



## Summary of the Proposed Letter of Understanding for the Restructuring of Hostess Brands

The following summarizes the Letter of Understanding that has been proposed by Hostess Brands Inc. as its best, last and final offer. The offer, if ratified, would apply to employees covered by bargaining agreements with the company and amend the 2008 IBC-IBT Modification Agreement, Long-Term Extension Agreement and Local Union Collective Bargaining Agreements. Please refer to the Letter of Understanding itself for complete details. For more information, visit [www.teamster.org/hostess](http://www.teamster.org/hostess)

### (A) The Use of Casual Transport Drivers

The Company may utilize Casual Transport Drivers to fill in for regular full-time drivers absent due to illness or unscheduled absences, or to run extra loads:

- (8) hour daily guarantee or “trip rate pay,” whichever is greater
- Casuals must be Teamsters
- Health & Welfare – Pension Contributions made for the week if the Casual works 3 days or more
- 3 days or less contribution made for the days only
- Qualifications for health care, 24 hours per week or more for 3 consecutive months

### (B) Trip Pay Conversion and Transport Schedules

The formula used for Trip Pay will include the following:

- 90 percent of the posted speed
- Fueling
- Changes in Bid Runs or Changes-Local Grievance Procedures
- Pre and Post trip
- Breaks and Lunches
- Bid Changes of two hours or more – Rebid
- Drop and Hook
- Load and Unload time
- Company meets with local unions on Formula

### (C) Third Party Distribution

The Company may utilize distributors, wholesalers to distribute a Hybrid line of branded cake and/or bread products.

- The Hybrid product distributed will be graphically differentiated from main-line branded product.
- All Vending, Drug Stores and Dollar Stores (the Company desires to keep those Drug Stores that average over \$200 per week on its Hostess DSD routes and will work with its Drug Store customer chains to allow both Hostess DSD and 3rd Party hybrid delivery).
- Vending Customer who discontinue service within 6 months RSR affected receives 26-week guarantee.
- Hybrid product shipped from Bakery or Company facility by Teamsters Transport Drivers and/or Delivery.
- Drivers covered under the Modification Agreement.
- The Company will pay 3 percent of net sales on Hybrid business into a pool and distributed among RSR's quarterly.

### (D) Combo Route

- Where the Company is prohibited/restricted, rules will be relaxed to merge both bread and cake on routes.

### (E) Pull-up Flexibility

- Where the Company is prohibited/restricted, for pull-up work, separate bread and cake seniority list will be dovetailed.
- Hourly pull-up rate will be capped at \$17.00 per hour where applicable.

### (F) Call-Back Flexibility

- Any restrictions on allowing the Company to require RSRs to perform call back are relaxed.

### **(G) Loader Flexibility**

- Any restrictions on Loaders to handle bread, cake or a combination of both is relaxed.
- All seniority issues to be worked out with the affected locals or local.

### **(H) Drop N Go**

- Change Modification Agreement wording from \$100 to \$300 maximum weekly sales.

### **(I) Commission Pay/Bill Back Reports**

- RSRs will be provided a report, by route detailing the weekly bill-back commission adjustment.
- The Company will develop a daily report through the hand-held showing daily activity.

### **(J) Competition & Dolly Madison**

- Competing with Little Debbie, the Company will develop like items (i.e. Oatmeal Crème cookies, Nutty Bars).
- Top 10 Little Debbie units will be developed to compete.
- The Company can distribute this product through Warehouse delivery system, Route Sales (3 percent commission).
- Bring back Dolly Madison on Routes as an alternate product line, Commission at 5 percent or prevailing Private Label Rate.

### **(K) Direct Deposit or Pay Card**

- All employees will receive their pay via Direct Deposit or Pay Card.

### **(L) Exit from Sales Markets**

- The Company will not exit any current sales market during this LOU to evade the terms and conditions of this LOU and/or bargaining agreements. If the Company decides to exit an existing area, the Company agrees to negotiate with the IBC-IBTNNC over the decision and effects.
- Any transfer of the Company's business in a sales market to a third party shall be subjected to Transfer of Title or Interest provisions in this LOU unless specifically excluded.

### **(M) Field Accounting Offices**

- The Company will consolidate and/or outsource its field accounting office process.
- The Company will honor any request for effects bargaining from locals representing employees displaced.
- The Company will provide outplacement assistance through a third party provider.
- The Company will provide a list of other job opportunities within the Company for the affected employees.

### **(N) Daily Guarantee**

- Any contractual requirements for an 8 hour daily guarantee will be eliminated, but it will not affect the weekly 40 hour guarantee for full-time hourly employees, except as described in Section (A) of this LOU.

### **(O) Wages**

- The wage increase provided on July 29, 2012 will be rescinded.
- Total wage compensation (hourly wages and commission/base) will be reduced by 8 percent the first year off the "baseline" pre-July 29, 2012 wage and commission rates.
- The second, third and fourth year the 8 percent is reduced to 5 percent off the pre-July 29, 2012 "baseline" rates.
- The fifth year the 5 percent is reduced to 4 percent off the pre-July 29, 2012 "baseline" rates.
- This provision is conditioned upon the reductions being applied to all employees, including management.

### **(P) Health & Welfare**

- Employees currently covered under a Company-administered plan will be covered under the changes in Appendix 1 of the LOU. Retiree coverage is not included.
- Employees covered under Taft-Hartley plans (union-administered plans) will reduce the Company's contributions by 17 percent or modify the benefits to reduce the cost or pass it on to the members.
- For employees in Taft-Hartley plans the Company agrees to increase contributions up to 9 percent per year for the duration of the LOU to maintain new level of benefits.



