

MERIX CORP

FORM 10-K (Annual Report)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED MAY 25, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

COMMISSION FILE NUMBER 0-23818

MERIX CORPORATION

(Exact name of registrant as specified in its charter)

OREGON
(State or other Jurisdiction of
Incorporation or Organization)

93-1135197
(I.R.S. Employer
Identification Number)

1521 POPLAR LANE, FOREST GROVE, OREGON
(Address of principal executive offices)

97116
(Zip Code)

(503) 359-9300
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 21, 1996 was \$84.6 million based upon the composite closing price of the Registrant's Common Stock on the Nasdaq National Market System on that date.

The number of shares of the Registrant's Common Stock outstanding as of June 21, 1996 was 6,133,496 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement in connection with its 1996 annual meeting of shareholders are incorporated by reference into Part III.

MERIX CORPORATION
FORM 10-K

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PART I

ITEM 1. BUSINESS.

Merix Corporation (Merix or the Company) is a leading manufacturer of technologically advanced electronic interconnect products, custom engineered to meet customers' specific needs. These products include multilayer rigid, flexible, and high performance printed circuit boards used to connect the microprocessors, integrated circuits and other components essential to the functioning of electronic equipment. The Company's customers include a diversified base of manufacturers in the industrial instrumentation, computer, and communications segments of the electronics industry.

Merix, an Oregon corporation, was formed in March 1994 to succeed to the business conducted by the Circuit Board Division (the Division) of Tektronix, Inc. (Tektronix), which had been in the electronic interconnect manufacturing business for over 30 years. On June 1, 1994, Merix acquired the assets and assumed certain liabilities (the Acquisition) of the Division in connection with the initial public offering of its common stock, and began to operate as an independent corporation. See Note 1 of the Notes to Financial Statements in Item 8. The term "Company" is used in this document to refer to both Merix and its predecessor, the Division. The Company's corporate offices are located at 1521 Poplar Lane, Forest Grove, Oregon 97116 and the telephone number is (503)359-9300.

ACQUISITIONS

In fiscal 1996, the Company completed the acquisition and integration of two printed circuit board fabrication operations. On October 31, 1995, the Company acquired certain assets of Hewlett-Packard Company's (HP) Loveland, Colorado printed circuit fabrication operation and on December 31, 1995, the Company acquired from Rogers Corporation certain assets of the Soladyne printed circuit fabrication operation located in San Diego, California. The assets acquired in both acquisitions consisted principally of manufacturing equipment and inventory. See Note 3 of the Notes to Financial Statements in Item 8.

ELECTRONIC INTERCONNECT INDUSTRY OVERVIEW

Interconnect products, including rigid and flexible printed circuit boards, are the basic platforms used to connect the microprocessors, integrated circuits and other components essential to the functioning of electronic equipment. Such products consist of a pattern of electrical circuitry etched from copper that is laminated to a board made of insulating material. The manufacture of these and other complex interconnect products requires increasingly sophisticated engineering and manufacturing expertise and substantial capital investment. This has contributed to increasing reliance by original equipment manufacturers (OEMs) on independent manufacturers for such products.

According to industry reports, the U.S. domestic market for all interconnect products was approximately \$7 billion in 1995, including both "captive" and "independent" producers. Captive producers are typically divisions of larger OEMs that manufacture interconnect products for use in their own product lines. Independent producers, such as the Company, manufacture interconnect products for multiple OEMs, and represented approximately 85% of the U.S. domestic market revenues in 1995. The market share of independent producers has increased in recent years as OEMs have found that independent producers can often provide greater flexibility, higher levels of responsiveness and faster delivery at a lower overall cost than their own captive operations.

Historically, the industry has been highly fragmented. Increasing technology demands and resulting demands for capital investment are expected to contribute to a growing trend toward consolidation of the independent producers.

CUSTOMERS, MARKETING AND SALES

The Company's customers include a diversified base of leading OEMs in the industrial instrumentation, computer, and communications segments of the electronics industry. These customers often use leading-edge technologies and their product requirements generally drive the advancement of electronic interconnect manufacturing technology.

The Company also manufactures and sells products to electronic manufacturing service industry (EMSI) customers such as Benchmark Electronics, Inc., Pro-Log Corporation, Solectron Corporation, and SCI Systems, Inc. which assemble components on the products for resale to OEMs. The Company seeks to expand existing relationships and establish relationships with other EMSI customers to gain access to more OEM customers.

The Company seeks to develop strategic relationships with its customers and markets its products and services through a direct sales force. The Company's sales people advise customers with respect to applicable technology, manufacturability of designs and cost implications.

The Company believes continuous improvement in product technology is essential to satisfy customer needs. To gain knowledge of future technology needs, the Company holds technology planning and review meetings with its major customers, attends technical conferences and trade shows, and hosts an annual conference with its customers and suppliers. These activities also enhance the Company's visibility in the marketplace.

In fiscal year 1996, the following four customers represented approximately 69.3% of net sales: Tektronix, Motorola, Hewlett-Packard, and Teradyne represented 20.6%, 19.5%, 18.7% and 10.5% of sales, respectively. Immediately prior to consummation of the Acquisition, Tektronix, through participating divisions and subsidiaries, entered into seven separate three-year supply agreements with the Company under which they agreed to purchase annually from the Company at least the lesser of 90% of their aggregate requirements for printed circuit boards, flexible circuits and related tooling and test fixtures or \$28.5 million worth of the Company's products. In connection with the acquisition of the Loveland operation, the Company entered into a two-year supply agreement under which HP agreed to purchase, at market prices, at least \$35 million of product in the first year and at least \$25 million in the second year.

MANUFACTURING AND ENGINEERING

Product Profiles

The Company specializes in high density, multilayer printed circuit boards produced using a variety of materials. The majority of the Company's multilayer rigid circuit boards are manufactured on a standard base laminate material having broad functionality. The Company also produces high performance circuit boards constructed from specialty materials and flexible circuits. The Company's products and their applications are described below.

Rigid Epoxy Substrate Circuits. This product group consists of epoxy/glass laminate circuit boards used in virtually all segments of the electronics industry and is manufactured at the Forest Grove and Loveland facilities. The Company also manufactures rigid-flex circuits which are a hybrid of the rigid and flexible circuits. Such boards combine performance characteristics of rigid circuits with the spatial advantages of flexible circuits. For fiscal years 1996 and 1995, rigid circuits represented 73.6% and 72.1%, respectively, of the Company's net sales.

High Performance Circuits. High performance circuit boards are used in electronic products requiring high speed and high frequency interconnect solutions, such as cellular phone base stations and other communications, computing and instrumentation products and are manufactured at the Forest Grove and Soladyne facilities. High performance circuits are manufactured using specialty materials with properties that address the need for faster speeds, higher operating temperatures and higher frequencies.

The Company has developed the expertise and specialized engineering processes required to manufacture high performance circuit boards using a broad range of materials, including Duroid(R), Cyanate Ester and GETEK(R). The Company believes that it is one of the few merchant suppliers capable of producing high performance circuits using a combination of high performance base materials at acceptable quality and yield levels. For fiscal years 1996 and 1995, high performance circuits represented 23.6% and 25.2%, respectively, of the Company's net sales.

Flexible Circuits. Flexible circuits are thin, lightweight circuits used to interconnect other circuit boards and electronic devices within electronic equipment. The Company produces high density, mechanically complex flexible circuits that offer the advantages of improved signal speeds and circuit densities, reduced part size, reduced weight, and flexibility. Flexible circuits are used in high speed computers and other electronic equipment as replacements to cables, wiring and other interconnect devices to improve product reliability and performance. Flexible circuits, which represented 2.8% and 2.7% of the Company's net sales in 1996 and 1995, respectively, are manufactured at the Forest Grove facility.

Manufacturing Processes

The manufacture of complex multilayer interconnect products involves the use of a variety of sophisticated production processes and equipment. In general, the Company receives circuit designs directly from its customers in the form of computer aided design files that it reviews to ensure manufacturability. Using these computer files, the Company generates images of the circuit patterns that it develops on individual layers using advanced photographic processes. Through a variety of plating and etching processes, the Company adds and removes conductive and insulating materials. Separate layers are combined, or laminated together, using intense heat and pressure under vacuum. Connections between layers are achieved by plating through small holes called vias. Vias are made by highly specialized equipment capable of achieving extremely fine tolerances with high accuracy.

The Company embraces Total Quality Management to meet the highest industry standards for product quality. The Company has remained ISO 9001 certified since 1992, when it was the first independent circuit board operation in the United States to be certified to this level of international quality standards. In May 1996, the Company's Forest Grove facility received the Shingo Prize for Manufacturing Excellence. The Shingo Prize is awarded annually by the National Association of Manufacturers to recognize North American domestic manufacturing companies that demonstrate excellence in manufacturing leading to quality enhancement, productivity improvement, and customer satisfaction. During fiscal year 1995, the Company was awarded the Oregon Quality "Governor's Trophy" Award for outstanding quality systems and performance.

The Company specializes in products with extremely fine geometries and tolerances including trace and space widths below .002 inches and via diameters below .006 inches. Because of the tolerances involved, the Company uses clean rooms in certain manufacturing processes where tiny particles can create defects on the circuit patterns, and uses automated optical inspection (AOI) to ensure consistent quality.

The Company operates on a twenty-four hour, five or six day manufacturing work week schedule, with non-scheduled days reserved for maintenance.

In December 1995, the Company entered into a sub-license agreement with HP's Printed Circuit Organization under which the Company has the rights to use the DYCOstrate™ interconnect substrate technology. DYCOstrate™ is a trademark of Dyconex Patente AG, a Swiss company. The Company believes that the DYCOstrate™ technology will offer customers a better price/performance ratio in high-volume applications than traditional technologies. The Company expects to begin shipping products utilizing this technology in the latter half of fiscal year 1997. However, there is a risk that engineering delays could result in deferral of the initial shipment date and a risk that customer acceptance will not be forthcoming.

SUPPLIER RELATIONSHIPS

Historically, the majority of raw materials used in the manufacture of the Company's products have been readily available. However, as product changes increase the industry's use of new laminate materials, the potential for shortages in the supply of these materials increases. To date, material shortages or price fluctuations have not had a materially adverse effect on the Company.

In order to reduce lead times and inventory carrying costs, to enhance the quality and reliability of its supply of raw materials and to reduce transportation and other logistics costs, the Company has entered into strategic relationships with certain of its suppliers of laminates, drill bits and other raw materials, and for certain services. In 1993, Matsushita Electronics Materials, a key laminate supplier, completed an 82,000 square foot factory adjacent to the Company's Forest Grove facility to produce laminates previously imported by the Company from Japan. During 1994, Insulectro, a key supplier of raw materials and services, completed construction of a warehouse distribution center adjacent to the Company's Forest Grove facility. In addition, Probe Test Fixtures, Inc. provides on-site electrical test services to the Company.

The Company strives to develop and maintain good working relationships with its key suppliers to enhance operation of the business. Supplier management programs drive improvements and working relationships between the parties. These programs include, but are not limited to, quarterly review meetings, joint product and process development, and participation in an annual technology needs assessment meeting with the Company's key and strategic customers.

ENVIRONMENTAL CONTROLS

Electronic interconnect product manufacturing requires the use of a variety of materials, including metals and chemicals. As a result, the Company is subject to environmental laws relating to the storage, use and disposal of chemicals, solid waste, and other hazardous materials, as well as air quality regulations. Water used in the manufacturing process must be treated to remove metal particles and other contaminants before it can be discharged into the municipal sanitary sewer system. The Company operates and maintains effluent water treatment systems and utilizes approved laboratory testing procedures at each of its manufacturing facilities under effluent discharge permits issued by a number of governmental authorities. These permits must be renewed periodically and are subject to revocation in the event of violations of environmental laws. The Company believes that its waste treatment complies with all current environmental protection requirements in all material respects. However, there can be no assurance that violations will not occur in the future. Further, to the extent that environmental laws change, environmental expenditures could increase.

Certain waste products generated by the Company's manufacturing facilities require further treatment or controlled disposal. In connection with the Acquisition, the Company entered into an agreement with Tektronix to provide tanker and containerized waste handling, storage, and disposal in accordance with applicable environmental regulations for a three-year period. At the Loveland and Soladyne operations, the Company utilizes third parties for waste handling, storage and disposal services in accordance with the applicable environmental regulations.

The Company is a recognized leader in the professional management of industrial chemicals, waste treatment and recycling. As part of its commitment to reduce potential impacts on the environment, the Company has eliminated the use of all ozone depleting compounds in manufacturing. The Company has also eliminated the use of certain other hazardous chemicals, such as chromium, trichloroethylene and perchloroethylene.

