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MERRIMAC INDUSTRIES INC
Form 10QSB
May 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended April 3, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-11201

Merrimac Industries, Inc.
(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

22-1642321
(I.R.S. Employer
Identification No.)

41 FAIRFIELD PLACE
WEST CALDWELL, NEW JERSEY 07006
(Address of Principal Executive Offices)

(973) 575-1300
(Issuer's Telephone Number)

Former name, former address and former fiscal year, if changed since last
report: N/A

Check whether the issuer (1) filed all reports required to be filed by Section
13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter
period that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days. Yes No

As of May 14, 2004, there were 3,120,891 shares of Common Stock, par value \$0.01
per share, outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

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MERRIMAC INDUSTRIES, INC.
41 Fairfield Place
West Caldwell, NJ 07006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERRIMAC INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

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(UNAUDITED)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 3, 2004 | March 29, 2003 |
| OPERATIONS | | |
| Net sales | \$7,647,829 | \$6,511,644 |
| Costs and expenses: | | |
| Cost of sales | 4,299,932 | 4,059,703 |
| Selling, general and administrative | 2,454,419 | 2,329,394 |
| Research and development | 571,585 | 599,731 |
| | 7,325,936 | 6,988,828 |
| Operating income (loss)..... | 321,893 | (477,184) |
| Interest and other expense, net | 80,962 | 59,201 |
| Income (loss) before income taxes..... | 240,931 | (536,385) |
| Provision (benefit) for income taxes | 10,000 | (81,000) |
| Net income (loss)..... | \$ 230,931 | \$ (455,385) |
| Net income (loss) per common share- basic and diluted..... | \$.07 | \$ (.15) |
| Weighted average number of shares outstanding: | | |
| Basic | 3,120,891 | 3,120,095 |
| Diluted..... | 3,134,848 | 3,120,095 |
| COMPREHENSIVE INCOME (LOSS) | | |
| Net income (loss)..... | \$ 230,931 | \$ (455,385) |
| Comprehensive income (loss): | | |
| Foreign currency translation adjustment.... | (108,751) | 315,436 |
| Comprehensive income (loss)..... | \$ 122,180 | \$ (139,949) |

See accompanying notes.

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MERRIMAC INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

April 3,
2004

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(UNAUDITED)

ASSETS

Current assets:

| | |
|-------------------------------------|--------------|
| Cash and cash equivalents | \$ 1,627,952 |
| Accounts receivable, net | 5,704,329 |
| Income tax refunds receivable | 128,344 |
| Inventories, net | 3,216,785 |
| Other current assets | 452,771 |
| Deferred tax assets | 1,055,000 |

Total current assets 12,185,181

| | |
|--|------------|
| Property, plant and equipment | 37,399,758 |
| Less accumulated depreciation and amortization | 20,678,201 |

| | |
|--|------------|
| Property, plant and equipment, net | 16,721,557 |
| Restricted cash | 1,500,000 |
| Other assets | 819,073 |
| Deferred tax assets | 564,000 |
| Goodwill | 3,053,345 |

Total Assets \$ 34,843,156
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | |
|---|------------|
| Current portion of long-term debt | \$ 877,577 |
| Accounts payable | 1,600,322 |
| Accrued liabilities | 1,847,842 |
| Customer deposits | 589,332 |

Total current liabilities 4,915,073

| | |
|--|-----------|
| Long-term debt, net of current portion | 3,440,706 |
| Deferred compensation | 79,952 |
| Deferred liabilities | 44,504 |
| Deferred tax liabilities | 1,403,000 |

Total liabilities 9,883,235

Commitments and contingencies

Stockholders' equity:

| | |
|--|------------|
| Preferred stock, par value \$.01 per share: | |
| Authorized: 1,000,000 shares | |
| No shares issued | |
| Common stock, par value \$.01 per share: | |
| Authorized: 20,000,000 shares | |
| Issued: 3,202,991 and 3,202,991 shares | 32,030 |
| Additional paid-in capital | 18,686,914 |
| Retained earnings | 6,712,436 |
| Accumulated other comprehensive income | 614,407 |

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| | |
|---|---------------|
| | ----- |
| | 26,045,787 |
| Less 82,100 shares of treasury stock, at cost | (573,866) |
| Less loan to officer-stockholder | (512,000) |
| | ----- |
| Total stockholders' equity | 24,959,921 |
| | ----- |
| Total Liabilities and Stockholders' Equity | \$ 34,843,156 |
| | ===== |

See accompanying notes.

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MERRIMAC INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Three Months End | |
|---|------------------|-------|
| | April 3, 2004 | Ma |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 230,931 | \$ |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 820,197 | |
| Amortization of deferred financing costs | 12,482 | |
| Amortization of deferred income | - | |
| Deferred and other compensation | 2,983 | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 579,804 | (1 |
| Income tax refunds receivable | 5,459 | |
| Inventories | (31,903) | |
| Other current assets | 28,678 | |
| Other assets | 22,932 | |
| Accounts payable | 300,011 | |
| Accrued liabilities | 139,152 | |
| Customer deposits | 200,121 | |
| Income taxes payable | - | |
| Deferred compensation | (11,393) | |
| Other liabilities | (3,510) | |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 2,295,944 | |
| | ----- | ----- |
| Cash flows from investing activities- | | |
| Purchase of capital assets | (276,780) | |
| | ----- | ----- |

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| | | | |
|--|--------------|-------|-------|
| Net cash used in investing activities | (276,780) | ----- | ----- |
| Cash flows from financing activities: | | | |
| Repayment of borrowings | (833,654) | ----- | ----- |
| Proceeds from the exercise of stock options | - | ----- | ----- |
| Net cash used in financing activities | (833,654) | ----- | ----- |
| Effect of exchange rate changes | (10,191) | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 1,175,319 | | (1 |
| Cash and cash equivalents at beginning of year | 452,633 | ----- | 3 |
| Cash and cash equivalents at end of period | \$ 1,627,952 | ===== | \$ 2 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Income taxes | \$ 21,685 | ===== | \$ |
| Loan interest | \$ 77,309 | ===== | \$ |
| Non-cash activities- | | | |
| Unpaid purchases of capital assets | \$ 289,000 | ===== | ===== |

See accompanying notes.

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MERRIMAC INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and therefore do not include all information and footnote disclosures otherwise required by generally accepted accounting principles for a full fiscal year. The financial statements do, however, reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position of the Company as of April 3, 2004 and its results of operations and cash flows for the periods presented. Results of operations of interim periods are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements in the

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Company's Annual Report on Form 10-KSB for the year ended January 3, 2004.

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. CONTRACT REVENUE RECOGNITION

Contract revenue and related costs on fixed-price and cost-reimbursement contracts that require customization of products to customer specifications are recorded when title transfers to the customer, which is generally on the date of shipment. Prior to shipment, manufacturing costs incurred on such contracts are recorded as work-in-process inventory. Anticipated losses on contracts are charged to operations when identified. Revenue related to non-recurring engineering charges is generally recognized upon shipment of the initial units produced or based upon contractually established stages of completion. The cost rates utilized for cost-reimbursement contracts are subject to review by third parties and can be revised, which can result in additions to or reductions from revenue. Revisions which result in reductions to revenue are recognized in the period that the rates are reviewed and finalized; additions to revenue are recognized in the period that the rates are reviewed, finalized, accepted by the customer, and collectability from the customer is assured.

