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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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	:
In re	: Chapter 11
	:
Old HB, Inc.	: Case No. 12-22052 (RDD)
(f/k/a Hostess Brands, Inc.), <i>et al.</i> , ¹	:
	: (Jointly Administered)
Debtors.	:
	:
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**STATUS REPORT OF THE DEBTORS AND
DEBTORS IN POSSESSION IN RESPECT OF THEIR CHAPTER 11 CASES**

¹ The Debtors are the following six entities (the last four digits of their respective taxpayer identification numbers follow in parentheses): Old HB, Inc. (f/k/a Hostess Brands, Inc. (0322), IBC Sales Corporation (3634), IBC Services, LLC (3639), IBC Trucking, LLC (8328), Interstate Brands Corporation (6705) and MCF Legacy, Inc. (0599).

TO THE HONORABLE ROBERT D. DRAIN,
UNITED STATES BANKRUPTCY JUDGE:

In preparation for the October 1, 2013 status conference regarding these chapter 11 cases requested by the Court, the above-captioned debtors and debtors in possession (collectively, the "Debtors") hereby submit this status report (the "Status Report"), which describes the current status of the Debtors' chapter 11 cases and remaining steps to be taken in respect of these cases.

Background

1. On January 11, 2012 (the "Petition Date"), the Debtors commenced their bankruptcy cases by filing voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). The Debtors' chapter 11 cases have been consolidated and are being administered jointly for procedural purposes only. The Debtors are authorized to continue to operate their business and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

2. On January 18, 2012, the United States Trustee for the Southern District of New York (the "U.S. Trustee") appointed an official committee of unsecured creditors (the "Creditors Committee"), pursuant to section 1102 of the Bankruptcy Code. On January 30, 2012, the U.S. Trustee amended the membership of the Creditors Committee.

3. As a result of strikes initiated or honored by many of the Debtors' unionized workers in early November 2012, many of the Debtors' bakeries were rendered inoperable. As a result, on November 16, 2012, the Debtors filed a motion seeking authority to wind down their businesses and various related relief (Docket No. 1710) (the "Winddown Motion"). After hearings on November 19, 2012, November 21, 2012 and November 29, 2012, the Court entered a final order approving the Winddown Motion on November 30, 2012 (Docket

No. 1871) (the "Winddown Order"). In accordance with the Winddown Order, the Court approved a rolling 13-week budget (the "Liquidation Budget") that provided for the payment of certain fees and expenses required for the liquidation of assets and resolution of these estates. The Debtors are now pursuing an orderly winddown of their businesses and concluding the sales of substantially all of their assets in chapter 11 (the "Winddown").

4. As of the date of this status report, the Debtors are managed by Chief Executive Officer Greg Rayburn and Chief Financial Officer and Treasurer David Rush, who is an employee of FTI Consulting. The Debtors have 20 full time employees and currently utilize the services of approximately 30 outside contractors on a full-time basis (in addition to their retained professionals). Most of these contractors were contractors utilized by the Debtors prior to the commencement of the Winddown and have knowledge of the Debtors' historic operations and systems. Virtually all of the remaining employees and contractors are located in the Kansas City, Missouri area. In addition, the Debtors receive a variety of services from one of the purchasers of their businesses under a transition services agreement, including a portion of the time of approximately 10 of their former employees.

Status of the Chapter 11 Cases

Asset Sale Activity

5. Since the entry of the Winddown Order, the Debtors have worked diligently to pursue an orderly winddown of their businesses and sales of their assets to maximize value for creditors. Following an aggressive marketing campaign led by the Debtors' investment banker, Perella Weinberg Partners, LP, the Debtors entered into purchase agreements to sell a portion of their assets in five major asset sales (collectively, the "Major Brand Sales"). Ultimately, with the closing of the fifth sale in July 2013, the Debtors have been able to obtain approximately \$855 million in gross proceeds through the Major Brand Sales (not including

deductions for transaction fees, property taxes, break up fees and other amounts). Certain of the Major Brand Sales agreements placed post-closing obligations upon the Debtors. Presently, the Debtors are continuing to fulfill these obligations, including completing the documentation of the transfers of various assets, complying with informational requirements, coordinating the pro-ration of utility, tax and other obligations and coordinating the removal of equipment purchased by one buyer that is located upon real property purchased by a different buyer, among other things. In addition, under a transition services agreement, certain of the Debtors' employees perform services for one of the purchasers in the Major Brand Sales, and certain of that purchaser's employees perform services for the Debtors. The Debtors anticipate that post-closing activities relating to the Major Brand Sales should be largely completed by the end of calendar year 2013.

