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Twinkies Maker Preparing for Chapter 11 Filing

By MIKE SPECTOR And JULIE JARGON

Hostess Brands Inc. is preparing to file for Chapter 11 bankruptcy protection as soon as this week, said people familiar with the matter, a move that would mark the second significant court restructuring for the Twinkies and Wonder Bread baker in the past several years.



Hostess Brands is preparing to file for bankruptcy protection. Shira Ovide joins Markets Hub to discuss a brief history of the company that gave the world Twinkies and Wonder Bread.

The privately held Irving, Texas, company, which employs roughly 19,000 people and carries more than \$860 million in debt, has been facing a cash squeeze amid high labor costs and rising prices for sugar, flour and other ingredients, according to people familiar with the matter. Those costs together have proved higher than the company's roughly \$2.5 billion in annual sales, creating losses and cash shortfalls, the people said.

Hostess also owes more than \$50 million to vendors, which have been demanding payments on shortened time frames because of Hostess's financial condition, one of the people said. Most of those goods and services were provided to Hostess within the

past three weeks or so.

Hostess's filing would mark what is known as a Chapter 22 proceeding in restructuring circles, since the company had already sought bankruptcy protection once before.

Hostess, previously called Interstate Bakeries Corp., slashed debt and costs during a four-year stint in bankruptcy court that began in 2004. The company has struggled since emerging from bankruptcy proceedings in February 2009.

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[Hostess Preps for Bankruptcy: What You Should Know](#)

The company's private-equity owner, Ripplewood Holdings, invested \$40 million in Hostess last year. Hedge funds Monarch Alternative Capital, Silver Point Capital and others loaned the company \$20 million late last year.

Hostess has lined up around \$75 million in so-called debtor-in-possession financing to keep the company afloat during bankruptcy proceedings, the people familiar with the matter said. Monarch, Silver Point and some other investors have agreed to extend the bankruptcy financing, with an option for other senior creditors to provide parts of the loan, the people said.

Once in bankruptcy court, Hostess will try to reduce debt and renegotiate labor contracts, many of them with the International Brotherhood of Teamsters and the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union, the people said. Hostess plans to file court papers soon threatening to reject or modify labor

contracts under applicable bankruptcy rules, the people said. Such moves provide troubled companies a bargaining chip to try and get concessions from unionized workers.



Bloomberg News

Hostess Brands has been facing a cash squeeze. Above, the company's bakery in Sacramento, Calif., last year.

A Teamsters spokesman declined to comment. A spokeswoman for Hostess's other main union didn't immediately respond to a request for comment.

Sales of Hostess's signature Twinkies have recently declined a bit while the overall bakery snacks category has been about flat. Nearly 36 million packages of Twinkies were sold in the year ended Dec. 25, down almost 2% from a year earlier, according to data from SymphonyIRI Group, a Chicago-based market-research firm. The data captures sales from supermarkets, drugstores, mass-market retailers and convenience stores, but exclude sales from [Wal-Mart Stores Inc.](#) and club stores.

Hostess also has had trouble attracting consumers who have migrated away from white bread to whole grains and other healthier foods. Hostess released a whole-grain bread called Nature's Pride, but it hasn't sold well compared with some rivals amid a small presence on shelves, according to Mitchell Pinheiro, a Janney Montgomery Scott analyst. Still, Nature's Pride's overall sales have ticked up, increasing 12.3% over the past year or so, said a Hostess spokesman.

Hostess also kept prices relatively high, making it harder to charge even more as costs for ingredients and fuel rose. In the 1960s and 1970s, the company grew by acquiring several other baking outfits across the U.S. By 1995, the company had changed its name to IBC, and purchased its largest rival, Continental Baking Co., for \$330 million, maker of Wonder Bread.

Hostess's bankruptcy filing would join the ranks of other companies forced to seek bankruptcy protection a second time in recent years. Between 2007 and 2011, more than 60 companies commenced "Chapter 22" bankruptcy cases, according to the most-recent data compiled by Edward Altman, a New York University finance professor.

One of Hostess's challenges will be to avoid liquidation, the fate of some other companies seeking bankruptcy protection a second time. In the past several years, for instance, Hollywood Video chain owner Movie Gallery Inc. and Polaroid Corp. have gone out of business after seeking bankruptcy protection a second time.

Others have survived multiple bankruptcies, including auto supplier Hayez Lemmerz International and Pliant Corp., a packaging company acquired after its second reorganization.

One sticking point for the baker: It pays about \$100 million a year into so-called multi-employer pension plans that cover workers at a wide array of companies, the people said. Hostess, whose pension plan is underfunded by about \$2 billion, wants to rescind its obligations to that plan and start paying into a plan that only covers its own workers, one of the people said.

Overall, Hostess carries hundreds of separate labor contracts that the company believes impose cost burdens, people familiar with the matter said; the company also wants to reduce benefits costs.

The company also hopes that in bankruptcy it can attract new capital to bring production and distribution operations up to date, one of the people said.

Interstate Baking Co., the name Hostess used to go by long ago, was formed in 1930. Some brands Hostess still sells, including Drake's cakes, predate the company. In its infancy, the company made loaves of bread for grocery stores to sell.

Hostess is being advised by law firm Jones Day and financial services firm Perella Weinberg Partners. Hostess creditors are being advised by investment bank Lazard Ltd.

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