



CHARLES F. HUBER II  
*Chairman of the Board*

This is my third annual report. The first profiled people at Merrimac, while the

second featured products. This report will deal with change. Two years ago we asked Mason N. Carter to join the Board. Since then he has been a leader in the redefining of Merrimac in terms of strategic direction, culture and operations. In late 1996 Mason was appointed President and Chief Executive Officer of Merrimac Industries. In this position, he will continue driving towards reversing a ten-year decline in real growth. Change is well underway with re-engineering initiatives implemented and a major new product development program launched.

A few highlights from Mason's successful business career include:

1. As President of Metex Corp. led the productivity improvement and cost reduction programs as a supplier to automotive OEMs.
2. Positioned the business as the dominant supplier of exhaust and airbag components.
3. Led operational re-engineering for the manufacture of navigation and communication antennas for military, commercial and general aviation markets, greatly improving profitability and on-time delivery.
4. Creation of a 24-hour quick response parts distribution center.

5. Designed and implemented the first formal business planning system utilizing his "product portfolio analysis" methodology.

Mason's experience spans the following technologies, products and services:

- EMI/RFI Shielding
- High temperature materials
- High reliability airbag components
- Sealing and gasketing materials
- Transformers
- Navigation and communication antennas
- Satellite communications antennas
- Electronic locating transmitters
- Process control systems
- Computer network configuration and implementation
- Aftermarket parts and service support

### **THE CHANGE**

Merrimac's sales in inflation adjusted dollars declined from \$16 million to \$10 million over the past 10 years. About 80% of sales are derived from less than 20% of our customers. While the total number of customers expanded, profit margins held as units declined. Mason convinced the Board that Merrimac had gone from a conventional low-volume production house to an out-of-control job shop by pricing ourselves out of the market. By midyear the plant was strangling with small orders causing late deliveries. Engineers' time was wasted on requests to quote on low volume items or tinkering on the floor with loss items struggling to get through production.

Your Board "bit the bullet" in the third and fourth quarters with massive write-offs to clear the decks. Mason's mandate is to redefine Merrimac in terms of strategic direction, culture, marketing and operations.

A low-cost production house recognizes that the pulse is set by the Vice President of Operations. Only forceful control of operations could provide the counterweight to free up sales and engineering from the log jam which had developed.

Jacob Lin is our new Vice President of Operations. An Electrical Engineer with an MBA, Jake's skills are in plant management, material management, manufacturing engineering, test engineering and JIT (just-in-time) manufacture, quality improvement, and re-engineering project management. He will determine what we build, when we build, in what quantity and at what cost.

Reynold K. Green will head up sales, providing continuity with the past and inspiration for the future. The sales organization has a tremendous challenge: seek only the business we want; develop meaningful customer relationships; motivate our sales representative organizations; and execute new market and product initiatives worldwide. Rey brings a meaningful educational background with a degree in Industrial Engineering and an MBA to this position.

Richard E. Dec joins us as Vice President, Marketing responsible for global marketing of all new and existing products. Rich is a senior executive with significant accomplishments in high technology market segmentation, marketing and strategic planning. His participative management style coupled with experience in coaching work teams and developing customer partnerships has aided market penetration of many successful products by identification of customer-driven product requirements. Rich has his degree in Chemistry and an MBA in Marketing.

On February 17<sup>th</sup> before all of our employees, Mason articulated his mandate for a change in the culture of Merrimac. Merrimac will develop products for broad-based world markets. This powerful presentation was videotaped and is available to all shareholders upon request.

## **RESULTS**

The gain in sales in the fourth quarter of 1996 and first quarter of 1997 is the beginning of the recasting of Merrimac. The effect on Company Management has been dramatic and they are adapting and enjoying the infectious vitality of growth. We will reward hard work. Performance options will be available for the focused, leaner and meaner Management Team.

For years, I have been troubled by the comment "No one working at Merrimac looks happy." Since Mason Carter took the reins the most visible change is that nearly all the employees are smiling. His leadership style is all-inclusive and the organization is responding well.

Mason is reinventing Merrimac by changing its culture. The booming market which we missed over the past four years is ours for the earning... and we expect to!



Charles F. Huber II  
*Chairman of the Board*

**A TURNAROUND WITH A VISION**

**MASON N. CARTER**

*President & Chief Executive Officer*



In 1996 we analyzed our Company with a level of intensity and objectivity never before attempted at Merrimac. What we found was a Company with competent personnel, that needed to make significant change. It was clear that we needed to implement "A Turnaround with a Vision."

Major re-engineering initiatives are underway. A market-driven Merrimac is achievable, enabling us to reach our Goal of Profitable Growth consistent with an industry exploding with opportunity. Barriers are crumbling throughout the Company. Total cycle time is being reduced by simplifying processes which make us more responsive to our customers while improving asset utilization and strengthening cash flow.

