

21
1 [Lease Agreement - Southwest Airlines, Co. - Airport Cargo Building 606 - \$1,313,761]

2
3 **Resolution approving and authorizing the execution of a Lease Agreement for Cargo**
4 **Building 606, and Related Areas on Plot 9B, No. L13-0257, between Southwest Airlines,**
5 **Co., and the City and County of San Francisco, acting by and through its Airport**
6 **Commission, with a minimum rent amount of \$1,313,761 for a term of five years, to**
7 **commence upon Board approval.**

8
9 WHEREAS, Southwest Airlines Co. ("Southwest") is a Signatory Airline pursuant to 2011
10 Lease and Use Agreement No. L10-0095; and

11 WHEREAS, Southwest currently conducts its cargo handling operations at Airport Building
12 No. 606, on Plot 9B, pursuant to month-to-month Permit No. P4295; and

13 WHEREAS, Southwest desires a longer term commitment with the Airport for 11,906
14 square feet of cargo warehouse and office space in Airport Building 606 (the "Airport Building")
15 and 2,640 square feet of ramp space on Plot 9B ("Ramp Space") by entering into a five-year lease
16 (the "Lease"); and

17 WHEREAS, The initial rent totals \$262,752.20 based on Cargo Facilities Warehouse
18 Rate II of \$21.70 per square foot per year for the Airport Building, as adjusted by Airport Rates
19 and Charges, and \$72,000 per acre per year for the Ramp Space, subject to annual Consumer
20 Price Index adjustments; and

21 WHEREAS, By Resolution No. 13-0257, adopted December 3, 2013, the Airport
22 Commission approved the Lease, a copy of which is on file with the Clerk of the Board of
23 Supervisors in File No. 140089, which is hereby declared to be a part of this resolution as if set
24 forth fully herein; now, therefore, be it

1 RESOLVED, That this Board of Supervisors hereby approves the Lease between
2 Southwest Airlines Co., and the City and County of San Francisco, acting by and through its
3 Airport Commission, for a portion of Airport Building No. 606, and adjacent ramp space on
4 Plot 9B, with a minimum rent amount of \$1,313,761 over the five-year term; and, be it

5 FURTHER RESOLVED, That within thirty (30) days of the contract being fully executed
6 by all parties, the Airport Commission shall provide a copy of the final contract to the Clerk of
7 the Board for inclusion into the official file.

Item 2
File 14-0089

Department:
San Francisco International Airport

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize a new five-year lease between the San Francisco International Airport (Airport) and Southwest Airlines Company (Southwest) for warehouse, office and ramp space to conduct air cargo operations with a total annual rent payable by Southwest to the Airport of \$262,752.

Key Points

- Southwest is transitioning from using the same 14,546 square feet of cargo warehouse space and ramp space under an Airport permit (No. 4295) to a five-year lease. The proposed lease provides (a) 9,653 square feet of warehouse space, (b) 2,253 square feet of office space, and (c) 2,640 square feet of exterior ramp space to conduct Southwest's air cargo operations.

Fiscal Impacts

- Under the proposed lease, Southwest will continue to pay the Airport rent of \$262,752 a year, subject to annual adjustments in Airport rates and charges and changes in the annual Consumer Price Index.
- Under the proposed lease, Southwest will pay a minimum of \$1,313,761 to the Airport over the five-year term of the lease for 14,546 square feet of cargo warehouse, office and ramp space at the Airport.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Section 2A.173 of the City's Administrative Code authorizes the Airport to negotiate and execute leases of Airport land and space in Airport buildings without undergoing a competitive bid process, as long as the original term of the lease does not exceed 50 years.

City Charter Section 9.118 states that leases, which would result in revenues to the City in excess of \$1,000,000, are subject to Board of Supervisors approval.

BACKGROUND

On June 1, 2007, the Airport entered into a month-to-month permit¹ agreement (No. 3958) with Southwest Airlines Company (Southwest) for 10,080 square feet of cargo warehouse and office space in Cargo Building No. 632 on Plot 9 on Airport property, to handle Southwest's air cargo operations. However, due to the Airport's construction of the West Field Cargo facilities in 2013, which demolished Cargo Building No. 632, the Airport requested Southwest to relocate and to enter into a new permit agreement on April 1, 2013 for 14,546 square feet of cargo warehouse, office and ramp space in Cargo Building No. 606 on Plot 9B. This new month-to-month permit agreement (No. 4295) includes (a) 9,653 square feet of warehouse space, (b) 2,253 square feet of office space, and (c) 2,640 square feet of exterior ramp space. A map is attached to this report showing the location of the West Field Cargo Building construction site and Southwest's new location in Cargo Building No. 606.

