

Scotts Valley firm lays off 80 employees

By DEBORAH PETIT
Sentinel staff writer

SCOTTS VALLEY — Weakness in the semiconductor market and financial turmoil in Asia has led to the layoff of 80 employees at the Watkins-Johnson plant in Scotts Valley.

"It was a double whammy," company spokesman Stephen B. Witmer said.

The company — which does not rule out further staff reductions — on Wednesday posted a second quarter loss of \$6.2 million, or 75 cents per diluted share, and quarterly sales of just \$53.7 million. By comparison, last year's second quarter sales were \$72.7 million.

In response to the lower than anticipated revenues from its semiconductor manufacturing operations, the Palo Alto-based company in late June ordered the work force reduction of 200 people, or about 15 percent of its 1,400 employees, at its three operating facilities.

In addition, management has ordered two-week plant closures in December and mandated two-week "vacations" for every employee during the second half of this year to further reduce overhead.

The Scotts Valley plant, which had employed 429 people, was the most severely affected by the layoffs. It is the company's sole semiconductor equipment manufacturing facility. Watkins-Johnson specializes in

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equipment used in making memory chips.

The remaining employees were laid off from the company's Palo Alto headquarters and plant and from its Gaithersburg, Md., plant. Both locations manufacture transceivers and other wireless communications components that are used in the cellular phone and in PCS markets.

Watkins-Johnson saw sales of its semiconductor equipment drop by 30 percent, to \$65 million, during the first six months of this year, compared with the first six months of 1997 when it reported sales of \$92 million.

The picture was better in the company's wireless communications divisions where revenues increased from \$47 million to \$56 million during that same six-month comparable period. But that increase wasn't enough to offset the losses.

"Our sales of semi-conductor

equipment have dropped pretty dramatically in the last couple of years," said Witmer. "The Asian financial crisis and currency instabilities further aggravated the situation."

The company's sales of equipment to memory chip manufacturers historically have accounted for about half of Watkins-Johnson's business. The company had also done significant business in Korea and Japan before those countries began experiencing economic difficulties.

Watkins-Johnson says a decision on any further layoffs shouldn't come before the end of the third quarter.

"We're not ruling (further layoffs) out. But we are trying to maintain the core strength we'll need when the market turns around. These things are cyclical," Witmer said.

Watkins-Johnson isn't alone in trying to reduce overhead to weather the semi-conductor market downturn.

Applied Materials Inc. in Santa

Clara is offering early retirement to try to reduce its 14,000-person work force by about 1,000 people, Witmer said. And Novellus Systems Inc. and Silicon Valley Group also both are facing staff cutbacks, he said.

The company's earnings report Wednesday stated that the company expects the orders for semiconductor equipment to run below plan for the rest of the year.

Watkins-Johnson has operated its Scotts Valley plant since 1963 when it acquired what had been Stewart Engineering. The company was forced to lay off employees in the mid-1980s when the industry saw a similar downturn in the semiconductor market. That time, Witmer said the company was able to hire back many of its former employees when the market improved. They hope to be able to do so again.

Watkins-Johnson (NYSE: WJ) saw its stock closed at 24½, down 1½, when the market closed Wednesday. Watkins-Johnson's stock hit a 52-week peak in September at 37%.