

# IBC-IBTNNC

*Interstate Brands Corporation – International Brotherhood of Teamsters  
National Negotiating Committee*

25 Louisiana Avenue, NW, Washington, DC 20001



## MEMORANDUM

**TO: All IBT Local Unions Signatory to Collective Bargaining Agreements with Interstate Brands Corporation (aka Hostess Brands)**

**FROM: Interstate Brands Corporation-International Brotherhood of Teamsters National Negotiating Committee**

**DATE: April 11, 2011**

**RE: Interstate Brands Corporation's Proposed Letter of Understanding**

Since Interstate Brands Corporation emerged from Chapter 11 bankruptcy protection in February of 2009, more than 7,500 Teamsters covered by 180+ labor contracts with IBC have worked under the 2008 IBC - IBT Modification Agreement. The Company has made some change over the past two years, in operations, the markets it serves, and products it offers. Last year, IBC hired a new CEO, Brian Driscoll, who has experience in the baking industry and who has taken on many challenges facing this Company. Based on Teamsters' recommendations, IBC also re-entered the southern California market and reportedly is moving toward pre-exit levels of business there. And, the Company has developed a new healthy product line, called "Nature's Pride," which has been well received by consumers.

Unfortunately, these actions and others have not been sufficient to achieve profitability at IBC, according to Mr. Driscoll. The Company, as with most other bakeries, continues to struggle with rising materials and fuel costs, and a changing consumer attitude toward bakery products. Consequently, the Company has shuttered two bakeries (Akron, Ohio and Jamaica, New York) and consolidated other operations, reducing its former 9 "Profit Centers" to 4 "Business Units." Recently, in an unprecedented move Brian Driscoll addressed members of the Conference Policy Committee. There, he formally requested help from the Teamsters in an effort to bring IBC back to profitability. Mr. Driscoll represented to us that if the Company is given flexibility on certain operations, IBC's investors would infuse additional capital that the Company desperately needs for ongoing operations.

Specifically, the Company has proposed a **Letter of Understanding** that, if ratified by Teamsters members, would change the 2008 IBC - IBT Modification Agreement, current Long-Term Extension Agreements ("LTEA's"), and those collective bargaining agreements in place with IBC. There were

several early versions of this document, and with input from Policy Committee members, from IBT executive staff and from legal counsel, the final proposed document is attached.

The changes requested would, according to IBC, provide it with operational savings to meet the demands of competition by: (i) allowing the limited use of Casual Transport Drivers, (ii) allowing distribution to third parties of “hybrid” Hostess cake products that are clearly distinguishable from the traditional Hostess brand, with a 3% commission to be paid to affected RSRs, (iii) allowing the Company to expand ‘combo’ bread and cake routes, and ‘combo’ pull-up flexibility, and (iv) raising the ‘drop-and-go’ weekly maximum from \$100.00, to \$150.00.

You should know that the Company initially asked for a second wage concession, as well as a six-month ‘holiday’ on all pension contributions to Teamsters pension plans, both of which were immediately rejected by the Union. Instead, the Company identified certain items as possible alternatives to help IBC financially, and Driscoll said these proposed changes are needed for IBC’s investors to provide additional capital to the Company. After the CEO’s presentation to the Policy Committee, the Committee discussed at length the contract changes requested and adopted a Resolution endorsing in principle the proposed **Letter of Understanding**, and recommending it to the IBT General Executive Board for referral to the general membership for a ratification vote.

The parties agreed that an independent financial consultant acceptable to the Union should be hired to: (i) verify the Company’s current financial condition and the need for changes to the Modification Agreement, (ii) report on the sufficiency of the new capital infusion to be arranged by the Company, and (iii) verify the consummation of the new capital once made, before any such changes under the **Letter of Understanding** are implemented. That verification process began last week by Locker Associates, Inc., a highly respected independent financial consulting firm in New York. After a review of Company financial records and interviews with executive management at IBC, including CEO Brian Driscoll, Mr. Locker reported this week his preliminary findings that:

*“The Company’s cash position has been deteriorating over the last 12 months. While management expects to generate additional cash through the sale of assets, this will only generate a limited amount of relief and cannot be looked to as a real solution. The Company’s investors have made it clear they will not inject additional needed cash into the Company unless the proposed labor modification agreement is ratified. The Company has presented sufficient evidence that the proposed labor modifications will generate cash improvement on an annualized basis when fully instituted. Most importantly, the proposed labor modifications should allow the Company to recapture some lost business and generate new business that should contribute to improved revenue and income over the next year. This move should generate the most amount of money of all the Company’s planned initiatives. Without the labor modifications the Company proposed, the serious condition in cash deterioration could reach a dangerous level, threatening the short-term viability of the Company. Therefore, in our opinion the proposed labor modification agreement is a necessary step for securing Hostess’ short-term viability.”*

Based on the foregoing, the IBC - IBT National Negotiating Committee recommends adoption of the proposed **Letter of Understanding** to all affected IBT Local Unions and members. We are fully aware that this is not what anyone wants to hear two years after IBC’s exit from bankruptcy. But given the alternatives presented to the Company of not receiving an immediate influx of new capital, the Committee understands why IBC approached the Teamsters. If Teamster IBC employees vote to ratify these changes, it will demonstrate once again your commitment to work with this Company in its quest to re-emerge as a leader in the nation’s bread and snack cake industry.

Fraternally yours,

IBC-IBT National Negotiating Committee, by:

**Dennis Raymond**, International Director, IBT Local Union 677

**Dave Dudas**, Chairman, IBT Local Union 52

**Hector Fernandez**, IBT Local Union 63

**Jeff Padellaro**, IBT Local Union 633

**Brian Meidel**, IBT Local Union 734

**Tyronne Brewster**, IBT Local Union 769

**Dean Modecker**, IBT Local Union 455

**Mike DeBuck**, IBT Local Union 289

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