BACKLOG

The Company's backlog was approximately \$19.9 million at the end of fiscal year 1996 compared with \$18.7 million at the end of fiscal year 1995. A substantial portion of the Company's backlog is typically scheduled for delivery within 60 days. Cancellation and postponement charges generally vary depending upon the time of cancellation or postponement and a certain portion of the Company's backlog is subject to cancellation or postponement without significant penalty. Accordingly, the Company's backlog is not necessarily indicative of future sales or earnings.

COMPETITION

Competitive factors in the market for electronic interconnect products include product quality, technological capability, responsiveness to customers in delivery and service, and price. The Company believes that competition in the market segments served by the Company is based more on product quality, technical capability and delivery than on price. The Company believes its primary competitive strengths are its ability to provide a wide array of interconnect products at a high quality within a shorter lead-time, engineering and manufacturing expertise, and customer service and support.

The electronic interconnect industry in the United States is highly fragmented. An industry source estimates the number of companies producing circuit boards in the United States is between 750 and 800 companies. There are no dominant manufacturers in the industry and, according to an industry source, the top 10 merchant suppliers accounted for approximately 25% of total circuit board sales by independent suppliers in 1995. The Company faces competition from captive interconnect product manufacturers, many of which have substantial resources and production capabilities. These manufacturers may seek orders in the open market to fill excess capacity, thereby increasing competition.

PATENTS AND OTHER INTELLECTUAL PROPERTY

The Company's success depends in part on proprietary technology and manufacturing expertise. While the Company attempts to protect its proprietary technology through patents, copyrights and trade secrets, it believes that its success will depend more upon further innovation and technological advances. Companies in the electronics industry from time to time receive letters from third parties alleging infringement of patent rights. The Company has received no such letters; however, Tektronix, prior to the Acquisition, received a notice of infringement from Jerome H. Lemelson, alleging infringement of several of Mr. Lemelson's "barcode reader," "machine vision," "video imaging," "beam processing" and certain other patent claims. Mr. Lemelson contends that any modern manufacturing facility such as that operated by the Company must necessarily infringe on at least some of the asserted patent claims at some time during the course of product design, fabrication, or testing. In connection with the Acquisition, Tektronix agreed to assume any liabilities, in excess of any manufacturer's indemnity, relating to the claim made by Mr. Lemelson for products of the Company shipped to customers prior to the consummation of the Acquisition. Tektronix and Mr. Lemelson have announced that Tektronix has entered into an agreement with Mr. Lemelson to license certain of Mr. Lemelson's patents. Should Mr. Lemelson assert a claim against the Company and be able to identify processes or products of the Company for which a license is legally required, although there can be no assurance, the Company expects Mr. Lemelson to license the patented technology to the Company under terms that would not have a material financial impact.

EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the executive officers of the Company.

NAME	AGE	POSITION
Deborah A. Coleman	43	Chairman and Chief Executive Officer
Lawrence C. Neitling	48	President, Chief Operating Officer and Director
Joseph H. Howell	44	Senior Vice President and Chief Financial Officer
Terri L. Timberman	38	Vice President - Human Resources
Samuel R. DeSimone, Jr.	36	Vice President - Corporate Development, General Counsel and Secretary

Deborah A. Coleman serves as Chairman of the Board of Directors and Chief Executive Officer of the Company. From November 1992 to the inception of the Company, Ms. Coleman served as Vice President, Materials Operations of Tektronix and was responsible for management of the operations of the Circuit Board Division of Tektronix. Prior to joining Tektronix, Ms. Coleman held various positions at Apple Computer, Inc. for 11 years., including Vice President of Information Systems and Technology, Chief Financial Officer and Vice President of Worldwide Manufacturing Operations.

Lawrence C. Neitling serves as a member of the Board of Directors and as President and Chief Operating Officer of the Company. From 1985 until the inception of the Company, Mr. Neitling served as Operations Manager and General Manager of the Circuit Board Division of Tektronix.

Joseph H. Howell serves as Senior Vice President and Chief Financial Officer of the Company. From 1988 until joining the Company in January 1995, Mr. Howell served as Controller of Borland International, Inc., where he was appointed Vice President in 1991 and acting Chief Financial Officer in 1994.

Terri L. Timberman serves as Vice President - Human Resources of the Company. Ms. Timberman joined the Circuit Board Division in February 1994. From 1992 until joining the Company, Ms. Timberman served in various human resource management positions for Tektronix. Prior to 1992, Ms. Timberman served as Director of Human Resources for TriQuint Semiconductor, Inc.

Samuel R. DeSimone, Jr. serves as Vice President - Corporate Development, General Counsel and Secretary. From 1990 until joining the Company in September 1995, Mr. DeSimone was a partner at the law firm of Lane Powell Spears Lubersky in Portland, Oregon. Prior to 1990, Mr. DeSimone worked for the law firm of Testa, Hurwitz & Thibeault in Boston, Massachusetts.

EMPLOYEES

As of May 25, 1996 the Company had a total of 1,523 employees, of which 1,293 were regular employees and 230 were temporary agency employees. None of the Company's employees are represented by a labor union. The Company has never experienced an employee-related work stoppage. The average length of service for the Company's regular employees is approximately 10 years. The Company believes its relationship with its employees is good. The Company also believes that the continued hiring and retention of engineers and management personnel is integral to the success of the Company.

ITEM 2. PROPERTIES.

The Company owns a 73-acre industrial land site located in Forest Grove, Oregon on which a 174,000-square-foot manufacturing facility and 6,300-square-foot waste treatment facility are located. Pursuant to a trust deed granted by the Company to Tektronix, such site is subject to a mortgage securing the Company's obligation to repay \$10 million pursuant to a note delivered by the Company to Tektronix in connection with the Acquisition. See Note 1 of the Notes to Financial Statements in Item 8. During the fourth quarter of fiscal year 1995, the Company acquired a vacant 37,500-square-foot building approximately one mile from this manufacturing facility. This building was retrofitted to provide interim office space for administrative personnel previously located in the manufacturing facility pending completion of the Company's new 62,500-square-foot administration and training facility, which is being constructed on the Company's Forest Grove industrial land site and is scheduled for completion in the first quarter of fiscal 1997. The approximately 20,000 square feet of space in the Forest Grove manufacturing facility vacated by the administrative personnel was retrofitted to increase manufacturing capacity. Additionally, the Company currently intends to retrofit the interim office space to increase manufacturing capacity, after relocating administrative personnel to the new administration and training facility.

In connection with the acquisition of the Loveland operation, the Company entered into a five year lease with HP for 120,000 square feet of manufacturing space housing the acquired operations. Prior to the end of the lease term, the Company intends to construct a facility in Colorado to replace the manufacturing capacity of the leased space. In connection with the acquisition of the operations at the Soladyne operation, the Company assumed a lease held by Rogers Corporation for the 37,000-square-foot manufacturing facility housing the acquired operations. The lease has five years remaining.

ITEM 3. LEGAL PROCEEDINGS.

There are no material pending legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED

STOCKHOLDER MATTERS.

Merix's Common Stock is traded on the Nasdaq National Market. The Company's initial public offering price was \$9.00. Prior to the offering on May 25, 1994, there had been no public market for Merix's Common Stock. The range of the high and low bid prices for the Company's Common Stock as reported by The Wall Street Journal for the most recent fiscal quarters was as follows:

	HIGH	LOW
FISCAL YEAR 1996:		
Quarter 1	\$34 3/4	\$23 1/2
Quarter 2	38 3/4	29
Quarter 3	38	27
Quarter 4	39 1/8	30 1/4
FISCAL YEAR 1995:		
Quarter 1	\$13 3/4	\$ 8 1/2
Quarter 2	17 3/4	12 1/8
Quarter 3	25 5/8	16
Quarter 4	29	20 5/8

There were approximately 4,700 shareholders of record as of July 17, 1996.

The Company has never declared any dividends. Merix currently intends to retain all future earnings, if any, for use in the Company's business and, accordingly, does not anticipate paying any cash dividends on the Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA.

Financial information for fiscal years 1994, 1993 and 1992 relates to the Circuit Board Division of Tektronix, and is not necessarily indicative of the results that would have occurred had the Division operated as a separate entity for the fiscal years presented.

	1996 ----	1995 ----	1994(2) -----	1993(2) -----	1992(2) -----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF INCOME DATA:					
Net sales.....	\$155,634	\$101,448	\$78,442	\$70,340	\$68,526
Net income.....	12,793	10,564	6,791	5,146	5,720
Primary earnings per share (1)....	\$1.98	\$1.67	\$1.12	\$.85	\$.94
BALANCE SHEET DATA:					
Working capital.....	34,047	34,201	28,215	4,213	5,846
Total assets.....	111,170	69,597	52,254	24,487	26,285
Long-term debt.....	26,670	6,427	8,073	240	-
Equity.....	66,353	52,319	38,093	16,271	19,523

(1) Primary earnings per share for fiscal years 1994, 1993 and 1992 are pro forma based on the initial 6,055 shares outstanding following the Acquisition.

(2) See Note 1 to the Financial Statements included in Item 8.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

ACQUISITIONS (IN THOUSANDS)

On October 31, 1995, the Company acquired certain assets of Hewlett-Packard Company's (HP) Loveland, Colorado printed circuit board manufacturing facility for a total purchase price of approximately \$26,868. Of this amount \$23,600 was paid to HP for the purchase of fixed assets and inventory, \$427 was assumed as a liability for the purchase of manufacturing equipment, \$1,813 was paid to others for costs related to the transaction and \$1,028 was accrued for the estimated cost of the Company's contractual obligation to renovate leased manufacturing facilities in Loveland at the conclusion of the lease term. Assets acquired include inventory and supplies of \$1,955, fixed assets, principally manufacturing equipment, of \$22,427 and goodwill of \$2,486.

Of the purchase price paid in cash, \$20 million was borrowed on the Company's unsecured bank line of credit. This instrument matures on July 29, 1996, at which time it may be extended or converted to a variety of other borrowing instruments at the then current market rates of interest, with an ultimate due date of the credit facility of no later than September 1, 2000.

The Company's primary purpose in acquiring this operation was to add manufacturing capacity and create a second manufacturing operation for products produced for its current customers. In connection with this transaction, the Company and HP entered into a two year supply agreement under which HP agreed to purchase, at market prices, at least \$35 million of product in the first year and at least \$25 million in the second year.

On December 31, 1995, the Company acquired certain assets, consisting principally of inventory and manufacturing equipment, of the Soladyne printed circuit fabrication operation from Rogers Corporation. Soladyne is located in San Diego, California, and Rogers is one of the Company's suppliers of high performance material. The purchase price was not material to the financial position of the Company.

RESULTS OF OPERATIONS (IN THOUSANDS)

Financial information for fiscal year 1994 relates to the Circuit Board Division of Tektronix, and is not necessarily indicative of the results which would have occurred had the Division operated as a separate entity for that fiscal year. In 1994, the Company sold products to Tektronix at the Company's approximate cost. In order to provide comparability, the Company's sales to Tektronix for 1994 are presented based on pricing terms that the Company and Tektronix believe were equivalent to those that would have prevailed between independent parties, based upon (i) independent bids acquired by Tektronix from time to time for products of the type manufactured by the Company and (ii) their knowledge of prevailing industry prices.

