

**SUMMARY CONSOLIDATED  
BALANCE SHEETS**

September 30, 2006 (Unaudited) and December 31, 2005

	2006	2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,115,037	\$ 4,081,330
Restricted cash	1,500,000	-
Accounts receivable	6,342,234	5,309,786
Income tax refunds receivable	316,483	418,420
Inventories	4,239,905	3,709,567
Other current assets	785,049	692,832
Deferred tax assets	<u>144,000</u>	<u>140,000</u>
Total current assets	15,442,708	14,351,935
Property, plant and equipment, net		
	13,248,173	13,972,581
Restricted cash	-	1,500,000
Other assets	611,834	614,553
Deferred tax assets	498,000	482,000
Goodwill	<u>3,679,755</u>	<u>3,501,193</u>
Total Assets	<u>\$ 33,480,470</u>	<u>\$ 34,422,262</u>

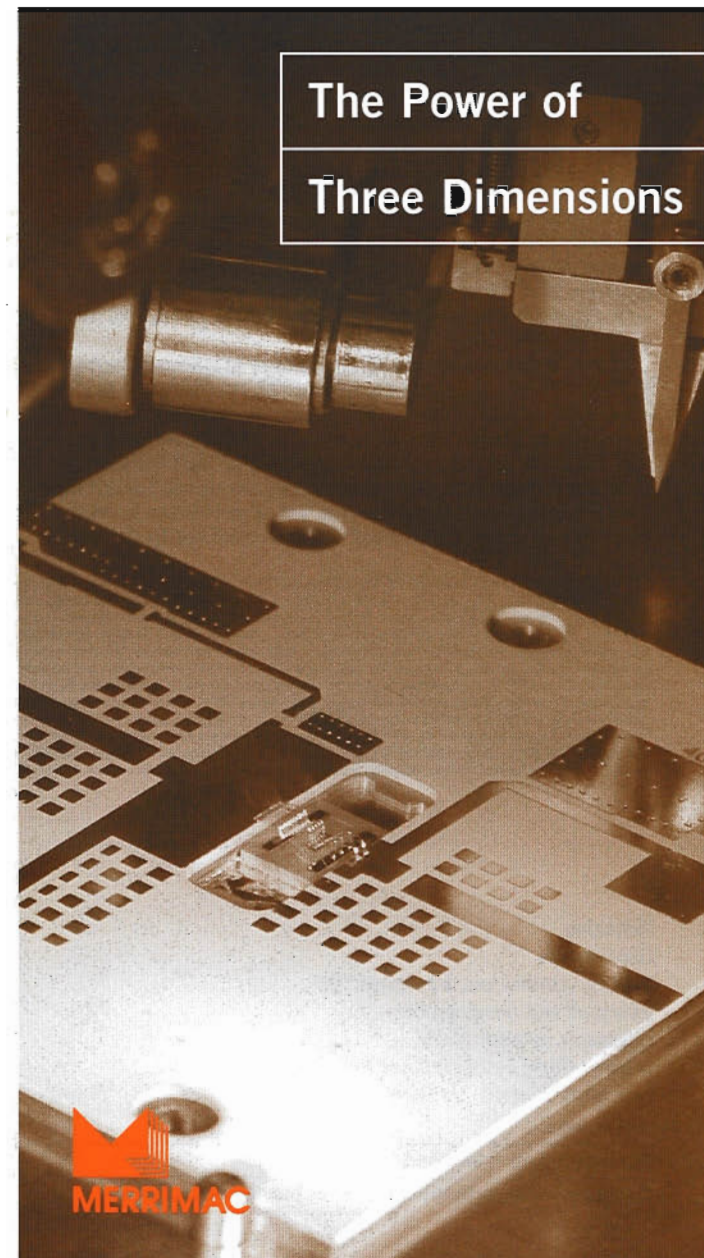
**LIABILITIES AND STOCKHOLDERS' EQUITY**

Liabilities:		
Current portion of long-term debt	\$ 680,330	\$ 907,895
Other current liabilities	<u>2,985,398</u>	<u>3,590,188</u>
Total current liabilities	3,665,728	4,498,083
Long-term debt	1,800,960	2,071,299
Deferred liabilities	38,104	22,412
Deferred tax liabilities	<u>140,000</u>	<u>140,000</u>
Total liabilities	<u>5,644,792</u>	<u>6,731,794</u>
Stockholders' equity:		
Common stock	32,711	32,287
Additional paid-in capital	19,237,452	18,823,353
Retained earnings	7,931,595	8,441,278
Comprehensive income	<u>1,683,945</u>	<u>1,367,416</u>
	28,885,703	28,664,334
Less treasury stock, at cost	(973,864)	(573,866)
Less officer-stockholder loan	-	(400,000)
Less unearned compensation	<u>(76,161)</u>	<u>-</u>
Total stockholders' equity	<u>27,835,678</u>	<u>27,690,468</u>
Total Liabilities and Stockholders' Equity	<u>\$ 33,480,470</u>	<u>\$ 34,422,262</u>



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



Third Quarter and Nine Months 2006 Results of Operations

Sales for the third quarter of 2006 were \$6,748,000, a decrease of \$1,142,000 or 14.5 % compared to the third quarter of 2005 sales of \$7,890,000. The sales decrease was due to the loss of certain anticipated orders as well as from delays in space and defense program orders for both of the Company's operating segments. Gross profit for the third quarter of 2006 was \$2,498,000, a decrease of \$752,000 or 23.1 %, and was 37.0 % of sales as compared to gross profit of \$3,250,000 or 41.2 % of sales for the third quarter of 2005. Gross profit percent in the third quarter of 2006 decreased from the third quarter of 2005 due to the decrease in sales and the further impact of the lower level of sales having to absorb fixed manufacturing costs.

