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Pinnacle Airlines Seeks Chapter 11 Bankruptcy Protection

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Pinnacle Airlines Corp., which provides regional flights for Delta Airlines Inc. and United Continental Holdings Inc., sought bankruptcy protection after costs rose and revenue declined.

The airline, based in Memphis, Tennessee, listed assets of \$1.5 billion and liabilities of \$1.4 billion in the Chapter 11 filing in U.S. Bankruptcy Court in New York yesterday. As it restructures, Pinnacle said it will reevaluate agreements with United and US Airways Group Inc.

“Regional airlines have been forced to bid ever-lower rates and accept increasingly unfavorable contract terms to win the business of major carriers,” John Spanjers, the airline’s chief operating officer, said in a court filing.

Pinnacle plans to wind down regional services for United by Nov. 30 and cease flying for US Airways by June, according to court papers filed today. It will halt United Express services by Aug. 1. Pinnacle’s flying for United, done under the Colgan name, covers about 53 aircraft that serve 54 cities to and from United’s hubs in Newark, New Jersey, Washington’s Dulles airport and Houston, said Mike Trevino, a spokesman for Chicago-based United.

“We are working with Colgan to transition their flying for United Express to other carriers,” Trevino said. “We have contingency plans in place and will contact any customer whose reservation may change as a result of the transition.”

Pinnacle will start pulling down some United flights in May and “will do that as orderly as possible,” said Eric Epperson, a spokesman for Pinnacle.

Reject Leases

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Pinnacle is seeking to reject leases for certain aircraft, engines and related equipment, some of them effective as of yesterday. Pinnacle also seeks to end a consulting agreement from March 2011 with Philip Trenary and an October "officer" agreement with Douglas Shockey, its former chief operating officer.

Trenary received \$1.58 million in compensation in 2010, according to data compiled by Bloomberg. Shockey got \$871,552 in salary, bonuses, stock and options awards and other compensation in 2010, the data show.

Pinnacle also wants to end three agreements with partners: one with Deutsche Lufthansa AG for the German airlines' provision of crew to Pinnacle, and two contracts for engine maintenance with Pratt & Whitney Canada and General Electric Co. that would each save \$600,000 a month.

Delta Loan

Pinnacle said it obtained a \$74.3 million loan from Delta to help maintain operations while it reorganizes and to repay a \$44.3 million debt to the larger airline.

Pinnacle flies about 200 regional jets for Delta, the world's second-largest carrier. Delta, whose business accounts for 80 percent of Pinnacle's flying, will "continue to support Pinnacle during its restructuring and is working closely with them to ensure there's no impact to our customers," said Betsy Talton, a spokeswoman for the Atlanta-based airline.

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The bankruptcy filing is the 43rd by a U.S. carrier since the Sept. 11, 2001, attacks, based on data from industry lobbying group Airlines for America, as they contend with stiffer competition and higher fuel costs. Other regional airlines to seek bankruptcy protection include Mesaba Airlines and Delta's Comair unit, which both filed in 2005. Mesa Air Group Inc. filed in 2010 and American Eagle filed as part of AMR Corp.'s bankruptcy in November.

Pinnacle fell 49 percent to 69 cents at the close in New York. Before today, the stock had gained 65 percent this year after dropping 90 percent in 2011.



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Pinnacle has about 7,500 employees, according to the court filing. It had 199 regional jets and 77 turboprops, according to its website. The airline said it makes more than 1,300 daily flights to 188 cities and towns in the U.S., Canada and Mexico.

“We intend to use the Chapter 11 process to reset our financial and operational structure in order to position Pinnacle for viability over the long term,” Chief Executive Officer Sean Menke said in a statement. “We are committed to delivering safe, reliable travel throughout this process.”

The airline has long-term debt of about \$690 million owed to Export Development Canada, which is secured by Bombardier Inc. Q400 and CRJ-900 planes, Spanjers said.

Before Pinnacle, Ryan International Airlines Inc., a charter airline, was the last U.S. carrier to file for Chapter 11 protection, on March 6, according to [Airlines for America](#).

AMR Loss

The filing by AMR, the parent of American Airlines, was the latest for a major U.S. carrier. AMR, based in Fort Worth, Texas, posted a loss of \$1.76 billion for the three months through February, its first quarter in bankruptcy protection. A court hearing on the company’s request to reject union contracts in its reorganization is scheduled to begin April 23.

On Pinnacle’s first day in bankruptcy court, it will also seek permission to pay pre-bankruptcy wages, fuel contracts, shippers and other service providers, according to court papers.

Pinnacle also filed a request to keep confidential agreements with Delta under which the companies agreed to release each other from claims over disputed amounts in their contracts.

The case is In re Pinnacle East Coast Operations Inc., 12-11343, U.S. Bankruptcy Court, Southern District of New York (New York).

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