3. ACCOUNTING PERIOD

The Company's fiscal year is the 52-53 week period ending on the Saturday closest to December 31. The Company has quarterly dates that correspond with the Saturday closest to the last day of each calendar quarter and each quarter consists of 13 weeks in a 52-week year. Periodically, the additional week to make a 53-week year (fiscal year 2003 was the last and fiscal year 2008 will be the next) is added to the fourth quarter, making such quarter consist of 14 weeks.

4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes all changes in stockholders' equity during a period except those resulting from investments by or distributions to stockholders. The Company has determined that the only adjustment to net income to determine comprehensive income (loss) impacting the Company is cumulative translation adjustments.

5. STOCK-BASED COMPENSATION

SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", to require more prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results in both annual and interim financial statements. As permitted by SFAS No. 148, the Company will continue to apply the provisions of APB Opinion No. 25, "Accounting for Stock-Based Compensation," for all employee stock option grants and has elected to disclose pro forma net income and earnings per share amounts as if the fair-value based method had been applied in measuring compensation costs.

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MERRIMAC INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below sets forth the pro forma net income (loss) and the pro forma net income (loss) per share information as calculated in accordance with SFAS No. 123 for the three months ended April 3, 2004 and March 29, 2003:

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 3, 2004 | March 29, 2003 |
| Net income (loss) - as reported | \$ 230,931 | \$ (455,385) |
| Plus: stock-based compensation expense included in reported net income (loss). | - | - |
| Less: Stock-based compensation expense determined using the fair value method | (52,500) | (74,000) |
| Net income (loss) - pro forma | \$ 178,431 | \$ (529,385) |
| | | |
| Basic net income (loss) per share: | | |
| As reported | \$.07 | \$ (.15) |
| Pro forma | \$.06 | \$ (.17) |
| Diluted net income (loss) per share: | | |
| As reported | \$.07 | \$ (.15) |
| Pro forma | \$.06 | \$ (.17) |

The SFAS No. 123 method of accounting has been applied to options granted in periods after December 31, 1994 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 granted in 2004 and 2003 was estimated on the date of grant using the Black-Scholes option valuation model.

The following weighted average assumptions were utilized:

| | 2004 | 2003 |
|-----------------------------------|--------|--------|
| Expected option life (years)..... | 2.1 | 1.0 |
| Expected volatility..... | 50.00% | 45.00% |
| Risk-free interest rate..... | 1.50% | 2.50% |
| Expected dividend yield..... | 0.00% | 0.00% |

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.

6. GOODWILL

The changes in the carrying amount of goodwill for the three-month periods ended

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April 3, 2004 and March 29, 2003 are as follows:

| | 2004 ---- | 2003 ---- |
|----------------------------------|----------------------|----------------------|
| Balance, beginning of year..... | \$3,122,563 | \$2,491,146 |
| Foreign currency adjustment..... | (69,218) | 200,524 |
| | ----- | ----- |
| Balance, end of period..... | \$3,053,345 ===== | \$2,691,670 ===== |

7. INVENTORIES

Inventories consist of the following:

| | April 3, 2004 ---- | January 3, 2004 ---- |
|--|--------------------------|----------------------------|
| Finished goods..... | \$ 150,788 | \$ 121,613 |
| Work in process..... | 1,957,375 | 1,806,000 |
| Raw materials and purchased parts..... | 1,108,622 | 1,260,333 |
| | ----- | ----- |
| Total..... | \$3,216,785 ===== | \$3,187,946 ===== |

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MERRIMAC INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Total inventories are net of valuation allowances for obsolescence and cost overruns of \$1,519,000 at April 3, 2004 and \$1,787,000 at January 3, 2004.

8. CURRENT AND LONG-TERM DEBT

The Company was obligated under the following debt instruments at April 3, 2004 and January 3, 2004:

| | April 3, 2004 ----- | Janu 2 ----- |
|---|---------------------------|--------------------|
| The CIT Group/Business Credit, Inc. (A): | | |
| Revolving line of credit, interest 1/2% above prime | - | \$ 4 |
| Term loan A, due October 8, 2008, variable interest above LIBOR or prime. | \$1,300,000 | 1,4 |
| Term loan B, due October 8, 2010, variable interest above LIBOR or prime. | 2,553,572 | 2,6 |
| The Bank of Nova Scotia (B): | | |
| Capital leases, interest 6.7%, due October 2004 | 31,650 | |
| Capital leases, interest 8.7%, due June 2005 | 160,438 | 1 |
| Capital leases, interest 7.3%, due April 2006 | 147,304 | 1 |
| Capital leases, interest 7.9%, due June 2006 | 125,319 | 1 |
| First Insurance Funding Corp.- | | |
| Note payable, insurance premiums, interest 6.75% due April 1, 2004..... | - | |
| | ----- | ----- |
| | 4,318,283 | 5,1 |
| Less current portion | 877,577 | 9 |
| | ----- | ----- |

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Long-term portion \$3,440,706
 =====

\$4,2
 =====

(A) On October 8, 2003, the Company completed the refinancing of its revolving credit and term loan obligations with a new credit facility provided by The CIT Group/Business Credit, Inc. ("CIT") that provides for a three-year secured revolving credit, term loan and letter of credit facility for \$9,250,000. All obligations due to its prior bank were repaid from the proceeds of such refinancing. The new financing agreement with CIT consists of a \$5,000,000 revolving line of credit, that is temporarily reduced by \$750,000 until certain conditions are met, a \$1,500,000 machinery and equipment term loan ("Term Loan A") and a \$2,750,000 real estate term loan ("Term Loan B"). In connection with this new financing agreement, the Company was required to place, over the life of the loan, \$1,500,000 as restricted cash with CIT. The revolving line of credit is subject to an availability limit under a borrowing base calculation (85% of eligible accounts receivable as defined in the financing agreement plus 100% of the \$1,500,000 restricted cash). At April 3, 2004, the Company had available borrowing capacity under its revolving line of credit of \$4,100,000. The revolving line of credit bears interest at the prime rate plus 1/2 percent (currently 4.50%). The principal amount of Term Loan A is payable in 60 equal monthly installments of \$25,000 and bears interest at the prime rate plus one percent (currently 5.0%). The principal amount of Term Loan B is payable in 84 equal monthly installments of \$32,738 and bears interest at the prime rate plus one percent (currently 5.0%). At April 3, 2004, the Company, under the terms of its agreement with CIT, elected to convert \$1,200,000 of Term Loan A and \$1,800,000 of Term Loan B to LIBOR interest rate loans. The weighted average and current interest rates on such LIBOR interest rate loans was 4.44%. The current LIBOR interest rate options expired on April 13, 2004 and were renewed for six months at 4.485%. The new LIBOR interest rate options will expire October 12, 2004. The revolving line of credit and the term loans are secured by substantially all of the Company's assets located within the United States and the pledge of 65% of the stock of the Company's subsidiaries located in Costa Rica and Canada. The provisions of the financing agreement require the Company to maintain certain financial and other covenants. The Company was in compliance with these covenants at April 3, 2004.

(B) Capital leases included in property, plant and equipment, net, have a depreciated cost of approximately \$574,000 at April 3, 2004 and \$590,000 at January 3, 2004.

