

Squeezed by disaster

Odwalla's woes grow

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ODWALLA'S founder and president Greg Steltenpohl's nightmare keeps getting worse.

The glittering company lauded for its organic juices and eco-ethics plummeted when it became the suspect in a handful of E. coli poisoning cases linked to Odwalla products.

Throughout the week, the number of sickened people, most children, grew to 49 — 21 in Washington, 13 in California, five in Colorado and 10 in British Columbia.

On Thursday, the first lawsuits were filed against the company. One was filed in Seattle on behalf of a 6-year-old boy who became ill after drinking apple juice, and the other by a lawyer in San Francisco claiming to represent the public under a California law allowing "private attorney general" lawsuits.

The worst news came Friday when 16-month-old Anna Gimmestad died in Denver, after a two-week battle with the apparent effects of an E. coli bacterial infection developed after drinking an Odwalla apple juice "Smoothie."

"Our hearts go out to the family, and our primary concern at this moment is to see that we are doing everything we can to help them," Steltenpohl said Friday.

Odwalla, founded in 1980 in Santa Cruz, is deep in disaster.

Steltenpohl on Thursday said the company had focused its efforts on recalling the suspected juices and finding the source of the bacteria and had not yet tallied the financial impact.

"We have created some scenarios though and are comfortable our cash position is adequate," Steltenpohl said. "The immediate response to the news that our product could be involved was to engage our entire organization into a recall mode."

Simultaneously, the company launched a public relations campaign. "We realized a huge number of people had impressions not based on accurate information," Steltenpohl said.

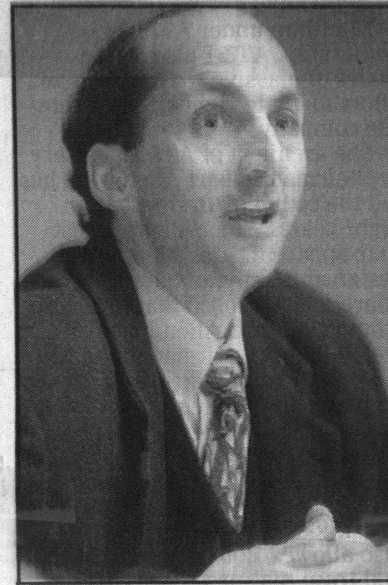
The company augmented its one-person public relations staff by hiring the New York based Edelman Public Relations Worldwide to deal with the media and jump start a web site on the Internet. Public relations firms were also hired in Colorado and Washington, where most of the E. coli cases occurred, to set up press conferences.

Steltenpohl visited families of sick children, while the company worked to reformulate the juices without using the apple juice that was linked to the E. coli.

Three of the reformulated versions will be released this week.

The company also convened a panel of experts to examine ways to prevent future bacterial infections, including pasteurization.

Pasteurization, while killing the bacteria, would also kill vitamins and enzymes that many customers prefer and would be a huge departure from Odwalla's raw food philosophy.



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True values

STELTENPOHL said "literally boxes of letters" of support have been sent to the company, many from loyal customers in Santa Cruz.

At New Leaf Market in Felton, one of Odwalla's larger accounts, customers have remained loyal to their Odwalla, said Joan Lorenzana of New Leaf.

"We're getting a really positive response. Our customers are really interested in live food and are showing a lot of sympathy for Odwalla, so they're buying what's on the shelf," she said.

If Odwalla moves to pasteurization of its juices, Lorenzana said she would understand, but that it won't be good news to most of their customers. "They're really against it."

"Most people in Santa Cruz know where Odwalla is coming from in terms of our true values," Steltenpohl said.

Odwalla also has established a Web site on the Internet at

<http://www.enw.com/odwalla>, devoted entirely to the E. coli outbreak and the company's product recall. Browsers can find recent press releases, a history of Odwalla, along with questions and answers about the situation.

Whether the company's efforts will pay off is yet to be seen.

Odwalla stock fell to \$9½ Friday, down from its high in the low \$20s and the recent figures of about \$18.

"Prior to (Gimmestad's death) I was cautiously optimistic with their announcing they're going to get products on the shelves as early as next week," said Robert Kruger, an analyst who tracks Odwalla with Van Kasper & Co. in San Francisco.

Kruger said he has been told Odwalla's insurance will cover all medical expenses.

"What we can't tell here is what's the consumer's long-term reaction," Kruger said. "I believe the company has the capability to get the majority of its product line apple juice free, if that's the safety factor they need to have a safe nutritional product on the market."

Kruger said Odwalla had \$12 million in cash in its last quarter and that the company remains "financially relatively strong. They have a strong marketing group."

He also said the company has handled the negative publicity and the outbreak in a "professional manner."

