

MERIX CORP

FORM 10-K405 (Annual Report (Regulation S-K, item 405))

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended May 30, 1998

OR

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

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, no par value
Series A Preferred Stock Purchase Rights

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 July 1, 1998 was \$41.3 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 July 1, 1998 was 6,202,114 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement in connection with its 1998 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 advanced printed circuit boards for use in sophisticated electronic equipment. Principal markets served by the Company include the communications, computer, industrial and medical instrumentation 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. The term "Company" is used in this document to refer to both Merix and its predecessor, the Division. The Company has manufacturing operations in Forest Grove, Oregon, Loveland, Colorado and San Diego, California (Soladyne division). The Company's corporate offices are located at 1521 Poplar Lane, Forest Grove, Oregon 97116 and the telephone number is (503) 359-9300.

Electronic Interconnect Industry Overview

Printed circuits, including rigid and flexible printed circuits, are the basic platforms used to connect the microprocessors, integrated circuits and other components essential to the functioning of electronic equipment. These products consist of patterns of electrical circuitry etched from copper 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 \$8.6 billion in 1997, 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 93% of the U.S. domestic market revenues in 1997. 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 continue to contribute to a growing trend toward consolidation of independent producers.

Customers, Marketing and Sales

The Company's customers include a diversified base of leading OEMs in the industrial and medical 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 contract manufacturers such as Benchmark Electronics, Inc., Celestica, Inc., 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 customers in the contract manufacturing channel 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 field-based direct sales force as well as manufacturers' representatives. The Company's

applications engineers provide advice to 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 has hosted conferences with its customers and suppliers. These activities also enhance the Company's visibility in the marketplace.

In fiscal year 1998, five companies represented approximately 75.1% of net sales. Hewlett-Packard Company (HP), Tektronix, Inc., Teradyne, Inc., Motorola, Inc. and Storage Technology Corporation represented approximately 29.3%, 16.6%, 13.6%, 8.7% and 6.9% of net sales, in fiscal year 1998, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Report.

The Company generally does not obtain long-term purchase orders or commitments from its customers, and the orders received by the Company usually require delivery within 90 days. However, many of the Company's customers have maintained long-term purchasing relationships with the Company.

Manufacturing and Engineering

Products

The Company's principal products are high-density, multilayer rigid printed circuits manufactured with materials ranging from standard fiberglass to high-performance substrate materials.

Fiberglass-based circuit boards are used in virtually all segments of the electronics industry and are manufactured at the Forest Grove and Loveland facilities. High-performance circuits 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 primarily at the Company's Forest Grove and San Diego 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 circuits using a broad range of materials, including Teflon(R) and GETEK(R).

Manufacturing Processes

The manufacture of complex multilayer printed circuits 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 selectively adds and removes conductive and insulating materials forming horizontal layers of thin traces or circuits. A finished multilayer circuit board sandwiches (or laminates) together a number of layers of circuitry, using intense heat and pressure under vacuum. Vertical 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 specializes in multilayer printed circuits with extremely fine geometries and tolerances. 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.

As OEMs continue to design more sophisticated electronics equipment requiring more complex printed circuits, the average number of layers of circuitry in the printed circuits manufactured by the Company has

increased from about six in fiscal year 1997 to eight layers in fiscal year 1998. In December 1997, the Company approved a major expansion of its Forest Grove manufacturing facility, primarily to support the growing demand for printed circuits with higher layer counts. See "Management's Discussion and Analysis-Net Sales" in Item 7 of this Report.

The Company uses total quality management systems 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.

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

Supplier Relationships

Historically, the majority of raw materials used in the manufacture of the Company's products have been readily available. As printed circuit technology increases, the Company expects its use of certain high-performance raw materials to increase. These materials are often produced by a limited number of suppliers. From time to time, the Company has experienced difficulties in obtaining sufficient quantities of these materials. A significant shortage of these materials could have an adverse impact on the Company's sales and profitability. 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 the 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, raw materials and services. Matsushita Electronics Materials, a key laminate supplier, operates an 82,000 square foot factory adjacent to the Company's Forest Grove facility to produce laminates previously imported by the Company from Japan. Insulectro, a supplier of raw materials and services, operates 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's Forest Grove facility.

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 cost reductions. These programs include, but are not limited to, quarterly review meetings, joint product and process development, and participation in meetings 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.

Certain waste products generated by the Company's manufacturing facilities require further treatment or controlled disposal. The Company sends its waste materials to approved third parties for recycling, reclaim, treatment or disposal.

The Company believes that its environmental management 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.

Backlog

The Company's 90 day backlog was approximately \$15.8 million at the end of fiscal year 1998 and \$26.4 million at the end of fiscal year 1997. 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 significant portion of the Company's backlog is subject to cancellation or postponement without significant penalty. Variations in the size, timing and delivery schedule of purchase orders received by the Company, as well as changes in customers' delivery requirements, may result in substantial fluctuations in backlog from period to period. Accordingly, the Company's backlog is not necessarily indicative of future quarterly or annual financial results.

Competition

Competitive factors in the market for printed circuits include product quality, technological capability, responsiveness to customers in delivery and service, and 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 delivery cycle time, engineering and manufacturing expertise, and customer service and support.

The printed circuit industry in the United States is highly fragmented. An industry source estimates there are approximately 700 companies producing circuit boards in the United States. According to an industry source, the top nine merchant suppliers accounted for approximately 32% of total circuit board sales by independent suppliers in 1997. Increasing technology demands and resulting demands for capital investment are expected to continue to contribute to a growing trend toward consolidation of independent producers.

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	45	Chair, Chief Executive Officer, President and acting Chief Financial Officer
Mark R. Hollinger	40	Senior Vice President - Operations
Joseph Reichbach	53	Senior Vice President - Sales and Marketing
Terri L. Timberman	40	Vice President - Human Resources and Quality
Samuel R. DeSimone, Jr.	38	Vice President - Corporate Development and Secretary

Deborah A. Coleman serves as Chair of the Board of Directors, Chief Executive Officer, President and, since April 1998, acting Chief Financial Officer of the Company. From November 1992 to the inception of the Company, Ms. Coleman served as Vice President, Materials Operations of Tektronix, where she led worldwide procurement, distribution, component engineering and component manufacturing operations. Prior to joining Tektronix, Ms. Coleman held various positions at Apple Computer, Inc. for 11 years, including Chief Financial Officer, Vice President Information Systems & Technology, and Vice President of Operations. Ms. Coleman serves on the Board of Directors of Applied Materials, Inc., and Synopsys, Inc.

Mark R. Hollinger serves as Senior Vice President - Operations of the Company. From October 1994 until joining the Company in September 1997, Mr. Hollinger served as Vice President of Operations at Continental Circuits Corporation. Prior to October 1994, Mr. Hollinger held various manufacturing and management positions at IBM Corporation.

Joseph Reichbach serves as Senior Vice President - Sales and Marketing of the Company. From 1989 until joining the Company in February 1997, Mr. Reichbach served as Vice President of Sales for North America for Analog Devices, Inc.

Terri L. Timberman serves as Vice President - Human Resources and Quality 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 and Secretary of the Company. 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 & Thibault in Boston, Massachusetts.

Employees

As of May 30, 1998 the Company had a total of 1,454 employees, of which 1,350 were regular employees and 104 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 Company believes its relationship with its employees is good. The Company also believes 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, a 6,300-square-foot waste treatment facility and a 62,500-square-foot administration and training 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 payable to Tektronix in connection with the Acquisition. Additionally the Company owns a 37,500-square-foot building approximately one mile from the Forest Grove manufacturing facility.

The Company uses approximately 20,000 square feet of this building for manufacturing operations, including electrical testing, final inspection and shipping.

