IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

UNITED STATES OF AMERICA, Plaintiff, v. NORTHWEST AIRLINES CORPORATION 5101 Northwest Drive St. Paul, Minnesota 55111 and CONTINENTAL AIRLINES, INC. 2929 Allen Parkway, Suite 2010 Houston, Texas 77019, Defendants.	)	Civil Action No.: _________

COMPLAINT

The United States of America, plaintiff, acting under the direction of the Attorney General, brings this civil action to obtain equitable and other relief to prevent defendant Northwest Airlines Corporation ("Northwest") from acquiring or holding a majority of the voting stock of its competitor, defendant Continental Airlines, Inc. ("Continental").

1. Northwest is the fourth largest airline in the United States, and Continental is the fifth largest. They are both financially sound, independent airlines with no equity or other investment links between them.

2. Northwest and Continental currently compete on price and service in thousands of routes throughout the United States. They compete for passengers by offering, among other things, promotional fares for leisure travel, free miles to frequent flyers, passenger upgrades,

airport and in-flight amenities, and volume discounts to businesses and other organizations. They strive to improve their on-time performance, their ticketing procedures, their schedules, and their customer service as a result of this competition.

3. Northwest and Continental are each other's most significant competitors for airline passenger service on seven densely traveled routes between cities where they operate their hubs -- Detroit, Memphis, and Minneapolis for Northwest; and Cleveland, Houston, and Newark for Continental. Over 3.6 million passengers travel these seven "hub-to-hub" routes each year, generating nearly $375 million in passenger revenues. Northwest and Continental are also significant competitors in a number of markets they serve on a connecting basis.

4. Northwest's acquisition of Continental stock would give it voting control over Continental, as well as a share in Continental's profits. The acquisition would diminish substantially both Northwest's and Continental's incentives to compete against each other on seven hub-to-hub routes, as well as on other routes. And it would deter Continental, which is poised for expansion at its Cleveland hub, from offering new service in competition with Northwest.

5. Thus, as a result of Northwest's acquisition of control of Continental, consumers likely will pay higher prices and receive lower quality service for scheduled airline passenger service in the markets dominated by Northwest and Continental, and lose the benefit of new, competitive entry by Continental against Northwest.

I.

JURISDICTION AND VENUE

6. This Complaint is filed and this action is instituted pursuant to Section 15 of the Clayton Act, as amended (15 U.S.C. § 25) and Section 4 of the Sherman Act (15 U.S.C. § 4) to prevent and restrain the violations of Section 7 of the Clayton Act, as amended (15 U.S.C. § 18) and Section 1 of the Sherman Act (15 U.S.C. § 1).

7. A substantial portion of each defendant's revenues is derived from the sale and provision of scheduled airline passenger service between different states. The defendants are engaged in interstate commerce and in activities that substantially affect interstate commerce. The Court has jurisdiction over this action and over the defendants pursuant to Section 12 of the Clayton Act (15 U.S.C. § 22) and 28 U.S.C. §§ 1331 and 1337.

8. Venue is proper in this district with respect to the defendants under 15 U.S.C. § 22 and 28 U.S.C. § 1391(c), in that each of them is a corporation that transacts business and is found in the Eastern District of Michigan.

II.

DEFENDANTS

9. Defendant Northwest is a corporation organized and existing under the laws of Minnesota, with its principal offices in St. Paul, Minnesota. Northwest is the fourth largest airline in the United States, reporting total revenues of $10.2 billion in 1997.

10. Defendant Continental is a corporation organized and existing under the laws of Delaware, with its principal offices in Houston, Texas. Continental is the fifth largest passenger airline in the United States, with total revenues of $7.1 billion in 1997.

III.

THE PROPOSED ACQUISITION

11. On January 25, 1998, Northwest entered into an Investment Agreement with Air Partners, L.P. ("Air Partners") and certain of its affiliates to purchase the controlling shares of Continental held by Air Partners (the "Investment Agreement" or the "Proposed Acquisition").

12. Air Partners holds Class A voting stock of Continental, which represents approximately 14% of the total outstanding equity of Continental but carries approximately 51% of the voting rights, and therefore voting control. Pursuant to the Investment Agreement, the owners of Air Partners will exchange their interests in Air Partners for cash and stock in a newly formed holding company that immediately will merge with Northwest. Therefore, as a result of the Proposed Acquisition, Northwest will own voting control of Continental.

13. As a result of the Proposed Acquisition, the owners of Air Partners will hold nearly 5% of the voting shares of Northwest. The Investment Agreement grants these Air Partners owners, through Coulco, Inc., the right to designate one individual to sit on the board of Northwest. Coulco is owned by James Coulter who, together with David Bonderman, controls the general partner in Air Partners. The Investment Agreement requires that the Coulco designee be acceptable to Northwest, and the agreement identifies Coulter and William S. Price as acceptable designees.

