net of tax benefits, of \$829,000 or \$.52 per share to operations in 1996.

The Company initially recognized aggregate restructuring charges of \$1,822,000 in the third quarter of 1996 and charges, net of tax benefits, of \$1,093,000. The Company reduced its estimate of the total charges by \$145,000 and reclassified charges of \$295,000 to cost of sales and selling, general and administrative expenses in the fourth quarter of 1996.

Report of Independent Public Accountants

To the Board of Directors and Stockholders
Merrimac Industries, Inc.

We have audited the accompanying consolidated balance sheet of Merrimac Industries, Inc. and Subsidiaries as of January 3, 1998 and the related consolidated statement of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Merrimac Industries, Inc. and Subsidiaries as of December 28, 1996 and for the years ended December 28, 1996 and December 30, 1995, were audited by other auditors whose report dated February 18, 1997, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Merrimac Industries, Inc. and Subsidiaries as of January 3, 1998 and their results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.



ARTHUR ANDERSEN LLP

Roseland, New Jersey
February 13, 1998

Quarterly Financial Information

Summarized quarterly financial data for 1997 and 1996 follows:

1997	March 29	June 28	September 27	January 3
Net sales	\$4,275,155	\$4,986,288	\$4,983,793	\$4,413,870
Gross profit	1,900,048	2,385,205	2,249,174	2,176,905
Net income	277,746	378,100	350,015	396,548
Net income per share - basic	\$.18	\$.25	\$.23	\$.25
Net income per share - diluted	\$.18	\$.24	\$.21	\$.24
1996	March 30	June 29	September 28	December 28
Net sales	\$3,187,345	\$3,925,528	\$2,997,905	\$4,042,192
Gross profit	1,548,312	1,767,288	1,068,489	1,528,242
Net income (loss)	252,303	312,949	(1,139,257)(A)	276,753 (B)
Net income (loss) per share - basic	\$.16	\$.20	\$(.74) (A)	\$.18 (B)
Net income (loss) per share - diluted	\$.15	\$.20	\$(.73) (A)	\$.18 (B)

(A) Reflects the effects of restructuring charges (see Note 12) which, as adjusted in the fourth quarter from those amounts originally reported in the third quarter, reduced net income for the quarter by \$916,000 or \$.57 per share.

(B) Reflects the effects of adjustments to restructuring charges (see Note 12) which increased net income for the fourth quarter by \$87,000 or \$.05 per share.

Quarterly Common Stock Data

Quarter	1997				1996			
	1 st	2 nd	3 rd	4 th	1 st	2 nd	3 rd	4 th
Market price per share:								
High	\$12	\$13 ^{1/16}	\$19 ^{3/4}	\$19 ^{7/8}	\$11 ^{3/8}	\$11 ^{3/8}	\$11 ^{3/8}	\$12 ^{3/8}
Low	10 ^{3/4}	10 ^{1/4}	12 ^{1/8}	11	10 ^{1/8}	9 ^{3/4}	9 ^{5/8}	9 ^{3/4}

The common stock of the Company is listed on the American Stock Exchange and trades under the symbol MRM.

The market price per share information is provided with regard to the high and low bid prices of the common stock of the Company during the periods indicated.

Directors, Officers, Key Staff and Corporate Data

Directors

MASON N. CARTER
*Chairman of the Board
President and CEO
Merrimac Industries, Inc.*

ALBERT H. COHEN
*Asset Manager and
Management Consultant
Westfield, NJ*

Dr. JOEL H. GOLDBERG
*Chairman and CEO
C.C.I. / SK Associates
Union, NJ*

FREDERICK J. GUMM
*Chairman and CEO
Frederick Gumm Chemical Co.
Kearny, NJ*

EUGENE W. NIEMIEC
*Vice Chairman and
Chief Technology Officer
Merrimac Industries, Inc.*

Dr. ARTHUR A. OLINER
*Engineering Consultant
Professor Emeritus of Electrophysics
Polytechnic University, Brooklyn, NY*

Officers

MASON N. CARTER
*Chairman, President and
Chief Executive Officer*

EUGENE W. NIEMIEC
*Vice Chairman and
Chief Technology Officer*

ROBERT V. CONDON
*Vice President, Finance and Chief
Financial Officer*

BRIAN R. DORNAN
*Vice President, Research
and Development*

RICHARD E. DEC
Vice President, Marketing

REYNOLD K. GREEN
Vice President, Sales

JACOB LIN
Vice President, Operations

Key Staff

CHRISTOPHER CONNELLY
Director, Engineering

NORMAN R. HOLDEN
Director, Hi-Rel Services

WALTER N. JOSWICK
Director, Engineering

STANLEY E. KECMER
Director, Info Services

JAMES J. LOGOTHETIS
Director, New Technology

FRANK J. MACALUSO
Controllor

JOSEPH McANDREW
*Director,
Manufacturing Processes*

OLIVIA McKAY
*Director,
Human Resources*

LAWRENCE A. MICIAK
*Director,
National Sales*

EDUARDO deM. ROBLES
*General Manager
Industrias Merrimac, S.A*

BARRIE A. SELWAY
*Director, European Sales
Merrimac Europe Limited*

EDWARD STELMASZCZYK
*Manager,
Manufacturing Engineering*

GEORGE C. TATORIS
*Director,
Manufacturing Operations*

NEIL S. THOMAS
*Director,
Quality Assurance*

RONALD GOLD
*Director,
Materials Management*

Corporate Data

Legal Counsel

*Chadbourne & Parke LLP
30 Rockefeller Plaza
New York, NY 10112*

Auditors

*Arthur Andersen LLP
101 Eisenhower Parkway
Roseland, NJ 07068*

Transfer Agent

*ChaseMellon Shareholder Svcs.
85 Challenger Road
Overpeck Center
Ridgefield Park, NJ 07660
Phone: 201.296.4000*

Annual Meeting

*The Annual Meeting of
Stockholders of Merrimac
Industries, Inc. will be held
at 10:00 a.m. on May 20, 1998*

at

*The American Stock Exchange
86 Trinity Place
New York, NY 10006*

Phone: 212.306.1000

Form 10-K

*The Company's Annual Report
on Form 10-KSB filed with the
Securities and Exchange
Commission for fiscal year 1997
is available upon written request
to the Company:*

*Corporate Secretary
Merrimac Industries, Inc.
P.O. Box 986
West Caldwell, NJ 07007-0986*

Email: sec@merrimacind.com

Internet: www.merrimacind.com

Common Stock

*The common stock of the
Company is listed on the
American Stock Exchange and
trades under the symbol MRM.*

Investor Relations

*NT Research Associates
Manasquan, NJ 08736
Phone: 732.223.3489*

*Stockholder inquiries
regarding change of address
and/or change of title should
be sent to our registrar and
transfer agent, ChaseMellon
Shareholder Services, shown at
the far left.*