



Written by [Bob Adelman](#) on April 16, 2012

Hostess to Unions: No More Sugar for You

Ripplewood Holdings, the private equity firm that [holds controlling interest](#) in Hostess, said it won't invest any more money into the company unless the unions renegotiate the pension plan obligations. Hostess' president, Gregory Rayburn, said that the company "is not competitive, primarily due to legacy pension and medical benefit obligations and restrictive work rules," and so he's demanding that the unions reduce the company's obligations, currently at more than \$100 million a year, to just \$25 million. The unions aren't budging, and the case is going to court on Tuesday, April 17, where the matter will be settled. There is a possibility for a settlement, but if the court supports the company, the unions have promised to go on strike. That, according to Rayburn, will force Hostess to liquidate and go out of business.



That will also end the unions' claims and leave the members out of work.

The last time Hostess declared bankruptcy in 2004, it took nearly five years to settle, and the union finally acquiesced, taking some equity in the company in exchange for pension liabilities. This time the unions appear to be ready to accept the worst. One Hostess worker said, "We understand that, should we [the union] pursue some form of legal action [i.e., a strike] to require the company to live up to the terms of the contract, they may close, but we have come to believe that they will close anyway."

In the event of a liquidation of the company, the unions and its members would likely get stiffed. First to be paid out of any proceeds from the liquidation would be debtors, which include General Electric, Monarch Alternative Capital, and Silver Point Capital. The unions would receive whatever is left, if anything, while Ripplewood would lose all of its equity in the company.

Hostess has struggled for years in the face not only of union pension demands but increasing competition from competitors like Krispy Kreme and the Atkins diet plan. In 2009, it [closed nine of its 54 bakeries](#) and more than 300 of its retail stores. It began cutting its workforce, then at about 32,000, down to less than 20,000 today. The latest available numbers show the company with revenues of nearly \$3 billion annually, but losses exceeding \$150 million yearly and negative equity of \$500 million.

The unions have few options. The bankruptcy court can rule against the unions, forcing them to accept much lower contributions from the company and more freedom by the company to operate more efficiently. Or the union workers can strike, essentially ending the matter permanently. The union workers are going to have to decide either to take lower benefits, or none at all.

The parallels to the General Motors bankruptcy are striking and instructive. GM was in the same place as Hostess, unable to meet its pension and healthcare obligations, and was likely headed for bankruptcy



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court when the Obama administration intervened. The bondholders were wiped out, those holding stock in GM saw their investments essentially go to zero, while the union took over some stock in the new GM. The unions, then, faced with reality, did what they were told and are hoping for a rebound by GM to make those paper promises good.

The winners are few if Hostess is forced to liquidate: The company's employees will need to find other work along with the company's top executives. The unions will have suffered another dose of reality. The only ones left standing will be the top union executives who, [according to Gary North](#), will, for a while at least, "see to it that their bread is buttered before the bread of [the union members]." North added,

The biggest losers over the next two decades will be pensioners. There is no group in the United States that is as vulnerable as pensioners, and there is no group that is less likely to be able to maintain its income.

It's too bad that so many of them bought into the lie that unions, like parasites, could continue to extract overly generous benefits without ultimately negatively impacting the economic future of their hosts.

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