9. BUSINESS SEGMENT DATA

The Company's operations are conducted primarily through two business segments: (1) electronic components and (2) microwave micro-circuitry. These segments, and the principal operations of each, are as follows:

MERRIMAC INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Electronic components: Design, manufacture and sale of electronic component devices offering extremely broad frequency coverage and high performance characteristics for communications, defense and aerospace applications. Of the identifiable assets, 81% are located in the United States and 19% are located in Costa Rica.

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Microwave micro-circuitry: Design, manufacture and sale of microstrip, bonded stripline and thick metal-backed Teflon (R) (PTFE) and mixed dielectric multilayer circuits for communications, defense and aerospace applications. All of the identifiable assets are located in Canada.

Information about the Company's operations in different industries follows. Operating income is net sales less operating expenses. Operating expenses exclude interest expense, other income and income taxes. Assets are identified with the appropriate business segment and are substantially all located in the North America geographic area. Corporate assets consist principally of cash and corporate expenses are immaterial. Intersegment sales and the resulting intersegment assets are principally due to transactions from the microwave micro-circuitry segment to the electronic components segment.

| | Three Months Ended | |
|------------------------------------|---------------------------|-------------------|
| | April 3, 2004 | March 29, 2003 |
| | ----- | |
| | (In thousands of dollars) | |
| Industry segments: | | |
| Sales to unaffiliated customers: | | |
| Electronic components | \$ 6,396 | \$ 5,956 |
| Microwave micro-circuitry | 1,339 | 642 |
| Intersegment sales | (87) | (86) |
| | ----- | ----- |
| Consolidated | \$ 7,648 | \$ 6,512 |
| | ===== | ===== |
| Income (loss) before income taxes: | | |
| Operating income (loss): | | |
| Electronic components | \$ 210 | \$ (352) |
| Microwave micro-circuitry | 112 | (125) |
| Interest and other expense, net | (81) | (59) |
| | ----- | ----- |
| Consolidated | \$ 241 | \$ (536) |
| | ===== | ===== |
| Identifiable assets: | | |
| Electronic components | \$ 27,283 | \$ 29,690 |
| Microwave micro-circuitry | 6,014 | 5,110 |
| Corporate | 1,628 | 2,146 |
| Intersegment | (82) | (158) |
| | ----- | ----- |
| Consolidated | \$ 34,843 | \$ 36,788 |
| | ===== | ===== |
| Depreciation and amortization: | | |
| Electronic components | \$ 759 | \$ 742 |
| Microwave micro-circuitry | 61 | 55 |
| | ----- | ----- |
| Consolidated | \$ 820 | \$ 797 |
| | ===== | ===== |
| Capital expenditures: | | |
| Electronic components | \$ 217 | \$ 524 |
| Microwave micro-circuitry | 60 | 42 |
| | ----- | ----- |
| Consolidated | \$ 277 | \$ 566 |
| | ===== | ===== |

10. NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is calculated by dividing net income

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(loss) 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 and warrants, were issued during the reporting period to the extent they are not anti-dilutive.

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MERRIMAC INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. RELATED PARTY TRANSACTIONS

In May 1998, the Company sold 22,000 shares of Common Stock to Mason N. Carter, Chairman, President and Chief Executive Officer of the Company, at a price of \$11.60 per share, which approximated the average closing price of the Company's Common Stock during the first quarter of 1998. The Company lent Mr. Carter \$255,000 in connection with the purchase of these shares and combined that loan with a prior loan to Mr. Carter in the amount of \$105,000. The resulting total principal amount of \$360,000 was payable May 4, 2003 and bore interest at a variable interest rate based on the prime rate of the Company's lending bank. This loan was further amended on July 29, 2002. Accrued interest of \$40,000 was added to the principal, bringing the new principal amount of the loan to \$400,000, the due date was extended to May 4, 2006, and interest (at the same rate as was previously applicable) is now payable monthly. Mr. Carter has pledged 33,000 shares of Common Stock as security for this loan, which is a full-recourse loan.

On August 31, 2000, in connection with an amendment to Mr. Carter's employment agreement, the Company loaned Mr. Carter an additional \$280,000. Interest on the loan varies and is based on the prime rate of the Company's lending bank, payable in accordance with Mr. Carter's employment agreement. Each year the Company is required to forgive 20% of the amount due under this loan and the accrued interest thereon. During 2003, the Company forgave \$56,000 of principal and \$7,000 of accrued interest and paid a tax gross-up benefit of \$8,300. The Company estimates that \$56,000 of principal and \$4,000 of accrued interest will be forgiven in fiscal year 2004.

During the first quarter of 2004 and 2003, the Company's General Counsel KMZ Rosenman was paid \$86,000 and \$39,000, respectively, for providing legal services to the Company. A director of the Company is counsel to KMZ Rosenman but does not share in the fees that the Company pays to such law firm and his compensation is not based on such fees.

During 2004 and 2003 the Company retained Career Consultants, Inc. and SK Associates to perform executive searches and to provide other services to the Company. The Company paid an aggregate of \$16,000 and \$29,000 to these companies during the first quarter of 2004 and 2003, respectively. A director of the Company is the chairman and chief executive officer of these companies.

During the first quarter of 2003, a director of the Company was paid \$9,000 for providing financial-related consulting services to the Company. This agreement terminated in April 2003.

During each of the first quarters of 2004 and 2003, a director of the Company

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was paid \$9,000 for providing technology-related consulting services to the Company.

During the first quarter of 2004 and 2003, DuPont Electronic Technologies, a stockholder, was paid \$21,000 and \$25,000, respectively, for providing technological and marketing-related personnel and services on a cost-sharing basis to the Company.

Each director who is not an employee of the Company receives a monthly director's fee of \$1,500, plus an additional \$500 for each meeting of the Board and of any Committees of the Board attended. Beginning in fiscal year 2004, the Chair of the Audit Committee will receive an annual fee of \$2,500 for his services in such capacity. The directors are also reimbursed for reasonable travel expenses incurred in attending Board and Committee meetings. In addition, pursuant to the 2001 Stock Option Plan, each non-employee director is granted an immediately exercisable option to purchase 2,500 shares of the Common Stock of the Company on the date of each Annual Meeting of Stockholders. Each such grant is at the fair market value on the date of such grant and will expire on the tenth anniversary of the date of the grant.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The Company's management makes certain assumptions and estimates that impact the reported amounts of assets, liabilities and stockholders' equity, and revenues and expenses. The management judgments that are currently the most critical are related to the accounting for the Company's investments in Multi-Mix (R) Microtechnology, contract revenue recognition, inventory valuation, valuation of goodwill and valuation of deferred tax assets.

Following is a summary of the carrying amounts of the Multi-Mix (R) Microtechnology net assets included in the Company's consolidated financial statements at April 3, 2004 and the related future planned purchases and lease obligation commitments through January 2006.