Even so, the company will show "large losses in the next couple of quarters," Kruger predicted, saying that revenues may remain down until consumer response can be gauged and until the company finds out whether the federal Food and Drug Administration imposes any regulations on natural, unpasteurized juices.

The latest crisis is not the first for the company, which began life in 1980 in Santa Cruz with a juicer, some rock musicians and a VW bus.

In 1991, Odwalla tried to scale up production to meet increasing demand, but ended up in a cash crunch and with its future in doubt. A winter freeze in California didn't help matters. But investors stayed with Odwalla and the company then made its big leap forward.

Odwalla's profitability took off after the company opened its 65,000 square foot manufacturing plant in Dinuba in the Central Valley. Soon afterward, Odwalla went public with 700,000 shares of stock and began aggressively expanding in the Western U.S. and British Columbia.

Ripple effect

ODWALLA is not the only local company affected by the bad news.

At Watsonville's Gizdich Ranch, the main staple is natural, unpasteurized apple juice, and the Odwalla troubles have cost the small family-owned company sales.

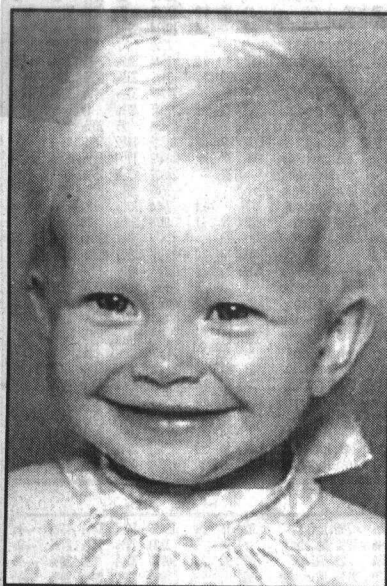
Gizdich retail sales are down at least 15 percent, said Mitch Gizdich, who supervises juice production for the company.

"I guess because they see us alongside Odwalla being a fresh juice," Gizdich said.

He said his steady customers have been calling, wondering if Gizdich juice also is affected. "People are worried that there won't be fresh juice on the market," Gizdich said. "People are calling, saying, 'Don't go pasteurized. Stay fresh, stay fresh.'"

Sales at the ranch have remained steady, since the company's oldest customers usually buy directly.

"We'd like to let people know ... it was just one incident."



Anna Gimmestad

Juice blamed for baby's death

Asked if something similar could happen to his company, Gizdich said: "My feeling is that, no it can't because I grow my own apples. I've got control of the apple from start to finish."

He said Odwalla found the contamination was from manure, used to fertilize orchards. Gizdich said they're assuming the contamination came from apples that fell on the ground.

"We don't use apples off the ground (that may have been accidentally contaminated)," Gizdich said. "All our apples are hand-picked off the tree."

Gizdich sells its natural apple juice in retail markets from Carmel Valley to Palo Alto.

Gizdich has sent out a newsletter to grocery store managers and produce departments and is trying to get up signs in stores saying that they have 21 years of quality, that they are a smaller company and can keep close control of sanitation.

Another Watsonville apple juice company, S. Martinelli & Co., has been in the business for 125 years.

Unlike Odwalla and Gizdich, Martinelli pasteurizes its apple cider and sparkling cider.

"The good news is that our products are pasteurized," said production manager David Gradone.

John Martinelli, general manager at Martinelli, called the out-

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break "a sad thing."

Martinelli has been lifetime friends with Mitch Gizdich and he's worried for his friend and his natural apple juice.

"My obvious concern is for any roadside stand cider business," Martinelli said. "A lot more people will notice" with all the negative publicity swirling around Odwalla.

Martinelli said the Odwalla contamination also casts suspicion on the whole industry. "We had like 60 calls from concerned consumers (who) weren't sure our products were pasteurized."

At the same time, Martinelli said Odwalla may have underestimated the potential for contamination.

"They should have known the risk was there," he said. "Everybody agrees they've responded well. But whoever made the statement that they didn't think E. coli could live in the acidic base of apple juice ... this has been going on for years."

Martinelli said Odwalla and other natural juice manufacturers may have to put a warning on their products "kind of like cigarettes."

"They could have pasteurized, which is what we all do which eliminates the risk of that kind of bacterial contamination."

"We're planning on including it on our labels (that they're pasteurized)," Martinelli said it takes only 145 degrees to kill E. coli and that Martinelli pasteurizes at 185 degrees.

Other apple juice makers have been advertising that they pasteurize their juice. Tree Top apple juice, for instance, has been taking out full page ads saying their juice is safe and pasteurized. Other companies have been telling customers the problem is only with Odwalla juices.