6. The Debtors have also worked to sell their other assets that were not included in the Major Brand Sales. Certain assets, such as intellectual property assets and the Jamaica, New York property, were sold in independent sales. The Debtors also retained Hilco Real Estate, LLC ("Hilco") and certain of Hilco's affiliates to, among other things, market and sell any real estate and personal property assets, including vehicles, that could not be sold as part of the Major Brand Sales (the "Remaining Hard Assets"). Between March 2013 and July 2013, Hilco conducted a number of smaller sales of certain of the Remaining Hard Assets. In addition, following a Court-approved sale process and auction, on August 29, 2013 the Debtors closed a larger transaction pursuant to which the Debtors sold the vast majority of their Remaining Hard Assets for a post-auction purchase price of \$62.51 million in gross sale proceeds. Presently, the Debtors are continuing to fulfill their post-closing obligations with respect to this transaction, including resolving property transfer issues, tax and utility pro-ration issues and other matters.

Moreover, the Debtors and the purchaser of the bulk of the Remaining Hard Assets must resolve the \$1.8 million reserve established under the purchase agreement for property damage issues. The Debtors expect that these matters will be consensually resolved with Hilco and the purchasers of the Remaining Hard Assets by the end of 2013, but it is possible that Court involvement in determining certain of these issues may be required and, in that instance, these matters could continue into 2014.

7. At this time, virtually all of the Debtors' hard assets have been sold. The Debtors own no real property and are operating in space provided on a rent-free basis by one of the purchasers in the Major Brand Sales. Certain personal property assets remain for sale, including 46 rail cars (with an estimated value of between \$500,000 and \$1.0 million) and certain remnant intellectual property (with an estimated value of less than \$300,000). The Debtors expect that sales of these assets will be completed by the end of October 2013.

Paydown of Debt

8. Proceeds of the winddown of the Debtors' businesses and sales of assets (and other activity described herein) have permitted the Debtors to pay in full a majority of their secured debt. As such, as of the date of this Status Report, the Debtors have fully paid: (a) their prepetition asset based lending facility, under which more than \$50 million was owed at the commencement of these chapter 11 cases, (b) their up to \$75 million postpetition debtor in possession financing facility, (c) their \$30 million postpetition Hilco loan, (d) over \$405 million in first lien term loan debt and (e) over \$172 million of third lien term loan debt.² As of the date of this Status Report, the Debtors have paid approximately \$8.2 million to the Fourth Lien Indenture Trustee on account of the fourth lien secured notes. Approximately \$222.6 million in

² All amounts referenced above are amounts owed as of the Petition Date, including accrued interest as of that time, but do not include paid or accrued interest since the Petition Date.

outstanding principal amount of fourth lien secured notes remains unpaid.³ As of September 13, 2013, the Debtors have \$90.5 million in cash in their accounts, of which \$18.3 million is segregated within the Debtors' accounts for specific purposes (such as for property tax payments) pursuant to orders of the Court or otherwise.⁴ As noted by the Debtors at the June 25, 2013 hearing before the Court, the Debtors believe that it is unlikely that they will ultimately be able to pay their fourth lien secured notes in full and, thus, the Debtors anticipate that they will not have funds available for distribution to administrative creditors whose claims are not included in the Liquidation Budget pursuant to the Winddown Order.

Accounts Receivable, Deposit Matters and Related Litigation

9. A number of matters relating to the payment of accounts receivable or the return of deposits provided to the Debtors' vendors, landlords or utility companies remain outstanding.

10. To date, the Debtors have been able to collect the vast majority of their accounts receivable (totaling more than \$105 million in collections since the commencement of the Winddown). While many customer collections matters were resolved after a reconciliation process, and while the Court has approved a number of settlements of accounts receivable matters, a number of open accounts receivable matters are outstanding. In particular, the Debtors are continuing to address approximately 10 larger accounts receivable matters (including separate litigations with Papa Pita and with Kroger, each of which has been commenced in this Court) that the Debtors hope will generate more than \$3 million in proceeds. Moreover, in

³ In addition, because the fourth lien notes are presumed to be undersecured, the Debtors do not expect to make any payments of interest or other amounts. If interest on such notes were payable, accrued interest through September 30, 2013 would total greater than \$30 million.

⁴ As of the date of this Status Report, the Debtors and the Fourth Lien Indenture Trustee are discussing a further pay down of the fourth lien secured notes.