## **(Q) Pension**

- The Company will work to provide for reentry of Hostess into Teamster Pensions Funds but those Funds must adopt a “New Employer Pool” that shields Hostess from past withdrawal liabilities (an obligation to pay for unfunded obligations that the fund owes).
- The New Employer Pool must include amendments that minimize Hostess’s exposure to future withdrawal liabilities and uncertainty by providing Hostess the ability to exit a particular fund if one of a number of events occur (see (2) b i- viii).
- If a Fund does not adopt the modifications then participants would be moved into a “Fall Back” Fund. A “Fall Back” Fund is one of the funds the company participated in prior to August 2011, is not in critical status, and has adopted the necessary amendments.
- In the event no fund has approved the listed modifications, or the PBGC hasn’t approved the amendments and there are no eligible Fall-back funds, the company will contribute to a company operated, jointly trustee meaning company and union would each have representation – defined contribution plan with 401(k) features.
- Alternatively, we have an ability to substitute a Teamster-sponsored DB plan that does not require PBGC approval, increased liability and other features that we believe the named plan is capable of meeting.
- The company will resume pension contributions at 25 percent of the July 2011 levels in January 2015. That contribution could increase up to 30 percent if the company meets certain profitability targets.

## **(R) Shared Sacrifice**

- The Company commits to the principles of shared sacrifice. Disputes over the commitment to shared sacrifice are subject to the grievance procedure on an expedited basis. Monetary damages up to \$5 million can be awarded to affected Teamster Hostess members.

## **(S) Governance**

- New board of directors consisting of 8 outside directors and the CEO.
- Unions get to select two of the 8 directors (Teamsters nominate one of those two).

- Company will immediately begin to recruit a new CEO and supplement existing management team as necessary.

## **(T) Merita**

- IBT will support the sale of the brand Merita in the likely event the company attempts to sell that brand and associated facilities.

## **(U) Administrative Claim Concessions**

- Advisors, 503b9 claimants, and the Union waive certain administrative expense claims that they may have. Administrative claims are debts incurred by the company after the filing of bankruptcy and are entitled to payment ahead of general unsecured claims but not ahead of secured claims.

## **(V) Capital Structure**

- Company will have the following outstanding debt: A new Asset Backed Loan (ABL); reworked 1st Lien Term Loan (level); and slightly reduced 3rd Lien Term Loan.
- The 4th Lien Term Loan, pre-petition creditors, unsecured creditors and equity holders received no recovery.
- New equity holders will be the 3rd Lien Holders at 75 percent and the collectively bargaining employees at 25 percent.

## **(W) Excess Liquidity at Closing**

- To the extent the company has liquidity in excess of a specific amount, such excess liquidity, if any, will be used to satisfy advisor fees and 503b9 claimants who were not paid in full in cash pursuant to Provision U, as well as additional cash payments to the first lien holders.

## **(X) Chapter 11 Plan**

- For the company to emerge from bankruptcy it must have a plan of reorganization that is accepted by a requisite number of creditors and approved by the bankruptcy court. This provision details specific terms that the company’s plan of reorganization must include. The terms included in this provision are standard in bankruptcy documents.



### **(Y) Implementation of Agreements**

- The concessions will take effect on the first Sunday following ratification.
- If the company has not exited bankruptcy within 120 days following the date of ratification and the company is not working diligently to achieve its plan of reorganization and exit from bankruptcy then the concessions granted revert back to their original terms.

### **(Z) Transfer of Company Title or Interest**

- This is a successorship clause where the jobs of workers and their right to be represented by the Teamsters are protected in the event all or a part of the business is sold, but does not guarantee the employees will be covered under their existing contracts or employed under the same terms and conditions.
- Any transaction involving Merita is exempted from this provision.

### **(AA) Transfer of Brands**

- The company is obligated to provide written notice of the existence of a bargaining relationship to any entity that receives the right to produce a product under the name of any of the Company's current or future brands.
- The Merita brand is exempted from this provision.

### **(BB) Plant Closures**

- For a period of six months the company will seek to avoid closing any plant of facility covered by this LOU.
- In the event the Company desires to close any plant or facility it must provide the union with 30 days prior notice and consult with the union to minimize the adverse impact on affected workers.
- Merita facilities are exempted from this provision.
- Nine other facilities are also exempted from this provision on the following time frame – 3 in the first year of the agreement, 3 in the second year (total of 6) and additional 3 (total of 9) in years 3 through 5.

### **(CC) Information Sharing**

- The National Negotiating Committee will have access to critical financial information going forward to monitor the company's progress post bankruptcy.

### **(DD) 1113 Waiver**

- Prohibits the Company from attempting to file an 1113 motion to set aside the labor contracts in the context of the current bankruptcy.

### **(EE) Accountability**

- Company agrees that it needs to be more accountable on operational and contractual compliance going forward and will work with the union on mutually agreeable solutions to achieve better accountability.

### **(FF) Miscellaneous**

- Company and the Teamsters will establish a joint committee to meet and confer on new products and share information.
- Company will retain an industry consultant to provide an annual report on distribution, routes sales and its position in the market place.
- Company must share modified agreements with its major unions.

### **(GG) Other Provisions**

- All provisions of the Modification Agreement, Long-Term Extension Agreements and Local Union CBAs remain intact unless modified or changed by this LOU.

### **(HH) Definitive Documentation**

- The terms contained in this LOU will supersede any contradictory language contained in the CBAs, Extension Agreements, Side Agreements or the Modification Agreement.

### **(II) Term**

- The Modification Agreement and the collective bargaining agreements are hereby extended for 5 years following ratification of this LOU and 10 years for all pension structural modifications excluding contribution levels.