Net assets:

| | |
|--|--------------|
| Property, plant and equipment, at cost..... | \$14,156,000 |
| Less accumulated depreciation and amortization..... | 4,476,000 |
| | ----- |
| Property, plant and equipment, net..... | 9,680,000 |
| Inventories..... | 576,000 |
| Other assets, net..... | 305,000 |
| | ----- |
| Total net assets at April 3, 2004..... | \$10,561,000 |
| | ----- |
| Commitments: | |
| Planned equipment purchases for the remainder of 2004..... | \$ 400,000 |
| Lease obligations through January 2006..... | 550,000 |
| | ----- |
| Total commitments..... | \$950,000 |
| | ----- |
| Total net assets and commitments..... | \$11,511,000 |
| | ===== |

The Company anticipates receiving additional orders during the remainder of 2004 and 2005 for its Multi-Mix (R) Microtechnology products, for which substantial research and development costs have also been incurred. Due to economic and market conditions in the wireless industry over the past several years, the

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telecommunications system service providers have curtailed their capital equipment purchases from our customers. While these circumstances have resulted in the delay or cancellation of Multi-Mix (R) Microtechnology product purchases that had been anticipated from certain specific customers or programs, in connection with the recent slightly improved conditions in the industry, the Company has recently implemented a strategic plan utilizing product knowledge and customer focus to expand specific sales opportunities. However, continued extended delay or reduction from planned levels in new orders expected from customers for these products could require the Company to pursue alternatives related to the utilization or realization of these assets and commitments, the net result of which could be materially adverse to the financial results and position of the Company. The Company has determined no provision for impairment is required at this time.

The Company's planned equipment purchases and other commitments are expected to be funded through its new revolving credit facility of \$5,000,000, which becomes due October 8, 2006, supplemented by cash resources and cash flows that are expected to be provided by operations.

Contract revenue and related costs on fixed-price and cost-reimbursement contracts that require customization of products to customer specifications are recorded when title transfers to the customer, which is generally on the date of shipment. Prior to shipment, manufacturing costs incurred on such contracts are recorded as work-in-process inventory. Anticipated losses on contracts are charged to operations when identified. Revenue related to non-recurring engineering charges is generally recognized upon shipment of the initial units produced or based upon contractually established stages of completion. The cost rates utilized for cost-reimbursement contracts are subject to review by third parties and can be revised, which can result in additions to or reductions from revenue. Revisions which result in reductions to revenue are recognized in the period that the rates are reviewed and finalized; additions to revenue are recognized in the period that the rates are reviewed, finalized, accepted by the customer, and collectability from the customer is assured.

Inventories are valued at the lower of average cost or market. Inventories are periodically reviewed for their projected manufacturing usage utilization and, when slow-moving or obsolete inventories are identified, a provision for a potential loss is made and charged to operations. Total inventories are net of valuation allowances for obsolescence and cost overruns of \$1,519,000 at April 3, 2004 and \$1,787,000 at January 3, 2004.

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With the adoption of SFAS No. 142 by the Company on December 30, 2001, goodwill is no longer subject to amortization over its estimated useful life. However, goodwill is subject to at least an annual assessment for impairment and more frequently if circumstances indicate a possible impairment. The Company performed the annual assessment during the fourth quarter of 2003 and determined there was no impairment.

The Company currently has significant deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences, which will reduce taxable income in future periods. A valuation allowance (or write-down) is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company's 2002 and 2003 net losses weighed heavily in the Company's overall assessment. As a result of our assessment, the Company established a full valuation allowance for its remaining net domestic deferred tax assets at December 28, 2002. This assessment continued unchanged in fiscal years 2003 and 2004.

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CONSOLIDATED STATEMENTS OF OPERATIONS SUMMARY (UNAUDITED)

The following table reflects the percentage relationships of items from the Consolidated Statements of Operations as a percentage of net sales.

| | Percentage of Net Sales | |
|---|-------------------------|-------------------|
| | ----- | |
| | Three Months Ended | |
| | April 3, 2004 | March 29, 2003 |
| | ----- | ----- |
| Net sales..... | 100.0% | 100.0% |
| | ----- | ----- |
| Costs and expenses: | | |
| Cost of sales..... | 56.2 | 62.3 |
| Selling, general and administrative..... | 32.1 | 35.8 |
| Research and development..... | 7.5 | 9.2 |
| | ----- | ----- |
| | 95.8 | 107.3 |
| | ----- | ----- |
| Operating income (loss)..... | 4.2 | (7.3) |
| Interest and other expense, net..... | 1.1 | .9 |
| | ----- | ----- |
| Income (loss) before income taxes..... | 3.1 | (8.2) |
| Provision (benefit) for income taxes..... | .1 | (1.2) |
| | ----- | ----- |
| Net income (loss)..... | 3.0% | (7.0)% |
| | ===== | ===== |

FIRST QUARTER OF 2004 COMPARED TO THE FIRST QUARTER 2003

Consolidated results of operations for the first quarter of 2004 reflect an increase in net sales from the first quarter of 2003 of \$1,136,000 or 17.4% to \$7,648,000. This increase was attributable to a \$440,000 increase in net sales of electronic components and a \$696,000 increase in sales of microwave micro-circuitry products from the Company's wholly-owned subsidiary Filtran Microcircuits Inc. ("FMI"). The increase was due to an improvement in orders received during the first quarter of 2004 and higher backlog going into the first quarter.

Orders of \$8,689,000 were received during the first quarter of 2004, an increase of \$556,000 or 6.8% compared to \$8,133,000 in orders received during the first quarter of 2003. Orders received during the first quarter of 2004 exceeded sales during the first quarter of 2004 by approximately 13.6%. As a result, backlog increased by \$961,000 or 7.8% to \$13,356,000 at the end of the first quarter of 2004 compared to \$12,395,000 at year-end 2003.

The Company believes that the recent economic downturn, resulting in reduced spending by wireless telecommunications service providers, has caused many wireless telecommunications companies to delay or forego purchases of the Company's products. However, the Company expects that its defense customers should continue to maintain their approximate current levels of orders during fiscal year 2004, although there are no assurances they will do so. The Company also anticipates increased levels of orders during fiscal year 2004 for its new Multi-Mix (R) Microtechnology products, for which the Company has made a significant capital investment and incurred substantial research and development costs. The Company expects that previous weaknesses in the telecommunications

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sector that FMI serves will improve in 2004 and the continued efforts to diversify FMI into wireless base stations and defense applications has begun to produce orders.

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Cost of sales increased \$240,000 or 5.9%, and as a percentage of net sales decreased 6.1 percentage points to 56.2% for the first quarter of 2004. Cost of sales decreased \$188,000 for the first quarter of 2004 in the electronic components segment, resulting from increased utilization of the Company's West Caldwell, New Jersey and Costa Rica manufacturing production facilities, better product mix and the benefits of the cost containment and restructuring programs instituted during 2003. Cost of sales for the electronic components segment also reflects flat intersegment purchases from FMI of \$87,000 for the first quarter of 2004. Cost of sales increased \$429,000 for the first quarter of 2004 in the microwave micro-circuitry segment, resulting from the overall increase in segment sales for the first quarter 2004 of approximately 108.7% compared to the first quarter of the prior year.

Depreciation expense included in cost of sales for the first quarter of 2004 was \$729,000, an increase of \$37,000 compared to the first quarter of 2003. For the first quarter of 2004, approximately \$493,000 of depreciation expense was associated with Multi-Mix (R) Microtechnology capital assets. The increase in depreciation expense was a result of higher capital equipment purchases in prior years related to the new Costa Rica manufacturing facility and the expansion of the West Caldwell, New Jersey manufacturing facility.

