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**Hostess, unions agree to mediation**

**Judge pushes parties toward mediation to save more than 18,000 jobs**

November 19, 2012|Reuters

Hostess Brands Inc agreed in court on Monday to enter private mediation with its lenders and leaders of a striking union to try to avert the liquidation of the maker of Twinkies snack cakes and Wonder Bread.

Hostess, its lenders and the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union agreed to mediation at the urging of Bankruptcy Judge Robert Drain of the Southern District of New York, who advised against a more expensive, public hearing regarding the company's liquidation.

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"My desire to do this is prompted primarily by the potential loss of over 18,000 jobs as well as my belief that there is a possibility to resolve this matter," Drain said.

The 82-year-old Hostess was seeking permission to liquidate its business, claiming that its operations have been crippled by a bakers strike and that winding down is the best way to preserve its dwindling cash. Hostess suspended operations at all of its 33 plants across the United States last week as it moved to start selling assets.

Heather Lennox, a lawyer for Hostess, said it would be hard for Hostess to recover from the damage it sustained due to the strike even if an agreement was forthcoming. Yet following the hearing, Hostess Chief Executive Officer Gregory Rayburn told reporters that there was always a chance Hostess could be saved.

"I think we have to see what unfolds," Rayburn said. "My impression is that the judge wants to understand the parties' positions and some of their logic, but it doesn't change our financial position.

"I'm happy to have the help," he added, referring to Drain's mediation following a breakdown of communication between Hostess and the union. "Maybe the judge will help. But can I handicap how it's going to go? No way."

A lawyer for Hostess' creditors' committee declined to comment.

The court-sanctioned mediation could make both sides more willing to give, said Nick Kalm, a communications consultant specializing in labor relations.

"It makes it much more likely that the company will put forward something that is less draconian... and the union will take it. The union realizes they are out of options," said Kalm.

BEHIND CLOSED DOORS

The BCTGM called the strike on November 9 after Hostess sought and won court approval to impose wage and benefit cuts.

Unlike other unions representing workers at Hostess, the BCTGM did not contest Hostess's action -- which allowed it to reject a collective bargaining agreement and impose its offer.

Given the fact that the union did not fight Hostess's motion in court, Judge Drain said it was "somewhat unusual to say the least, and perhaps illogical" that the union would then strike against it.

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"Its an odd approach," Drain said. "Before thousands of people are put out of work it would seem to me worthwhile for both the union and the debtors to explore why that happened."

Drain also questioned whether the union had held discussions with competitors or potential suitors about a shiftover of jobs, saying the union's response to Monday's motion implied that it sees "meaningful sales available out there beyond the piecemeal sales that this motion contemplates."

A lawyer for the union did not immediately return a phone call seeking comment on whether such discussions had taken place.

BUYERS MAY EMERGE

Analysts have said Hostess' brands, which also include Nature's Pride, Dolly Madison and Drakes, are expected to draw interest from rivals including Flowers Foods, Pepperidge Farm owner Campbell Soup Co and Mexico's Grupo Bimbo.

Brian Boyle, a food industry investment banker at D.A. Davidson & Co, said it was hard to gauge the value of the Hostess assets, given that there are a lot of plants that are old and inefficient.

"The other wild card is whether you're going to see different buyers emerge for different segments of the business. So Flowers Foods, for instance, might want the cake segment and Bimbo could want the bread piece. So it comes down to 'are the parts greater than the whole?'," Boyle said. "In either case, significant labor and benefits concessions will be required."

Private equity firm Metropolous & Co said on Friday it was interested in pursuing the company, and on Monday, Fortune reported that Sun Capital Partners was interested. Sun Capital did not return a call seeking comment.

The company did have a potential white knight at one point, according to Hostess. Last spring, an outside equity investor had made a viable proposal that would help the company reorganize, it said, but the Teamsters union refused to agree to changes to the pension program and the outside investor walked away.

The company spent the summer and fall negotiating with all of the 12 unions trying to find a common path to reorganization, and did gain certain agreements with the Teamsters and many of the other unions, though not the BCTGM. At the same time the company started putting together a liquidation plan.