The Company leases 120,000 square feet of manufacturing space from HP pursuant to a five year lease entered into in connection with the Company's acquisition of the Loveland facility in October 1995. In connection with the acquisition of the Soladyne operation from Rogers Corporation in December 1995, the Company assumed a lease for the 37,000-square-foot manufacturing facility housing the acquired operations, which expires in February 2001. See Note 15 of the "Notes to Financial Statements" in Item 8 of this Report.

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.

The Company's Common Stock is traded on the Nasdaq National Market System under the symbol MERX. The range of the high and low prices for the Company's Common Stock as reported on the Nasdaq National Market System for the eight most recent fiscal quarters was as follows:

	High	Low
Fiscal year 1998:		
Quarter 4	\$ 20.50	\$ 11.62
Quarter 3	16.75	13.62
Quarter 2	19.50	13.75
Quarter 1	18.50	15.75
Fiscal year 1997:		
Quarter 4	\$ 18.88	\$ 13.00
Quarter 3	20.13	15.25
Quarter 2	22.38	13.75
Quarter 1	31.50	16.25

As of July 6, 1998 there were 119 shareholders of record and approximately 3,300 beneficial shareholders.

The Company has never declared any cash dividends. The Company 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 its Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA.

Financial information for fiscal year 1994 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 in that fiscal year.

	1998	1997	1996	1995	1994 (1)
	-----	-----	-----	-----	-----
(In thousands, except per share data)					
Statement of Income Data:					
Net sales	\$ 178,620	\$ 156,184	\$ 155,634	\$ 101,448	\$ 78,442
Net income	2,138	321	12,793	10,564	6,791
Basic earnings per share	\$ 0.35	\$ 0.05	\$ 2.10	\$ 1.74	\$ 1.12
Diluted earnings per share	\$ 0.34	\$ 0.05	\$ 1.98	\$ 1.67	\$ 1.12
Balance Sheet Data:					
Working capital	\$ 40,755	\$ 45,586	\$ 34,841	\$ 34,201	\$ 28,215
Total assets	135,168	130,449	111,170	69,597	52,254
Long-term debt, less current portion	40,000	42,390	26,670	6,427	8,073
Shareholders' equity	70,191	67,416	66,353	52,319	38,093

(1) Earnings per share for fiscal year 1994 is pro forma based on the initial 6,055 shares outstanding following the Acquisition.

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

Results of Operations (Dollars in thousands)

Results of operations information in dollars and as a percentage of net sales are as follows:

	Percentage of Net Sales					
	1998	1997	1996	1998	1997	1996
Net sales	\$ 178,620	\$ 156,184	\$ 155,634	100.0%	100.0%	100.0%
Cost of sales	151,100	134,328	118,234	84.6	86.0	76.0
Gross profit	27,520	21,856	37,400	15.4	14.0	24.0
Operating expenses:						
Engineering	5,854	6,013	5,019	3.3	3.9	3.2
Selling, general and administrative	14,266	13,822	11,399	8.0	8.8	7.3
Restructuring expense	1,878	-	-	1.0	-	-
Total operating expenses.	21,998	19,835	16,418	12.3	12.7	10.5
Operating income	5,522	2,021	20,982	3.1	1.3	13.4
Interest income	1,432	1,380	950	0.8	0.9	0.6
Interest expense	3,313	3,247	1,333	1.8	2.1	0.8
Other income (expense), net	(290)	137	(260)	(0.2)	0.1	(0.2)
Income before taxes	3,351	291	20,339	1.9	0.2	13.0
Income tax (expense) benefit	(1,213)	30	(7,546)	(0.7)	-	(4.8)
Net income	\$ 2,138	\$ 321	\$ 12,793	1.2%	0.2%	8.2%

Sales by market segments and largest customers in dollars and as a percent of net sales are as follows:

	Percentage of Net Sales					
	1998	1997	1996	1998	1997	1996
Market Segments						
Computers	\$ 49,880	\$ 42,998	\$ 33,206	27.9%	27.5%	21.3%
Communications	46,735	32,406	43,798	26.2	20.7	28.2
Test and Instruments	75,247	54,263	55,828	42.1	34.8	35.9
Contract Manufacturers (a)	-	23,134	20,606	-	14.8	13.2
Other	6,758	3,383	2,196	3.8	2.2	1.4
Total	\$ 178,620	\$ 156,184	\$ 155,634	100.0%	100.0%	100.0%
Largest Customers						
Hewlett-Packard Company	\$ 52,361	\$ 39,693	\$ 29,100	29.3%	25.4%	18.7%
Tektronix, Inc.	29,688	28,766	32,010	16.6	18.4	20.6
Teradyne, Inc.	24,310	13,885	16,389	13.6	8.9	10.5
Motorola, Inc.	15,553	20,321	30,427	8.7	13.0	19.5
Storage Technology Corp.	12,272	12,341	9,491	6.9	7.9	6.1
Other	44,436	41,178	38,217	24.9	26.4	24.6
Total	\$ 178,620	\$ 156,184	\$ 155,634	100.0%	100.0%	100.0%

(a) Amounts shown in the table for contract manufacturers in fiscal years 1997 and 1996 represent sales to those contract manufacturers. Amounts for contract manufacturers in fiscal year 1998 are reflected in sales to the original equipment manufacturer (OEM) served by the contract manufacturer. Sales through the contract manufacturing channel were \$42,413 (23.7% of net sales) in fiscal year 1998.

Comparison of Fiscal Years 1998 and 1997 (Dollars in thousands, except per share amounts)

Fiscal Year. The Company's fiscal year is the 52 or 53-week period ending the last Saturday in May. Fiscal year 1998 was a 52-week year, fiscal year 1997 was a 53-week year.

Net Sales. Net sales for fiscal year 1998 were \$178,620 compared to \$156,184 in fiscal year 1997. The increase in sales was primarily attributable to a higher level of demand for the Company's products and an improvement in the product mix, including increased sales of higher layer count, higher priced products.

A general slow-down in the electronics industry and excess capacity in the domestic printed circuit industry negatively impacted the level and pricing of customer orders in the Company's fourth quarter ended May 30, 1998. Net sales were \$41,074 in the fourth quarter of fiscal 1998 compared to \$46,416 in the third quarter of fiscal 1998 and \$43,285 in the fourth quarter of fiscal 1997. The Company believes the decrease in demand and accompanying pricing pressures, which it primarily attributes to the economic crisis in Asia, delays in new product production, and excess inventory in the industries it serves, will continue through at least the second quarter of fiscal year 1999. The Company has previously announced that it expects a loss in its first fiscal quarter ending August 29, 1998.

As a result of recent economic events in Asia, many Asian printed circuit board manufacturing plants have excess capacity and they generally have lower production costs than those of the Company. Some of these Asian companies are turning to the U.S. domestic market as a source of new customers to utilize that capacity. This additional competition in the domestic printed circuit market, together with lower customer demand, is creating intensified pricing pressures from both international and U.S. competitors in many of the markets in which the Company competes. Historically, the Asian printed circuit suppliers have primarily competed in the less technologically advanced, six layer and lower market, although recently they have expanded their technology to include eight layer printed circuits. The Company's customers are demanding more sophisticated products, which incorporate high technology and increasing layer counts. As a result, the Company expects its sales percentage of six layer and lower product to continue to decrease. The Company's focus continues to be on providing high technology products and processes, and it currently does not expect to encounter direct competition from Asian suppliers in the high technology segment of the printed circuit market in the near future. However, the Company's basic interconnect technology is generally not subject to significant proprietary protection, and companies with significant resources may develop expertise in these higher technology processes and products and compete with the Company. Increased competition could result in price reductions, reduced margins or loss of market share, which could materially adversely affect the Company's business, financial condition and results of operations.