Gross profit for the first quarter of 2004 for the electronic components segment increased by \$628,000 to \$2,942,000 or 46.0% of segment net sales of \$6,396,000 compared to gross profit of \$2,313,000 or 38.8% of segment net sales of \$5,956,000 in the first quarter of 2003. Gross profit for the first quarter of 2004 for the microwave micro-circuitry segment increased by \$268,000 to \$406,000 or 30.4% of segment net sales of \$1,339,000, compared to \$138,000 or 21.5% of segment net sales of \$642,000 in the first quarter of 2003. FMI sales include intersegment sales of \$87,000 and \$86,000 in the first quarter of 2004 and 2003, respectively.

Selling, general and administrative expenses of \$2,454,000 for the first quarter of 2004 increased by \$125,000 or 5.4%, and when expressed as a percentage of net sales, decreased by 3.7% to 32.1%. The dollar increases were due to higher marketing and professional fee expenses.

Research and development expenses for new products were \$572,000 for the first quarter of 2004, a decrease of \$28,000 or 4.7% and when expressed as a percentage of net sales, a decrease of 1.7 percentage points to 7.5% compared to the first quarter of 2003. Except for \$57,000 of expenses in the first quarter of 2004 at FMI, an increase of \$19,000 from the first quarter of the prior year, substantially all of the research and development expenses were related to Multi-Mix (R) Microtechnology and Multi-Mix PICO (TM) products.

Consolidated operating income for the first quarter of 2004 was \$322,000 compared to a consolidated operating loss of \$477,000 in the first quarter of 2003.

Operating income for the electronic components segment was \$210,000 for the first quarter of 2004 compared to an operating loss of \$352,000 in the first quarter of 2003. Operating income for the microwave micro-circuitry segment was \$112,000 for the first quarter of 2004 compared to an operating loss of \$125,000 for the first quarter of 2003.

Interest and other expense, net was \$81,000 for the first quarter of 2004

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compared to interest and other expense, net of \$59,000 for the first quarter of 2003. Interest expense for the first quarter of 2004 was principally incurred on borrowings under the revolving line of credit and term loans which the Company refinanced during the fourth quarter of 2003 at higher interest rates. Interest expense for the first quarter of 2003 was principally incurred on borrowings under the mortgage loan and the term loan taken out during fiscal year 2002.

An income tax provision of \$10,000, principally state taxes, was recorded for the first quarter of 2004 with an effective tax rate of 4% compared to a tax benefit of \$81,000 for the first quarter of 2003 with an effective tax rate of 15%. No Federal provision was recorded in 2004 because of the availability of net operating loss carryforwards. The 2003 tax benefit recorded represents deferred tax benefits associated with FMI's research and development expenses incurred in Canada. No U.S. tax benefits have been recorded in 2004 or 2003.

Net income for the first quarter of 2004 was \$231,000 compared to a net loss of \$455,000 for the first quarter of 2003. Net income per share for the first quarter of 2004 was \$.07 compared to a net loss of \$.15 per share for the first quarter of 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company had liquid resources comprised of cash and cash equivalents totaling approximately \$1,600,000 at the end of the first quarter of 2004 compared to approximately \$450,000 at the end of 2003. The Company's working capital was approximately \$7,300,000 and its current ratio was 2.5 to 1 at the end of the first quarter of 2004 compared to \$7,300,000 and 2.7 to 1, respectively, at the end of 2003.

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The Company's operating activities generated positive cash flows of \$2,296,000 during the first quarter of 2004 compared to the utilization of \$789,000 of cash flows during the first quarter of 2003. The primary sources of operating cash flows for the first quarter of 2004 were the quarterly net income of \$231,000; depreciation and amortization of \$820,000; the reduction of accounts receivable of \$580,000; a decrease in other current assets; and an aggregate increase in accounts payable, accrued liabilities and customer deposits of \$639,000, partly offset by increased inventory levels and the reduction of other liabilities.

The Company made net cash investments in property, plant and equipment of \$277,000 during the first quarter of 2004 (and had unpaid invoices for such investments of \$289,000 at April 3, 2004), compared to net cash investments made in property, plant and equipment of \$566,000 (and had unpaid invoices for such investments of \$118,000 at March 29, 2003) during the first quarter of 2003. These capital expenditures are related to new production and test equipment capabilities in connection with the introduction of new products and enhancements to existing products. The depreciated cost of capital equipment associated with Multi-Mix (R) Microtechnology was \$9,680,000 at the end of the first quarter 2004, a decrease of \$384,000 compared to \$10,064,000 at the end of fiscal year 2003.

On October 8, 2003, the Company completed the refinancing of its revolving credit and term loan obligations with a new credit facility provided by The CIT Group/Business Credit, Inc. ("CIT") that provides for a three-year secured revolving credit, term loan and letter of credit facility for \$9,250,000. All obligations due to its prior bank were repaid from the proceeds of such refinancing. The new financing agreement with CIT consists of a \$5,000,000 revolving line of credit, that is temporarily reduced by \$750,000 until certain conditions are met, a \$1,500,000 machinery and equipment term loan ("Term Loan

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A") and a \$2,750,000 real estate term loan ("Term Loan B"). In connection with this new financing agreement, the Company was required to place, over the life of the loan, \$1,500,000 as restricted cash with CIT. The revolving line of credit is subject to an availability limit under a borrowing base calculation (85% of eligible accounts receivable as defined in the financing agreement plus 100% of the \$1,500,000 restricted cash). At April 3, 2004, the Company had available borrowing capacity under its revolving line of credit of \$4,100,000. The revolving line of credit bears interest at the prime rate plus 1/2 percent (currently 4.50%). The principal amount of Term Loan A is payable in 60 equal monthly installments of \$25,000 and bears interest at the prime rate plus one percent (currently 5.0%). The principal amount of Term Loan B is payable in 84 equal monthly installments of \$32,738 and bears interest at the prime rate plus one percent (currently 5.0%). At April 3, 2004, the Company, under the terms of its agreement with CIT, elected to convert \$1,200,000 of Term Loan A and \$1,800,000 of Term Loan B to LIBOR interest rate loans. The weighted average and current interest rates on such LIBOR interest rate loans was 4.44%. The current LIBOR interest rate options expired on April 13, 2004 and were renewed for six months at 4.485%. The new LIBOR interest rate options will expire October 12, 2004. The revolving line of credit and the term loans are secured by substantially all of the Company's assets located within the United States and the pledge of 65% of the stock of the Company's subsidiaries located in Costa Rica and Canada. The provisions of the financing agreement require the Company to maintain certain financial and other covenants. The Company was in compliance with these covenants at April 3, 2004.

Depreciation and amortization expenses exceeded capital expenditures for new projects and production equipment during the first quarter of 2004 by approximately \$543,000, and the Company anticipates that depreciation and amortization expenses will exceed capital expenditures in fiscal year 2004. The Company intends to issue commitments to purchase \$800,000 of capital equipment from various vendors. The Company anticipates that such equipment will be purchased and become operational during the last three quarters of 2004.

The functional currency for the Company's wholly-owned subsidiary FMI is the Canadian dollar. The change in accumulated other comprehensive income for the first quarters of 2004 and 2003 reflect the changes in the exchange rates between the Canadian dollar and the United States dollar for those respective periods.