May 2013, the Debtors hired a third party vendor to pursue smaller accounts receivable amounts owed, and transferred over 1,400 separate accounts with balances totaling more than \$2 million in the aggregate to the third party vendor for collection. The Debtors are continuing to monitor the work of this third party vendor, which has been successful in recovering the gross amount of \$126,533 as of September 13, 2013. The Debtors expect that most of this collection activity will be completed by the end of 2013 but that some litigation activity could continue into 2014.

11. After the Petition Date, the Debtors were required, pursuant to section 366 of the Bankruptcy Code, to provide their utility companies with adequate assurance of future performance. Ultimately, the Debtors deposited approximately \$3 million in cash with over 150 different utilities. Now that the real property locations that utilized utility services have all been sold, the Debtors are undertaking the process of seeking to recover these funds or have them applied to final invoices. Over \$2 million in such deposits remained outstanding at the end of August 2013. While the Debtors hope to have this activity completed by the end of 2013, some involvement of the Court could be necessary if utilities refuse to turn over the deposits or other disputes arise. In addition, as of the Petition Date, the Debtors had approximately \$700,000 in security deposits with their landlords. The Debtors have reconciled virtually all of these deposits and believe that most of the amounts that are recoverable have been recovered, but some limited work remains in this regard. Finally, approximately 50 vendors required the Debtors to provide them with deposits after the bankruptcy filing. While more than \$10 million in such deposits have been applied to outstanding bills or have been returned, a handful of vendors hold deposits with an aggregate value of less than \$250,000 that must be recovered consensually or through Court action.

Tax Issues

12. To date, the Debtors have reviewed and analyzed a number of tax compliance, tax planning and other tax matters, including in connection with the Major Brand Sales and Remaining Asset Sales. The two primary matters on which the Debtors are focusing the majority of their tax-related time are with respect to property and sales tax matters and with respect to the preparation of final tax returns. In light of the Debtors' ownership of over 200 parcels of real property (and with personal property located at those locations and hundreds of leased locations prior to closing), the Debtors are subject to property taxes in virtually all 50 states and in many different counties and municipalities within these states. Because property tax liens are senior to liens relating to funded debt obligations in most states, the Debtors have been resolving property tax claims and making payments to taxing authorities in connection with or after the closing of sales of the property to which the taxes relate. A number of these tax claim matters have been settled and others have recently been brought to the Court for resolution. Still other property tax matters relate to appeals of property tax assessments from past years where the Debtors believe they could be eligible for a refund from the taxing authority if the assessed value of the property were to be reduced. The Debtors also are working on filing state sales tax returns and identifying appropriate exemptions that ensure that the Major Brands Sales will be largely exempt from sales taxes. Finally, the Debtors are working with the purchasers of their assets to ensure that appropriate transfer tax returns are filed and transfer taxes paid. The Debtors have significant work remaining on the above-described tax matters, but anticipate that many of these matters can be resolved (or brought to the Court for resolution) by the end of 2013 or in early 2014.

13. In addition, the Debtors are spending significant time working to finalize their Fiscal Year Ended June 2013 corporate income tax returns and laying the groundwork for the filing of future tax returns. Because the Debtors' fiscal year ends in May or June of each year, the Debtors presently are working to prepare tax returns for the period from June 3, 2012 to June 1, 2013 (during which period the Debtors had significant operations activity). The Debtors are required by law to file a consolidated federal tax return, state tax returns in each of the 50 states and over 500 local tax returns in various localities. The deadline for the Debtors' filing of their consolidated federal tax return is February 15, 2014 and the deadlines for most of the state and local returns are in February through April 2014, although the Debtors are exploring whether they can file these returns in advance of these deadlines. Because the Debtors owned property in many jurisdictions and most states after June 1, 2013, the Debtors expect that they will need to file tax returns in many of the same jurisdictions the 2013-2014 tax year. As such, the Debtors expect that activity relating to filing tax returns will go into 2014.

14. In addition to these primary workstreams, the Debtors are continuing to address a number of remaining tax matters. In this regard, the Debtors are seeking refunds of various taxes, including certain corporate income taxes, certain sales and use taxes, certain payroll taxes, certain business taxes, certain property taxes and other taxes. The Debtors continue to be required to file more than 100 periodic sales and use tax returns. With the closing of the last major purchase and sale transaction in August 2013, the Debtors are beginning the process of taking the necessary steps to withdraw from various states or take other corporate action that will remove these filing burdens, but expect that this activity will take a number of months.

