

# IBC-IBTNNC

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

25 Louisiana Avenue, NW, Washington, DC 20001



## Teamster Leaders Overwhelmingly Approve Changes to Contract

**Wednesday, April 13, 2011**

Leaders of local unions representing workers at Interstate Brands Corporation/Hostess voted nearly unanimously today to endorse an agreement with IBC/Hostess making modifications to the contract.

**“When presented with the facts, the National Negotiating Committee, the Bakery Conference Policy Committee and representatives from locals all felt it was necessary for us to consider these changes. We recommend ratifying these modest changes to best protect your job security. If ratified, these changes will improve operation and profitability. I urge all our IBC members to adopt the recommendations.”**

*Dennis Raymond,  
Director of the Bakery and Laundry Conference*

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 needed 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.

In the wake of today's vote, ballots will be mailed out on or about Friday, April 22, and ballots are scheduled to be counted on or about May 17. Call your local union for information about a meeting in the coming days where you can learn more about the plan.

Additional information will be posted at [www.teamster.org](http://www.teamster.org) as it becomes available.

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

# Summary of the Proposed Letter of Understanding to the 2008 IBC- IBT Modification Agreement between Interstate Brands Corporation and Local Union Affiliates of the International Brotherhood of Teamsters

The following summarizes the **Letter of Understanding** that has been proposed by Interstate Brands Corporation and would, if ratified by the Teamsters membership, apply to employees covered by bargaining agreements with the Company and amend the 2008 IBC – IBT Modification Agreement. Please refer to the **Letter of Understanding** itself for complete details.

## A. Use of Casual Transport Drivers

- **Casuals.** Casual Transport Drivers (who must be Teamsters) may be used to fill in for regular full-time drivers absent due to illness, unscheduled absences or to run extra loads, without a weekly pay guarantee but with an 8-hour minimum daily guarantee. If ‘trip rates’ are used, the Casual Transport Driver will be paid “trip rate pay” or eight (8) hours pay, whichever is greater. The Company is not required to give advance layoff notices to Casual Transport Drivers.
- **Benefits.** Benefits for Casual Transport Drivers will be as follows: (i) Health and Welfare and Pension contributions will be paid for the full week if the employee works 3 or more days in a week; otherwise, contributions will be made only for the days worked in that week, unless applicable trust fund rules require otherwise; vacation, holidays or personal days will be pro-rated at year’s end based on actual time.

## B. Trip Pay Conversion and Transport Schedules

- **Trip Pay.** The formula for “Trip Pay” conversion will be 90% of the posted speed limit, except for metro areas where 30 MPH will be used within a 30 mile radius, with further details to be worked out with affected Local Unions on time studies, or by mutual agreement; pre and post trip will allow 30 minutes each; fueling will allow 15 minutes for each tank; two 15 minute paid breaks, and one 30 minute unpaid lunch break will be allowed; load and unload time at bakeries and depots will be paid at 90 minutes for full trailers, and 45 minutes for half trailers or less; transport schedules will be posted by 12:00 noon on Thursday of each week, for the following week’s dispatch schedule, and changes are limited to no more than 2 hours; bid changes of more than 2 hours will be furnished to Stewards and Local Union no less than 2 weeks prior to the change, and shall require rebidding of runs from that driver’s seniority down.
- **Unresolved Issues.** IBC agrees to meet with Local Unions to resolve any local issues regarding the new runs or the formula used to build the runs; any unresolved issues will be subject to the Local Union’s grievance procedure.

## C. Third Party Distribution (Hostess Cake Only)

- **Outside Distributors.** The Company may use outside distributors or wholesalers to distribute a hybrid line of Hostess cake

products (not bread) that is graphically different from, and with different bar codes so as to insure easy visual identification as different from, main line Hostess cake products.

- **New Customers.** Customers covered by this distribution method are limited to those not currently serviced by Teamsters (except Vending), and would fall into one of two groups: (1) Group A: Up and Down the Street Accounts (i.e. small convenience stores, gas stations, independent food stores, and ‘mom and pop’ accounts); and (2) Group B: Vending. Each quarter, the Company will meet with the Union to identify those accounts in Group A whose sales exceed \$150.00 per week; if requested by the Union, any such accounts will be transferred to the RSR operation. If a Vending customer who is currently serviced by a Hostess RSR decides to purchase hybrid Hostess products under this distribution method, the affected RSR will receive 26 weeks of commissions on lost business.
- **Transport.** All Hostess hybrid products will be shipped by Teamsters Transport Drivers (including Casuals) and/or delivery drivers covered by the Modification Agreement, but the Company may use any other method of delivery allowed by a local collective bargaining agreement.
- **Commissions to Teamsters.** The Company will pay 3% of the net sales on all hybrid Hostess business done through Group A and Group B customers above, which funds will go to a Cake and Combo RSR ‘pool’ to be distributed equally among all Cake RSRs and Combo RSRs on a quarterly basis.

## D. Combination Routes

- **Company Choice.** Where prohibited, restrictions on allowing the Company to sell bread and cake products on separate routes are relaxed; if the Company elects to merge both bread and cake routes in a particular locale, it will meet with the affected Local Union(s) to work out all seniority issues.

## E. Pull-Up & Loader Flexibility

- **Teamsters to Perform.** Where Teamster bargaining unit employees currently perform pull-up work, they shall perform pull-ups on both bread and cake (no separate bread/cake pull-up work. Where there are separate bread and cake pull-up seniority lists, those lists will be dovetailed for the purpose of pull-up work; any outstanding issues will be worked out with the affected Local Union(s). Any contractual restrictions on allowing the Company to assign Teamster loaders to handle bread, cake or a combination of both are also relaxed. All seniority issues will be worked out with the affected Local Union(s).

## F. Drop N Go

- **Higher Weekly Maximum Allowed.** Appendix B of Paragraph 8 of the Modification Agreement limits the Company to deliver branded product by a drop-and-go method only to small customers less than \$100.00 maximum weekly sales; this maximum dollar amount has been increased to \$150.00 per week.

## G. Commission Pay

- **Commissions on Net Sales.** As is the current practice, RSRs receive commissions on the net price charged to customers, including subsequent adjustments for promotional bill-backs. The Company will input to get this current practice in hand-held computers.

## H. Joint Labor-Management Committee to Monitor and Maintain Compliance

- **Teamster Reviews of IBC Operations.** A Joint Labor-Management Committee, comprised to 2 members appointed by the Union and 2 members appointed by the Company, will meet quarterly to review: (i) the progress of, and means to improve, the operational changes provided in Paragraphs

A through G above, (ii) grievances deemed by any Committee member to be appropriate for discussion and possible resolution, and (iii) a business results presentation prepared by the Company regarding its year over year performance, that will be maintained in strict confidence.

- The Joint Labor-Management Committee also will work to resolve, or otherwise expedite, grievances that arise through the Long-Term Extension Agreements or the 2008 IBC – IBT Modification Agreement.

## I. Other Provisions

- **Effect on Existing Agreements.** Unless modified by this Letter of Understanding, all provisions of the Modification Agreement, all Long-Term Extension Agreements, and all Local Union collective bargaining agreements shall remain intact for the respective terms of such agreements. Any disputes regarding the application of, or interpretation of, the Letter of Understanding shall be settled through the arbitration procedures set forth in Paragraph O of the Modification Agreement.

**Dated: April 11, 2011**

**A “Tele Town Hall” conference call will take place on Thursday, April 21 at 6:00 p.m. ET, for members to get more information. The call in number is 877-229-8493, Access Code 14111.**