The Company entered into an agreement effective January 2001, with a customer to relinquish to this customer approximately half of the Company's 17,000 square-foot leased manufacturing facility in Costa Rica. Associated with the transaction, the Company entered into a new four-year lease agreement with a five-year renewal option with its Costa Rica landlord for the reduced space. In addition, the Company transferred certain employees to its customer, agreed to share certain personnel resources and common costs, and committed to provide certain management, administrative and other services to its customer. On March 31, 2003, the Company relinquished the balance of the space to its customer. The completion of these transactions resulted in a gain of \$71,000 during the second quarter of 2003. In connection with the 2001 agreement, the Company received \$450,000 from its customer. The Company reduced its facility occupancy expenses by approximately \$22,000 in the first quarter of 2003.

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RELATED PARTY TRANSACTIONS

In May 1998, the Company sold 22,000 shares of Common Stock to Mason N. Carter, Chairman, President and Chief Executive Officer of the Company, at a price of \$11.60 per share, which approximated the average closing price of the Company's Common Stock during the first quarter of 1998. The Company lent Mr. Carter

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\$255,000 in connection with the purchase of these shares and combined that loan with a prior loan to Mr. Carter in the amount of \$105,000. The resulting total principal amount of \$360,000 was payable May 4, 2003 and bore interest at a variable interest rate based on the prime rate of the Company's lending bank. This loan was further amended on July 29, 2002. Accrued interest of \$40,000 was added to the principal, bringing the new principal amount of the loan to \$400,000, the due date was extended to May 4, 2006, and interest (at the same rate as was previously applicable) is now payable monthly. Mr. Carter has pledged 33,000 shares of Common Stock as security for this loan, which is a full-recourse loan.

On August 31, 2000, in connection with an amendment to Mr. Carter's employment agreement, the Company loaned Mr. Carter an additional \$280,000. Interest on the loan varies and is based on the prime rate of the Company's lending bank, payable in accordance with Mr. Carter's employment agreement. Each year the Company is required to forgive 20% of the amount due under this loan and the accrued interest thereon. During 2003, the Company forgave \$56,000 of principal and \$7,000 of accrued interest and paid a tax gross-up benefit of \$8,300. The Company estimates that \$56,000 of principal and \$4,000 of accrued interest will be forgiven in fiscal year 2004.

During the first quarter of 2004 and 2003, the Company's General Counsel KMZ Rosenman was paid \$86,000 and \$39,000, respectively, for providing legal services to the Company. A director of the Company is counsel to KMZ Rosenman but does not share in the fees that the Company pays to such law firm and his compensation is not based on such fees.

During 2004 and 2003 the Company retained Career Consultants, Inc. and SK Associates to perform executive searches and to provide other services to the Company. The Company paid an aggregate of \$16,000 and \$29,000 to these companies during the first quarter of 2004 and 2003, respectively. A director of the Company is the chairman and chief executive officer of these companies.

During the first quarter of 2003, a director of the Company was paid \$9,000 for providing financial-related consulting services to the Company. This agreement terminated in April 2003.

During each of the first quarters of 2004 and 2003, a director of the Company was paid \$9,000 for providing technology-related consulting services to the Company.

During the first quarter of 2004 and 2003, DuPont Electronic Technologies, a stockholder, was paid \$21,000 and \$25,000, respectively, for providing technological and marketing-related personnel and services on a cost-sharing basis to the Company.

Each director who is not an employee of the Company receives a monthly director's fee of \$1,500, plus an additional \$500 for each meeting of the Board and of any Committees of the Board attended. Beginning in fiscal year 2004, the Chair of the Audit Committee will receive an annual fee of \$2,500 for his services in such capacity. The directors are also reimbursed for reasonable travel expenses incurred in attending Board and Committee meetings. In addition, pursuant to the 2001 Stock Option Plan, each non-employee director is granted an immediately exercisable option to purchase 2,500 shares of the Common Stock of the Company on the date of each Annual Meeting of Stockholders. Each such grant is at the fair market value on the date of such grant and will expire on the tenth anniversary of the date of the grant.

On February 28, 2002, the Company sold to DuPont Electronic Technologies ("DuPont") 528,413 shares of Common Stock, representing approximately 16.6% of the Company's outstanding Common Stock after giving effect to the sale, for an aggregate purchase price of \$5,284,000. The Company and DuPont Electronic

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Technologies have also agreed to work together to better understand the dynamics of the markets for high-frequency electronic components and modules. David B. Miller, Vice President and General Manager of DuPont Electronic Technologies, was appointed to the Company's Board of Directors. As a result of this sale, pursuant to the anti-dilution provisions of the Warrants issued in October 2000, the exercise price of the Warrants was reduced to \$17.80 and the number of shares subject to the Warrants was increased to 429,775. The Warrants expired October 26, 2003.

Infineon Technologies AG, the Adam Smith Investment Partners, L.P. and DuPont hold registration

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rights which currently give them the right to register an aggregate of 1,243,413 shares of Common Stock of the Company.

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-QSB contains statements relating to future results of Merrimac Industries, Inc. ("Merrimac" and together with its subsidiaries, 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(R) products; general economic and industry conditions; slower than anticipated penetration into the satellite communications, defense and wireless markets; the risk that the benefits expected from the acquisition of Filtran Microcircuits Inc. are not realized; the ability to protect proprietary information and technology; competitive products and pricing pressures; risks relating to governmental regulatory actions in communications and defense programs; and inventory risks due to technological innovation and product obsolescence, as well as other risks and uncertainties, including but not limited to those detailed from time to time in Merrimac's Securities and Exchange Commission filings. These forward-looking statements are made only as of the date of the filing of this Form 10-QSB, and Merrimac undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. CONTROLS AND PROCEDURES

As of April 3, 2004 (the end of the period covered by this report), the Company's management carried out an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, as of and for the period covered by this report, in timely alerting them to material information relating to the Company (including the Company's consolidated subsidiaries) required to be included in periodic reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In designing and evaluating the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired

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control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

No change occurred in the Company's internal controls concerning financial reporting during the Company's first quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

| EXHIBIT NUMBER ----- | DESCRIPTION OF EXHIBIT ----- |
|----------------------------|---|
| 3(a) | Certificate of Incorporation of Merrimac is hereby incorporated by reference to Exhibit 3(i) (b) to Post-Effective Amendment No. 2 to the Registration Statement on Form S-8 (No. 33-68862) of Merrimac dated February 23, 2001. |
| 3(b) | By-laws of Merrimac are hereby incorporated by reference to Exhibit 3(ii) (b) to Post-Effective Amendment No. 2 to the Registration Statement on Form S-8 (No. 33-68862) of Merrimac dated February 23, 2001. |
| 4(a) | Stockholder Rights Agreement dated as of March 9, 1999, between Merrimac and ChaseMellon Stockholder Services, L.L.C., as Rights Agent, is hereby incorporated by reference to Exhibit 1 to Merrimac's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 1999. |
| 4(b) | Amendment No. 1 dated as of June 9, 1999, to the Stockholder Rights Agreement dated as of March 9, 1999, between Merrimac and ChaseMellon Stockholder Services, L.L.C., as Rights Agent, is hereby incorporated by reference to Exhibit 1 to Merrimac's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 9, 1999. |
| 4(c) | Amendment No. 2 dated as of April 7, 2000, to the Stockholder Rights Agreement dated as of March 9, 1999, between Merrimac and ChaseMellon Stockholder Services, L.L.C., as Rights Agent, is hereby incorporated by reference to Exhibit 1(b) to Merrimac's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 10, 2000. |