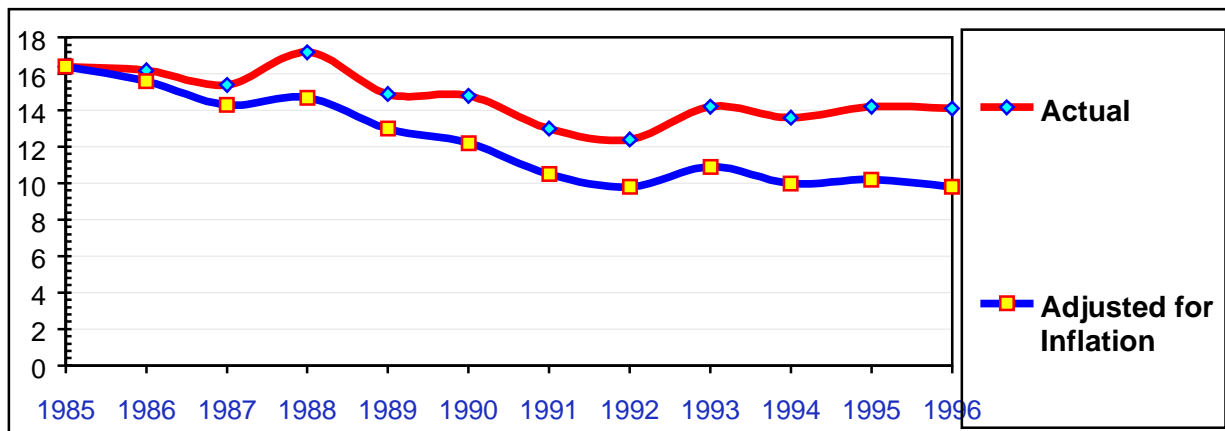
Trust and respect between co-workers is building, confidence is growing and we're coming together as an empowered team. We are eliminating the "not invented here" *modus operandi* of the past. We want quality ideas from every direction, all functions, all levels.

We seek an endless stream of new ideas and best practices.

The rate of change in the market is such that our conventionally managed company could not respond with speed, urgency and a focus necessary to the new way of doing business. Couple this with a passion to succeed and unlimited energy and we will significantly increase our competitiveness.

At a recent Company-wide meeting we considered "the state of the business," including an eleven-year trend line for 1985 to 1996 reflecting negative real growth. We reviewed what needs to be changed and how we will get it done as a team.

The following are excerpts from my presentation to our team. I believe you will find that our new management recognizes what needs to be accomplished, knows how to get there, and recognizes that a total team commitment is the only way to achieve the Goal.



## WHAT'S WRONG

- Trend Line...wrong direction...survival at stake
- Lack of focused market segmentation
- Slow reaction to market opportunities... speed is what we need
- Products designed for specific customer applications not an industry standard
- Processes needs simplification...reduction of T-C-T (Total Cycle Time)
- Need to put customers first
- Customers' perception of Merrimac limits growth

## THE GOOD NEWS

- Healthy markets
- Other companies are growing at 20%, 30%, 40% and more
- They've made changes required to capture the business and grow

### **THAT'S OUR CHALLENGE**

## THE WAY TO PROFITABLE GROWTH

- Back to Basics  
FIX OUR PROBLEMS and  
CREATE NEW OPPORTUNITIES
- Winners don't wait...they create their own opportunities
- Key to success  
THROW OUT OLD ASSUMPTIONS and  
**REINVENT MERRIMAC**

## *SPEED* IS WHAT WE NEED

- Our objective is to be a fast cycle time competitor... customers need it and demand it
- It has less to do with working faster than it does with redesigning work processes  
⇒ Focus on value-added time  
⇒ Eliminate non-essential work
- Our competitive weapon needs to be *SPEED*... reduced Total-Cycle-Time

### **BE FAST OR BE LAST**

## CREATING OPPORTUNITIES

- Hi-Rel
- Standard Products
- Production Parts
- New Product Development
- Resell
- Private Label
- Alliances
- Globalization

## TWO CENTERS FOR GROWTH

- **MERRIMAC INDUSTRIES, INC.**  
West Caldwell, New Jersey
- **INDUSTRIAS MERRIMAC INCORPORADA, S.A.**  
San Jose, Costa Rica

## A MARKET DRIVEN MERRIMAC

- Innovative strategies for the present
- Innovative strategies to provide a healthy prosperous future
- How we'll do it...develop a stable base for profitable growth...

## Developing a Stable Base for Profitable Growth



We are challenging the past and are resolved to achieve our goal for the future. There are no acceptable excuses for missing the Goal... not the external variables of competition, not the economy, not the excuses of the past.

In summary, change is well underway with re-engineering initiatives started, new product development launched, market segment focus becoming clear and a company culture that provides co-workers with recognition, reward and empowerment.

Everyone is involved. Everyone is focusing on what ultimately matters most... *the customer!* We're setting the performance bar high and

everyone of us must relentlessly commit individually to achieve total team performance levels that will enable Merrimac to achieve our Goal of Profitable Growth.

There is great opportunity ahead for Merrimac.

Thanks for your continued support and confidence.

Mason N. Carter  
President and  
Chief Executive Officer