During the first three quarters of fiscal year 1998, manufacturing constraints limited the capacity available to meet the production needs of the Company's current and new customers. In response, in December 1997, the Company announced plans for a major expansion of its Forest Grove manufacturing capacity, expected to cost approximately \$21,000. Approximately \$6,500 of the total cost is for the retrofit of existing manufacturing facilities and the remainder is for the purchase and installation of new manufacturing equipment. The expansion has been underway since January 1998 and was originally expected to be completed in the first half of fiscal year 1999. The expansion is expected to provide capacity for approximately \$35,000 to \$40,000 of additional sales annually. Due to weak demand which began in the fourth quarter of fiscal year 1998, the Company is delaying the project timeline and now expects the expansion project to be completed in the last half of fiscal year 1999. Although the electronics industry is currently experiencing a downturn, the Company believes that higher levels of customer demand will return and the completion of the expansion project will position the Company to take advantage of the industry rebound. However, the Company's current expansion of its manufacturing capacity will increase its fixed costs, and the future profitability of the Company will in part depend on its ability to utilize its manufacturing capacity in an effective manner. The failure to successfully integrate, manage and utilize additional manufacturing capacity could adversely affect the Company's business, financial condition and results of operations.

Historically, the Company's sales have been concentrated in relatively few customers. As shown in the table on page 9 of this Report, the Company's five largest customers comprised 75.1%, 73.6% and 75.4% of net sales for fiscal years 1998, 1997 and 1996, respectively. One of the Company's objectives is to diversify its customer base, as well as to pursue opportunities in other divisions of its existing customers, in order to grow sales and reduce the risks associated with a concentration of sales to a relatively small number of customers. 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.

The level and timing of orders placed by the Company's customers vary due to many factors, including customer attempts to manage inventory, timing of new product introductions and variation in demand for customer products. Since the Company typically does not obtain long-term purchase orders or commitments from its customers, it anticipates the future volume of orders based on discussions with its customers. The Company uses these estimates of anticipated future orders to determine the amount and mix of products that it intends to manufacture. A variety of conditions may cause customers to cancel, reduce or delay orders that were previously placed or anticipated. A significant portion of the Company's backlog at any time may be subject to cancellation or postponement without significant penalty. The Company cannot assure the timely replacement of canceled, delayed or reduced orders. Significant or numerous cancellations, reductions or delays in orders by one or more customers, or the failure of one or more customers to order products at levels anticipated by the Company, could result in excess or obsolete inventory and lower sales which could materially adversely affect the Company's business, financial condition and results of operations. See "Business - Backlog" in Item 1 of this Report.

Gross Margins. The Company's gross margin was 15.4% in fiscal year 1998, compared with 14.0% in fiscal year 1997. The improvement in gross margin was attributable to a higher sales volume, improved product pricing, improved product mix, reduced materials costs and cost reductions resulting from the restructuring which occurred in the second quarter of fiscal year 1998. The Company's gross margins are affected by various factors, including sales volumes, product mix, production yields, price changes and changes in the Company's cost structure.

The Company expects that its gross margin will decrease in the first quarter of fiscal year 1999 due to under-utilization of its manufacturing capacity and accompanying pricing pressures attributable to excess capacity in the industry. See "Net Sales" above. Expected cost savings from the restructuring which occurred in the second quarter of fiscal year 1998 were realized during the second half of fiscal year 1998, significant progress has been made in reducing scrap costs and manufacturing processes performed by subcontractors were substantially reduced in the second half of fiscal year 1998. The Company will continue to focus on other cost reductions and operational efficiencies, including controls on all discretionary spending, plant shutdowns and periodic mandatory days off for its employees. In addition, the Company continues to focus on sales of higher complexity products which generally have higher prices and gross margins. However, there can be no assurance that these efforts will result in higher sales or profits.

Restructuring Expense. Results of operations for fiscal year 1998 included a \$1,878 charge for the costs associated with a restructuring plan, announced in the second quarter of fiscal year 1998, undertaken to improve the Company's profitability.

The restructuring plan consisted of a work force reduction in the support and administrative functions, the write-down of certain manufacturing equipment, and other miscellaneous costs. The charge for the work force reduction of approximately \$700 included the reduction of 85 positions in the Company's support and administrative functions, including purchasing, materials, administration and computer automated tooling. No direct manufacturing jobs were eliminated. As of May 30, 1998, all outstanding liabilities associated with the workforce reduction had been paid. In connection with the restructuring plan, the Company analyzed its manufacturing equipment based on Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-lived Assets and For Long-lived Assets To Be Disposed Of", and based on that analysis, recorded a non-cash charge for the write-off of approximately \$1,100 of manufacturing equipment located primarily at the Company's Loveland, Colorado facility.

Engineering. Engineering expenses were \$5,854 and \$6,013, respectively, and were 3.3% and 3.9% of net sales, respectively, in fiscal years 1998 and 1997.

Selling, General and Administrative. Selling, general and administrative expenses were \$14,266 and \$13,822 in fiscal years 1998 and 1997, respectively, and were 8.0% and 8.8% of net sales, respectively. Selling, general and administrative expenses have increased principally as a result of increased sales and marketing personnel, and costs associated with the reorganization and relocation of the Company's sales force.

Interest Income. Interest income remained relatively constant at \$1,432 and \$1,380 in fiscal years 1998 and 1997, respectively.

Interest Expense. Interest expense was \$3,313 and \$3,247 in fiscal years 1998 and 1997, respectively. The increase in fiscal year 1998 was principally due to a full year of interest expense related to the issuance of \$40,000 in senior notes in September 1996.

Income Taxes. The Company's effective tax rate was approximately 36% in fiscal year 1998 compared to (10)% in 1997. In fiscal year 1997, the Company had lower pretax income and higher tax exempt interest income in relation to such pretax income. The Company expects its effective tax rate to be approximately 39% in fiscal year 1999. The anticipated rate for fiscal year 1999 is higher than that of fiscal year 1998 due to the reduction in the 1998 Oregon state statutory rate resulting from the refunding of excess income taxes collected in prior years.

Comparison of Fiscal Years 1997 and 1996 (In thousands)

Fiscal Year. The Company's fiscal year is the 52 or 53-week period ending the last Saturday in May. Fiscal year 1997 was a 53-week year and fiscal year 1996 was a 52-week year.

Net Sales. Net sales for fiscal year 1997 of \$156,184 were relatively flat with net sales of \$155,634 in fiscal 1996, due principally to a decrease in sales to certain of the Company's significant customers, largely offset by an increase in sales to HP resulting from a full year of operations at the Loveland site (see above table). Sales to Motorola, Inc. decreased due to a transition to a new generation of its cellular base station products, which have lower margins. Sales to Teradyne, Inc. (Teradyne) decreased in fiscal year 1997 due to a decline in Teradyne's sales to its customers as a result of a softening in the semiconductor industry earlier in the year.

In addition, the Company experienced overall changes in product mix, which caused average selling prices to decline from the prior year.

Gross Margins. The Company's gross margin was 14.0% in fiscal year 1997, compared with 24.0% in fiscal year 1996. Gross margins in fiscal year 1997 declined principally due to flat sales combined with a higher level of fixed costs. A significant portion of the Company's manufacturing costs are relatively fixed, and these costs were higher in fiscal year 1997 principally as a result of the acquisitions of the Loveland and Soladyne sites in the middle of fiscal year 1996.

The level and mix of sales were the major factors in determining the Company's 1997 gross margin. High-performance products are generally more complex and carry higher margins than the Company's standard fiberglass products. The product mix in fiscal year 1997 included a greater proportion of lower priced, lower margin products than in fiscal year 1996.

