

US bankruptcy judge approves \$1.75 million in bonuses for Hostess executives

By David Walsh
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A federal bankruptcy judge in White Plains, New York, Thursday granted approval to bonuses of \$1.75 million for Hostess Brands executives as they organize the liquidation of the company.

The shutting down of Hostess's operations means the destruction of 18,500 jobs and the closure of 33 bakeries, 565 distribution centers, some 5,500 distribution routes and 570 outlet stores scattered across the US. Many smaller communities will be devastated by the actions.

However, Judge Robert Drain saw fit to agree with Hostess management that 19 executives deserved extra compensation as they wind down the company they helped to drive into the ground.

The justification given by Hostess for the bonuses is that top-quality people are necessary "to expeditiously and cost-effectively execute the Winddown Plan and control costs to maximize value for the Debtors' creditors." Because of the plan's "challenges and complexities, it will be critical for the Debtors to motivate and encourage the Senior Management Employees."

Responding to ineffectual objections from attorneys for the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union to the bonus plan, Drain argued that the liquidation work would call for effort "significantly beyond the type of jobs that [the executives] were doing at the start of this case," and termed the incentive plan "an exercise of proper business judgment."

The *Wall Street Journal* noted that "The management bonuses would total about 25 percent to 75 percent of the managers' annual base salary and are in lieu of bonuses they would ordinarily receive." CEO Gregory Rayburn, not eligible for a bonus, is currently earning \$125,000 a month, or \$1.5 million a year.

An attorney for Hostess, Heather Lennox, "stressed that the company was distributing bonuses to other workers too," wrote the *Journal*. Ms. Lennox said, "This is not a case where we're only looking out for senior management." The 19 executives, if they meet certain criteria, will receive bonuses averaging about \$92,000 a piece. The 3,200 nonsenior managers who remain at Hostess will divide \$4.86 million among them, or an average of \$1,363 each.

The one-time bonus of \$92,000 would be considerably more than a District Sales Manager at Hostess Brands earned in a year before the company's demise (\$52,500), more than twice what a route salesman took in annually (\$41,200) and nearly three times what a bakery outlet clerk made (\$33,688).

In its generosity, the company announced that its lenders had "also agreed to allow it to distribute an extra day's pay to its nonmanagement employees, whether or not they were part of the strike that Hostess says sparked its liquidation. The payments will total \$1 million."

During the hearing Thursday, at which Hostess received final approval for its liquidation, a company attorney said "the company is no longer able to pay retiree benefits, which come to about \$1.1 million a month. Hostess stopped contributing to its union pension plans more than a year ago" (CBS/AP).

Forbes magazine pointed out, "At this point, Hostess has \$1 billion in unfunded pension liabilities. That money won't even begin to be paid until Hostess pays at least \$860 million owed to its secured creditors."

One former Hostess worker, Paul Carroll, 60, spoke at the hearing on Thursday. A former fleet mechanic, Carroll had driven 12 hours from Fort Thomas, Kentucky. According to CNNMoney, "He said every move the company's previous management made

'brought us down further,' calling for Hostess to make good on its millions in outstanding pension obligations to employees."

Speaking of the proposed bonuses, an "outraged" Carroll told ABC News, "Anybody's got a reason to be upset who lost their job, if they're handing out large amounts of money." He also explained, "I was qualified to draw my pension, with no notice I lost about 70 or 75 percent of it. I didn't work 34 years to lose it."

In its account, Associated Press failed to identify Carroll by name. AP reported that toward the end of the hearing, "a man who said he'd worked at Hostess for 34 years stood to give his objections to the wind-down plan, saying creditors shouldn't be given money from brand sales when the company hasn't been paying into workers' pension funds."

"I have traveled pretty far to get here," he said, noting that many of his co-workers weren't aware of the hearing or didn't know how to get there. "I just wanted to be heard."

The judge ignored his comments. Carroll is currently looking for work.

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