Pension and Health & Welfare Plans

15. As part of the Winddown, the Debtors have had to take substantial steps to terminate their pension and welfare plans. Specifically, with respect to the Debtors' defined benefit pension plan (the "Pension Plan"), the Debtors have been working with the Pension Benefit Guaranty Corporation ("PBGC") toward PBGC's take over as trustee of the Pension Plan. As part of this take over, the Pension Plan would transfer information and its cash and other securities to PBGC. Based upon recent discussions with PBGC, it is expected that the takeover will occur in September 2013 or in the fourth quarter of 2013. With respect to the Debtors' 401(k) plan (the "401(k) Plan"), which was terminated in May 2013, the Debtors are continuing to wind down and distribute assets from the 401(k) Plan. Because the 401(k) participants direct the Debtors with respect to how to distribute these funds, the Debtors are continuing their efforts to locate all 401(k) Plan participants and obtain direction from them with respect to how funds should be distributed. With respect to the Debtors' health and welfare plans, the Debtors will no longer offer their employees health insurance or other welfare benefit coverage after September 30, 2013. The Debtors complied with their obligations to notify their remaining employees and COBRA participants of this cessation of benefits. After September 30, 2013, for a period of months, the Debtors will need to pay outstanding health care and other costs incurred prior to September 30, 2013. Finally, the Debtors are administering and managing payments relating to their employee retention plan and senior management incentive plan, which were approved by the Court as part of the Winddown Order. The Debtors expect that final payments will be made under these plans in December 2013, as the longest measurement periods under the plans are one year and will, therefore, end in late November 2013. In light of all of the activities described above, the Debtors expect to have most substantial work to complete with respect to

pension and employee matters through the end of 2013, which work may spill over into the first quarter of 2014.

Record Retention

16. On January 31, 2013, the Court entered an Order, Pursuant to Sections 363 and 554 of the Bankruptcy Code and Bankruptcy Rule 6007, Approving: (A) the Debtors' Implementation of a Document Retention and Destruction Program, and (B) Document Destruction Procedures [Dkt. No. 2233] (the "Document Retention Order"). Since that time, the Debtors have been monitoring the application of and adherence to the record retention policy approved by the Court. In early 2013, tens of thousands of boxes of documents were shipped from the Debtors' many owned and leased locations to leased storage space in Kansas City, Missouri where the Debtors maintain an on-site presence. Many of these documents dated back 50 or more years, as the Debtors' document retention policy had not been implemented throughout the company prior the Petition Date. The Debtors have been systematically reviewing these documents and destroying them or preserving them in accordance with the Document Retention Order, but the Debtors still have over 10,000 boxes of documents housed in over 26,000 square feet of leased space. The Debtors are now seeking to identify categories of documents that they might destroy en masse in accordance with the Document Retention Order to reduce storage costs and are seeking to otherwise develop a long-term plan for their document storage needs with a third-party document company.

17. Additionally, the Debtors are winding up their antiquated information technology and other systems and have designed a process to ensure the preservation of the Debtors' electronic data in accordance with the Document Retention Order. This process includes: (i) finalizing and implementing a long term plan to archive and preserve electronic

data; (ii) decommissioning the Debtors' information systems and transitioning to substitute accounting software; (iii) transitioning active route accounting systems to a dormant state; and (iv) performing miscellaneous post-closing and/or transitioning services related to the Major Brand Sales and the sale of the Remaining Assets. The Debtors anticipate that document destruction activity in these cases will likely extend into 2014.

Workers' Compensation Claims, Litigation Claims and Related Collateral

18. In light of the completion of the Major Brand Sales and the sale of the Remaining Assets, the largest remaining source of potential recovery for the Debtors is the recovery of collateral that they have provided to state governmental entities and insurance companies relating to their workers' compensation and automotive liability obligations. As the Court is aware from prior litigation, prior to the Petition Date the Debtors had posted over \$120 million in collateral with Ace American Insurance Company and its affiliates (collectively, "Ace"). Ace was the Debtors' prepetition auto and general liability insurer and insured the Debtors for workers' compensation claims in the majority of the states in which the Debtors did business. Ace was also the Debtors' auto, general liability and workers' compensation insurer for several months postpetition. The Debtors' prepetition insurance policies (and some of their postpetition insurance policies) had high deductibles and, as a condition of the insurance programs, Ace required that the Debtors provide it with significant collateral to secure these deductible obligations. This collateral was provided in the form of cash deposits and a cash-collateralized letter of credit. As workers' compensation and automotive liability claims are resolved, Ace pays the amount owed (including the deductible amounts) and seeks reimbursement from the collateral provided by the Debtors. As of July 31, 2013, although Ace had spent a significant amount of the collateral, approximately \$101.5 million remained. The

Debtors believe that, ultimately, after all insured claims subject to the deductible amount are resolved, a significant balance will remain with Ace that should be returned to the Debtors' estates (although Ace does not agree with the Debtors' belief in this regard). The Debtors are seeking to negotiate a resolution with Ace regarding a return of a portion of the collateral and may at some point take legal action in the Court in an effort to require Ace to return a portion of the collateral.