Engineering. Engineering expenses were \$6,013 and \$5,019 in fiscal years 1997 and 1996, respectively, and were 3.9% and 3.2% of net sales, respectively. Engineering expenses have increased due to additional engineering staff as a result of the acquisitions of the Loveland and Soladyne operations in fiscal year 1996.

Selling, General and Administrative. Selling, general and administrative expenses were \$13,822 and \$11,399 in fiscal years 1997 and 1996, respectively, and were 8.8% and 7.3% of net sales, respectively. The increase over the prior year was due principally to costs associated with increased selling efforts.

Interest Income. The increase in interest income from the prior year is due principally to higher balances of cash and investments for a majority of the year, primarily as a result of the proceeds from \$40,000 of senior notes issued in September 1996.

Interest Expense. Interest expense was \$3,247 and \$1,333 in fiscal years 1997 and 1996, respectively. The increase from the prior year is due to the issuance of \$40,000 in senior notes in September 1996.

Income Taxes. The Company's effective tax rate of (10)% in fiscal year 1997 is lower than the effective tax rate of 37% in 1996, due to lower pretax income in fiscal year 1997 and higher tax exempt interest income in relation to pretax income.

Liquidity and Capital Resources (In thousands)

Cash and short-term investments at May 30, 1998 were \$22,899, compared to \$25,097 at May 31, 1997. Working capital was \$40,755 at May 30, 1998 compared to \$45,586 at May 31, 1997.

Cash provided by operating activities in fiscal year 1998 was \$16,870, which primarily consisted of net income, adjusted for non-cash charges, a decrease in accounts receivable and an increase in inventories. Accounts receivable decreased due primarily to a lower level of sales in the fourth quarter of fiscal year 1998 and inventories increased due primarily to an increase in finished goods.

Cash used in investing activities in fiscal year 1998 was \$18,174, primarily consisting of \$18,466 in capital expenditures primarily for manufacturing equipment, \$13,500 of purchases of short-term investments, and \$14,591 of maturities of short-term investments. The Company's policy is to hold such short-term investments to maturity.

The Company has \$40,000 outstanding under a private placement of senior unsecured notes with two insurance companies. The notes bear interest at 7.92%, payable on a semi-annual basis, with payment of principal in five equal annual installments commencing on September 15, 1999.

The Company has an unsecured \$30,000 bank line of credit against which it had no borrowings at May 30, 1998. Borrowings under this line of credit would bear interest at the agent's prime or LIBOR based rates available at the time of borrowing (6.88% at May 30, 1998). The line of credit expires on September 30, 1998.

The senior unsecured notes and the line of credit include certain financial covenants (including minimum net worth, debt ratio, quick ratio and interest coverage requirements) and cross-default provisions. As of May 30, 1998, the Company was in compliance with all covenants. However, significant losses in the first quarter of fiscal year 1999 would cause the Company to fail to meet certain of the financial covenants. The Company intends to negotiate amendments to or waivers of these financial covenants and to extend the line of credit, but no assurance can be given that the Company will be successful in these efforts. If the Company fails to comply with the covenants and the covenants are not amended or waived, the notes could become immediately due in full and borrowings would not be available under the line of credit. If the Company can successfully renegotiate the financial covenants in the notes and line of credit and extend the line of credit, the Company believes that its existing capital resources and cash generated from operations should be sufficient to meet its working capital and capital expenditure requirements during its 1999 fiscal year.

The Company had capital commitments of approximately \$12,200 at May 30, 1998, primarily related to expansion of manufacturing capacity. This includes certain amounts related to the expansion of the Forest Grove manufacturing facility. Due to weak demand as discussed in "Net Sales" beginning on page 10 of this Report, the Company is delaying the project timeline and now expects the expansion project to be

completed in the last half of fiscal year 1999. The Company currently expects to finance the expansion with available resources.

Year 2000 Disclosure

The Company uses a significant number of computer software programs and operating systems in its internal operations, including applications used in its financial, shop-floor control and manufacturing equipment control systems. The inability of computer software programs to accurately recognize, interpret and process date codes designating the year 2000 and beyond could cause systems to yield inaccurate results or encounter operating problems, including interruption of the business operations these systems control. The Company is in the process of analyzing its internal computer-based systems and manufacturing equipment to identify potential vulnerabilities and implement corrections or changes that may be required.

The Company also may be exposed to risks from computer systems of parties with which the Company transacts business. In response to this, the Company is taking steps, including contacting its major suppliers, to determine the extent to which the Company may be vulnerable to those parties' failure to remedy their own year 2000 issues and to ascertain what actions, if needed, may be taken by the Company in response to such risks.

The Company has expended and will continue to expend appropriate resources to address this issue on a timely basis. The analysis is expected to be completed by the second quarter of fiscal year 1999, and until that time, no estimate of the expected total cost of this effort can be made. Furthermore, there can be no assurances that unknown costs ultimately necessary to update systems or address potential system interruptions will not have a material adverse effect on the Company's business, financial condition or results of operations.

Forward-looking Statements

Information set forth in this Annual Report on Form 10-K relating to fiscal year 1999 and beyond, including the Company's plans and expectations with respect to cost savings, customer diversification, changes in product mix, customer demand and increases in manufacturing capacity, constitute forward-looking statements. Information contained in forward-looking statements is based on current expectations and is subject to change, and actual results may differ materially from the forward-looking statements.

Many factors could cause actual results to differ materially from the forward-looking information. Items 1 and 7 of this Annual Report on Form 10-K discuss certain of these factors, including the general slow-down in the electronics industry and the economic events in Asia; the recent decline in customer orders and the Company's excess capacity; pricing and other competitive pressures in the industry; risks related to the Company's capacity expansion project; customer concentration and difficulties in diversifying the customer base; increases in finished goods inventory; declines in backlog; risks related to customer cancellation, postponement or reduction of orders; the effects of the restructuring; negotiations relating to the Company's loan agreements; the ability to attract and retain a talented workforce; unanticipated costs associated with any required modifications to the Company's manufacturing equipment computer systems and associated software related to the Year 2000 issue; plant shutdowns; and unanticipated costs to comply with environmental laws. Other factors include business conditions and growth in the general economy and the electronic and interconnect industries; raw material availability; production delays; product mix; customer acceptance of new technologies; costs and yield issues associated with production; the 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. Forward-looking statements speak only as of date made. The Company undertakes no obligation to publicly release the results of any revision to forward-looking statements which may be made to reflect subsequent events or circumstances or to reflect the occurrence of unanticipated events.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

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 30, 1998 and May 31, 1997 and the related statements of income, shareholders' equity, and cash flows for the years ended May 30, 1998, May 31, 1997 and May 25, 1996. 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.