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- 4(d) Amendment No. 3 dated as of October 26, 2000, to the Stockholder Rights Agreement dated as of March 9, 1999, between Merrimac and ChaseMellon Stockholder Services, L.L.C., as Rights Agent, is hereby incorporated by reference to Exhibit 2 to Merrimac's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 27, 2000.
- 4(e) Amendment No. 4 dated as of February 21, 2001, to the Stockholder Rights Agreement dated as of March 9, 1999, between Merrimac and Mellon Investor Services, L.L.C. (formerly known as ChaseMellon Stockholder Services, L.L.C.), as Rights Agent, is hereby incorporated by reference to Exhibit 1(d) to Merrimac's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2001.
- 4(f) Amendment No. 5, dated February 28, 2002, to the Rights Agreement, between Merrimac and Mellon Investor Services LLC (f.k.a. ChaseMellon Shareholder Services, L.L.C.), as Rights Agent is hereby incorporated by reference to Exhibit 99.4 to Merrimac's Form 8-K filed with the Securities and Exchange Commission on March 6, 2002.
- 4(g) Amendment No. 6, dated September 18, 2002, to the Rights Agreement, between Merrimac and Mellon Investor Services LLC, as Rights Agent is hereby incorporated by reference to Exhibit 99.3 to Merrimac's Form 8-K filed with the Securities and Exchange Commission on October 10, 2002.
- 10(a) Stock Purchase and Exclusivity Letter Agreement dated April 7, 2000, among Ericsson Microelectronics, A.B., Ericsson Holdings International, B.V. and Merrimac is hereby incorporated by reference to Exhibit 10(a) to Merrimac's Quarterly Report on Form 10-QSB for the period ending July 1, 2000.
- 10(b) Letter Agreement, dated February 1, 2002, among Merrimac, Ericsson Holding International B.V. and Ericsson Microelectronics, A.B., which amends the Stock Purchase and Exclusivity Letter, dated April 7, 2000 is hereby incorporated by reference to Exhibit 99.4 to Merrimac's Form 8-K filed with the Securities and Exchange Commission on October 10, 2002.
- 10(c) Registration Rights Agreement dated as of April 7, 2000, between Merrimac and

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Ericsson Holding International, B.V. is hereby incorporated by reference to Exhibit 10(b) to Merrimac's Quarterly Report on Form 10-QSB for the period ending July 1, 2000.

- 10(d) Subscription Agreement for Common Stock and Warrants dated October 26, 2000, between Merrimac and Ericsson Holding International, B.V. (with a form of Warrant attached) is hereby incorporated by reference to Exhibit 10(t) to Merrimac's Annual Report on Form 10-KSB for the year ending December 30, 2000.
- 10(e) Registration Rights Agreement dated October 26, 2000, between Merrimac and Ericsson Holding International, B.V. is hereby incorporated by reference to Exhibit 10(u) to Merrimac's Annual Report on Form 10-KSB dated for the year ending December 30, 2000.

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- 10(f) Subscription Agreement for Common Stock and Warrants dated October 26, 2000, between Merrimac and certain entities and individuals related to Adam Smith Investment Partners, L.P. (with a form of Warrant attached) is hereby incorporated by reference to Exhibit 10(v) to Merrimac's Annual Report on Form 10-KSB for the year ending December 30, 2000.
- 10(g) Registration Rights Agreement dated October 26, 2000, between Merrimac and certain entities and individuals related to Adam Smith Investment Partners, L.P. is hereby incorporated by reference to Exhibit 10(w) to Merrimac's Annual Report on Form 10-KSB for the year ending December 30, 2000.
- 10(h) Subscription Agreement for Common Stock and Warrants dated October 26, 2000, among Merrimac, Edward H. Cohen, Joseph B. Fuller and Joel H. Goldberg (with a form of Warrant attached) is hereby incorporated by reference to Exhibit 10(x) to Merrimac's Annual Report on Form 10-KSB for the year ending December 30, 2000.
- 10(i) Subscription Agreement, dated February 28, 2002 between Merrimac and DuPont Chemical and Energy Operations, Inc., a subsidiary of E.I. DuPont de Nemours and Company is hereby incorporated by reference to Exhibit 99.2 to Merrimac's Form 8-K filed with the Securities and Exchange Commission on March 6, 2002.
- 10(j) Registration Rights Agreement, dated February 28, 2002 between Merrimac and DuPont Chemical and Energy Operations, Inc., a subsidiary of E.I. DuPont de Nemours and Company is hereby incorporated by reference to Exhibit 99.3 to Merrimac's Form 8-K filed with the Securities and Exchange Commission on March 6, 2002.
- 10(k) Consent and Waiver, dated as of September 18, 2002, among Merrimac, Ericsson Holding International B.V. and Infineon Technologies AG is hereby incorporated by reference to Exhibit 99.1 to Merrimac's Form 8-K filed with the Securities and Exchange Commission on October 10, 2002.
- 10(l) Modification Agreement, dated as of September 27, 2002, between Merrimac and Infineon Technologies AG is hereby incorporated by reference to Exhibit 99.2 to Merrimac's Form 8-K filed with the Securities and Exchange Commission on October 10, 2002.
- 10(m) Profit Sharing Plan of Merrimac is hereby incorporated by reference to Exhibit 10(n) to Merrimac's Registration Statement on Form S-1 (No. 2-79455).*
- 10(n) 1983 Key Employees Stock Option Plan of Merrimac effective March 21, 1983, is hereby incorporated by reference to Exhibit 10(m) to Merrimac's Annual Report on Form 10-KSB for the year ending March 31, 1983.*
- 10(o) 1993 Stock Option Plan of Merrimac effective March 31, 1993, is hereby incorporated by reference to Exhibit 4(c) to Merrimac's Registration Statement on Form S-8 (No. 33-68862) dated September 14, 1993.*
- 10(p) 1997 Long-Term Incentive Plan of Merrimac is hereby incorporated by reference to Exhibit A to Merrimac's Proxy Statement filed with the Securities and Exchange Commission on April 11, 1997.*
- 10(q) Resolutions of the Stock Option Committee of the Board of Directors of Merrimac adopted June 3, 1998, amending the 1983 Key Employees

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Stock Option Plan of Merrimac, the 1993 Stock Option Plan of Merrimac and the 1997 Long-Term

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Incentive Plan of Merrimac and adjusting outstanding awards thereunder to give effect to Merrimac's 10% stock dividend paid June 5, 1998, are hereby incorporated by reference to Exhibit 10(f) to Merrimac's Annual Report on Form 10-KSB for the year ending March 30, 1999.*