Operating loss for the third quarter of 2006 was \$(604,000) compared to operating income of \$291,000 for the third quarter of 2005. Operating loss for the third quarter of 2006 was due to the lower gross profit from the decrease in sales and higher research and development costs related to the Company's Multi-Mix® products and included a non-cash charge of \$50,000 for share-based compensation expense resulting from the adoption of SFAS No. 123R in the first quarter of 2006. Net loss for the third quarter of 2006 was \$(599,000) or \$(.19) per share compared to net income of \$228,000 or \$.07 per share for the third quarter of 2005.

For the first nine months of 2006 sales of \$21,229,000 decreased \$1,488,000 or 6.6 % compared to sales of \$22,717,000 for the first nine months of 2005. Sales for the first nine months of 2006 were lower than the first nine 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 was due to the loss of certain anticipated orders as well as from delays in space and defense programs. Nine month 2006 sales included \$1,200,000 of

of revenue recognized in connection with the early close out of a fixed price customer contract during the second quarter and a year-to-date sales reduction in the microwave micro-circuitry segment of \$1,358,000 due to declines in the segment's defense orders. Gross profit for the first nine months of 2006 was \$8,610,000, a decrease of \$943,000 or 9.9 % and was 40.6 % of sales as compared to gross profit of \$9,553,000 or 42.1 % of sales for the first nine months of 2005. Gross profit percentage in the first nine months of 2006 decreased 1.5 percentage points compared to the first nine months of 2005 due to the decrease in sales and the further impact of the lower level of sales having to absorb fixed manufacturing costs.

Operating loss for the first nine months of 2006 was \$(512,000) compared to operating income of \$890,000 for the first nine months of 2005. The reduction in operating income for the first nine months of 2006 as compared to the first nine months of 2005 was due to the lower gross profit from the decrease in sales and due to higher selling, general and administrative expenses compared to the first nine months of 2005. Operating loss for the first nine months of 2006 included a non-cash charge of \$129,000 for share-based compensation expense resulting from the adoption of SFAS No. 123R. Net loss for the first nine months of 2006 was \$(510,000) or \$(.16) per share compared to net income of \$644,000 or \$.20 per diluted share for the first nine months of 2005. Net loss for the first nine months of 2006 also included a tax benefit of \$61,000 or \$.02 per share representing refundable Canadian provincial technology tax credits for which the Company has qualified.