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 30, 1998 and May 31, 1997, and the results of its operations and its cash flows for the years ended May 30, 1998, May 31, 1997 and May 25, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Portland, Oregon

June 25, 1998 (June 30, 1998 regarding stock option repricing, see Note 4)

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MERIX CORPORATION BALANCE SHEETS (In thousands)

	1998	May 31 1997
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 15,430	\$ 16,537
Short-term investments (Notes 2 and 5)	7,469	8,560
Accounts receivable, net of allowance of \$259 and \$332, respectively (Note 5)	19,303	21,066
Accounts receivable - affiliates (Note 14)	2,501	3,091
Inventories (Notes 2 and 6)	10,795	8,642
Income tax refund receivable (Note 11)	759	2,308
Deferred tax asset (Note 11)	1,577	1,410
Other current assets	2,454	1,817
	-----	-----
Total current assets	60,288	63,431
Property, plant and equipment, net (Notes 2 and 7)	70,262	63,398
Goodwill, net of accumulated amortization of \$432 and \$265 (Notes 2 and 3)	2,027	2,292
Other assets	2,591	1,328
	-----	-----
Total assets	\$ 135,168	\$ 130,449
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,584	\$ 10,011
Accrued compensation	2,512	3,084
Current portion of long-term debt (Note 8)	4,529	2,260
Other accrued liabilities	1,908	2,490
	-----	-----
Total current liabilities	19,533	17,845

Long-term debt (Note 8)	40,000	42,390
Deferred tax liability (Note 11)	4,171	1,525
Other liabilities	1,273	1,273
	-----	-----
Total liabilities	64,977	63,033
	-----	-----
Commitments and contingencies (Note 15)	-	-
Shareholders' equity (Notes 9 and 10):		
Preferred stock, no par value; authorized 10,000 shares; none issued	-	-
Common stock, no par value; authorized 50,000 shares; issued and outstanding 1998: 6,203 shares, 1997: 6,167 shares	44,625	44,360
Unearned compensation	(250)	(622)
Retained earnings	25,816	23,678
	-----	-----
Total shareholders' equity	70,191	67,416
	-----	-----
Total liabilities and shareholders' equity	\$ 135,168	\$ 130,449
	=====	=====

See the accompanying Notes to Financial Statements.

MERIX CORPORATION
STATEMENTS OF INCOME
(In thousands, except per share data)

	Years ended May 31		
	1998	1997	1996
Net sales (Notes 2, 13 and 14)	\$ 178,620	\$ 156,184	\$ 155,634
Cost of sales	151,100	134,328	118,234
Gross profit	27,520	21,856	37,400
Operating expenses:			
Engineering	5,854	6,013	5,019
Selling, general and administrative	14,266	13,822	11,399
Restructuring expense	1,878	-	-
Total operating expenses	21,998	19,835	16,418
Operating income	5,522	2,021	20,982
Interest income	1,432	1,380	950
Interest expense	3,313	3,247	1,333
Other income (expense), net	(290)	137	(260)
Income before taxes	3,351	291	20,339
Income tax (expense) benefit (Note 11)	(1,213)	30	(7,546)
Net income	\$ 2,138	\$ 321	\$ 12,793
Net income per share:			
Basic	\$ 0.35	\$ 0.05	\$ 2.10
Diluted	\$ 0.34	\$ 0.05	\$ 1.98
Shares used in per share calculations:			
Basic	6,194	6,146	6,100
Diluted	6,272	6,260	6,449

See the accompanying Notes to Financial Statements.

MERIX CORPORATION
STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Unearned Compensation	Retained Earnings	Total
	Shares	Amount			
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
Net income				321	321
Exercise of stock options	35	316			316
Tax benefit related to stock-based compensation		261			261
Restricted stock awards	19	364	(364)		-
Amortization of unearned compensation			434		434
Shares surrendered or canceled	(20)	(314)	45		(269)

Balance at May 31, 1997	6,167	44,360	(622)	23,678	67,416
Net income				2,138	2,138
Exercise of stock options	55	525			525
Tax benefit related to stock-based compensation		122			122
Amortization of unearned compensation			122		122
Shares surrendered or canceled	(19)	(382)	250		(132)
Balance at May 31, 1998	6,203	\$ 44,625	\$ (250)	\$ 25,816	\$ 70,191

See the accompanying Notes to Financial Statements.

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MERIX CORPORATION
STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended May 31		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$ 2,138	\$ 321	\$ 12,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,261	8,762	5,643
Deferred income taxes	2,479	2,398	2,397
Amortization of unearned compensation	220	434	367
Restructuring charge	1,149	-	-
Other	(30)	(85)	3
Changes in assets and liabilities (exclusive of effects of purchase of Loveland and Soladyne assets):			
Accounts receivable	2,353	382	(11,765)
Inventories	(2,153)	(2,207)	303
Income tax refund receivable	1,671	(2,048)	-
Other current assets	(637)	(1,228)	692
Accounts payable	573	2,555	3,183
Accrued compensation	(572)	(1,418)	1,331
Income taxes payable	-	(67)	353
Other accrued liabilities	(582)	(428)	1,583
Net cash provided by operating activities	16,870	7,371	16,883
Cash flows from investing activities:			
Purchase of Loveland and Soladyne assets	-	-	(28,720)
Capital expenditures	(18,466)	(17,769)	(16,111)
Short-term investments:			
Purchases	(13,500)	(15,110)	(14,000)
Maturities	14,591	13,717	19,417
Proceeds from sale of assets	507	422	91
Other assets	(1,306)	-	-
Net cash used in investing activities	(18,174)	(18,740)	(39,323)
Cash flows from financing activities:			
Long-term borrowings:			
Proceeds	-	40,000	20,000
Principal payments	(121)	(23,951)	(105)
Exercise of stock options	525	91	429
Deferred financing costs	-	(382)	-
Reacquired common stock	(207)	(43)	-
Net cash provided by financing activities	197	15,715	20,324
Increase (decrease) in cash and cash equivalents	(1,107)	4,346	(2,116)
Cash and cash equivalents at beginning of year	16,537	12,191	14,307
Cash and cash equivalents at end of year	\$ 15,430	\$ 16,537	\$ 12,191
Supplemental Disclosures:			
Cash paid for:			
Interest, net of amount capitalized	\$ 3,116	\$ 3,205	\$ 697
Income taxes	-	-	4,799
Noncash transactions:			
Assets acquired by recognition of liability	-	-	1,273
Software license acquired through financing agreement	-	-	367

Tax benefit related to stock-based compensation	122	261	445
Surrender of unvested shares of restricted stock	175	45	-
Receipt of common stock for exercise of stock options	-	225	-

See the accompanying Notes to Financial Statements.

MERIX CORPORATION

NOTES TO FINANCIAL STATEMENTS (Dollars in thousands, except per share amounts)

Note 1. ORGANIZATION AND ACQUISITION

Merix Corporation, 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.

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 year 1998 was a 52-week year ended May 30, fiscal year 1997 was a 53-week year ended May 31, and fiscal year 1996 was a 52-week year ended May 25. For convenience, these periods have been presented in these financial statements as ended 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.

Balance Sheet Financial Instruments: Fair Values

The carrying amounts reported in the balance sheet for investments, accounts receivable and accounts payable approximate 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.

Investments

The Company classifies securities at acquisition into one of three categories: held to maturity, available for sale, or trading. At May 31, 1998 and 1997, all of the Company's investments 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 and include materials, labor and manufacturing overhead. Cost is determined on the first-in, first-out (FIFO) basis.

Property and Depreciation

Property, plant and equipment is carried at cost less accumulated depreciation. Costs of improvements, including capitalized interest, are capitalized. Depreciation is calculated based on the estimated useful lives of depreciable assets as follows: 40 years for buildings, 10 to 20 years for grounds, 3 to 7 years for machinery and 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 years 1998, 1997 and 1996 was \$167, \$169 and \$96, respectively.

Revenue Recognition

Revenue from product sales is recognized at the time of shipment. Service revenue is recognized as services are provided.

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

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). SFAS 128 replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of basic earnings per share and the market price at which common stock equivalents are calculated in the determination of diluted earnings per share.

Basic earnings per share is computed using the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options outstanding during the period.

The following is a reconciliation of the denominators of the basic and diluted computations of earnings per share. There are no reconciling items for the numerators, which consist of net income for all periods presented.

	Years ended May 31					
	1998		1997		1996	
	Shares	Per Share Amount	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share:	6,194	\$ 0.35	6,146	\$ 0.05	6,100	\$ 2.10
Effect of dilutive securities:						
Stock options	78	(.01)	114	-	349	(.12)
Diluted earnings per share:	6,272	\$ 0.34	6,260	\$ 0.05	6,449	\$ 1.98
	=====	=====	=====	=====	=====	=====

Recent Accounting Pronouncements

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" which establishes requirements for disclosure of comprehensive income and is effective for the Company's fiscal year ending May 1999. Reclassification of earlier financial statements for comparative purposes is required.

