

LETTER OF UNDERSTANDING

This Letter of Understanding, dated April 2011, is entered into by and between the IBC-IBT National Negotiating Committee for the Local Unions affiliated with the International Brotherhood of Teamsters (the “IBC-IBTNNC” and, collectively, the “Unions”) covered by the October 10, 2008 IBT-IBC Modification Agreement (the “Modification Agreement”) and Interstate Brands Corporation (“Hostess Brands” or the “Company”), their successors and assigns.

WHEREAS, the parties understand that due to the nature of the Company’s competition there is a need for greater flexibility to be and remain competitive in bakery markets, and

WHEREAS, the Company has proposed several changes to the Modification Agreement, and the Company has submitted that if these changes are acceptable to the Unions, the Company will arrange and infuse new capital, and

WHEREAS, the Company has agreed that the Joint Labor Management Committee hereinafter created may retain a financial consultant, at the Company’s expense (such expenses to be reasonable and customary) for the limited purpose of (i) verifying the Company’s current financial condition and need for the changes to the Modification Agreement, (ii) the sufficiency of the new capital infusion to be arranged by the Company and (iii) verifying the consummation of the new capital once made, and

WHEREAS, the parties have already agreed in the Modification Agreement to relax jurisdictional boundaries in order to run a more efficient transport network.

The following changes and related provisions in (A) and (B) below are needed to make the Transport operation run more efficiently:

(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. In such cases, the weekly guarantee shall not apply to such Casual Transport Drivers, but they shall receive a minimum eight (8) hour daily guarantee. If the Casual Transport Driver is paid “trip rate pay”, they shall be guaranteed the run or extra load available that day or eight (8) hours’ pay, whichever is greater. Further:

- (1) Casuals must be Teamsters
- (2) Casuals will not be subject to layoff notices
- (3) Health & Welfare & Pension contributions will be made for casual drivers as follows: If an employee works three (3) days or more in a week, the Company will make contributions as if the employee worked the entire week. If the employee works less than three (3) days in a week the Company will only make contributions on the days worked unless fund rules require otherwise. (details to be worked out with the affected locals)
- (4) Casual’s other benefits such as vacations, holidays or personal days shall be pro-rated at years’ end based on actual time.

(B) Trip Pay Conversion and Transport Schedules

(1) The formula used for Trip Pay will include the following:

- a. Trip pay to be used on 90% of posted speed limit except for major metro areas – where 30 MPH will be used within a 30 mile radius of such area (details to be worked out with the affected locals based on time studies or mutual agreement).
- b. Pre and post trip 30 min. each
- c. Fueling – 15 minutes per tank
- d. Two 15 minute paid breaks for the first 8 hours plus one 30 minute unpaid lunch period. After the 10th hour, the driver will qualify for another 15 minute break.
- e. Load/unload time paid at bakeries or depots will be paid at 90 minutes for full trailer and 45 minutes for half or less.
- f. All issues regarding bid runs or any changes covered hereunder shall be resolved through the affected Local's grievance procedures.
- g. Bid changes of more than 2 hrs. will be furnished to the shop stewards and unions no less than 2 weeks prior to such changes. Bid changes of 2 hours or more shall require rebidding of runs from that driver's seniority down.
- h. The Company agrees to meet with the Union to resolve any issues regarding the new runs or the formula used to build the runs. Any unresolved issues will be subject to the affected Local's Grievance Procedure.

(2) Transport schedules will be posted by 12 noon Thursday each week for the following week's dispatch schedule. Changes are limited to no more than 2 hrs.

(C) 3rd Party Distribution (cake only)

- (1) The Company may utilize distributors, wholesalers ("distributors") to distribute a Hybrid line of Hostess products.
- (2) The product distributed in this channel of business will be graphically differentiated, and shall have different bar codes so as to ensure easy visual identification as different from main-line Hostess.
- (3) The customers covered by this distribution shall be limited to customers who are currently not being serviced by any Teamster covered by the Modification Agreement (except Vending). The potential cake customers would fall into two groups:

- (i) Group A: Up and Down the Street Accounts (small convenience and gas, independent food stores and mom and pop accounts).
 - (ii) Group B: Vending
- (4) Quarterly, the parties will meet over Group A accounts and will work to identify stops that regularly do over \$150.00 per week. The Union will have the right to request the transfer of such business to the RSR operation and the Company will comply within 90 days.
 - (5) Should a vending customer who is currently being serviced by a Hostess RSR, decide to discontinue DSD service in favor of purchasing Hybrid Hostess products through a distributor, the RSR so affected will receive a 26-week wage guarantee.
 - (6) All of the hybrid product will be shipped from the bakery or designated Company facility by Teamster transport drivers and/or delivery drivers covered under the Modification Agreement. Notwithstanding the previous sentence, the Company may use other methods of delivery providing such methods of delivery are not prohibited under the Local CBA.
 - (7) The Company will pay 3% of the net sales, on all hybrid Hostess business done through the aforementioned "A" and "B" customers. These funds will go into a Cake and Combo RSR pool to be distributed equally amongst all Cake and Combo RSRs on a quarterly basis.
 - (8) Any violation of this 3rd party distribution article will be dealt within 72 hours of the Union filing such grievance and a curing remedy shall follow within 1 calendar week.

(D) Combo Routes

Where currently prohibited, any restriction on allowing the Company to sell bread on its cake routes or cake on its bread routes is relaxed. Upon the Company electing to merge both cake and bread the company will meet with the affected local or locals to work out all seniority issues.

(E) Pull-Up Flexibility

The bargaining unit employee shall perform both bread and cake pull-up work as directed. Where there is currently a separate bread and cake pull-up, seniority lists will be dovetailed for the purpose of pull-up work. Any outstanding issues will be worked out with the affected local or locals.

(F) Loader Flexibility

Any restriction on allowing the Company to assign Teamster loaders to handle bread, cake or a combination of both is relaxed. All seniority issues to be worked out with the affected Local or Locals.

(G) Drop N Go

Change Appendix B Paragraph 8 method of delivery of the Modification Agreement from \$100.00 to \$150.00 maximum weekly sales.

(H) Commission Pay

RSRs to receive commissions on the net price charged to the customer including subsequent adjustments for promotional bill-backs. The Company will continue to work to get this modification in the hand-held. This understanding does not affect Locals that are presently paid on gross sales.

(I) Joint Labor-Management Committee to Monitor and Maintain Compliance

The Committee will meet quarterly. The Committee will consist of two (2) persons appointed by the Company's CEO and two (2) persons appointed by the Union's Director of the Bakery Conference. The Committee will review: 1) the progress of, and means to improve, the operational changes provided in paragraphs A-G, 2) grievances that are deemed by a member of the Committee to be appropriate for discussion and possible resolution. The deadlocked cases will be promptly referred back to the local parties for handling or be handled under the arbitration procedure from the Modification Agreement in an expeditious way; 3) a business results presentation prepared by the Company regarding the Company's year over year performance that, the parties agree, will be maintained in the strictest confidence so that the business and competitive interests of the Company are fully protected.

(J) Other Provisions

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

Agreed to pending ratification by the affected Teamsters membership in accordance with the IBT Constitution, this _____ day of _____, 2011.

IBC-IBT National Negotiating Committee
for the Local Unions Affiliated with the
International Brotherhood of Teamsters, by:

For the Company, by:
