Talks Continue as Pinnacle Seeks to Ditch Pilot Contract

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Pinnacle Airlines Corp. (PNCLQ) on Tuesday began laying out a case that it must slash labor costs related to its pilots by more than it originally thought earlier this year, in day-one of a trial over whether the regional carrier can reject those pilots' labor contract and impose new concessions.

On the witness stand Tuesday at the U.S. Bankruptcy Court in Manhattan, Pinnacle's lead negotiator said in its talks with the Air Line Pilots Association that despite the trial, the bargaining will continue during the evenings this week with a court-appointed mediator.

"We're trying to eliminate as many of the" union concerns as possible, said the negotiator, Jerrold A. Glass.

Mr. Glass said Pinnacle has made key concessions in the past few days over health-care programs and pay for pilots who lose their captaincies and then regain them later due to seniority, two key issues for the union.

Still, the key disagreement at the trial remains: Pinnacle's demand to cut an average of $59.6 million a year in costs related to the pilot contracts between 2013 and 2018, after saying earlier this year that number was $32.2 million. The increase, Pinnacle said, came after a "blunt and alarming message" from Delta Air Lines Inc. (DAL), its only customer. In that letter, Delta, which also provided the loan that is keeping Pinnacle afloat during its bankruptcy, said Pinnacle must drastically cut the rates it charges for flying planes for Delta.

The pilots have said that Pinnacle didn't adequately scrutinize the math behind Delta's demand and that the cuts would put their pay among the lowest in the industry, as well as hurt them in other areas, such as vacation time. More than a dozen of the 2,800 pilots helped fill Judge Robert E. Gerber's courtroom on Tuesday, as did some pilots from Delta.

In cross-examination, Cohen Weiss and Simon LLP's Bruce S. Levine, a union lawyer, questioned Mr. Glass about how dire Pinnacle's financial position really is. Mr. Glass said what was already a crisis has been "exacerbated" by Delta's recent move to use fewer Pinnacle flights.

Judge Gerber urged the two sides to come to an agreement before he has to rule on the matter.

"If you force me to make a decision, nobody's going to win," Judge Gerber said.

Such labor trials have become common in bankruptcy court: Companies must get a judge's approval to reject labor contracts so it can impose its own working conditions on unions. Often, the company ends up compromising with the workers, as American Airlines parent AMR Corp. (AAMRQ) did with the unions representing its mechanics and flight attendants. In other cases, the judge is forced to rule, as AMR's judge did in allowing the company to impose new labor concessions on its pilots. The company and the union are still negotiating a new deal.

Pinnacle narrowly avoided a similar trial with the union representing its nearly 1,400 flight attendants, who agreed to the company's latest contract offer last week after sessions with a mediator. The flight attendants' negotiators agreed to a package that would cut Pinnacle's annual labor cost related to them by $6.4 million, up from its earlier request of $3.6 million. A member vote on the new contract should be completed by early November. The company also recently reached a deal with the mechanics that work on its planes.

Pinnacle filed for Chapter 11 protection in April, another regional airline victimized by the cost-cutting and capacity reductions of major carriers such as Delta. Since the case's outset, creditors have railed against Delta, saying its dual role as Pinnacle's only customer and provider of a $74 million bankruptcy loan essentially gives it control of the case