In June 1997, the FASB issued Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" which redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about operating segments, and is effective for the Company's fiscal year ending May 1999. The Company operates in a single segment.

Reclassifications

Reclassifications of certain prior period balances have been made to conform with the current method of presentation.

Note 3. ACQUISITIONS

In October 1995, the Company acquired certain assets of Hewlett-Packard Company's (HP) Loveland, Colorado printed circuit fabrication operation for a total purchase price of approximately \$26,868. 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.

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 \$161. See Note 15. Also 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. Although the agreement expired on October 31, 1997, the Company is continuing to manufacture products for HP.

In December 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 was not material to the financial position of the Company. In connection with the acquisition, the Company assumed Soladyne's existing facility lease which expires in February 2001. Monthly payments under the lease are \$26, with an annual rate increase of 3-5% each year over the term of the lease. See Note 15.

The acquisitions were accounted for as purchase transactions and, accordingly, the results of the Loveland and Soladyne operations are included in the financial statements since the effective dates of the transactions.

Note 4. RESTRUCTURING

Results of operations for fiscal year 1998 included a \$1,878 charge for the costs associated with a restructuring plan, announced in the second quarter of fiscal year 1998, undertaken to improve the Company's profitability. The restructuring plan consisted of a work force reduction in the support and administrative functions, the write-down of certain manufacturing equipment, and other miscellaneous costs. The charge for the work force reduction of approximately \$700 included the reduction of 85 positions in the Company's support and administrative functions, including purchasing, materials, administration and computer automated tooling. No direct manufacturing jobs were eliminated. As of May 30, 1998, all outstanding liabilities associated with the workforce reduction had been paid. In connection with the restructuring plan, the Company analyzed its manufacturing equipment based on Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-lived Assets and For Long-lived Assets To Be Disposed Of", and based on that analysis, recorded a non-cash charge for the

write-off of approximately \$1,100 of manufacturing equipment located primarily at the Company's Loveland, Colorado facility.

Note 5. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable and investments. In the aggregate, seven customers represented approximately 70% of the accounts receivable balance at May 31, 1998, individually ranging from 5% to 14%. 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 Company has not had significant losses related to its accounts receivable in the past. The risk in investments is limited due to the creditworthiness of investees comprising the portfolio and the diversity of the portfolio. At May 31, 1998, the Company does not believe it had any significant credit risks.

Note 6. INVENTORIES

	May 31	
	1998	1997
Raw materials	\$ 3,684	\$ 2,506
Work in process	3,638	4,790
Finished goods	3,473	1,346
	-----	-----
Total	\$ 10,795	\$ 8,642
	=====	=====

Note 7. PROPERTY, PLANT AND EQUIPMENT

	May 31	
	1998	1997
Land	\$ 2,190	\$ 2,190
Buildings and grounds	24,267	23,618
Machinery and equipment	100,282	90,219
Construction in progress	2,828	-
	-----	-----
Total	129,567	116,027
Accumulated depreciation	(59,305)	(52,629)
	-----	-----
Property, plant and equipment, net	\$ 70,262	\$ 63,398
	=====	=====

Note 8. LONG-TERM DEBT

	May 31	
	1998	1997
Senior unsecured notes, principal payable in five equal annual installments commencing September 15, 1999, with interest at 7.92% payable on a semi-annual basis	\$ 40,000	\$ 40,000
Note payable to Tektronix, payable in five annual installments including interest at 7.5%, secured by a Trust Deed	4,437	4,437
Other	92	213
	-----	-----
Total	44,529	44,650
Less current portion	(4,529)	(2,260)
	-----	-----
Long-term debt	\$ 40,000	\$ 42,390
	=====	=====

The Company has an unsecured \$30 million bank line of credit against which it had no borrowings at May 31, 1998. Borrowings under this line of credit would bear interest at prime or other LIBOR based rates available at the time of borrowing (6.88% at May 31, 1998). The line of credit matures on September 30, 1998. The Company intends to renegotiate the line of credit.

The senior unsecured notes and the line of credit include certain financial covenants (such as minimum net worth, debt ratio, quick ratio and interest coverage requirements) and cross-default provisions. As of May 31, 1998, the Company was in compliance with all covenants.

Future principal payments for long-term debt are as follows: 1999, \$4,529; 2000, \$8,000; 2001, \$8,000; 2002, \$8,000; and 2003, \$8,000.

Note 9. STOCK-BASED COMPENSATION PLAN

The Company has a 1994 Stock Incentive Plan (the 1994 Plan) for employees, consultants and directors of the Company. The 1994 Plan, as amended, covers 2,100,000 shares of common stock and permits the grant of incentive stock options, non-qualified stock options, stock appreciation rights, stock and cash bonus rights, restricted stock awards 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 have been granted at the fair market value of the stock at the date of grant. 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. A summary of non-qualified stock option activity is as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at May 31, 1995	643,850	\$ 11.04
Granted	310,700	32.41
Canceled	(7,336)	17.52
Exercised	(39,808)	10.79
Outstanding at May 31, 1996	907,406	18.33
Granted	457,506	19.73
Canceled	(284,041)	28.76
Exercised	(34,939)	9.04
Outstanding at May 31, 1997	1,045,932	16.42
Granted	392,120	17.40
Canceled	(190,481)	19.79
Exercised	(54,902)	9.57
Outstanding at May 31, 1998	1,192,669	\$ 16.52
Options exercisable at May 31, 1996	170,843	\$ 10.55
Options exercisable at May 31, 1997	339,276	\$ 12.55
Options exercisable at May 31, 1998	512,439	\$ 14.18

On June 30, 1998, the Company's Board of Directors approved a plan which allows employees, except executive officers, to reprice existing stock options to the fair market value of the underlying stock on June 30, 1998. Under the plan, employees would receive nine options at the fair market value of \$9.9375 per share in exchange for every 10 options they elect to reprice. The repriced options would not be exercisable until December 31, 1998. The vesting schedule and term of repriced options will remain the same as the original option.

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. There were no restricted stock awards in fiscal year 1998. The weighted average per share fair value of restricted stock awards issued was \$18.79 and \$33.70 in fiscal years 1997 and 1996, respectively.

A summary of restricted stock award activity is as follows:

	Number of Shares	Value Per Share
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
Awarded	19,400	16.50 - 21.25
Vested	(27,167)	9.00 - 37.75
Canceled	(5,000)	9.00
Unvested balance at May 31, 1997	44,935	9.00 - 37.75
Awarded	-	-
Vested	(20,135)	13.62 - 19.12
Canceled	(6,600)	17.12 - 33.25
Unvested balance at May 31, 1998	18,200	\$ 16.50 - \$ 37.25

During 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) which defines a fair value based method of accounting for employee stock options and similar equity instruments and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the method of accounting prescribed by Accounting Principles Board Opinion No. 25 (APB 25). Entities electing to remain with the accounting in APB 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method of accounting defined in SFAS 123 had been adopted.

The Company has elected to account for its stock-based compensation plans under APB 25; however, the Company has computed, for pro forma disclosure purposes, the value of all stock options granted during 1998, 1997 and 1996 using the Black-Scholes option pricing model as prescribed by SFAS 123 using the following weighted average assumptions:

	1998	Years ended May 31 1997	1996
Risk-free interest rate	5.31 - 6.28%	5.77 - 6.48%	5.23 - 6.40%
Expected dividend yield	0%	0%	0%
Expected lives	1.7 - 4.7 years	1.6 - 4.6 years	1.6 - 4.6 years
Expected volatility	57%	59%	59%

Using the Black-Scholes methodology, the total value of stock options granted during 1998, 1997 and 1996 was \$2,909, \$3,330 and \$4,402, respectively, which would be amortized on a pro forma basis over the vesting period of the options (typically four years). The weighted average fair value of options granted during 1998, 1997 and 1996 was \$7.59, \$7.30 and \$14.12 per share, respectively.

