

# Wells Fargo pulls the plug on Watsonville Canning

## Norcal reportedly making an offer to take over firm

By ELIZABETH SCHILLING  
and GUY LASNIER  
STAFF WRITERS

Wells Fargo Bank has begun foreclosure proceedings against Watsonville Canning and Frozen Food Co., and the machinery has already been set up to liquidate the company's assets.

That announcement, which came from the bank's San Francisco headquarters late yesterday afternoon, indicated that a company that had been formed by major creditors of the beleaguered food-processing company has already taken over the day-to-day operation of the Walker Street plant. But exactly what the permanent role of the new company, Norcal Frozen Foods Inc., will be, and what the future of the food-processing operation is, remains unclear.

Sergio Lopez, secretary-treasurer of Teamsters Union Local 912, which has been on strike against Watsonville Canning for 19 months, told a meeting of union members this morning that Norcal wants to lease the plant and its equipment with an option to buy when foreclosure proceedings are complete.

### A \$15 million offer?

"They want to buy it," Lopez told about 300 union members today. He said Norcal has bid \$15 million for the plant.

Lopez further said Norcal wants to "operate the plant until they buy it." He outlined an arrangement in which Norcal would run the plant while foreclosure proceedings go on.

Lopez and Local 912 president Leon Ellis met in San Francisco yesterday with King City

grower David Gill, the head of Norcal Frozen Foods, bank officials and lawyers from all sides.

Gill's attorney, Peter Radin, of San Francisco, said that a statement will be issued late today about the "the most recent developments between

Norcal and Watsonville Canning."

Radin would not comment on how much Norcal may be offering, nor about a potential lease-option arrangement.

"The only other thing I can say for my client is that Norcal was given the chance to review the Wells Fargo press release and had no objection to its content."

The bank's announcement said only that Watsonville Canning "has decided to curtail regular operations and has advised the bank that the plant and other facilities are being operated by Norcal Frozen Foods Inc."

"Watsonville Canning and Watsonville Canning growers who now own Watsonville Canning's main inventory have agreed to a plan for the liquidation of that inventory through Norcal."

### A history of trouble

Once the state's most productive frozen-vegetable-processing plant, Watsonville Canning began encountering problems, in concert with the rest of the industry, several years ago. But the Watsonville company's troubles were accelerated and compounded by the strike of its Teamsters union workers.

The company refused to grant its unionized workers salaries commensurate with those of other food processors and instead hired non-union workers to keep its operation going. But, despite loans of more than \$18 million from Wells Fargo, the company's financial situation continued to deteriorate.

For the past several months, Watsonville Canning, the bank, and the company's other major creditors — headed by Gill, who is reportedly owed more than \$5 million by the company — have been trying to come to an agreement that would be satisfactory to all parties. Gill is in Yuma, Ariz., today and unavailable for comment.

The upshot of all this was Wells Fargo's decision, announced yesterday, to "file notices of default against Watsonville Canning for failure to meet its obligation" on more than \$18 million in indebtedness to the bank.

### The first step

The bank's spokesman, Roger Cruzen, said such notices constitute the first step in foreclosure proceedings. The bank holds trust deeds on Watsonville Canning's assets as well as on virtually all of the personal property and assets of Edward T. "Mort" Console. Console is the owner of Conco, the holding company that controls Watsonville Canning and Frozen Food Co.

Wells Fargo's announcement came at 4:45 p.m. yesterday

through a lengthy statement read from bank headquarters in San Francisco by Cruzen, of the public relations division.

"Wells Fargo took this action after Watsonville Canning advised the bank that it has been unable, over the past months, to develop a viable financial plan," the statement said.

"As a result, Watsonville Canning has told the bank that it will cooperate with its creditors in an orderly liquidation of the company assets until a sale can be completed."

The statement further detailed the relationship between the two companies and the bank as follows:

"Watsonville Canning has advised Wells Fargo that it is currently involved in negotiations with Norcal about the acquisition of certain operating assets."

"As the holder of liens and security interest on these assets Wells Fargo is participating in certain aspects of some negotiations while reserving its rights and remedies."

"Wells Fargo is continuing to analyze the approach it will take to protect its collateral and enforce its right as a secured creditor. The bank plans to place advertisements in various publications in connection with a foreclosure sale of certain Watsonville Canning equipment."

"While Wells Fargo has taken these actions to protect its position, the bank continues to discuss with Watsonville Canning and Norcal the best means to advance their common interest."

### **A vote of confidence?**

Cruzen would not comment on whether the bank's action symbolized a vote of confidence for the Norcal operation. He said the question is one of the factors that will be resolved in weeks to come.

Although yesterday's announcement apparently seals the fate of Watsonville Canning and Frozen Food Co., it raises many other questions.

Teamster union leaders said Norcal wants to operate the plant, at least through the coming season, and Gill has held talks with the union, indicating the possibility of an agreement that would end the strike, and at least ensure labor peace.

Lopez said a key factor is whether Norcal will recognize the union as the exclusive bargaining agent for the workers.

"The whole thing hinges on recognition," Lopez told the meeting of union members today. He called for an "agreement in principle" with the union so that formal contract negotiations can begin.

### **Picketing to continue**

Lopez indicated the union would continue to picket the plant unless an agreement is reached. The only way the new company will be successful, Lopez told strikers today, is if it recognizes the union.

Lopez said that when he meets with Gill on Monday, he'll give him this message: "It would be a mistake for you guys to begin production with a picket line in front of your gates."

Norcal still must obtain a

license from the state Department of Food and Agriculture before it can assume actual operation of the plant. The new company has applied for an operating license and George Reese, chief of Marketing Enforcement for the department, said there is a good chance the license will be formally issued Monday.

The bank's statement included some background on how the current state of affairs came about:

"Both before and after Watsonville Canning's line of credit from Wells Fargo matured, the company had been evaluating its long-term financing and equity needs. Watsonville Canning told the bank that without substantial additional equity its financial condition would not enable it to obtain the amount of additional credit it would need to operate — even if Wells Fargo had been willing to excuse the company's default on its loans."

"Wells Fargo's discussion of future finances of the company had been based upon Watsonville Canning's own financial projections. However, Watsonville Canning substantially revised its financial projection to reflect far greater financial problems and correspondingly greater funding requirements than Wells Fargo had ever provided, or discussed providing."

"The company also expressed a need for greater equity contributions than were foreseeable from any interested third party."

### **Big stumbling block**

The final paragraph of the release made reference to what may prove to be the greatest stumbling block yet to come — claims of creditors besides the big growers who have a stake in Norcal.

Several local businesses and smaller farmers are owed money by Watsonville Canning. They have taken a wait-and-see attitude during the last year while Watsonville Canning began its downward slide, according to one local attorney. He said the bank may already have a firm grip on all assets, and that businesses would have to take quick legal action to ensure that they're in line when the time comes to pay off Watsonville Canning's debts.

"It would take three or four people who are owed money, but a small group could force involuntary bankruptcy on Watsonville Canning or Mort Console," the attorney said. "A bankruptcy could at least stay the foreclosure and allow a referee to be appointed."

The bank's advice to creditors comes second hand:

"Wells Fargo has been told that Watsonville Canning counsel — Mike Groom of Miller, Morton, Caillat and Nevis, of San Jose, and Robert Izmirian of Buchalter, Nemer, Fields, Chrystie and Younger in San Francisco — will be available to answer questions from Watsonville Canning creditors and coordinate the resolution of outstanding transactions."

How the numerous creditors will divide the remaining meager assets of Watsonville Canning and its owner Mort Console is one of the biggest questions left to be resolved.