- 10(r) 1995 Stock Purchase Plan of Merrimac is hereby incorporated by reference to Exhibit A to Merrimac's Proxy Statement filed with the Securities and Exchange Commission on March 27, 1995.*
- 10(s) Resolutions of the Stock Purchase Plan Committee of the Board of Directors of Merrimac adopted June 3, 1998, amending the 1995 Stock Purchase Plan of Merrimac and adjusting outstanding awards thereunder to give effect to Merrimac's 10% stock dividend paid June 5, 1998, are hereby incorporated by reference to Exhibit 10(g) (2) to Merrimac's Annual Report on Form 10-KSB for the year ending January 2, 1999.*
- 10(t) 1996 Stock Option Plan for Non-Employee Directors of Merrimac is hereby incorporated by reference to Exhibit 10(d) to Merrimac's Annual Report on Form 10-KSB dated for the year ending December 28, 1996.*
- 10(u) Resolutions of the Board of Directors of Merrimac, adopted June 3, 1998, amending the 1996 Stock Option Plan for Non-Employee Directors of Merrimac and adjusting outstanding awards thereunder to give effect to Merrimac's 10% stock dividend paid June 5, 1998, are hereby incorporated by reference to Exhibit 10(h) (2) to Merrimac's Annual Report on Form 10-KSB for the year ending January 2, 1999.*
- 10(v) Amended and Restated Employment Agreement dated as of January 1, 1998, between Merrimac and Mason N. Carter is hereby incorporated by reference to Exhibit 10(a) to Merrimac's Quarterly Report on Form 10-QSB for the period ending July 4, 1998.*
- 10(w) Amendment dated August 31, 2000 to the Amended and Restated Employment Agreement dated January 1, 1998, between Merrimac and Mason N. Carter is hereby incorporated by reference to Exhibit 10(a) to Merrimac's Quarterly Report on Form 10-QSB for the period ending September 30, 2000.*
- 10(x) Amended and Restated Pledge Agreement dated as of May 4, 1998, between Merrimac and Mason N. Carter is hereby incorporated by reference to Exhibit 10(c) to Merrimac's Quarterly Report on Form 10-QSB for the period ending July 4, 1998.*
- 10(y) Amended Promissory Note dated as of May 4, 1998, executed by Mason N. Carter in favor of Merrimac is hereby incorporated by reference to Exhibit 10(l) to Merrimac's Annual Report on Form 10-KSB for the year ending January 2, 1999.*
- 10(z) Registration Rights Agreement dated as of May 4, 1998, between Merrimac and Mason N. Carter is hereby incorporated by reference to Exhibit 10(e) to Merrimac's Quarterly Report on Form 10-QSB for the period ending July 4, 1998.*

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- 10(aa) Consulting Agreement dated as of January 1, 1998, between Merrimac and Arthur A. Oliner is hereby incorporated by reference to Exhibit 10 to Merrimac's Quarterly Report on Form 10-QSB for the period ending April 4, 1998.*
- 10(bb) Separation Agreement dated as of December 31, 1998, between Merrimac and Eugene W. Niemiec is hereby incorporated by reference to Exhibit 10(p) to Merrimac's Annual Report on Form 10-KSB for the year ending January 2, 1999.*
- 10(cc) Stockholder's Agreement dated as of October 30, 1998, between Merrimac and Charles F. Huber II is hereby incorporated by reference to Exhibit 10 to Merrimac's Quarterly Report on Form 10-QSB for the period ending October 3, 1998.
- 10(dd) Shareholder's Agreement dated as of June 3, 1999, among Merrimac, William D. Witter, Inc. and William D. Witter is hereby incorporated by reference to Exhibit 10 to Merrimac's Quarterly Report on Form 10-QSB for the period ending July 3, 1999.
- 10(ee) 2001 Key Employee Incentive Plan is hereby incorporated by reference to Exhibit 4.01 to Merrimac's Form S-8 (No. 333-63434) dated June 20, 2001.*

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- 10(ff) 2001 Stock Option Plan is hereby incorporated by reference to Exhibit 4.01 to Merrimac's Form S-8 (No. 333-63436) dated June 20, 2001.*
- 10(gg) 2001 Stock Purchase Plan is hereby incorporated by reference to Exhibit 4.01 to Merrimac's Form S-8 (No. 333-63438) dated June 20, 2001.*
- 10(hh) 2001 Amended and Restated Stock Option Plan is hereby incorporated by reference to Exhibit 4(i) to Merrimac's Quarterly Report on Form 10-QSB for the period ending June 30, 2001.*
- 10(ii) Third Amended and Restated Credit Agreement, dated December 23, 2002, between Merrimac and Fleet National Bank, which amends the Credit and Security Agreement, dated October 7, 1997 is hereby incorporated by reference to Exhibit 10(mm) to Merrimac's Annual Report on Form 10-KSB for the year ending December 28, 2002.
- 10(jj) Revolving Loan Modification Agreement, dated April 17, 2003, between Merrimac and Fleet National Bank, which amends the Third Amended and Restated Credit Agreement, dated December 23, 2002 is hereby incorporated by reference to Exhibit 10(nn) to Merrimac's Annual Report on Form 10-KSB for the year ending December 28, 2002.
- 10(kk) Term Loan and Security Agreement, dated December 23, 2002, between Merrimac and Fleet National Bank is hereby incorporated by reference to Exhibit 10(oo) to Merrimac's Annual Report on Form 10-KSB for the year ending December 28, 2002.
- 10(ll) Term Loan Modification Agreement, dated April 17, 2003, between Merrimac and Fleet National Bank, which amends the Term Loan and Security Agreement, dated December 23, 2002 is hereby incorporated by reference to Exhibit 10(pp) to Merrimac's Annual Report on Form 10-KSB for the year ending December 28, 2002.

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- 10(mm) Term Loan and Security Agreement, dated March 26, 2002, between Merrimac and Fleet National Bank is hereby incorporated by reference to Exhibit 10(qq) to Merrimac's Annual Report on Form 10-KSB for the year ending December 28, 2002.
- 10(nn) Term Loan Modification Agreement, dated April 17, 2003, which amends the Term Loan and Security Agreement, dated March 26, 2002 is hereby incorporated by reference to Exhibit 10(rr) to Merrimac's Annual Report on Form 10-KSB for the year ending December 28, 2002.
- 10(oo) Financing Agreement, dated October 8, 2003, between Merrimac and The CIT Group/Business Credit, Inc. is hereby incorporated by reference to Exhibit 10(rr) to Merrimac's Form 10-QSB for the period ending September 27, 2003.
- 10(pp) Trademark and Patent Security Agreement, dated October 8, 2003, between Merrimac and The CIT Group/Business Credit, Inc. is hereby incorporated by reference to Exhibit 10(ss) to Merrimac's Form 10-QSB for the period ending September 27, 2003.
- 10(qq) Mortgage and Security Agreement, dated October 8, 2003, by Merrimac in favor of The CIT Group/Business Credit, Inc. is hereby incorporated by reference to Exhibit 10(tt) to Merrimac's Form 10-QSB for the period ending September 27, 2003.
- 10(rr)* Merrimac Severance Plan, as adopted September 17, 2003. is hereby incorporated by reference to Exhibit 10(uu) to Merrimac's Form 10-QSB for the period ending September 27, 2003.
- 11+ Statement regarding Computation of Earnings per Share.
- 31.1+ Chief Executive Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2+ Chief Financial Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1+ Chief Executive Officer's Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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- 32.2+ Chief Financial Officer's Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates that exhibit is a management contract or compensatory plan or arrangement.

+ Indicates that exhibit is filed as an exhibit hereto.

(b) Reports on Form 8-K

- o The Company filed a Form 8-K on April 1, 2004, in connection with a press release dated April 1, 2004 announcing its financial results for the fourth quarter and fiscal year ended January 3, 2004.

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SIGNATURES

In accordance with the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERRIMAC INDUSTRIES, INC.

Date: May 17, 2004

By: /s/ Mason N. Carter

Mason N. Carter
Chairman, President and
Chief Executive Officer

Date: May 17, 2004

By: /s/ Robert V. Condon

Robert V. Condon
Vice President, Finance and
Chief Financial Officer

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