If the Company had accounted for its 1994 Plan in accordance with SFAS 123, the Company's net income and earnings per share would approximate the pro forma disclosures below:

	Years ended May 31		
	1998	1997	1996
Net income as reported	\$ 2,138	\$ 321	\$ 12,793
Net income (loss) pro forma	834	(866)	12,004
Reported diluted net income per share	\$ 0.34	\$ 0.05	\$ 1.98
Pro forma diluted net income (loss) per share	\$ 0.13	\$ (0.14)	\$ 1.86

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to June 1, 1995, and additional awards are anticipated in future years.

The following table summarizes information about stock options outstanding at May 31, 1998:

Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price	
\$ 9.00	366,245	5.91	\$ 9.00	319,370	\$ 9.00	
\$ 9.25 - \$ 17.88	284,794	9.17	16.96	12,963	15.20	
\$ 18.00 - \$ 19.00	272,535	8.72	18.62	48,903	18.81	
\$ 19.25 - \$ 31.38	248,095	6.08	23.24	120,453	24.03	
\$ 34.38 - \$ 37.75	21,000	7.30	35.30	10,750	35.28	
\$ 9.00 - \$ 37.75	1,192,669	7.39	\$ 16.52	512,439	\$ 14.18	

Note 10. SHAREHOLDER RIGHTS PLAN

On March 25, 1997, the Board of Directors adopted a Shareholder Rights Plan (the Plan) designed to preserve and enhance shareholder value and the Company's ability to carry out its long-term business strategy, and reserved 500,000 shares of Series A Preferred Stock for purposes of the Plan. In connection with the adoption of the Plan, the Board of Directors declared a dividend distribution of one Right per share of common stock, payable to the shareholders of record on April 25, 1997. A Right enables the holder, under certain circumstances, to purchase either Series A Preferred or Common Stock of the Company. The Company may redeem the Rights for \$0.001 per Right under certain circumstances.

Note 11. 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.

The provision for (benefit from) income taxes consisted of the following:

	Years ended May 31		
	1998	1997	1996
Current:			
Federal	\$ (1,266)	\$ (2,428)	\$ 4,443
State	-	-	706
	-----	-----	-----
Total current	(1,266)	(2,428)	5,149
Deferred:			
Federal	2,236	2,357	1,939
State	243	41	458
	-----	-----	-----
Total deferred	2,479	2,398	2,397
	-----	-----	-----
Income taxes	\$ 1,213	\$ (30)	\$ 7,546
	=====	=====	=====

The principal differences between taxes on income computed at the federal statutory rate of 35% in fiscal years 1998, 1997 and 1996 and recorded income tax expense (benefit) were as follows:

	Years ended May 31		
	1998	1997	1996
Tax computed at statutory rate	\$ 1,173	\$ 102	\$ 7,118
State income taxes, net of federal benefit	107	-	757
Tax exempt interest	(22)	(182)	(280)
Other, net	(45)	50	(49)
	-----	-----	-----
Income taxes	\$ 1,213	\$ (30)	\$ 7,546
	=====	=====	=====

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

	May 31	
	1998	1997
Deferred tax assets:		
Current:		
Inventories	\$ 654	\$ 553
Vacation accrual	274	427
State loss carryforward	624	370
Other	25	60
	-----	-----
Deferred tax asset	\$ 1,577	\$ 1,410
	=====	=====
Deferred tax asset (liability):		
Intangible basis difference	\$ 317	\$ 381
Fixed asset basis difference	(4,219)	(2,050)
Other	(269)	144
	=====	=====
Deferred tax liability	\$ (4,171)	\$ (1,525)
	=====	=====

Note 12. BENEFIT PLAN

The Company has 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 1998, 1997 and 1996, the Company's contribution expense was \$1,153, \$1,094 and \$884, respectively.

Note 13. SIGNIFICANT CUSTOMERS

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

	Years ended May 31		
	1998	1997	1996
	----	----	----
Hewlett-Packard Company	29.3%	25.4%	18.7%
Tektronix, Inc.	16.6	18.4	20.6
Teradyne, Inc.	13.6	*	10.5
Motorola, Inc.	*	13.0	19.5

* Revenues were less than 10%.

Note 14. RELATED PARTY TRANSACTIONS

Included in net sales for fiscal years 1998, 1997 and 1996 are product sales to Tektronix, a major shareholder of the Company, of \$29,688, \$28,766 and \$32,010, respectively. Accounts receivable-affiliates at May 31, 1998 and 1997 consists of amounts receivable from Tektronix of \$2,501 and \$3,091, respectively.

The Company has an agreement with Tektronix for certain environmental and waste management services to be provided by Tektronix. The fiscal year 1998, 1997 and 1996 expense related to these services was \$451, \$291 and \$426, respectively.

Note 15. 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:

Years ended May 31	Minimum rental payments under operating leases

1999	\$ 2,261
2000	2,261
2001	1,060
	=====
Total minimum lease payments	\$ 5,582
	=====

Rental expense under operating leases was \$2,346, \$2,376 and \$1,333 in fiscal years 1998, 1997 and 1996, respectively.

Note 16. QUARTERLY FINANCIAL DATA (Unaudited)

Summary quarterly financial data is as follows:

	1998			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	-----	-----	-----	-----
Net sales	\$ 44,559	\$ 46,571	\$ 46,416	\$ 41,074
Gross profit	5,762	6,469	8,138	7,151
Operating income (loss)	891	(400)	2,977	2,054
Net income (loss)	293	(641)	1,496	990
Basic earnings (loss) per share	\$ 0.05	\$ (0.10)	\$ 0.24	\$ 0.16
Diluted earnings (loss) per share	\$ 0.05	\$ (0.10)	\$ 0.24	\$ 0.16

	1997			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	-----	-----	-----	-----
Net sales	\$ 41,116	\$ 35,841	\$ 35,942	\$ 43,285
Gross profit	7,352	5,086	3,690	5,728
Operating income (loss)	2,270	223	(1,211)	739
Net income (loss)	1,256	(143)	(1,086)	294
Basic earnings (loss) per share	\$ 0.20	\$ (0.02)	\$ (0.18)	\$ 0.05
Diluted earnings (loss) per share	\$ 0.20	\$ (0.02)	\$ (0.18)	\$ 0.05

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

Not applicable.

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 the Company's Proxy Statement for its 1998 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. Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for its 1998 annual meeting of shareholders.

