

Avianova Fails, But Acrimony Will Run On in Court

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October 03, 2011



Avianova plane. **Olgamits**

Accounting firm KPMG has been drawn into the storm of acrimony surrounding the demise of budget airline Avianova after former managers at the airline accused the accountants of “gross distortion” in a report of the airline’s finances.

Expat managers Andrew Pyne and former chief commercial officer Mike Hayden have initiated legal action against KPMG for “libelous” statements in a report that the firm drew up on their time management of the airline.

The managers began the legal process “about two weeks ago,” Hayden said by telephone Monday. He did not say how much compensation they were seeking.

KPMG declined to respond to the accusations, saying by e-mail that the company does not comment on client matters.

The accountancy firm was drawn into the maelstrom late Sunday when Avianova issued a statement saying that it would cancel all flights from Monday and file for bankruptcy, and it could not pay airports or meet licensing fees for its aircraft after minority American shareholder Indigo Partners cut off funding.

It was the latest round in an increasingly acrimonious shareholder dispute that has seen both sides call for investigations.

Confusion surrounded the fate of the airline on Monday as flights continued to take off and land at Sheremetyevo Airport, the budget airline's hub, despite Sunday night's statement.

The airline's web site had ceased accepting bookings late Sunday, but about 67,800 tickets have been sold for flights scheduled between Oct. 3 and 29, according to news agencies citing sources at the company.

An operator reached via the airline's hotline said passengers would be informed of their flight status by e-mail, and refused to give further information without a booking reference.

Avianova had not responded to e-mailed enquiries by Monday evening.

Avianova and its shareholders ought to meet obligations to passengers "at their own expense," Federal Air Transportation Agency chief

Alexander Neradko said Monday after a meeting with the airline's management.

But Neradko said the airline's bosses had been unable to tell him whether they would continue flying or not until they "consulted with their shareholders."

Acrimony

Avianova was founded in 2007 as a joint venture between Arizona-based investment firm Indigo Partners, which holds a 49 percent stake, and A1, part of Mikhail Fridman's Alfa Group, with the remaining 51 percent.

Based at Sheremetyevo Airport, the airline proved a hit with students and other budget travelers. It grew to serve destinations from Arkhangelsk in the north to Sochi in the south, and from Surgut in the east to Kaliningrad in the west.

It carried 866,000 passengers between January and August this year alone, according to the Federal Air Transportation Agency. But the partners fell out dramatically in June, with A1 effectively accusing Indigo of appointing the expat managers without their consent, and with the intention of running the airline without A1's oversight.

In scenes that were likened to the corporate raids of the 1990s, several expat managers and Russian employees, including Pyne, Hayden and chief operating officer Guy Maclean, were evicted from the airline's Moscow headquarters by security guards when they showed up for work on June 24.

At the time, new managers — Konstanin Teterin and Vladimir Gorbunov — accused Pyne of whimsical cancellation of flights, embezzlement and general mismanagement that they said

cost the airline millions of dollars.

The evicted managers denied the charges and accused A1 of attempting a “coup” at the airline.

Both shareholders remained tightlipped about the round of negotiations that followed, though it now seems clear that they failed — and both sides have made it clear that it was the other’s fault.

Clash of Interests

Avianova’s management accused Indigo of lying about its reasons for opening the airline and accused the U.S. shareholders of sabotaging expansion plans that would have led to competition with Central Europe-based budget airline Wizz Air.

“This conflict of interest led the Indigo Partners’ leadership to repeatedly block expansion of the Avianova fleet and the launching of new destinations in Eastern Europe, while increasing the Wizz Air fleet of 35 new Airbus aircraft,” the Avianova statement said.

“This has caused irreparable harm to the development and economic results of the company and the development of the Russian aviation industry as a whole,” it said.

The Moscow Times was unable to confirm Indigo’s relation to Wizz Air on Monday.

The statement repeated the accusation that Pyne, Hayden and Maclean were installed as “unqualified but loyal” placemen to secure control of the airline’s cash flow for Indigo.

Among other things, they accused the three of “practically forcing” the airline to lease two Airbus A320s from International Lease Finance Corp.

Last week, ILFC asked a Moscow arbitration court to seize the two aircraft as security for \$3.4 million it is owed by the airline. Indigo Partners in response blamed the bankruptcy on “reasons outside Indigo Partners’ control,” adding that their “oversight and control” of the airline had been cut off since the expulsion of the expat managers in June.

“Since that time, Indigo’s efforts to regain its influence and save the airline have been to no avail,” the company said in an e-mailed statement.

The counterclaims continued to swirl Monday. Hayden and Pyne said in an e-mailed statement that A1 had “declined to engage seriously with prospective investors who were willing to recapitalize the airline and support its continued operations.”

Elaborating, Hayden said A1 decided to accept an offer from a third party backed by Indigo only after the offer had been withdrawn following the news that debtors were trying to reclaim aircraft from the company. It was replaced by a lesser offer that A1 rejected, he said. Indigo was unable to make an offer directly because it would breach ownership laws.

But A1 flatly denied any such negotiations, saying by e-mail that it had “not received any official offers from any authorized structures” to buy its 51 percent share in the airline.

The expat managers at the heart of the storm say they intended to stay in Russia and had had “several job offers” from Moscow-based aviation firms.

“Personally I like Moscow — I want to stay,” Hayden said. “Hopefully I’ll be able to go on leading a normal life, even if it is with a few more gray hairs.”

Avianova’s management has suggested Hayden may face criminal investigation for deliberately deleting information from the airline’s booking system, costing the airline \$20 million.

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