Orders of \$6,216,000 were received during the third quarter

of 2006, an increase of \$1,040,000 or 20.1 % compared to \$5,176,000 in orders received during the third quarter of 2005. Orders of \$19,080,000 were received for the first nine months of 2006, a decrease of \$2,431,000 or 11.3 % compared to \$21,511,000 in orders received for the first nine months of 2005. The decrease in orders for the first nine months of 2006 as compared to the first nine months of 2005 was due to the loss of certain orders anticipated as well as from delays in expected satellite and defense programs for all product lines, including our Multi-Mix® products. Backlog decreased by \$2,148,000 or 16.4 % to \$10,990,000 at the end of the third quarter of 2006 compared to \$13,138,000 at year-end 2005. The backlog at the end of the third quarter of 2006 decreased by \$749,000 or 6.4% when compared to the backlog of \$11,739,000 at the end of the third quarter of 2005. The book-to-bill ratio for the third quarter of 2006 was 0.92 to 1 and for the third quarter of 2005 was 0.66 to 1. The book-to-bill ratio for the first nine months of 2006 was 0.90 to 1 and for the first nine months of 2005 was 0.95 to 1.

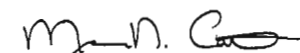
Because of the declining level of orders and sales, the Company reduced its headcount and will record a restructuring charge in the fourth quarter of approximately \$200,000. The restructuring charge and the write-off of approximately \$170,000 of loan costs related to the prior financing agreement, combined with the lower order and sales levels will result in an operating loss for the fourth quarter and for fiscal year 2006. The Company anticipates an annualized rate of savings of approximately \$1,500,000 to begin in the first quarter of 2007 from the restructuring and other cost reduction and containment measures to be implemented.

We have developed a new commercial banking relationship with North Fork Bank and completed our refinancing in mid-October 2006. Continued investment in research and development efforts are focused on our Integrated Multi-Mix® High Power Amplifier Resource Platform Module. Recently we announced the receipt of two military orders. One order for \$708,000 is scheduled to be shipped during 2007 and is part of a five-year Multi-Mix® contract that could potentially reach a maximum value of \$4.3 million. The second order of \$740,000 was for a mission-critical suite of products for use in military surveillance aircraft with deliveries scheduled for 2007.

Our financial information includes:

- Orders booked of \$6.2 million for the third quarter.
- Cash of \$3.6 million (includes \$1.5 million of restricted cash at September 30, 2006, which has since been released and is available to the Company) exceeds the total of current and long-term debt of \$2.5 million.
- Working capital increased \$2.0 million to \$11.8 million and the current ratio improved to 4.2 to 1.

Thank you for your continued support and confidence.



Mason N. Carter  
Chairman and CEO

November 14, 2006

SUMMARY CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2006	Oct. 1, 2005	Sept. 30, 2006	Oct. 1, 2005
Net sales	\$ 6,747,546	\$ 7,890,033	\$21,229,135	\$ 22,717,345
Gross profit	2,498,476	3,250,240	8,610,014	9,552,794
Selling, general and administrative	2,493,986	2,469,693	7,624,915	7,124,979
Research and development	608,540	489,602	1,496,584	1,538,272
Operating income (loss)	(604,050)	290,945	(511,485)	889,543
Income (loss) before income taxes	(611,567)	223,452	(570,683)	669,294
Provision (benefit) for income taxes	(13,000)	(5,000)	(61,000)	25,000
Net income	(598,567)	228,452	(509,683)	644,294
Net income per share-basic and diluted	\$(.19)	\$.07	\$(.16)	\$.20
Weighted average number of shares outstanding-diluted	3,137,241	3,179,140	3,143,377	3,175,005