	PERCENTAGE OF NET SALES					
	1996	1995	1994	1996	1995	1994
Net sales.....	\$155,634	\$101,448	\$78,442	100.0%	100.0%	100.0%
Cost of sales.....	118,234	72,380	58,364	76.0%	71.3%	74.4%
Gross profit.....	37,400	29,068	20,078	24.0%	28.7%	25.6%
Operating expenses:						
Engineering.....	5,019	3,523	2,729	3.2%	3.5%	3.5%
Selling, general and administrative.....	11,399	8,726	6,427	7.3%	8.6%	8.2%
Total operating expenses.	16,418	12,249	9,156	10.5%	12.1%	11.7%
Operating income.....	20,982	16,819	10,922	13.4%	16.6%	13.9%
Interest expense.....	1,333	721	19	.8%	.7%	-
Other income, net.....	690	940	50	.4%	.9%	.1%
Income before taxes.....	20,339	17,038	10,953	13.0%	16.8%	14.0%
Income taxes.....	7,546	6,474	4,162	.8%	6.4%	5.3%
Net income	\$12,793	\$ 10,564	\$ 6,791	8.2%	10.4%	8.7%

Sales by product lines, market segments and largest customers as a percent of net sales are as follows:

	PERCENTAGE OF NET SALES					
	1996	1995	1994	1996	1995	1994
PRODUCT LINES						
Rigid	\$114,530	\$73,144	\$61,029	73.6%	72.1%	77.8%
High Performance	36,750	25,571	12,943	23.6%	25.2%	16.5%
Flexible	4,354	2,733	4,470	2.8%	2.7%	5.7%
Total	\$155,634	\$101,448	\$78,442	100.0%	100.0%	100.0%
MARKET SEGMENTS						
Computers	\$33,206	\$19,261	\$ 25,528	21.3%	19.0%	32.5%
Communications	43,798	40,058	24,845	28.2%	39.5%	31.6%
Test and Instruments	55,828	35,103	24,138	35.9%	34.6%	30.9%
Contract Mfg.	20,606	6,793	3,931	13.2%	6.7%	5.0%
Other	2,196	233	-	1.4%	0.2%	-
Total	\$155,634	\$101,448	\$78,442	100.0%	100.0%	100.0%
LARGEST CUSTOMERS						
Tektronix	\$32,010	\$31,577	\$29,024	20.6%	31.1%	37.0%
Motorola	30,427	23,170	12,786	19.5%	22.8%	16.3%
Hewlett-Packard	29,100	-	-	18.7%	-	-
Teradyne	16,389	11,497	7,295	10.5%	11.4%	9.3%
Storage Technology	9,491	9,899	9,570	6.1%	9.8%	12.2%
Other	38,217	25,305	19,767	24.6%	24.9%	25.2%
Total	\$155,634	\$101,448	\$78,442	100.0%	100.0%	100.0%

The Company's five largest customers comprised 75.4%, 75.1%, and 74.8% of net sales for fiscal years 1996, 1995 and 1994, respectively. The Company expects that a small number of customers will continue to account for a substantial majority of its sales and that the relative dollar amount and mix of product sold to any of these customers can change significantly from year to year. There can be no assurance that the Company's principal customers will continue to purchase products and services from the Company at current levels, or that the mix of products purchased will be in the same ratio. The loss of one or more principal customers or a change in the mix of product sales could have a material adverse effect on the Company's business, financial condition and results of operations.

COMPARISON OF FISCAL YEARS 1996 AND 1995 (IN THOUSANDS)

Fiscal year. The Company's fiscal year is the 52 or 53 week period ending the last Saturday in May. Fiscal years 1996 and 1995 were 52 week years; fiscal year 1997 will be a 53 week year with the extra week occurring in the third quarter.

Net Sales. The Company is engaged in the single business segment of producing custom, complex, technologically advanced printed circuit boards to customer specifications. Accordingly, the Company does not disclose separately the sales or results of operations of the Forest Grove, Loveland or Soladyne operations. The Company classifies its products, principally based on the type of production materials used, as rigid, high performance, and flexible printed circuit boards.

Net sales for fiscal year 1996 were \$155,634 representing a 53.4% increase over prior year net sales of \$101,448. The overall increase in net sales resulted principally from the acquisition of the Loveland and Soladyne operations, from increased sales of high performance products which increased by \$11,179, or 44% as compared to sales of high performance products in 1995, and from capacity and productivity increases to meet customer demand at the Forest Grove facility.

The Company, along with many of its competitors, is experiencing lower demand that the Company believes will result in lower sales and net income in the first half of fiscal year 1997. Two of the Company's largest customers have recently issued press releases indicating that they are also experiencing a softness in demand. This could result in a reduction in sales orders from these customers which could have a material adverse effect on the Company's sales and earnings. The interconnect industry has added production capacity within the last year which, together with the current reduced demand, could intensify price competition that could also negatively impact sales and earnings. Additionally, the Company closed all of its facilities the week of July 4, 1996 for the purpose of completing capital equipment installations and major facilities maintenance projects. Although there can be no assurances that they will be effective, the Company is taking actions to mitigate the effect of these conditions, including the qualification of new customers to broaden the Company's customer base. Based on comments from several customers, the Company believes that industry conditions should improve and customers' inventory adjustments should be worked through by the end of calendar 1996. However, there can be no assurance that this will occur.

New Product Development. The Company continues to invest in new product research and development as technology leadership will become increasingly important to the interconnect industry. In December 1995, the Company entered into a sub-license agreement with HP's Printed Circuit Organization under which the Company has the rights to use the DYCOstrate™ interconnect substrate technology. The Company believes that the DYCOstrate™ technology will offer customers a better price/performance ratio in high-volume applications than traditional technologies. The Company expects to begin shipping products utilizing the technology in the latter half of fiscal year 1997. However, there is a risk that engineering delays could result in deferral of the initial shipment date and a risk that customer acceptance of the technology will not be forthcoming.

Gross Margins. The Company's gross margin was 24.0% in fiscal year 1996, compared with 28.7% in the prior year. The Company's gross margin can be affected by various factors, including sales volumes, product mix, production yields, price changes and changes in the Company's cost structure.

High performance products are generally more complex and carry higher margins than the Company's rigid products. The Company's product mix in fiscal year 1996 included a higher percentage of rigid product due to the acquisition of the Loveland operation which produces exclusively rigid product. The Company performs component subassembly on certain of its high performance products as a customer accommodation. Such subassembly services carry substantially lower gross margins than circuit board production.

Gross margins decreased in fiscal year 1996 principally as a result of product mix, including the effect of the Loveland operation, and an increase in sales of products that include component subassembly. Prior to its acquisition by the Company, the Loveland operation generated relatively low margins due to its captive status. The Company is investing in productivity and capacity improvements in order to improve these margins. However, there are no assurances that these margins will be higher in the future.

While the exact impact is not known at this time, the Company expects that lower sales in the first half of fiscal year 1997 will result in a lower gross margin for this period. In addition, the Company's depreciation and other fixed manufacturing costs will increase in fiscal year 1997 as a result of recent capital investments. In an attempt to mitigate the effect of expected lower sales, the Company is taking steps to reduce costs, including reductions in discretionary spending and decreases in the temporary work force.

Engineering. Engineering expenses were \$5,019 and \$3,523 in fiscal years 1996 and 1995, respectively, and were 3.2% and 3.5% of net sales, respectively, each year. Engineering expenses have increased due to additional engineering staff as a result of the acquisitions of the Loveland and Soladyne operations. Engineering expenses are expected to increase as a percent of sales in the first half of fiscal year 1997 due to their relatively fixed nature and the anticipated lower sales level for this period. The Company believes that it is necessary to continue to invest in engineering efforts to remain competitive, but there can be no assurance that such investments will result in increased sales or profits.

Selling, General and Administrative. Selling, general and administrative expenses were \$11,399 and \$8,726 in fiscal years 1996 and 1995, respectively, and were 7.3% and 8.6% of net sales, respectively. Selling, general and administrative expenses as a percent of sales decreased due to the relatively fixed nature of certain general and administrative expenses. These expenses increased primarily to support growth and a multi-site environment. Selling, general and administrative expenses are expected to increase as a percent of sales in the first half of fiscal year 1997 due to their relatively fixed nature and the anticipated lower sales level for this period.

Interest Expense. Interest expense increased in fiscal year 1996 from the prior year due to the interest resulting from the \$20 million bank borrowing used to fund the acquisition of the Loveland operation.

Other Income, net. Other income, net consists principally of interest income from invested cash. The decrease in interest and other income from the prior year is due principally to lower balances of such cash.

Income Taxes. The Company's effective tax rate of 37% in fiscal year 1996 is lower than the effective tax rate of 38% in 1995, principally due to the State of Oregon reducing the current year corporate income tax rate as a method of refunding excess income taxes collected in prior years. The effect of the reduction was to increase net income for the fiscal year by \$204. The Company expects its effective tax rate in fiscal year 1997 to be approximately 38%.

COMPARISON OF FISCAL YEARS 1995 AND 1994 (IN THOUSANDS)

Net Sales. Net sales for fiscal year 1995 were \$101,448 representing a 29.3% increase over prior year net sales of \$78,442. The overall increase in net sales resulted principally from increased sales of the Company's high performance products, which increased by 96.8%, compared with the prior year. During fiscal year 1995, approximately 95.5% of the Company's net sales of high performance products and substantially all of its high performance growth related to Motorola, one of the Company's largest customers.

Gross Margins. The Company's gross margin was 28.7% in fiscal year 1995, compared with 25.6% in the prior year. Gross margins increased in fiscal year 1995 principally as a result of the increased sales of high performance products and the allocation of fixed costs over higher production volumes.

Engineering. Engineering expenses were \$3,523 and \$2,729 in fiscal years 1995 and 1994, respectively, and were 3.5% of net sales each year. Engineering expenses increased principally as a result of hiring additional engineers and salary increases.

Selling, General and Administrative. Selling, general and administrative expenses were \$8,726 and \$6,427 in fiscal years 1995 and 1994, respectively, and were 8.6% and 8.2% of net sales, respectively.

Prior to fiscal year 1995, the Company was a division of Tektronix. The increase in selling, general and administrative expenses, both in amount and as a percentage of net sales in fiscal year 1995, resulted principally from increased costs related to being an independent company. Such increased costs include, among others, a substantial increase in sales department personnel, the addition of executive officers and related staff and new expenses related to public reporting and investor relations activities.

Interest Expense. Interest expense increased in fiscal year 1995 from the prior year due to the interest incurred on the \$10,000 note entered into with Tektronix in conjunction with the Acquisition.

Interest and Other Income. The increase in interest and other income from the prior year is due principally to the investment of cash received as a result of the completion of the Acquisition and cash generated from operations.

Income Taxes. The Company's effective tax rate of 38% in fiscal year 1995 is consistent with the effective tax rate in fiscal year 1994.

LIQUIDITY AND CAPITAL RESOURCES (IN THOUSANDS)

Cash and short-term investments at May 25, 1996 were \$19,358, compared with \$26,891 at May 27, 1995. Working capital was \$34,047 at May 25, 1996 and \$34,201 at May 27, 1995. The Company generated cash from operations of \$16,883 in fiscal year 1996, and used \$39,323 in investing activities, of which \$28,720 was associated with the acquisition of the Loveland and Soladyne operations. Prior to fiscal year 1995, substantially all of the cash generated by the Company's operations was remitted to Tektronix pursuant to Tektronix's centralized cash management program.

During fiscal year 1996, \$19,417 of the Company's investments matured and \$14,000 of short-term investments, principally U.S. state and local government securities, were purchased. The Company's policy is to hold such short-term investments to maturity. During fiscal year 1996, the Company had capital expenditures of \$16,111, principally for expansion of manufacturing capacity and the construction of the Company's new administration and training building in Forest Grove.

The Company's facilities expenditures consisted of \$5,230 for the construction of the new administration and training building, \$451 for renovation of the current interim administration building, and \$874 for renovation of the factory space vacated by administrative and sales personnel. In addition to these facility investments, the Company acquired \$9,556 of capital equipment during fiscal year 1996,

excluding the capital equipment purchased in connection with the acquisition of the Loveland and Soladyne operations.

The Company has a \$30 million unsecured bank line of credit against which it has borrowed \$20 million. This borrowing bears interest at Bankers Acceptance plus one percent (6.38% at May 31, 1996) and matures on July 29, 1996, at which time it may be extended or converted to a variety of borrowing instruments at the then current market rates of interest, with an ultimate due date of the credit facility of no later than September 1, 2000. Borrowings under the line of credit in excess of \$20 million bear interest at LIBOR plus .875 percent. Borrowings available under the line of credit were \$10,000 at May 31, 1996. The outstanding balance under the Company's line of credit is included in long-term debt based on the Company's ability and intent to repay the balance on a long-term basis.

The Company is currently seeking \$40 million of long-term debt to repay amounts under the existing bank line of credit and for working capital and general corporate purposes. If successful, such borrowing will increase interest income and interest expense in fiscal year 1997 compared to fiscal year 1996.

The Company's future needs for financial resources include amounts to support investments in additional facilities and equipment. The Company's ability to obtain additional debt, or the terms under which such debt might be available, may be impacted by its increased bank borrowings in fiscal year 1996 compared to fiscal year 1995. The Company believes that its existing capital resources, cash generated from operations and proceeds from potential future financing activities will be sufficient to meet its working capital and capital expenditure requirements through fiscal 1997. The Company intends to pursue possible business acquisitions, but currently has no specific acquisition commitments.

