

**SUMMARY CONSOLIDATED
BALANCE SHEETS (Unaudited)**

July 1, 2006 and July 2, 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,382,762	\$ 2,720,980
Income tax refunds receivable	432,700	-
Accounts receivable	5,545,433	6,363,940
Inventories	4,002,925	3,519,780
Other current assets	619,176	703,891
Deferred tax assets	<u>140,000</u>	<u>680,000</u>
Total current assets	14,122,996	13,988,591
Property, plant and equipment, net	13,618,103	14,223,136
Restricted cash	1,500,000	1,500,000
Other assets	645,816	677,371
Deferred tax assets	502,000	407,000
Goodwill	<u>3,680,862</u>	<u>3,309,477</u>
Total Assets	<u>\$ 34,069,777</u>	<u>\$34,105,575</u>

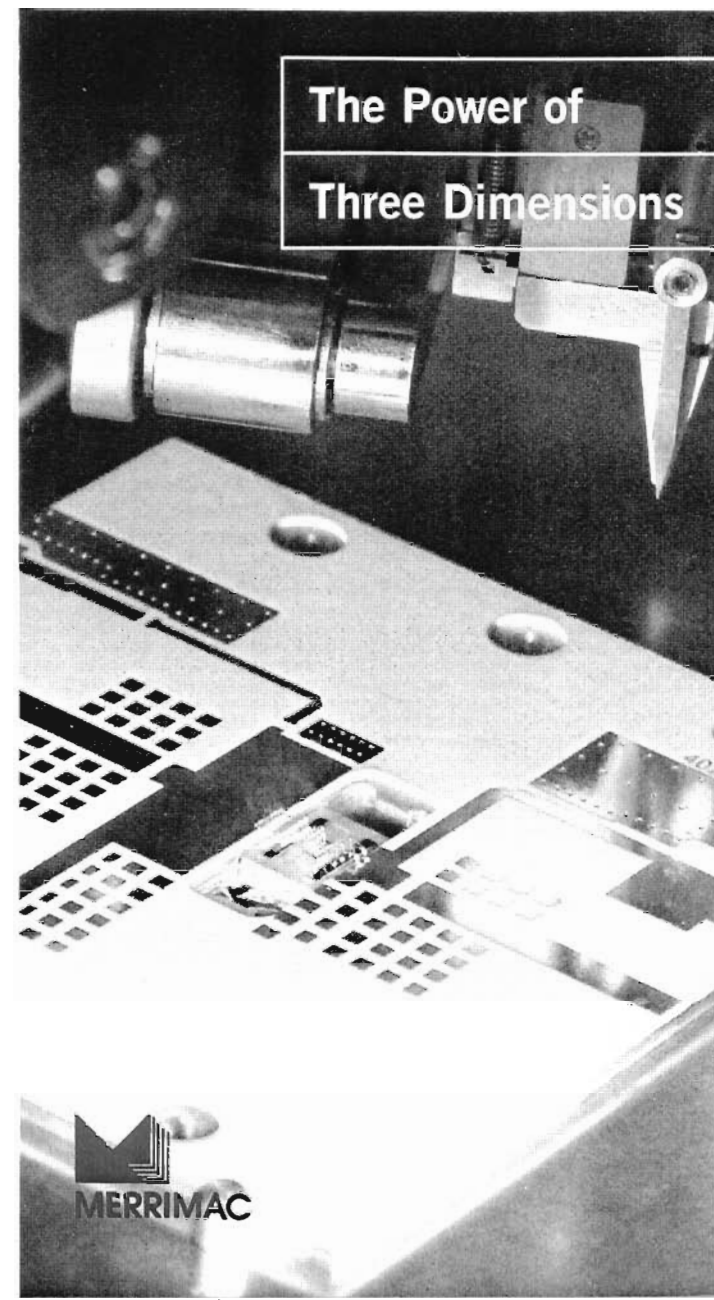
LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Current portion of		
long-term debt	\$ 855,573	\$ 984,535
Other current liabilities	<u>2,834,344</u>	<u>2,991,517</u>
Total current liabilities	3,689,917	3,976,052
Long-term debt	1,842,398	2,477,063
Deferred liabilities	30,898	53,031
Deferred tax liabilities	<u>140,000</u>	<u>648,000</u>
Total liabilities	<u>5,703,213</u>	<u>7,154,146</u>
Stockholders' equity:		
Common stock	32,708	32,256
Additional paid-in capital	19,188,478	18,806,155
Retained earnings	8,530,162	8,095,837
Comprehensive income	<u>1,686,263</u>	<u>1,047,047</u>
	29,437,611	27,981,295
Less treasury stock, at cost	(973,864)	(573,866)
Less officer-stockholder loan	-	(456,000)
Less unearned compensation	<u>(97,183)</u>	<u>-</u>
Total stockholders' equity	<u>28,366,564</u>	<u>26,951,429</u>
Total Liabilities and Stockholders' Equity	<u>\$ 34,069,777</u>	<u>\$34,105,575</u>



