

# Judge Rules Hostess Must Maintain Teamsters Union Contract

by Joel R. Glucksman on May 18, 2012

A recent court ruling will prohibit Hostess Brands Inc. from terminating its union contract with the Teamsters, a move that will impact the company's strategy for emerging from its second bankruptcy.

Since the company filed for bankruptcy protection in January, Hostess and the Teamsters have been unable to reach a consensus regarding a pre-bankruptcy collective bargaining agreement. The company has been attempting to resolve its collective bargaining agreements as a cost-cutting measure to avoid liquidation.

The company recently created a final contract proposal to be presented to the Teamsters in hopes that, utilizing bankruptcy law, the proposal would replace the current contract. Although Bankruptcy Judge Robert Drain allowed the company to reject labor agreements with other unions, he highlighted several issues in Hostess's most recent contract proposal to the Teamsters and said he hoped the dispute between the company and the Teamsters could be settled outside of bankruptcy court.

The Hostess contract proposal would slash employee benefits and stop participation in pension plans deemed risky. However, Judge Drain said the proposal would only transfer existing, rather than new, employees into more stable and secure pension plans. Further, a 1 percent difference in pre-tax earnings exists between the Hostess proposal and the current union proposal, a gap that Drain stated could be closed if the company increased its proposed pension contributions.

Both Hostess and the union have said that they will continue to negotiate in the hopes of reaching a compromise that will both protect union workers and allow the company to emerge from bankruptcy.

"While we agree with most of Judge Drain's ruling, we recognize that it doesn't solve Hostess' problems," said Teamsters General Secretary-Treasurer Ken Hall. "Unfortunately we've been bogged down in this legal process instead of trying to reach a resolution that all parties could support. We remain committed to finding a solution and urge the company and its lenders to do the same."

Judge Drain ruled that he would be willing to hear the issue again if his suggestions were implemented in a new Hostess proposal.