FORWARD-LOOKING INFORMATION

Information contained in this Form 10-K regarding fiscal year 1997 and in the 1996 Annual Report to Shareholders regarding goals of the Company, including: anticipated customer demand, sales and net income; industry conditions and customer inventory adjustments; gross margins; engineering and selling, general and administrative costs as a percent of net sales; cost reduction efforts; estimated effective tax rate for fiscal 1997; interest income and expense; initial expectations in regard to the commencement of shipments of products utilizing DYCOstrate™ technology and related customer acceptance; and Company goals with respect to market share, revenue growth, customer diversification, return on equity, shareholder value, technology leadership, human resources and supply chain integration constitute forward-looking statements. Information contained in forward looking statements is based on current expectations, is subject to change and may differ materially from actual results. From time to time, information provided by the Company or statements made by its employees may contain other forward-looking information that involves a number of risks and uncertainties. Factors that could cause actual results to differ materially from the forward-looking information include, but are not limited to, the matters discussed in this Form 10-K as well as the following: business conditions and growth in the general economy and the interconnect industry; production delays; product mix; the highly competitive interconnect environment; cancellation or reduction of orders; effective utilization of existing and new manufacturing resources; customer acceptance of new technologies; environmental issues; pricing pressures by key customers; costs and yield issues associated with production; capacity constraints; availability of parts and supplies from third parties on a timely basis and at reasonable prices; ability to execute financing strategies; and other risks listed from time to time in the Company's Securities and Exchange Commission reports or otherwise disclosed by the Company. Any forward-looking statements should be considered in light of these factors.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

MERIX CORPORATION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Merix Corporation:

We have audited the accompanying balance sheets of Merix Corporation as of May 25, 1996 and May 27, 1995 and the related statements of income, shareholders' equity, and cash flows for the years ended May 25, 1996, May 27, 1995, and May 28, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. These financial statements give retroactive effect to the reorganization of entities under common control which has been accounted for using a methodology similar to a pooling of interests as described in Note 1 to the financial statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Merix Corporation as of May 25, 1996 and May 27, 1995, and the results of its operations and its cash flows for the years ended May 25, 1996, May 27, 1995, and May 28, 1994 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Portland, Oregon
June 18, 1996

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MERIX CORPORATION

BALANCE SHEETS
(IN THOUSANDS)

	MAY 31	
	1996	1995
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 12,191	\$14,307
Short-term investments.....	7,167	12,584
Accounts receivable - net of allowance of \$78 and \$53, respectively...	21,401	9,493
Accounts receivable - affiliates.....	3,138	3,281
Inventories (Note 5).....	6,435	4,449
Other current assets.....	589	938
	-----	-----
Total current assets.....	50,921	45,052
Property, plant and equipment (Note 6).....	101,731	62,161
Accumulated depreciation.....	(46,155)	(42,296)
	-----	-----
Property, plant and equipment - net.....	55,576	19,865
Deferred income taxes (Note 9).....	2,283	4,680
Goodwill, net (Note 3).....	2,390	-
	-----	-----
Total assets.....	\$ 111,170	\$69,597
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		

Accounts payable.....	\$ 7,456	\$ 4,273
Accrued compensation.....	4,502	3,171
Current portion of long-term debt (Note 7).....	1,931	1,913
Income taxes payable (Note 9).....	67	159
Other accrued liabilities.....	2,918	1,335
	-----	-----
Total current liabilities.....	16,874	10,851
Long-term debt (Note 7).....	26,670	6,427
Other liabilities	1,273	-
	-----	-----
Total liabilities.....	44,817	17,278
	-----	-----
Commitments and contingencies (Note 14).....	-	-
Shareholders' equity:		
Preferred stock, no par value; authorized 10,000 shares; none issued.....	-	-
Common stock, no par value; authorized 50,000 shares; issued and outstanding 1996: 6,133 shares, 1995: 6,075 shares.....	43,733	42,262
Unearned compensation.....	(737)	(507)
Retained earnings.....	23,357	10,564
	-----	-----
Total shareholders' equity.....	66,353	52,319
	=====	=====
Total liabilities and shareholders' equity.....	\$ 111,170	\$69,597
	=====	=====

See the accompanying Notes to Financial Statements.

MERIX CORPORATION
STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED MAY 31		
	1996	1995	1994 (NOTE 1)
Net sales.....	\$ 155,634	\$ 101,448	\$ 78,442
Cost of sales.....	118,234	72,380	58,364
	-----	-----	-----
Gross profit.....	37,400	29,068	20,078
	-----	-----	-----
Operating expenses:			
Engineering.....	5,019	3,523	2,729
Selling, general and administrative.....	11,399	8,726	6,427
	-----	-----	-----
Total operating expenses.....	16,418	12,249	9,156
	-----	-----	-----
Operating income.....	20,982	16,819	10,922
Interest expense.....	1,333	721	19
Other income, net.....	690	940	50
	-----	-----	-----
Income before taxes.....	20,339	17,038	10,953
Income taxes.....	7,546	6,474	4,162
	-----	-----	-----
Net income.....	\$ 12,793	\$ 10,564	\$ 6,791

	=====	=====	=====
Earnings per share.....	\$ 1.98	\$ 1.67	\$ 1.12
	=====	=====	=====
Weighted average shares of common stock and common stock equivalents outstanding.....	6,449	6,340	6,055
	=====	=====	=====

See the accompanying Notes to Financial Statements.

MERIX CORPORATION

STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	UNEARNED COMPENSATION	RETAINED EARNINGS	DIVISION EQUITY	TOTAL
Balance at May 31, 1993.....					\$16,271	\$16,271
Net income.....					6,791	6,791
Net asset transfers to Tektronix.....					(308)	(308)
Net cash received from Tektronix.....					887	887
Balance at May 31, 1994 prior to reorganization of entities under common control (Note 1).....					23,641	23,641
Additional net assets contributed by Tektronix as part of the acquisition (Note 1).....					14,452	14,452
Reorganization of entities under common control (Note 1).....	6,000	\$ 38,093			(38,093)	-
Restricted stock awards (Note 8).....	55	495	\$ (495)			-
Balance at June 1, 1994 after the reorganization of entities under common control (Note 1).....	6,055	38,588	(495)			38,093
Net income.....				\$ 10,564		10,564
Purchase price adjustment (Note 9).....		3,279				3,279
Exercise of stock options.....	10	90				90
Tax benefit related to stock-based compensation..		72				72
Restricted stock awards.....	10	233	(233)			-
Amortization of unearned compensation.....			221			221
Balance at May 31, 1995.....	6,075	42,262	(507)	10,564		52,319
Net income.....				12,793		12,793
Exercise of stock options.....	40	429				429
Tax benefit related to stock-based compensation.....		445				445
Restricted stock awards.....	18	597	(597)			-
Amortization of unearned compensation.....			367			367
Balance at May 31, 1996.....	6,133	\$ 43,733	\$ (737)	\$ 23,357	\$ -	\$ 66,353

See the accompanying Notes to Financial Statements.

MERIX CORPORATION

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED MAY 31		
	1996	1995	1994
	----	----	----
			(NOTE 1)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 12,793	\$ 10,564	\$ 6,791
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	5,643	2,930	2,827
Deferred income taxes.....	2,397	570	(26)
Amortization of unearned compensation.....	367	221	-
Other.....	3	-	(27)
Changes in assets and liabilities (exclusive of effects of purchase of Loveland and Soladyne assets):			
Accounts receivable.....	(11,765)	(1,028)	(3,404)
Inventories.....	303	582	326
Other current assets.....	692	(913)	(7)
Accounts payable.....	3,183	1,207	(245)
Accrued compensation.....	1,331	3,171	(2,340)
Income taxes payable.....	353	221	-
Other accrued liabilities.....	1,583	480	586
Net cash provided by operating activities.....	16,883	18,015	4,481
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Loveland and Soladyne assets.....	(28,720)	-	-
Capital expenditures.....	(16,111)	(6,875)	(5,306)
Short-term investments:			
Purchases.....	(14,000)	(21,900)	-
Maturities.....	19,417	9,316	-
Proceeds from sale of assets.....	91	60	96
Net cash used in investing activities.....	(39,323)	(19,399)	(5,210)

CASH FLOWS FROM FINANCING ACTIVITIES:

Long-term borrowing.....	20,000	-	-
Proceeds.....	(105)	(1,900)	(158)
Principal payments.....	429	90	-
Exercise of stock options.....	-	-	887
Net cash received from Tektronix.....	-----	-----	-----
Net cash provided by (used in) financing activities.....	20,324	(1,810)	729
Decrease in cash and cash equivalents.....	(2,116)	(3,194)	-
Cash and cash equivalents at beginning of year.....	14,307	17,501	-
Cash received in the Acquisition.....	-	-	17,501
Cash and cash equivalents at end of year.....	=====	=====	=====
	\$ 12,191	\$ 14,307	\$ 17,501

SUPPLEMENTAL DISCLOSURES:

Cash paid for:			
Interest.....	\$ 697	\$ 721	\$ 19
Taxes.....	4,799	5,670	-
Noncash transactions:			
Assets acquired by recognition of lease renovation liability.....	1,273	-	-
Software license acquired through financing agreement.....	367	-	-
Tax benefit related to stock-based compensation.....	445	72	-
Purchase price adjustment (Note 9).....	-	3,279	-
Net asset transfers to Tektronix.....	-	-	(308)
Reorganization of entities under common control:			
Note payable to Tektronix.....	-	-	10,000
Other net noncash assets acquired	-	-	30,592

See the accompanying Notes to Financial Statements.

MERIX CORPORATION

NOTES TO FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

NOTE 1. ACQUISITION AND BASIS OF PRESENTATION

Merix Corporation (Merix) was initially incorporated as a wholly-owned subsidiary of Tektronix, Inc. (Tektronix) on March 22, 1994 in the State of Oregon to acquire the business conducted by the Circuit Board Division (the Division) of Tektronix. The term "Company" is used in this document to refer to both Merix Corporation and its predecessor, the Circuit Board Division of Tektronix. This acquisition was completed on June 1, 1994 in conjunction with Merix's initial public offering (the Acquisition). Under terms of the related Asset Transfer Agreement, Tektronix transferred to the Company all of the assets used exclusively in the Division's business and approximately \$17,500 in cash in exchange for 6,000,000 shares of common stock and a note in the principal amount of \$10,000 (the Note). The Note bears interest at the rate of 7.5% per annum and is payable over five years. The Company granted Tektronix a security interest in the Company's real property (including improvements) to secure repayment of the Note pursuant to a Trust Deed.

Merix also assumed certain obligations and liabilities arising out of or relating to the circuit board business or the transferred assets, as if the Company had operated the business from its commencement and the business had never been owned by Tektronix. The Company indemnified Tektronix and its affiliates for all such assumed liabilities, and Tektronix indemnified the Company for the liabilities specifically retained by Tektronix. The transfer of assets under the Asset Transfer Agreement included the transfer of certain technology. The Company granted Tektronix a perpetual, non-exclusive, royalty-free license under patents, copyrights and trade secrets that were transferred to the Company.

For financial reporting purposes, the Acquisition has been accounted for using a methodology similar to a pooling of interests in order to reflect the reorganization of entities under common control (Merix and the Division). Accordingly, the financial statements for fiscal year 1994 have been prepared to give retroactive effect to the reorganization. However, these financial statements are still not necessarily indicative of the financial position and results of operations which would have occurred had the Company been an independent company.

For income tax purposes, the Acquisition has been accounted for as a purchase with the purchase price being allocated to the assets acquired and liabilities assumed based on their fair market value as determined by an independent appraisal.

NOTE 2. ACCOUNTING POLICIES

Fiscal Year

The Company's fiscal year is the 52 or 53 week period ending the last Saturday in May. Fiscal years 1996, 1995 and 1994 were 52-week years ending May 25, May 27, and May 28, respectively. For convenience, these periods have been presented in these financial statements as ending May 31.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

Balance Sheet Financial Instruments: Fair Values

The carrying amount reported in the balance sheet for investments, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount for long-term debt approximates its fair value because the related interest rates are comparable to rates currently available to the Company for debt with similar terms and maturities.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash in banks and highly liquid investments with maturities of three months or less when purchased. Prior to fiscal year 1995, Tektronix provided a centralized cash management function; accordingly, the Company did not maintain separate cash accounts and its cash disbursements and collections were settled through division equity.

Investments

The Company classifies securities at acquisition into one of three categories: held to maturity, available for sale, or trading. At May 31, 1996 and 1995, all of the Company's investments, principally short-term municipal securities, with original maturities of more than 90 days are classified as held to maturity and are valued at amortized cost.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) basis.

Property and Depreciation

Land, buildings and equipment are carried at cost less accumulated depreciation. Depreciation is calculated based on the estimated useful lives of depreciable assets as follows: 40 years for buildings, 10 to 20 years for grounds, and 3 to 7 years for operating equipment, and is provided using the straight line method.

Goodwill

The cost of goodwill is amortized on a straight line basis over the estimated period benefited of 15 years. Goodwill amortization for fiscal year 1996 was \$96.

Revenue Recognition

Revenue from product sales is recognized at the time of shipment. Service revenue is recognized as services are provided. For fiscal year 1994, sales to Tektronix and its subsidiaries are reported at prices as if Tektronix and its subsidiaries were external customers to the Division.

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

Engineering Expense

Expenditures for engineering of products and manufacturing processes are expensed as incurred.

Warranty

The Company generally warrants its products for a period of up to four months from shipment. Accordingly, a provision for the estimated cost of the warranty is recorded upon shipment.