41 Fairfield Place, West Caldwell, NJ 07006
Tel: 973.575.1300 / Fax: 973.575.0531
Internet: www.merrimacind.com

**MERRIMAC INDUSTRIES, INC.
SECOND QUARTER 2006 REPORT**



REPORT TO STOCKHOLDERS

Second Quarter and Six Months 2006 Results of Operations

Sales for the second quarter of 2006 were \$8,251,000, a \$682,000 or a 9.0% increase compared to the second quarter of 2005 sales of \$7,569,000. Sales increased due to the shipment of a \$750,000 order to a significant military customer and \$1,200,000 of revenue recognized in connection with the early close out of a fixed price customer contract, offset by a sales reduction in the microwave micro-circuitry segment of \$650,000 due to delays in renewals of the segment's defense orders. Gross profit for the second quarter of 2006 was \$3,710,000, an increase of \$442,000 or 13.5% and was 45.0% of sales as compared to gross profit of \$3,268,000 or 43.2% of sales for the second quarter of 2005. Second quarter 2006 gross profit includes \$1,200,000 of revenue recognized from the early contract close out as to which second quarter expenses were approximately \$140,000 because the Company had ceased work when the contract ended. Gross profit percent in the second quarter of 2006 increased from the second quarter of 2005 due to the revenue recognized as a result of the early contract close out previously mentioned.

Operating income for the second quarter of 2006 increased \$133,000 to \$549,000 compared to operating income of \$416,000 for the second quarter of 2005 due to revenue recognized as a result of the early contract close out previously mentioned. Operating income for the second quarter of 2006 included a non-cash charge of \$35,000 for share-based compensation expense resulting from the adoption of SFAS No. 123R at the beginning of fiscal year 2006. Net income for the second quarter of 2006 was

\$529,000 or \$.17 per diluted share compared to net income of \$332,000 or \$.10 per diluted share for the second quarter of 2005.

For the first six months of 2006 sales of \$14,482,000 decreased \$345,000 or 2.3% compared to sales of \$14,827,000 for the first six months of 2005. Sales for the first six months of 2006 were lower than the first six months of 2005 primarily due to the lower bookings levels received during the second half of 2005 and the first quarter of 2006 as compared to comparable prior periods from delays in space and defense programs. 2006 sales included a sales reduction in the microwave micro-circuitry segment of \$640,000 due to delays in renewals of the segment's defense orders, offset by the revenue recognized as a result of the early contract close out previously mentioned. Gross profit for the first six months of 2006 was \$6,112,000, a decrease of \$191,000 or 3.0% and was 42.2% of sales as compared to gross profit of \$6,303,000 or 42.5% of sales for the first six months of 2005.

Operating income for the first six months of 2006 was \$93,000 compared to operating income for the first six months of 2005 of \$599,000. The reduction in operating income for the first six months of 2006 as compared to the first six months of 2005 was due to the lower gross profit from the decrease in sales, partially offset by revenue recognized as a result of the early contract close out previously mentioned, and due to

higher selling, general and administrative expenses compared to the first six months of 2005. Operating income for the first six months of 2006 included a non-cash charge of \$79,000 for share-based compensation expense resulting from the adoption of SFAS No. 123R. Net income for the first six months of 2006 was \$89,000 or \$.03 per diluted share compared to net income of \$416,000 or \$.13 per diluted share for the first six months of 2005. Net income for the first six months of 2006 also included a tax benefit of \$48,000 or \$.02 per share representing refundable Canadian provincial technology tax credits for which the Company has qualified.

Orders of \$8,919,000 were received during the second quarter of 2006, an increase of \$779,000 or 9.6% compared to \$8,140,000 in orders received during the second quarter of 2005. Orders of \$12,864,000 were received for the first six months of 2006, a decrease of \$3,471,000 or 21.2% compared to \$16,335,000 in orders received for the first six months of 2005. The decrease in orders for the first six months of 2006 as compared to the first six months of 2005 was due to delays in expected satellite and defense programs for all product lines, including our Multi-Mix® products. Backlog decreased by \$1,617,000 or 12.3% to \$11,521,000 at the end of the second quarter of 2006 compared to \$13,138,000 at year-end 2005. The book-to-bill ratio for the second quarter of 2006 was 1.08 to 1 and for the second quarter of 2005 was 1.08 to 1. The book-to-bill ratio for the first six months of 2006 was 0.89 to 1 and for the first six months of 2005 was 1.10 to 1.

Working closely with our customers during their initial design stage has enabled us to position ourselves for the future. However, we are experiencing some timing delays with respect to our space and defense customers for all product lines, including our Multi-Mix® customers, as they continue to finalize their system designs and work out contract details with their customers.

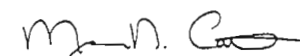
Note: This report contains statements relating to future results of the Company (including certain projections and business trends) that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a 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 possibilities of impairment charges to the carrying value of our Multi-Mix® assets, thereby resulting in charges to our earnings; slower than anticipated penetration into the satellite communications, defense and wireless markets; failure of our Original Equipment Manufacturer, or OEM, customers to successfully incorporate our products into their systems; changes in product mix resulting in unexpected engineering and research and development costs; delays and increased costs in product development, engineering and production; reliance on a small number of significant customers; the emergence of new or stronger competitors as a result of consolidation movements in the market; the timing and market acceptance of our or our OEM customers' new or enhanced products; general economic and industry conditions; the risk that the benefits expected from the Company's acquisition of Filtran Microcircuits Inc. are not realized; the ability to protect proprietary information and technology; competitive products and pricing pressures; our ability and the ability of our OEM customers to keep pace with the rapid technological changes and short product life cycles in our industry and gain market acceptance for new products and technologies; foreign currency fluctuations between the U.S. and Canadian dollars; 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 as are 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 CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Quarter Ended		Six Months Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Net sales	\$ 8,250,886	\$ 7,568,977	\$14,481,589	\$ 14,827,312
Gross profit	3,710,601	3,268,176	6,111,538	6,302,554
Selling, general and administrative	2,645,035	2,343,888	5,130,929	4,655,286
Research and development	516,096	508,074	888,044	1,048,670
Operating income	549,470	416,214	92,565	598,598
Income (loss) before income taxes	516,493	352,260	40,884	445,842
Provision (benefit) for income taxes	(13,000)	20,000	(48,000)	30,000
Net income	529,493	332,260	88,884	415,842
Net income per share-basic and diluted	\$.17	\$.10	\$.03	\$.13
Weighted average number of shares outstanding-diluted	3,183,322	3,172,577	3,166,243	3,173,549

- Our financial highlights include:
- Orders booked of \$8.9 million for the second quarter.
 - Cash of \$4.9 million (includes \$1.5 million of restricted cash) exceeds the total of current and long-term debt of \$2.7 million.
 - Working capital of \$10.4 million and current ratio of 3.8 to 1.

Thank you for your continued support and confidence.



Mason N. Carter
Chairman and CEO

August 15, 2006