19. The Debtors also have posted various forms of collateral with other insurance companies for historic periods of time and believe that certain such collateral should be returned to the Debtors' estates. In this regard, the Debtors have commenced litigation in this Court via an adversary proceeding against affiliates of Travelers, seeking \$1,500,000 in damages plus fees and costs. The Debtors are considering legal actions of a similar nature with respect to other historic insurance matters. In addition, in many cases, the Debtors' excess insurers owe funds to the Debtors for defense costs or indemnity amounts, and the Debtors are seeking reimbursement amounts. As of the end of August 2013, the Debtors had nine reimbursement requests pending with excess carriers seeking payments of up to \$1.2 million. Additional reimbursement requests are likely to be generated in the future as cases develop and excess coverage is triggered. In the event that these matters are not resolved consensually, such matters may need to be resolved through litigation.

20. While the Debtors were insured for workers' compensation claims with Ace in many states, in other states the Debtors were self-insured. Because of this, under many applicable state laws, the Debtors were required to provide some form of collateral to a state governmental agency as a condition to being self-insured for workers' compensation claims in those states. As of the commencement of the winddown, nearly \$89 million in collateral was

posted with individual states for this purpose, in the form of cash deposits or cash-collateralized bonds or letters of credit. Since the commencement of the winddown, the Debtors have advised most of the States in which they were self-insured that they would no longer be paying workers' compensation claims in cash out of their operating funds. The Debtors advised these States that they should instead look to the posted collateral to pay such claims. In many States, the Debtors believe that the value of the workers' compensation claims that will develop is less than the amount of collateral held by the State. Accordingly, the Debtors are exploring methods by which they might negotiate a consensual resolution with individual states agencies regarding the return of collateral or seek to recover a portion of the \$89 million through legal actions in the Court.

21. In light of the above facts, the Debtors have a continuing interest in resolving claims asserted against their estates that might be subject to payment out of the collateral posted with insurance companies or state governments. Accordingly, various employees of the Debtors are continuing to work to investigate, reconcile and resolve workers' compensation claims through the normal state system. Other Debtor employees are assisting with the reconciliation, resolution and arbitration or mediation of automobile liability claims through the Court-approved alternative dispute resolution process, or managing nonbankruptcy litigation for matters where the stay has been lifted. While the Debtors have resolved many of these claims, the Debtors expect that claims resolution activity of this kind will continue through the end of 2013 and into 2014.

Pending Litigation and Appellate Matters

22. In addition to some of the adversary proceedings and other litigation matters described above, the Debtors also are party to a number of litigation matters in this Court

and in other courts. In this Court, the remaining adversary proceedings and appeals not otherwise described above are: (i) a Worker Adjustment and Retraining Notification Act ("WARN Act") class action suit [Adv. No. 12-08314]; and (ii) an appeal of the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union (the "BCT") of the order of this Court denying the allowance and payment of their administrative claim.⁵ Outside of this Court, the Debtors are party to a number of litigation matters, most of which were stayed due to the bankruptcy filing. The Debtors presently are examining whether each of these matters will be resolved by the resolution of workers' compensation and automotive liability claims described above or if further action will be necessary to resolve non-bankruptcy litigation matters.

Miscellaneous Issues

23. In addition to the matters discussed above, the Debtors continue to work on a number of miscellaneous issues relating to the implementation of the Winddown. This work includes (i) seeking credits from state environmental agencies of over \$500,000 for various environmental work completed by the Debtors prior to the Winddown that is subject to reimbursement under applicable state environmental law, (ii) seeking to terminate surety bonds that secured performance obligations of the Debtors to various entities, largely school systems, and recover collateral posted to secure such bonds and (iii) continuing to comply with chapter 11 and lender reporting requirements within chapter 11.

⁵ The appeal of the Winddown Order that had been asserted by the BCT and other unions was voluntarily dismissed on August 20, 2013 by stipulation of the parties, and the Winddown Order is now a final order.

Dated: September 18, 2013
New York, New York

Respectfully submitted,

/s/ Corinne Ball

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