Earnings per Share

Earnings per share for fiscal years 1996 and 1995 were computed using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalent shares are computed using common stock options and the treasury stock method. Earnings per share data and weighted average shares outstanding for fiscal year 1994 are pro forma based on the shares outstanding following the Acquisition and initial public offering.

Recent Accounting Pronouncements

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS 123 will be effective for fiscal years beginning after December 15, 1995, and will require that the Company either recognize in its financial statements costs related to its employee stock-based compensation plans, such as stock option and stock purchase plans, or make pro forma disclosures of such costs in a footnote to the financial statements.

The Company expects to continue to use the intrinsic value based method of Accounting Principles Board Opinion No. 25, as allowed under SFAS No. 123, to account for all of its employee stock-based compensation plans and to adopt only the disclosure requirements of SFAS 123, beginning with fiscal year 1997. Accordingly, SFAS No. 123 is not expected to have a material effect on the Company's results of operations or financial position.

Reclassifications

Reclassifications from prior periods have been made to conform with the current method of presentation.

NOTE 3. ACQUISITIONS

On October 31, 1995, the Company acquired certain assets of Hewlett-Packard (HP) Company's Loveland, Colorado printed circuit fabrication operation for a total purchase price of approximately \$26,868. Of this amount \$23,600 was paid to HP for the purchase of fixed assets and inventory, \$427 was assumed as a liability for the purchase of manufacturing equipment, \$1,813 was paid to others for costs related to the transaction, and \$1,028 was accrued as a long-term liability for the estimated cost of the Company's contractual obligation to renovate leased manufacturing facilities in Loveland at the conclusion of the lease term. The fair value of assets acquired consisted of \$1,955 for inventory and supplies, \$22,427 for fixed assets, principally manufacturing equipment, and \$2,486 for goodwill. Of the purchase price paid in cash, \$20 million was borrowed on the Company's unsecured bank line of credit. See Note 7.

In connection with the acquisition, the Company entered into a five-year lease agreement with HP to lease the HP owned printed circuit fabrication facility in Loveland. Monthly payments under the lease are \$171. See Note 14. Also in connection with this transaction, the Company and HP entered into a two

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

year supply agreement under which HP agreed to purchase, at market prices, at least \$35 million of product in the first year and at least \$25 million in the second year.

On December 31, 1995, the Company acquired certain assets of the Soladyne printed circuit fabrication operation, consisting principally of inventory and manufacturing equipment, from Rogers Corporation, one of the Company's suppliers of high performance material. Soladyne is located in San Diego, California. The purchase price is not material to the financial position of the Company. In connection with the acquisition, the Company assumed the existing lease for the Soladyne facility with five years remaining. Monthly payments under the lease are \$24, with an annual increase rate of 3-5% each year over the life of the lease. See Note 14.

NOTE 4. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable and investments. The risk in trade accounts receivable is limited due to the creditworthiness of companies comprising the Company's customer base and their dispersion across many different sectors of the electronics industry and geographies. The risk in investments is limited due to the creditworthiness of investees comprising the portfolio, the diversity of the portfolio and relative low risk of municipal securities. At May 31, 1996, the Company does not believe it had any significant credit risks.

NOTE 5. INVENTORIES

	MAY 31	
	1996	1995
Raw materials.....	\$ 2,254	\$ 1,781
Work in process.....	3,104	1,975
Finished goods.....	1,077	693
	-----	-----
Total.....	\$ 6,435	\$ 4,449
	=====	=====

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

	MAY 31	
	1996	1995
Land.....	\$ 2,190	\$ 2,068
Buildings and grounds.....	16,345	10,446
Machinery and equipment.....	71,030	43,707
Construction in progress.....	12,166	5,940
	-----	-----
Total.....	\$ 101,731	\$ 62,161
	=====	=====

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

NOTE 7. LONG-TERM DEBT

	MAY 31	
	1996	1995
Note payable to Tektronix, payable in five annual installments including interest at 7.5%, secured by a Trust Deed.....	\$ 8,267	\$ 8,267
Bank line of credit, interest only is payable monthly unless the borrowing is converted to term debt, at which time the \$20,000 is due in 36 equal monthly payments, including interest, of \$621.....	20,000	-
Other.....	334	73

Total.....	28,601	8,340
Less current portion.....	(1,931)	(1,913)

Long-term debt.....	\$ 26,670	\$ 6,427
	=====	=====

The Company has an unsecured \$30 million bank line of credit against which it has borrowed \$20 million. This borrowing bears interest at Bankers Acceptance plus one percent (6.38% at May 31, 1996). The instrument matures on July 29, 1996, at which time it may be extended or converted to a variety of borrowing instruments at the then current market rates of interest, with an ultimate due date of the credit facility of no later than September 1, 2000. Borrowings under the line of credit in excess of \$20 million bear interest at LIBOR plus .875 percent. The outstanding balance under the Company's line of credit is included in long-term debt above based on the Company's ability and intent to repay the balance on a long-term basis. The line of credit includes certain financial covenants, including minimum liquidity and liabilities to net worth ratios. As of May 31, 1996, the Company was in compliance with all covenants.

Future principal payments for long-term debt are as follows: 1997, \$1,931; 1998, \$6,184; 1999, \$8,755; 2000, \$9,286; and 2001, \$2,446.

NOTE 8. STOCK INCENTIVE PLAN

In March 1994, the Company adopted the 1994 Stock Incentive Plan (the 1994 Plan) for employees, consultants and directors of the Company. The 1994 Plan covers 1,000,000 shares of common stock and permits the grant of incentive stock options, non-qualified stock options, stock appreciation rights, stock and cash bonus rights, and restricted stock grants and performance based awards to employees, independent contractors and consultants. A committee of the Board of Directors has the authority to determine non-qualified stock option prices. To date, all options granted have been at the fair market value of the stock at the date of grant. The options vest ratably over a four-year period beginning on the first anniversary of their issuance with a maximum term of 10 years. The 1994 Plan provides for automatic option grants to directors not affiliated with Merix or Tektronix of 20,000 shares at the time first elected to the board and 5,000 shares annually thereafter. The options generally become exercisable ratably over a four year period beginning one year after the date of grant and expire ten years after the date of grant.

The 1994 Plan was amended in October 1995 to cover an additional 500,000 shares of common stock that may be issued pursuant to stock options granted at prices not less than fair market value at the date of grant.

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

A summary of non-qualified stock option activity is as follows:

	SHARES	OPTION PRICE PER SHARE
	-----	-----
Outstanding at May 31, 1994.....	200,000	\$9.00
Granted.....	488,300	9.00-25.00
Canceled.....	(34,450)	9.00-25.00
Exercised.....	(10,000)	9.00

Outstanding at May 31, 1995.....	643,850	9.00-25.00
Granted.....	310,700	23.62-37.75
Canceled.....	(7,336)	9.00-32.25
Exercised.....	(39,808)	9.00-25.00

Outstanding at May 31, 1996.....	907,406	\$9.00-\$37.75
	=====	
Options exercisable at May 31, 1996	170,843	\$9.00-\$25.00
	=====	

Restricted stock awards are subject to vesting and other terms as specified at the time of issuance by a committee of the Board of Directors. Generally, restricted stock awards vest ratably over a three-year period beginning on the first anniversary of their issuance. Unearned compensation expense is recognized ratably over the vesting period. A summary of restricted stock award activity is as follows:

	SHARES	VALUE PER SHARE
	-----	-----
Unvested balance at May 31, 1994....	-	-
Awarded.....	65,000	\$9.00-\$23.25
Vested.....	(5,000)	9.00

Unvested balance at May 31, 1995....	60,000	9.00-23.25
Awarded.....	17,700	23.62-37.75
Vested.....	(19,998)	9.00-23.25

Unvested balance at May 31, 1996....	57,702	\$9.00-\$37.75
	=====	

NOTE 9. INCOME TAXES

Income tax expense consists of federal and state income taxes. Deferred income taxes are determined based on differences between the financial reporting and tax bases of assets and liabilities using currently enacted tax rates. In fiscal year 1994, the Company was included in the consolidated income tax return of Tektronix. The financial statements reflect Tektronix's allocation of income tax expense to the Company calculated on the basis of its filing separate income tax returns and, for purposes of these statements, all current income tax liabilities due Tektronix were settled through division equity.

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

The provision for income taxes consisted of the following:

	1996	MAY 31 1995	1994
	----	----	----
Current:			
Federal.....	\$ 4,443	\$ 4,859	\$ 3,467
State.....	706	1,045	721
	-----	-----	-----
Total current.....	5,149	5,904	4,188
	-----	-----	-----
Deferred:			
Federal.....	1,939	518	(22)
State.....	458	52	(4)
	-----	-----	-----
Total deferred.....	2,397	570	(26)
	-----	-----	-----
Income taxes.....	\$ 7,546	\$ 6,474	\$ 4,162
	=====	=====	=====

The principal differences between taxes on income computed at the federal statutory rate of 35% in fiscal years 1996 and 1995 and 34% in fiscal year 1994 and recorded income tax expense were as follows:

	1996	MAY 31 1995	1994
	----	----	----
Tax computed at statutory rate.....	\$ 7,118	\$ 5,963	\$ 3,724
State income taxes, net of federal benefit.....	757	731	476
Tax exempt interest.....	(280)	(273)	-
Other, net.....	(49)	53	(38)
	-----	-----	-----
Income taxes.....	\$ 7,546	\$ 6,474	\$ 4,162
	=====	=====	=====

Significant components of the Company's deferred tax asset were as follows:

	1996	MAY 31 1995
	----	----
Deferred tax assets:		
Fixed asset basis difference.....	\$ 1,020	\$ 3,901
Intangible assets basis difference.....	469	549
Inventories.....	499	122
Vacation accrual.....	275	80
Warranty reserve.....	75	86
Other.....	(55)	(58)
	-----	-----
Total.....	\$ 2,283	\$ 4,680
	=====	=====

The Company finalized its tax basis purchase price allocation for the Acquisition at the end of fiscal year 1995, resulting in an increase in deferred tax assets and common stock of \$3,279.

NOTE 10. BENEFIT PLANS

Effective June 1, 1994, the Company adopted a defined contribution plan, which meets the requirements of Section 401(k) of the Internal Revenue Code, for all regular employees. Under this plan, the Company contributes 50 cents for each dollar contributed by an employee up to 6% of the employee's base pay. During fiscal years 1996 and 1995, the Company's contribution expense was \$884 and \$578, respectively.

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

In fiscal year 1994, the Company participated in the Tektronix defined benefit and defined contribution retirement plans which covered substantially all of the employees of the Division. The Company's contribution expense was \$324 in fiscal year 1994.

Additionally, Tektronix charged the Company for a pro rata share of post retirement benefits. Expenses included in the financial statements are \$449 for fiscal year 1994. The Company no longer provides post retirement benefits.

NOTE 11. SIGNIFICANT CUSTOMERS

Customers who individually represent 10% or more of net sales for the respective year are as follows:

	YEAR ENDED MAY 31		
	1996	1995	1994
	----	----	----
Tektronix.....	20.6%	31.1%	37.0%
Motorola.....	19.5	22.8	16.3
Hewlett-Packard.....	18.7	*	*
Teradyne	10.5	11.4	*
Storage Technology.....	*	*	12.2

* Revenues were less than 10%.

NOTE 12. CORPORATE ALLOCATIONS

In fiscal year 1994, Tektronix provided substantial services to the Company, including general management, treasury, tax, financial audit, financial reporting, benefits administration, insurance, information management, legal, accounts payable and receivable and credit functions. Tektronix historically charged the Company for these services through corporate allocations which were generally based on a percent of net sales. The amount of corporate allocations was dependent upon the total amount of anticipated allocable costs incurred by Tektronix less amounts charged as a specific cost or expense rather than by allocation. The Company also participated in the Tektronix profit sharing and incentive compensation plans.

Corporate allocations were as follows:

	YEAR ENDED MAY 31
	1994

Corporate allocations	\$1,970
Profit sharing and incentive compensation plans.....	524

Total.....	\$2,494
	=====

In addition to the above allocations, there were direct charges from Tektronix as follows:

	YEAR ENDED MAY 31
	1994

Cost of sales.....	\$1,359
Selling, general and administrative.....	608

Total.....	\$1,967
	=====

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS)

The Company believes that the combined corporate allocations and direct charges from Tektronix were reasonable during fiscal year 1994. However, these costs are not necessarily indicative of the costs which would have been incurred had the Company operated as a separate entity for fiscal year 1994. The above Corporate allocations are included in selling, general and administrative expense.

