Judge Asks Hostess To Mediate With Union

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WHITE PLAINS, N.Y. (AP) — Twinkies will live to see another day.

Hostess Brands Inc. and its second largest union agreed on Monday to try to resolve their differences after a bankruptcy court judge noted that the parties hadn't gone through the critical step of private mediation. That means the maker of the spongy cake with the mysterious cream filling won't go out of business yet.

The news comes after the maker of Ho Ho's, Ding Dongs and Wonder Bread last week moved to liquidate and sell off its assets in bankruptcy court. Hostess cited a crippling strike started on Nov. 9 by the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union, which represents about 30 percent of Hostess workers.

"Many people, myself included, have serious questions as to the logic behind this strike," said Judge Robert Drain, who heard the case in the U.S. Bankruptcy Court in the Southern District of New York in White Plains, N.Y. "Not to have gone through that step leaves a huge question mark in this case."

The mediation talks are set to take place Tuesday, with the liquidation hearing set to resume on Wednesday if an agreement isn't reached. Jeff Freund, an attorney for the bakers union, said any guess as to how the talks will go would be "purely speculative."

In an interview following the hearing, Hostess CEO Gregory Rayburn said that there is enormous financial pressure to come to an agreement with the union by the end of the day Tuesday.

He noted that it's costing Hostess about $1 million a day in payroll costs alone to stay alive, with the money mostly going toward management to unwind the company. About 18,000 workers were sent home Friday after the company shuttered its 33 plants, meaning no sales are being generated.

"We didn't think we had a runway, but the judge just created a 24-hour runway," said Rayburn, who added that even if a contract agreement is reached, it's unclear whether all Hostess plants will get up and running again.

Hostess, weighed down by debt, management turmoil, rising labor costs and the changing tastes of Americans, decided on Friday that it no longer could make it through a conventional Chapter 11 bankruptcy restructuring. Instead, the company, which is based in Irving, Texas, asked the court for permission to sell its assets and wind down its business.

The company, which is in its second bankruptcy in less than a decade, had said that

it was saddled with costs related to its unionized workforce. It brought on Rayburn as a restructuring expert in part to renegotiate its contract with labor unions.

Hostess, which had been contributing $100 million a year in pension costs for workers, offered workers a new contract that would've slashed that to $25 million a year, in addition to wage cuts and a 17 percent reduction in health benefits. The baker's union rejected the offer and decided to strike.

By that time, Hostess had reached a contract agreement with its largest union, the International Brotherhood of Teamsters, which urged the bakers union to hold a secret ballot on whether to continue striking. Although many workers in the bakers union decided to cross picket lines this week, Hostess said it wasn't enough to keep operations at normal levels.

Rayburn said that Hostess was already operating on razor thin margins and that the strike was the final blow. The bakers union said the company's demise was the result of mismanagement, not the strike. It pointed to the steep raises executives were given last year as the company was spiraling down toward bankruptcy.

The company's announcement last week that it would move to liquidate prompted people across the country to rush to stores and stock up on their favorite Hostess treats. Many businesses reported selling out of Twinkies within hours and the spongy cakes turned up for sale online for hundreds of dollars.

Even if Hostess goes out of business, its popular brands will likely find a second life after being snapped up by buyers. The company says several potential buyers have expressed interest in the brands. Although Hostess' sales have been declining in recent years, the company still does about $2.5 billion in business each year. Twinkies along brought in $68 million so far this year.

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