14. Consummation of the Proposed Acquisition is likely to create interlocking directors on the boards of directors of Northwest and Continental. William S. Price currently sits on the Continental board and, if he is elected to the Northwest board, the two airlines will have a common director. In addition to Price, three other individuals affiliated with Air Partners

currently sit on the Continental board: David Bonderman, Thomas Barrack, and Donald Sturm. If Coulter, Price, or any other person affiliated with Air Partners is designated to the Northwest board, the Air Partners owners will have representatives on the boards of both Northwest and Continental.

IV.

RELATED AGREEMENTS

15. At the time Northwest and Air Partners agreed to the Proposed Acquisition, Northwest simultaneously entered into an agreement with Continental that sets forth how Northwest would exercise its control over Continental during the next six years (the "Governance Agreement").

16. The Governance Agreement between Northwest and Continental provides that Northwest will place its Continental stock in a "voting trust" for six years. Northwest will select the trustee. The Governance Agreement provides that Northwest will continue to own the controlling block of stock and to exercise control of Continental in a number of ways:

a. Northwest can vote on key decisions that affect the future competitiveness of Continental, including mergers, reorganizations, share exchanges, consolidations, or business combinations of Continental, as well as the sale of all or substantially all of Continental assets to any other company, including Northwest;

b. Northwest retains significant influence over Continental's board of directors by being able to designate one director and having the ability to influence the selection of others; and

c. For all other shareholder matters, Northwest will continue to exercise its control, through its trustee, by voting its controlling shares either as recommended by Continental's board (over which Northwest will have significant influence) or in proportion to the other shareholders' votes, whichever is more advantageous to Northwest's interests.

17. When the Governance Agreement expires in six years, the voting trust will terminate and any limitation the Governance Agreement may impose on Northwest's ability to control Continental will be eliminated.

18. Also on January 25, 1998, Northwest and Continental entered into a Master Alliance Agreement (the "Alliance Agreement"), which provides for system-wide joint marketing of the two carriers' services. Such alliance agreements between airlines have become common in recent years, especially between domestic and foreign carriers who do not have authority to extend their networks into and beyond their partner's home country. Substantial equity ownership between alliance partners is uncommon; few, if any, have involved a majority interest. The Alliance Agreement is a stand-alone agreement and is not contingent upon consummation of the Proposed Acquisition.

V.

THE RELEVANT MARKETS

19. For the vast majority of passengers who wish to travel between various origin and destination ("O&D") airports or cities in the United States, there is no other mode of transportation that they would substitute for scheduled airline passenger service in response to a significant fare increase for scheduled airline passenger service. Scheduled airline passenger

service, therefore, constitutes a line of commerce and a relevant product market within the meaning of Section 7 of the Clayton Act, and within the meaning of Section 1 of the Sherman Act.

20. Few passengers currently flying nonstop between specific O&D airports or cities in the United States would substitute connecting service (i.e., flights with one or more stops en route) for nonstop service in response to a significant fare increase for nonstop scheduled airline passenger service. Nonstop scheduled airline passenger service, therefore, constitutes a line of commerce and a relevant product market within the meaning of Section 7 of the Clayton Act, and within the meaning of Section 1 of the Sherman Act.

21. With respect to both scheduled airline passenger service and nonstop scheduled airline passenger service, few passengers who wish to fly between specific O&D airports or cities in the United States would switch to flights between other airports or cities in response to a significant fare increase. Specific O&D airports or cities ("city pairs"), therefore, constitute a section of the country and a relevant geographic market with the meaning of Section 7 of the Clayton Act, and within the meaning of Section 1 of the Sherman Act.

VI.

CONCENTRATION AND ENTRY

22. Northwest and Continental are among the ten largest airlines in the world. Within the United States, Northwest and Continental compete for passengers in thousands of city-pair markets.

23. Northwest operates hubs at airports in Detroit, Michigan; Minneapolis/St. Paul, Minnesota; and Memphis, Tennessee.

24. Continental operates hubs at airports in Newark, New Jersey; Cleveland, Ohio; and Houston, Texas.

25. Under the "hub and spoke" system, an airline concentrates passengers from many points at the "hub" location, then provides nonstop service from the hub airport to a large number of destinations (the "spokes"). The hub and spoke system allows a carrier to serve more city pairs with more frequencies than would be profitable on a stand-alone basis.