NOTE 13. RELATED PARTY TRANSACTIONS

Immediately prior to consummation of the Acquisition, Tektronix, through certain participating divisions and subsidiaries, entered into seven separate Supply Agreements with the Company. During the three-year term of the Supply Agreements, the participating divisions and subsidiaries agreed to purchase from the Company annually at least the lesser of 90% of their aggregate requirements for printed circuit boards, flexible circuits and related tooling and test fixtures or \$28,500. Prices are calculated in accordance with an agreed-upon formula, subject to certain adjustments and may not exceed prices charged to other customers by the Company for comparable products and quantities.

Included in net sales for fiscal years 1996, 1995, and 1994 are product sales to Tektronix of \$32,010, \$31,577 and \$29,024, respectively.

In addition, the Company and Tektronix entered into Waste Management and Master Services Agreements covering certain environmental matters for a three-year term. The fiscal year 1996 and 1995 expense pursuant to these agreements was \$426 and \$336, respectively.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Litigation

In the normal course of business, the Company is party to various legal claims, actions and complaints, including actions involving patent infringement and other intellectual property claims. The Company believes that the disposition of these matters will not have a material adverse effect on the Company's financial position and results of operations.

Operating Leases

The Company leases facilities for its printed circuit fabrication operations under operating leases at its Loveland and Soladyne operations. See Note 3. Minimum rental payments under operating leases that have non-cancelable lease terms in excess of 12 months are as follows:

FISCAL YEAR	MINIMUM RENTAL PAYMENTS UNDER OPERATING LEASES
1997	\$2,376
1998	2,386
1999	2,380
2000	1,185
2001	257

Total minimum lease payments	\$8,584 =====

Rental expense under operating leases was \$1,333, \$12 and \$4 in fiscal years 1996, 1995 and 1994, respectively.

MERIX CORPORATION
NOTES TO FINANCIAL STATEMENTS (Cont.)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summary quarterly financial data is as follows:

	1996			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	-----	-----	-----	-----
Net sales.....	\$ 27,713	\$ 33,564	\$ 46,896	\$ 47,461
Gross profit.....	7,392	8,277	10,810	10,921
Operating income.....	4,180	4,738	5,856	6,208
Net income.....	2,708	2,911	3,518	3,655
Earnings per share.....	.42	.45	.55	.57

	1995			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	-----	-----	-----	-----
Net sales.....	\$ 22,736	\$ 24,839	\$ 26,222	\$ 27,651
Gross profit.....	5,887	7,538	7,602	8,041
Operating income.....	3,181	4,521	4,433	4,684
Net income.....	1,982	2,647	2,973	2,962
Earnings per share.....	.33	.42	.47	.46

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

No information is required to be reported under this item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item regarding directors is included under "Election of Directors" in Merix's Proxy Statement for the 1996 annual meeting of shareholders. The information required by this item regarding executive officers is contained under "Executive Officers" in Item 1 of Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is included under "Executive Compensation" and "Report of the Compensation Committee on Executive Compensation" in Merix's Proxy Statement for the 1996 annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is included under "Voting Securities and Principal Shareholders" and "Election of Directors" in Merix's Proxy Statement for the 1996 annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is included under "Certain Relationships and Related Transactions" in Merix's Proxy Statement for the 1996 annual meeting of shareholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)1. Index to financial statements.

MERIX CORPORATION -----	PAGE REFERENCE -----
Independent Auditors' Report	17
Balance Sheet as of May 25, 1996 and May 27, 1995	18
Statements of Income for fiscal years ended May 25, 1996, May 27, 1995, and May 28, 1994	19
Statements of Shareholders' Equity for fiscal years ended May 25, 1996, May 27, 1995, May 28, 1994	20

Statements of Cash Flows for fiscal years ended May 25, 1996, May 27, 1995 and May 28, 1994 21 Notes to Financial Statements 22

(a)2. Financial Statement Schedules

All schedules have been omitted since they are either not required or the information is included in the financial statements included herewith.

(b) Reports on Form 8-K

The Company filed a report on Form 8-K dated October 31, 1995 reporting the acquisition of certain assets of Hewlett-Packard Company's Loveland, Colorado printed circuit fabrication operation.

EXHIBITS

- 3.1(1) Articles of Incorporation of the Registrant (Exhibit 3.1)
- 3.2(1) Bylaws of the Registrant (Exhibit 3.2)
- 4.1(1) Article II of the Registrant's Articles of Incorporation (Exhibit 3.1)
- 10.1(2) Asset Transfer Agreement between Tektronix and Merix (including Note and Trust Deed and Assignment of Rents and Leases) (Exhibit 10.1)
- 10.2(2) Registration Rights Agreement between Merix and Tektronix (Exhibit 10.2)
- 10.3(2) Waste Management Agreement between Merix and Tektronix (Exhibit 10.3)
- 10.4(2) Services Agreement between Merix and Tektronix (Exhibit 10.4)
- +10.5(4) Stock Incentive Plan of the Registrant, as amended
- +10.6(2) Indemnity Agreement between Merix and Deborah A. Coleman as of April 4, 1994 (Exhibit 10.6)
- +10.7(2) Indemnity Agreement between Merix and Lawrence C. Neitling as of April 4, 1994 (Exhibit 10.7)
- +10.8(2) Indemnity Agreement between Merix and John P. Karalis as of April 4, 1994 (Exhibit 10.9)
- +10.9(2) Indemnity Agreement between Merix and Carl W. Neun as of April 4, 1994 (Exhibit 10.10)
- +10.10(2) Indemnity Agreement between Merix and Carlene M. Ellis as of May 24, 1994 (Exhibit 10.11)
- +10.11(2) Indemnity Agreement between Merix and Charles M. Boesenberg as of May 24, 1994 (Exhibit 10.12)
- +10.12(2) Indemnity Agreement between Merix and Dr. Koichi Nishimura as of May 24, 1994 (Exhibit 10.13)
- +10.13(3) Indemnity Agreement between Merix and Terri L. Timberman as of May 25, 1994 (Exhibit 10.14)
- +10.14(3) Indemnity Agreement between Merix and Joseph H. Howell as of January 30, 1995 (Exhibit 10.15)
- +10.15 Indemnity Agreement between Merix and Samuel R. DeSimone, Jr. as of September 11, 1995
- 10.16(1) Form of Supply Agreement (Exhibit 10.7)
- +10.17(2) Executive Severance Agreement between Merix and Deborah A. Coleman (Exhibit 10.15)
- +10.18(2) Executive Severance Agreement between Merix and Lawrence C. Neitling (Exhibit 10.16)
- +10.19(3) Executive Severance Agreement between Merix and Terri L. Timberman (Exhibit 10.19)
- +10.20(3) Executive Severance Agreement between Merix and Joseph H. Howell (Exhibit 10.20)
- +10.21 Executive Severance Agreement between Merix and Samuel R. DeSimone, Jr.
- 10.22(5) Business Loan Agreement with Bank of America dated September 1, 1995 (Exhibit 10.18)
- +10.23(6) Master Asset Purchase Agreement between Merix and Hewlett-Packard Company dated October 10, 1995 (Exhibit 2)

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- 10.24(7) Amendment No. 1 to Business Loan Agreement with Bank of America dated January 10, 1996 (Exhibit 10.1)
- 11.1 Computation of Earnings Per Share
- 23.1 Independent Auditors' Consent
- 27.1 Financial Data Schedule

- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1, Registration No. 33-77348.
- (2) Incorporated by reference to the Company's Form 10-K for the fiscal year ended May 28, 1994 (File No. 0-23818).
- (3) Incorporated by reference to the Company's Form 10-K for the fiscal year ended May 27, 1995 (File No. 0-23818).
- (4) Incorporated by reference to Appendix A of the Company's Proxy Statement for the 1995 Annual

- Meeting of Shareholders (File No. 0-23818).
- (5) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended August 27, 1995 (File No. 0-23818).
 - (6) Incorporated by reference to the Company's Current Report on Form 8-K dated October 31, 1995 (File No. 0-23818).
 - (7) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended February 24, 1996 (File No. 0-23818).
- + This Exhibit constitutes a management contract or compensatory plan or arrangement.
- ! Confidential treatment requested for portions of this Exhibit.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 24th day of July, 1996

MERIX CORPORATION

By: JOSEPH H. HOWELL

Joseph H. Howell, Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on July 24, 1996 by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE -----	TITLE -----
DEBORAH A. COLEMAN ----- Deborah A. Coleman	Chairman and Chief Executive Officer (Principal Executive Officer)
LAWRENCE C. NEITLING ----- Lawrence C. Neitling	President, Chief Operating Officer and Director
JOSEPH H. HOWELL ----- Joseph H. Howell	Senior Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)
JOHN P. KARALIS ----- John P. Karalis	Director
CARL W. NEUN ----- Carl W. Neun	Director
CARLENE M. ELLIS ----- Carlene M. Ellis	Director
CHARLES M. BOESENBERG ----- Charles M. Boesenberg	Director
DR. KOICHI NISHIMURA ----- Dr. Koichi Nishimura	Director

EXHIBIT INDEX

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- + This Exhibit constitutes a management contract or compensatory plan or arrangement.
- ! Confidential treatment requested for portions of this Exhibit.

INDEMNITY AGREEMENT

This Agreement is made as of September 11, 1995, by and between Merix Corporation, an Oregon corporation (the "Corporation"), and Samuel R. DeSimone, Jr. ("Indemnitee"), a director and/or officer of the Corporation.

WHEREAS, it is essential to the Corporation to retain and attract as directors and officers of the Corporation and its subsidiaries the most capable persons available; and

WHEREAS, corporate litigation subjects directors and officers to expensive litigation risks at the same time that adequate coverage of directors' and officers' liability insurance may be unavailable; and

WHEREAS, the Articles of Incorporation of the Corporation require indemnification of the officers and directors of the Corporation to the fullest extent permitted by law. The Articles and the Oregon Business Corporation Act (the "Act") expressly provide that the indemnification provisions set forth in the Act are not exclusive, and thereby contemplate that contracts may be entered into between the Corporation and members of the Board of Directors and officers with respect to indemnification of directors and officers; and

WHEREAS, Indemnitee does not regard the protection available under the Corporation's Articles of Incorporation, Bylaws and insurance adequate in the present circumstances, and may not be willing to serve as a director or officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity.

NOW THEREFORE, the Corporation and Indemnitee agree as follows:

1. Agreement to Serve. Indemnitee agrees to serve or continue to serve as a director and/or officer of the Corporation and/or one or more of its subsidiaries for so long as Indemnitee is duly elected or appointed or until such time as Indemnitee tenders a resignation in writing.

2. Definitions. As used in this Agreement:

(a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought in the right of the Corporation or otherwise, whether of a civil, criminal, administrative or investigative nature, and whether formal or informal, in which Indemnitee may be or may have been involved as a party or otherwise, by reason of the fact that Indemnitee is or was a director and/or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise,

whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement can be provided under this Agreement.

(b) The term "Expenses" includes, without limitation thereto, expense of investigations, judicial or administrative proceedings or appeals, amounts paid in settlement by Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under Section 7 of this Agreement, but shall not include the amount of judgments or fines against Indemnitee.

(c) References to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner reasonably believed to be in the interest of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Agreement.

3. Indemnity in Third Party Proceedings. The Corporation shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is a party to or threatened to be made a party to any Proceeding (other than a Proceeding by or in the right of the Corporation to procure a judgment in its favor) against all Expenses, judgments and fines actually and reasonably incurred by Indemnitee in connection with such Proceeding, but only if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation and, in the case of a criminal proceeding, in addition, had no reasonable cause to believe that Indemnitee's conduct was unlawful. The termination of any such Proceeding by judgment, order of court, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interest of the Corporation, and with respect to any criminal proceeding, that such person had reasonable cause to believe that Indemnitee's conduct was unlawful.

Pursuant to this Agreement, the Corporation specifically will, and hereby does, indemnify, to the fullest extent permitted by law, Indemnitee against any and all losses, claims, damages, liabilities and expenses, joint or several, (or actions or proceedings, whether commenced or threatened, in respect thereof) to which Indemnitee may become subject, as a result of serving as a director and/or officer of Merix, under the Securities Act or any other statute or common law, including any amount paid in settlement of any litigation, commenced or threatened, and to reimburse them for any legal or other expenses incurred by them in

connection with investigating any claims and defending any actions, insofar as any such losses, claims, damages, liabilities, expenses or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact regarding Merix, or the omission or alleged omission to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

4. Indemnity in Proceedings By or In the Right of the Corporation. The Corporation shall indemnify Indemnitee in accordance with the provisions of this Section 4 if Indemnitee is a party to or threatened to be made a party to any Proceeding by or in the right of the Corporation to procure a judgment in its favor against all Expenses actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Proceeding, but only if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which such person shall have been finally adjudged by a court to be liable for negligence or misconduct in the performance of Indemnitee's duty to the Corporation, unless and only to the extent that any court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity.