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 the Company's Proxy Statement for its 1998 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 the Company's Proxy Statement for its 1998 annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is included under "Certain Relationships and Transactions" in the Company's Proxy Statement for its 1998 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	15
Balance Sheets as of May 30, 1998 and May 31, 1997	16
Statements of Income for fiscal years ended May 30, 1998, May 31, 1997 and May 25, 1996	17
Statements of Shareholders' Equity for fiscal years ended May 30, 1998, May 31, 1997 and May 25, 1996	18
Statements of Cash Flows for fiscal years ended May 30, 1998, May 31, 1997 and May 25, 1996	19
Notes to Financial Statements	20

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

(a) 3. Index to Exhibits

The following exhibits are filed with, or incorporated by reference into, this Annual Report on Form 10-K:

- 3.1 Articles of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Registration No. 33-77348.
- 3.2 Bylaws of the Company, as amended, incorporated by reference to Exhibit 3.2 to the Company's Form 10-K for the fiscal year ended May 31, 1997.
- 4.1 Article II of the Company's Articles of Incorporation, incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Registration No. 33-77348.
- 4.2 Shareholder Rights Agreement dated March 25, 1997, incorporated by reference to the Company's Current Report on Form 8-K dated March 25, 1997.
- 10.1 Asset Transfer Agreement between Tektronix and the Company (including Note and Trust Deed and Assignment of Rents and Leases), incorporated by reference to Exhibit 10.1 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.2 Registration Rights Agreement between the Company and Tektronix, incorporated by reference to Exhibit 10.2 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.3 Waste Management Agreement between the Company and Tektronix, incorporated by reference to Exhibit 10.3 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.4 Services Agreement between the Company and Tektronix, incorporated by reference to Exhibit 10.4 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.5+ Stock Incentive Plan of the Company, as amended, incorporated by reference to Appendix A of the Company's Proxy Statement for the 1995 Annual Meeting of Shareholders.
- 10.6+ Indemnity Agreement between the Company and Deborah A. Coleman as of April 4, 1994, incorporated by reference to Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.7+ Indemnity Agreement between the Company and Carl W. Neun as of April 4, 1994, incorporated by reference to Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.8+ Indemnity Agreement between the Company and Carlene M. Ellis as of May 24, 1994, incorporated by reference to Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.9+ Indemnity Agreement between the Company and Charles M. Boesenberg as of May 24, 1994, incorporated by reference to Exhibit 10.12 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
- 10.10+ Indemnity Agreement between the Company and Dr. Koichi Nishimura as of May 24, 1994, incorporated by reference to Exhibit 10.13 to the Company's Form 10-K for the fiscal year ended May 28, 1994.
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- 10.13 Indemnity Agreement between the Company and Joseph Reichbach as of February 3, 1997.

- 10.14+ Amended Executive Severance Agreement between the Company and Deborah A. Coleman, incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the fiscal year ended May 31, 1997.
- 10.15+ Amended Executive Severance Agreement between the Company and Terri L. Timberman, incorporated by reference to Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended May 31, 1997.
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- 10.17+ Amended Executive Severance Agreement between the Company and Joseph Reichbach, incorporated by reference to Exhibit 10.20 to the Company's Form 10-K for the fiscal year ended May 31, 1997.
- 10.18 Loan Agreement with Bank of America dated October 31, 1996, incorporated by reference to Exhibit 10 to the Company's Form 10-Q for the quarterly period ended November 30, 1996.
- 10.19 Note Purchase Agreement dated September 10, 1996, incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended August 31, 1996.
- 10.20 Amendment to Note Purchase Agreement dated May 28, 1997, incorporated by reference to Exhibit 10.26 to the Company's Form 10-K for the fiscal year ended May 31, 1997.
- 10.21 Notice of Assignment and Amendment No. 1 to Loan Agreement with Bank of America dated December 13, 1996, incorporated by reference to Exhibit 10.27 to the Company's Form 10-K for the fiscal year ended May 31, 1997.
- 10.22 Second Amendment to Loan Agreement with Bank of America dated February 27, 1997, incorporated by reference to Exhibit 10.28 to the Company's Form 10-K for the fiscal year ended May 31, 1997.
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- 10.24 Notice of Assignment of Loan Agreement with Bank of America dated September 30, 1997, incorporated by reference to Exhibit 10.30 to the Company's Form 10-Q for the quarterly period ended August 30, 1997.
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- 10.29+ Indemnity Agreement between the Company and William C. McCormick as of October 21, 1997, incorporated by reference to Exhibit 10.35 to the Company's Form 10-Q for the quarterly period ended November 29, 1997.
- 10.30+ Indemnity Agreement between the Company and Robert C. Strandberg as of June 30, 1998.
- 23 Independent Auditors' Consent
- 27.1 Financial Data Schedule
- 27.2 Restated Financial Data Schedule

+ This Exhibit constitutes a management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended May 30, 1998.

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 4th day of August, 1998.

MERIX CORPORATION

By DEBORAH A. COLEMAN

Deborah A. Coleman Chair, Chief Executive Officer, President and acting Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on August 4th, 1998 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature -----	Title -----
DEBORAH A. COLEMAN ----- Deborah A. Coleman	Chair, Chief Executive Officer, President and acting Chief Financial Officer (Principal Executive Officer) (Principal Accounting and Financial Officer)
CHARLES M. BOESENBERG ----- Charles M. Boesenberg	Director
CARLENE M. ELLIS ----- Carlene M. Ellis	Director
WILLIAM C. McCORMICK ----- William C. McCormick	Director
CARL W. NEUN ----- Carl W. Neun	Director
DR. KOICHI NISHIMURA ----- Dr. Koichi Nishimura	Director
ROBERT C. STRANDBERG ----- Robert C. Strandberg	Director

EXHIBIT INDEX

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+ This Exhibit constitutes a management contract or compensatory plan or arrangement.

INDEMNITY AGREEMENT

This Agreement is made as of February 3, 1997, by and between Merix Corporation, an Oregon corporation (the "Corporation"), and Joseph Reichbach ("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. Indemnatee shall, as a condition precedent to Indemnatee's right to be indemnified under this Agreement, give to the Corporation notice in writing as soon as practicable of any claim made against Indemnatee 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 Indemnatee). Notice shall be deemed received three days after the date postmarked if sent by prepaid mail, properly addressed. In addition, Indemnatee shall give the Corporation such information and cooperation as it may reasonably require and as shall be within Indemnatee'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

JOSEPH REICHBACH

Exhibit 10.30

INDEMNITY AGREEMENT

This Agreement is made as of June 30, 1998, by and between Merix Corporation, an Oregon corporation (the "Corporation"), and Robert C. Strandberg ("Indemnitee"), a director 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
Chair and Chief Executive Officer**

INDEMNITEE

By ROBERT C. STRANDBERG

EXHIBIT 23

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 25, 1998 (June 30, 1998 regarding stock option repricing, see Note 4), appearing in this Annual Report on Form 10-K of Merix Corporation for the year ended May 30, 1998.

DELOITTE & TOUCHE LLP

Portland, Oregon
August 3, 1998

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOUND IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED MAY 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	MAY 30 1998
PERIOD START	JUN 01 1997
PERIOD END	MAY 30 1998
CASH	15,430
SECURITIES	7,469
RECEIVABLES	22,063
ALLOWANCES	259
INVENTORY	10,795
CURRENT ASSETS	60,288
PP&E	129,567
DEPRECIATION	59,305
TOTAL ASSETS	135,168
CURRENT LIABILITIES	19,533
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	44,625
OTHER SE	25,566
TOTAL LIABILITY AND EQUITY	135,168
SALES	178,620
TOTAL REVENUES	178,620
CGS	151,100
TOTAL COSTS	151,100
OTHER EXPENSES	21,998
LOSS PROVISION	0
INTEREST EXPENSE	3,313
INCOME PRETAX	3,351
INCOME TAX	1,213
INCOME CONTINUING	2,138
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,138
EPS PRIMARY	0.35
EPS DILUTED	0.34

ARTICLE 5

THIS SCHEDULE CONTAINS A RESTATED EARNINGS PER SHARE AMOUNT LABELED AS "PRIMARY", AND CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOUND IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED MAY 25, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	MAY 25 1996
PERIOD START	MAY 28 1995
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	22,620
TOTAL LIABILITY AND EQUITY	111,170
SALES	155,634
TOTAL REVENUES	155,634
CGS	118,234
TOTAL COSTS	118,234
OTHER EXPENSES	16,418
LOSS PROVISION	0
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	2.10
EPS DILUTED	1.98