26. In seven hub-to-hub city pair markets, Northwest and Continental together dominate the market for nonstop service and for all scheduled airline passenger service. These markets are Detroit-Cleveland, Detroit-New York City, Detroit-Houston, Cleveland-Minneapolis, Minneapolis-New York City, Houston-Minneapolis, and Houston-Memphis. Northwest and Continental's market shares for nonstop flights in each of the seven hub-to-hub city pairs are:

Northwest/Continental Hub-to-Hub Nonstop Shares

Route	NW Share of Nonstop Flights	CO Share of Nonstop Flights	Combined NW & CO Share of Nonstop Flights
Detroit-Cleveland	54%	40%	94%
Detroit-New York	70%	17%	87%
Detroit-Houston	36%	64%	100%
Cleveland-Minneapolis	53%	47%	100%
Minneapolis-New York	80%	20%	100%
Houston-Minneapolis	42%	58%	100%
Houston-Memphis	39%	61%	100%

27. In two other hub-to-hub markets, Memphis-Newark and Cleveland-Memphis, Northwest currently has a nonstop monopoly. As the only airline with a hub at the other end

point, Continental is the most likely potential entrant to challenge Northwest's nonstop monopoly.

28. In total, nearly four million passengers travel in the nine hub-to-hub city pairs annually, generating revenues of nearly $400 million per year.

29. Effective new entry for the provision of nonstop service in the hub-to-hub markets is unlikely by any carrier without a hub at one of the endpoints of the city pair. A hub carrier, such as Northwest or Continental, has significant cost advantages over a non-hub carrier attempting to offer service originating at the hub airport. Building a competing hub in the same city would require considerable time and investment, and is not likely to occur in response to fare increases in the hub-to-hub markets at issue here.

30. New entry also is impeded by other factors, including difficulty in obtaining access to gate facilities; the effects of travel agent incentive programs offered by dominant incumbents; frequent flyer programs; and the risk of aggressive responses to new entry by the dominant incumbent carrier serving a particular market.

31. In addition to the hub-to-hub routes where Northwest and Continental share a virtual duopoly, Northwest and Continental have a large share of the passengers traveling on connecting flights in numerous city pair markets. Because of the light traffic on these routes and the short flights to the Northwest or Continental hubs, carriers with more distant hubs are unlikely to initiate or expand competitive service to these destinations from their hubs in response to significant fare increases.

VII.

ANTICOMPETITIVE EFFECTS

32. Northwest's acquisition of a controlling interest in Continental will reduce Continental's incentive to compete aggressively against Northwest. Furthermore, Northwest's acquisition of a fourteen percent equity stake in Continental's profits will reduce Northwest's incentive to compete aggressively against Continental.

33. Northwest's acquisition of a controlling interest in Continental will diminish actual competition in seven hub-to-hub markets and numerous other markets that already are concentrated. It also will diminish the potential for nonstop competition for Memphis-Cleveland and Memphis-Newark, as well as potential competition in other markets for which Northwest and Continental are among the few likely future providers of scheduled airline passenger service. As a result, fares likely will increase and service likely will decrease in these city pairs.

34. Northwest's acquisition of a controlling interest in Continental also will reduce the likelihood that Continental will initiate nonstop service from its hub in Cleveland to cities already served by its controlling shareholder, Northwest, over its hub in Detroit.

35. The Governance Agreement does not prevent the harm likely to result from Northwest's acquisition of voting control of Continental. First, no private agreement can alter the fact that Northwest still owns Continental, and Continental will not compete vigorously with its owner during the term of the Governance Agreement. Second, under the Governance Agreement, Northwest retains direct control over key Continental strategic decisions. Finally, the restrictions in the Governance Agreement expire in six years.

VIII.

VIOLATIONS ALLEGED

36. The effect of Northwest's acquiring or holding the voting stock of Continental may be substantially to lessen competition in interstate trade and commerce in violation of Section 7 of the Clayton Act, and to unreasonably restrain trade in violation of Section 1 of the Sherman Act in the following ways, among others:

a. Actual and potential competition between Northwest and Continental for nonstop scheduled airline passenger service in the hub-to-hub markets will be reduced or eliminated;

b. Actual and potential competition between Northwest and Continental for scheduled airline passenger service in city-pair markets where Northwest and Continental are dominant providers of connecting service will be reduced or eliminated;

c. Competition generally in numerous city-pair markets for scheduled airline passenger service may be lessened substantially;

d. Coordinated pricing activity between providers of scheduled airline passenger service likely will be facilitated; and

e. Prices for scheduled airline passenger service in numerous concentrated city-pair markets in the United States are likely to increase.

IX.

REQUEST FOR RELIEF

WHEREFORE, Plaintiff prays:

1. That a permanent injunction be issued preventing and restraining defendant Northwest and all persons acting on its behalf from acquiring or holding a stock interest in Continental, or any of its affiliates or subsidiaries, except on such terms and conditions as may be agreed to by Plaintiff and the Court;

2. That the Investment Agreement between Northwest and Air Partners be adjudged to be in violation of Section 7 of the Clayton Act, 15 U.S.C. § 18, and Section 1 of the Sherman Act, 15 U.S.C. § 1;

3. That Plaintiff have such other and further relief as the nature of this case may require and as is just and proper; and

4. That Plaintiff recover the costs of this action.

DATED this ________ day of ___________________, 1998.

/s/	/s/
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