5. Indemnification of Expenses of Successful Party. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise, in defense of any Proceeding or in defense of any claim, issue or matter therein, including the dismissal of an action without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

6. Advances of Expenses. The Expenses incurred by Indemnitee pursuant to Sections 3, 4 and 8 in any Proceeding shall be paid by the Corporation in advance at the written request of Indemnitee, if Indemnitee shall undertake to repay such amount to the extent that it is ultimately determined by a court that Indemnitee is not entitled to be indemnified by the Corporation and shall furnish the Corporation a written affirmation of the Indemnitee's good faith belief that Indemnitee is entitled to be indemnified by the Corporation under this Agreement. Such advances shall be made without regard to Indemnitee's ability to repay such expenses.

7. Right of Indemnitee to Indemnification Upon Application; Procedure Upon Application. Any indemnification or advances under Sections 3, 4, 6 or 8 shall be made no later than 45 days after receipt of the written request of Indemnitee, unless a determination is made within such 45 day period by (a) the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such proceeding, or (b) independent legal

counsel in a written opinion (which counsel shall be appointed if such quorum is not obtainable), that the Indemnitee has not met the relevant standards for indemnification set forth in Section 3, 4 or 8 or an exclusion set forth in Section 9 is applicable.

The right to indemnification or advances as provided by this Agreement shall be enforceable by Indemnitee in any court of competent jurisdiction. The burden of proving that indemnification or advances are not appropriate shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification or advances are proper in the circumstances because Indemnitee has met the applicable standard of conduct nor an actual determination by the Corporation (including its Board of Directors or independent legal counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct. Indemnitee's expenses incurred in connection with successfully establishing Indemnitee's right to indemnification or advances, in whole or in part, in any such Proceeding shall also be indemnified by the Corporation.

8. Additional Indemnification.

(a) Notwithstanding any limitation in Sections 3 or 4, the Corporation shall indemnify Indemnitee in accordance with the provisions of this Section 8(a) to the fullest extent permitted by law if Indemnitee is party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Corporation to procure a judgment in its favor) involving a claim against Indemnitee for breach of fiduciary duty by Indemnitee against all Expenses, judgments and fines actually and reasonably incurred by Indemnitee in connection with such Proceeding, provided that no indemnity shall be made under this Section 8(a) on account of Indemnitee's conduct which constitutes a breach of Indemnitee's duty of loyalty to the Corporation or its stockholders or is an act or omission not in good faith or which involves intentional misconduct or a knowing violation of the law or with respect to an unlawful distribution under ORS 60.367.

(b) Notwithstanding any limitation in Sections 3, 4 or 8(a), the Corporation shall indemnify Indemnitee if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Corporation to procure a judgment in its favor) against all Expenses, judgments and fines actually and reasonably incurred by Indemnitee in connection with such Proceeding to the fullest extent permitted by the Act, including the nonexclusivity provision of ORS 60.414(1) and any successor provision and including any amendments to the Act adopted after the date hereof that may increase the extent to which a corporation may indemnify its officers and directors.

(c) The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under the Restated Articles of Incorporation, the Bylaws, any other agreement, any vote of shareholders or directors, the Act, or otherwise, both as to action in Indemnitee's official capacity or as to action in another capacity while holding such office. The indemnification under this Agreement shall continue as to Indemnitee even though Indemnitee may have ceased to be a director or officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

9. Exclusions. Notwithstanding any provision in this Agreement, the Corporation shall not be obligated under this Agreement to make any indemnification or advances in connection with any claim made against Indemnitee:

(a) for which payment is required to be made to or on behalf of Indemnitee under any insurance policy, except with respect to any excess beyond the amount of required payment under such insurance, unless payment under such insurance policy is not made after reasonable effort by Indemnitee to obtain payment. The Corporation shall be subrogated with respect to any other rights of Indemnitee with respect to any payment made by the Corporation to or on behalf of the Corporation under this Agreement;

(b) for any transaction from which Indemnitee derived an improper personal benefit; or

(c) for an accounting of profits made from the purchase and sale by Indemnitee of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law.

10. Partial Indemnification. If Indemnitee is entitled under any provisions of this Agreement to indemnification by the Corporation for some or a portion of the Expenses, judgments and fines actually and reasonably incurred by Indemnitee in the investigation, defense, appeal or settlement of any Proceeding but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify Indemnitee for the portion of such Expenses, judgments or fines to which Indemnitee is entitled.

11. Business Transactions. The Corporation agrees that it will not effect any Business Transaction (as defined in Article XI of the Restated Articles of Incorporation of the Corporation) which has not been approved by the Continuing Directors (as defined in Article XI of the Restated Articles of Incorporation of the Corporation) of the Corporation unless the other party to the transaction agrees in writing to (a) use its best efforts to maintain for the subsequent two year period any and all directors' and officers' liability insurance in effect prior to any discussions or announcement relating to such Business Transaction and (b) assume all obligations of the Corporation under this Agreement and indemnify Indemnitee and advance litigation expenses in accordance with this Agreement.

12. Severability. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify Indemnitee as to Expenses, judgments and fines with respect to any Proceeding to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

13. Notice. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give to the Corporation notice in writing as soon as practicable of any claim made against Indemnitee for which indemnity will or could be sought under this Agreement. Notice to the Corporation shall be directed to Merix Corporation, 1521 Poplar Lane, Forest Grove, Oregon 97116, Attention: Secretary (or such other address as the Corporation shall designate in writing to Indemnitee). Notice shall be deemed received three days after the date postmarked if sent by prepaid mail, properly addressed. In addition, Indemnitee shall give the Corporation such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

14. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

15. Applicable Law. This Agreement shall be governed by and construed in accordance with Oregon law.

16. Successors and Assigns. This Agreement shall be binding upon the Corporation and its successors and assigns.

IN WITNESS WHEREOF, the parties hereby have caused this Agreement to be duly executed and signed as of the day and year first above written.

MERIX CORPORATION

By DEBORAH A. COLEMAN

Chairman of the Board and Chief Executive Officer

INDEMNITEE

SAMUEL R. DESIMONE, JR.
Samuel R. DeSimone, Jr.

EXECUTIVE SEVERANCE AGREEMENT

September 11, 1995

Samuel Richard De Simone, Jr.
1203 Stonehaven Ct.
West Linn, OR 97068 EXECUTIVE

Merix Corporation
an Oregon corporation
PO Box 3000
Forest Grove, Oregon 97116 MERIX

Merix considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of Merix and its shareholders. In order to induce Executive to remain employed by Merix in the face of uncertainties about the long-term strategies of Merix and their potential impact on the scope and nature of Executive's position with Merix, this Agreement, which has been approved by the Board of Directors of Merix, sets forth the severance benefits that Merix will provide to Executive in the event Executive's employment by Merix is terminated under the circumstances described in this Agreement.

1. **EMPLOYMENT RELATIONSHIP.** Executive is currently employed by Merix as Vice President, Corporate Development and General Counsel. Executive and Merix acknowledge that either party may terminate this employment relationship at any time and for any or no reason, subject to the obligation of Merix to provide the benefits specified in this Agreement in accordance with the terms hereof.

2. **RELEASE OF CLAIMS.** In consideration for and as a condition precedent to receiving the severance benefits outlined in this Agreement, Executive agrees to execute a Release of Claims in the form attached as Exhibit A ("Release of Claims"). Executive promises to execute and deliver the Release of Claims to Merix within the later of (a) 45 days from the date Executive receives the Release of Claims or (b) the last day of Executive's active employment.

3. **COMPENSATION UPON TERMINATION.** In the event of a Termination of Executive's Employment (as defined in Section 6.1) at any time other than for Cause (as defined in Section 6.2 of this Agreement), Death or Disability (as defined in Sections 6.4 and 6.3 of this Agreement), and contingent upon Executive's execution of a Release of Claims, Executive shall be entitled to the following benefits:

3.1 As severance pay and in lieu of any other compensation for periods subsequent to the date of termination, Merix shall pay Executive, in a single payment within the later of (a) 45 days after termination of employment or (b) eight days after execution of the Release of Claims, an amount in cash equal to one-twelfth of Executive's annual base pay at the rate in effect immediately prior to the date of termination multiplied by a number determined from the following schedule:

Date of Termination -----	Multiplication Factor -----
On or before the first anniversary date of this Agreement.	12
After the first anniversary date but on or before the second anniversary date of this Agreement.	9
Any time after the second anniversary date of this Agreement.	6

3.2 Executive is entitled to extend coverage under any group health plan in which Executive and Executive's dependents are enrolled at the time of termination of employment under the COBRA continuation laws for the 18-month statutory period, or so long as Executive remains eligible under COBRA.

Merix will pay Executive a lump sum payment in an amount equivalent to the reasonably estimated cost Executive may incur to extend for a period of 18 months under the COBRA continuation laws Executive's group health and dental plan coverage in effect at the time of termination. Executive may use this payment, as well as any payment made under Section 3.1, for such COBRA continuation coverage or for any other purpose.

3.3 Except as provided in Section 5.2, Executive shall be entitled to a portion of the benefits under any incentive plans in effect at the time of termination, prorated for the portion of the plan year during which Executive was a participant. For purposes of this Agreement, Executive's participation in any annual performance improvement plan will be considered to have ended on Executive's last day of active employment. Prorated awards shall not be due and payable by Merix to Executive until the date that all awards are paid to other eligible employees after the close of the incentive period. Unless the applicable plan provides for a greater payment for a participant whose employment terminates prior to the end of an incentive period (in which case the applicable plan payment shall be made), the proration shall be calculated pursuant to this Section 3.3. The payment, if any, that would have been made under Executive's

award had Executive been made a participant for the full incentive period shall be calculated at the end of the incentive period. Such amount shall be divided by the total number of days in the incentive period and the result multiplied by the actual number of days Executive participated in the plan.

3.4 Merix will pay up to \$12,500 to a third party outplacement firm selected by Executive to provide career counseling assistance to Executive for a period of one year following Executive's termination date.

3.5 All outstanding stock options, restricted stock, stock bonuses or other stock awards shall become vested to the extent provided in Section 5.2.

4. SUBSEQUENT EMPLOYMENT. The amount of any payment provided for in this Agreement shall not be reduced, offset or subject to recovery by Merix by reason of any compensation earned by Executive as the result of employment by another employer after termination.

5. OTHER AGREEMENTS.

5.1 In the event that severance benefits are payable to Executive under any other agreement with Merix in effect at the time of termination (including but not limited to any change of control, "golden parachute" or employment agreement, but excluding for this purpose any stock option agreement or stock bonus agreement or stock appreciation right agreement that may provide for accelerated vesting or related benefits upon the occurrence of a change in control), the benefits provided in this Agreement shall not be payable to Executive. Executive may, however, elect to receive all of the benefits provided for in this Agreement in lieu of all of the benefits provided in all such other agreements. Any such election shall be made with respect to the agreements as a whole, and Executive cannot select some benefits from one agreement and other benefits from this Agreement.

5.2 The vesting or accrual of stock options, restricted stock, stock bonuses, or any other stock awards shall not continue following termination. The vesting or accrual provisions of any agreements between Executive and Merix that relate to stock awards (including but not limited to stock options, long term incentive program, stock bonuses and restricted stock) shall be superseded by the provisions of this Section 5.2 to the extent this Section 5.2 results in earlier vesting or accrual. In the event of a Termination of Executive's Employment (as defined in Section 6.1) at any time other than for Cause (as defined in Section 6.2), Death or Disability (as defined in Sections 6.4 and 6.3), and contingent upon Executive's execution of a Release of Claims, all outstanding stock options, restricted stock, stock bonuses or any other stock awards then held by Executive shall vest or accrue in accordance with the following schedule:

Date of Termination -----	Amount Vested or Accrued -----
On or before the first anniversary date of this Agreement.	All shares that would have otherwise vested or accrued on or before the date of termination.
After the first anniversary date but on or before the second anniversary date of this Agreement.	All shares that would have otherwise vested or accrued on or before the end of the 12 calendar months after the month in which termination occurred.
Any time after the second anniversary date of this Agreement.	All shares that would have otherwise vested or accrued on or before the end of the 24 calendar months after the month in which termination occurred.

5.3 Executive shall be entitled to exercise any stock options or stock appreciation rights that are or became exercisable as a result of any other agreement between Executive and Merix or this Agreement at any time prior to the expiration date of the option or the expiration of 90 days after the date Executive's employment is terminated, whichever is the shorter period. All unexercised stock options and stock appreciation rights shall immediately terminate upon the expiration of such 90-day period.

6. DEFINITIONS.

6.1 Termination of Executive's Employment. Termination of Executive's Employment means that Merix has terminated Executive's employment with Merix (including any subsidiary of Merix). If Executive is assigned additional or different titles, tasks or responsibilities from those currently held or assigned, consistent with Executive's areas of professional expertise, whether at Merix or any subsidiary of Merix, such circumstances shall not constitute a Termination of Executive's Employment.

6.2 Cause. Termination of Executive's Employment for "Cause" shall mean Termination upon (a) the willful failure by Executive to perform substantially Executive's reasonably assigned duties with Merix after written notice outlining the deficiencies and after a demand for substantial performance is delivered to Executive by the Board, Chief Executive Officer or President of Merix or (b) the willful engaging by Executive in illegal conduct which is materially and demonstrably injurious to Merix.

6.3 Disability. Termination of Executive's Employment based on "Disability" shall mean termination without further compensation under this Agreement, due to Executive's absence from Executive's full-time duties with Merix for 180 consecutive days as a result of Executive's incapacity due to physical or mental illness, unless within 30 days after notice of termination by Merix following such absence Executive shall have returned to the full-time performance of Executive's duties.

6.4 Death. Executive's employment terminates upon Executive's death without further compensation under this Agreement.

7. SUCCESSORS; BINDING AGREEMENT.

7.1 This Agreement shall be binding on and inure to the benefit of Merix and its successors and assigns.

7.2 This Agreement shall inure to the benefit of and be enforceable by Executive and Executive's legal representatives, executors, administrators and heirs.

8. RESIGNATION OF CORPORATE OFFICES. Executive will resign Executive's office, if any, as a director, officer or trustee of Merix, its subsidiaries or affiliates, effective as of the date of termination of employment. Executive agrees to provide Merix such written resignation(s) upon request and that no severance will be paid until after such resignation(s) are provided.

9. GOVERNING LAW, ARBITRATION. This Agreement shall be construed in accordance with and governed by the laws of the State of Oregon. Any dispute or controversy arising under or in connection with this Agreement or the breach thereof, shall be settled exclusively by arbitration under the Mutual Agreement to Arbitrate Claims signed by the Executive, and judgment upon the award rendered by the Arbitrator may be entered in any Court having jurisdiction thereof.

10. AMENDMENT. No provision of this Agreement may be modified unless such modification is agreed to in a writing signed by Executive and Merix.

MERIX CORPORATION

By: TERRI TIMBERMAN

Title: Vice President
Human Resources

SAMUEL R. DESIMONE, JR.

Executive

**EXHIBIT A
RELEASE OF CLAIMS**

1. PARTIES.

The parties to Release of Claims (hereinafter "Release") are SAMUEL RICHARD DE SIMONE, JR. and MERIX CORPORATION, an Oregon corporation, as hereinafter defined.

1.1 SAMUEL RICHARD DE SIMONE, JR..

For the purposes of this Release, "DE SIMONE" means SAMUEL RICHARD DE SIMONE, JR., DE SIMONE's attorneys, heirs, executors, administrators, assigns, and spouse.

1.2 THE COMPANY.

For purposes of this Release the "Company" means MERIX CORPORATION, an Oregon corporation, its predecessors and successors, corporate affiliates, and all of each corporation's officers, directors, employees, insurers, agents, or assigns, in their individual and representative capacities.

2. BACKGROUND AND PURPOSE.

DE SIMONE was employed by Company. DE SIMONE's employment is ending effective _____.

The purpose of this Release is to settle, and the parties hereby settle, fully and finally, any and all claims DE SIMONE may have against Company, whether asserted or not, known or unknown, including, but not limited to, claims arising out of or related to DE SIMONE's employment, any claim for

reemployment, or any other claims whether asserted or not, known or unknown, past or future, that relate to DE SIMONE's employment, reemployment, or application for reemployment.

3. RELEASE.

Except as reserved in paragraph 3.1, DE SIMONE waives, acquits and forever discharges Company from any and all claims DE SIMONE may have. Except as reserved in Paragraph 3.1, DE SIMONE hereby releases Company from any and all claims, demands, actions, or causes of action, whether known or unknown, arising from or related in any way to any employment of or past or future failure or refusal to employ DE SIMONE by Company, or any other past or future claim (except as reserved by this Release or where expressly prohibited by law) that relates in any way to DE SIMONE'S employment, compensation, benefits, reemployment, or application for employment, with the exception of any claim DE SIMONE may have against Company for enforcement of this Release. This release includes any and all claims, direct or indirect, which might otherwise be made under any applicable local, state or federal authority, including but not limited to any claim arising under the Oregon statutes dealing with employment, discrimination in employment, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Family and Medical Leave Act of 1993, the Equal Pay Act of 1963, Executive Order 11246, the Rehabilitation Act of 1973, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Age Discrimination in Employment Act, the Fair Labor

Standards Act, Oregon wage and hour statutes, all as amended, any regulations under such authorities, and any applicable contract, tort, or common law theories.

3.1 Reservations of Rights.

This Release shall not affect any rights which DE SIMONE may have under any medical insurance, disability plan, workers' compensation, unemployment compensation, applicable company stock incentive plan(s), indemnifications, or the 401(k) plan maintained by the Company.

3.2 No Admission of Liability.

It is understood and agreed that the acts done and evidenced hereby and the release granted hereunder is not an admission of liability on the part of DE SIMONE or Company, by whom liability has been and is expressly denied.

4. CONSIDERATION TO DE SIMONE.

After receipt of this Release , fully endorsed by DE SIMONE and the expiration of the seven- (7) day revocation period provided by the Older Workers Benefit Protection Act without DE SIMONE's revocation, Company shall pay the lump sum of \$_____to DE SIMONE (less proper withholding).

5. NO DISPARAGEMENT.

DE SIMONE agrees that henceforth DE SIMONE will not disparage or make false or adverse statements about Company. The Company should report to DE SIMONE any actions or statements that are attributed to DE SIMONE that the Company believes are disparaging. The Company may take actions consistent with breach of this Release should it determine that DE SIMONE has disparaged or made false or adverse statements about Company. The Company agrees to

follow the applicable policy(ies) regarding release of employment reference information.

6. CONFIDENTIALITY, PROPRIETARY, TRADE SECRET AND RELATED INFORMATION.

DE SIMONE acknowledges the duty and agrees not to make unauthorized use or disclosure of any confidential, proprietary or trade secret information learned as an employee about Company, its products, customers and suppliers, and covenants not to breach that duty. Moreover, DE SIMONE acknowledges that, subject to the enforcement limitations of applicable law, the Company reserves the right to enforce the terms of DE SIMONE's Employment Agreement with Company and any paragraph(s) therein. Should DE SIMONE, DE SIMONE's attorney or agents be requested in any judicial, administrative, or other proceeding to disclose confidential, proprietary or trade secret information DE SIMONE learned as an employee of Company, DE SIMONE shall promptly notify the Company of such request by the most expeditious means in order to enable the Company to take any reasonable and appropriate action to limit such disclosure.

7. ARBITRATION OF CERTAIN DISPUTES.

DE SIMONE and Company agree that should the issue arise of whether either party to this Agreement has failed to satisfy or has breached the terms of this Agreement, any dispute regarding the issue, except for any claim excepted under the Mutual Agreement to Arbitration Claims, shall be submitted to

arbitration pursuant to the Mutual Agreement to Arbitrate Claims signed by DE SIMONE. In such event, each party shall pay its own costs and attorneys' fees.

8. SCOPE OF RELEASE.

The provisions of this Release shall be deemed to obligate, extend to, and inure to the benefit of the parties; Company's parents, subsidiaries, affiliates, successors, predecessors, assigns, directors, officers, and employees; and each parties insurers, transferees, grantees, legatees, agents and heirs, including those who may assume any and all of the above-described capacities subsequent to the execution and effective date of this Release.

9. OPPORTUNITY FOR ADVICE OF COUNSEL.

DE SIMONE acknowledges that DE SIMONE has been encouraged to seek advice of counsel with respect to this Release and has had the opportunity to do so.

10. ENTIRE RELEASE.

This Release, the Mutual Agreement to Arbitrate Claims and the Employment Agreement signed by DE SIMONE contain the entire agreement and understanding between the parties and supersede and replace all other prior negotiations and proposed agreements, written or oral. DE SIMONE and Company acknowledge that no other party, nor agent nor attorney of any other party, has made any promise, representation, or warranty, express or implied, not contained in this Release concerning the subject matter of this Release to induce this Release, and DE SIMONE and Company acknowledge that they have not

executed this Release in reliance upon any such promise, representation, or warranty not contained in this Release.

11. SEVERABILITY.

Every provision of this Release is intended to be severable. In the event any term or provision of this Release is declared to be illegal or invalid for any reason whatsoever by a court of competent jurisdiction or by final and unappealed order of an administrative agency of competent jurisdiction, such illegality or invalidity should not affect the balance of the terms and provisions of this Release, which terms and provisions shall remain binding and enforceable.

12. PARTIES MAY ENFORCE RELEASE.

Nothing in this Release shall operate to release or discharge any parties to this Release or their successors, assigns, legatees, heirs, or personal representatives from any rights, claims, or causes of action arising out of, relating to, or connected with a breach of any obligation of any party contained in this Release.

13. COSTS AND ATTORNEY'S FEES.

The parties each agree to bear their own costs and attorneys' fees which have been or may be incurred in connection with any matters released herein or in connection with the negotiation and consummation of this Release. In the event of any administrative or civil action to enforce the provisions of this Release, the prevailing party shall be entitled to attorney fees and costs through trial and/or on appeal.

14. ACKNOWLEDGEMENTS.

DE SIMONE acknowledges that the Release provides severance pay and benefits which the Company would otherwise have no obligation to provide.

DE SIMONE acknowledges that Company has provided the following information: (a) the class or group of employees offered the opportunity to obtain severance benefits similar to those in the Release, (b) the eligibility factors required to obtain severance benefits similar to those in the Release, (c) the time limits required to obtain severance benefits similar to those in the Release, (d) the job titles and ages of employees eligible or selected for severance benefits similar to those in the Release, and (e) the ages of employees in the same classification either not eligible or not selected.

15. REVOCATION.

As provided by the Older Workers Benefit Protection Act, DE SIMONE is entitled to have forty-five (45) days to consider this Release. For a period of seven (7) days from execution of this Release, DE SIMONE may revoke this Release. Upon receipt of DE SIMONE's signed Release and the end of the revocation period, payment by Company as described in paragraph 4 above will be forwarded by mail in a timely manner.

SAMUEL RICHARD DE SIMONE, JR.

Dated: _____, 199_

STATE OF OREGON)
) ss.

County of _____)

Personally appeared the above named SAMUEL RICHARD DE SIMONE, JR. and acknowledged the foregoing instrument to be DE SIMONE's voluntary act and deed.

Before me:

Notary Public for _____
My commission expires: _____

MERIX CORPORATION

By: _____ Dated: _____

Its: _____
On Behalf of "Company"

EXHIBIT 11.1

MERIX CORPORATION
COMPUTATION OF EARNINGS PER SHARE
(IN THOUSANDS)

	1996	Years ended May 31 1995	1994*
	-----	-----	-----
Weighted average number of shares outstanding	6,182	6,061	6,055
Weighted average number of shares under option	757	573	0
Shares assumed to have been purchased under the treasury stock method	(490)	(294)	0
	-----	-----	-----
Weighted average shares of common stock and common stock equivalents outstanding	6,449	6,340	6,055
	=====	=====	=====

* Weighted average shares outstanding for fiscal year 1994 are pro forma based on the shares outstanding following the Company's initial public offering and acquisition of the business conducted by the Circuit Board Division of Tektronix.

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-77348 of Merix Corporation on Form S-8 (containing a Reoffer Prospectus on Form S-3) of our report dated June 18, 1996, appearing in this Annual Report on Form 10-K of Merix Corporation for the year ended May 25, 1996.

DELOITTE & TOUCHE LLP

Portland, Oregon

July 23, 1996

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	MAY 25 1996
PERIOD END	MAY 25 1996
CASH	12,191
SECURITIES	7,167
RECEIVABLES	24,617
ALLOWANCES	78
INVENTORY	6,435
CURRENT ASSETS	50,921
PP&E	101,731
DEPRECIATION	46,155
TOTAL ASSETS	111,170
CURRENT LIABILITIES	16,874
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	43,733
OTHER SE	23,357
TOTAL LIABILITY AND EQUITY	111,170
SALES	155,634
TOTAL REVENUES	155,634
CGS	118,234
TOTAL COSTS	118,234
OTHER EXPENSES	5,019
LOSS PROVISION	25
INTEREST EXPENSE	1,333
INCOME PRETAX	20,339
INCOME TAX	7,546
INCOME CONTINUING	12,793
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	12,793
EPS PRIMARY	1.98
EPS DILUTED	1.98