Annual rent at the relocated site in Building No. 606 of \$258,360 is currently paid by Southwest to the Airport for the total 11,906 square feet of warehouse and office space based on a rate of \$21.70 per square foot per year, as set forth annually in the Airport's approved rates and charges. In addition, an annual rent of \$4,392 is paid by Southwest to the Airport for 2,640 square feet (approximately 0.06 of an acre) of ramp space on Plot 9B based on the Airport's approved rate of \$72,000 per acre per year for ramp space, subject to annual Consumer Price Index adjustments. Together, the Airport currently receives \$262,752 (\$258,360 + \$4,392) in annual rent from Southwest for these cargo facilities.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a new five-year lease to replace the existing permit agreement between Southwest and the Airport, commencing April 1, 2014 extending through

¹ A permit issued between the Airport and an airline allows for use of Airport space for an indefinite term, which can be terminated by either party with a 30 day written notice, which is different from a lease between the Airport and an airline which includes a longer and specific term.

March 31, 2019 for the use of Airport Building No. 606 and adjacent ramp space on Plot 9B for a total of 14,546 square feet of space, including (a) 11,906 square feet of cargo warehouse space, and (b) 2,640 square feet of ramp space. Under the proposed lease, Southwest receives the space “as is” and will pay the cost of utilities. The Airport will provide routine maintenance to the building.

FISCAL IMPACT

As summarized in Table 1 below, currently, under the existing permit between the Airport and Southwest, Southwest pays \$258,360 for 11,906 square feet of warehouse and office space based on the Airport’s approved rate of \$21.70 per square foot per year. In addition, as shown in Table 1 below, Southwest currently pays the Airport approximately \$1.65 per square foot or \$4,932 for 2,640 square feet (0.06 of an acre) of ramp space based on the Airport’s approved rate of \$72,000 per acre per year. Ramp space rates are adjusted in an amount equal to the increase in Consumer Price Index, approved annually by the Airport.

Table 1: Proposed Annual Rent for Airport Cargo Warehouse, Office and Ramp Space

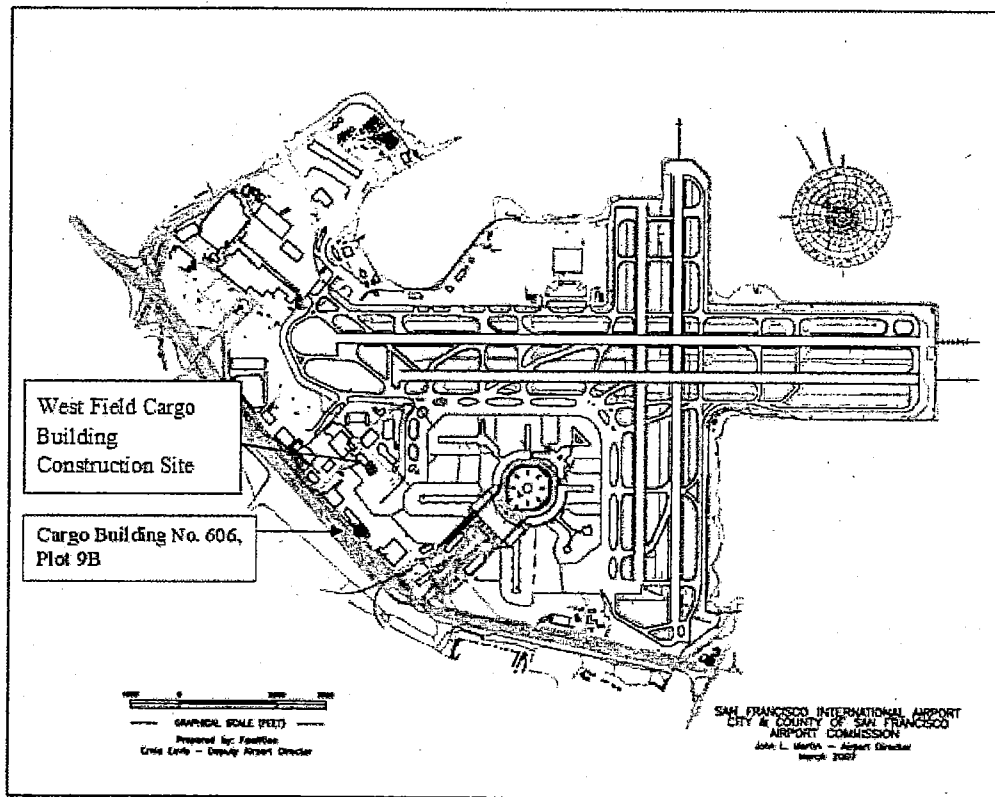
	Square feet	Airport’s Approved Rates	Total
Cargo Warehouse	11,906	\$21.70 per square foot	\$258,360
Ramp Space	2,640	\$1.65 per square foot	\$4,392
Total	14,546	--	\$262,752

Together, Southwest currently pays the Airport \$262,752 of rent for use of Airport Building No. 606, or \$21,896 per month under the existing month-to-month permit. Under the proposed new five-year lease, Southwest will continue to pay the airport the same annual rent of \$262,752. This rate is subject to the Airport’s adjustments in the cargo, office and ramp space rates, such that these rate adjustments would be paid by Southwest under the proposed lease. As of the writing of this report, the Airport cannot estimate the amount of such adjustments. Therefore, over the total term of five years, Southwest will pay a minimum of \$1,313,761 (\$262,752 x 5) to lease 14,546 square feet of cargo and ramp space from the Airport.

RECOMMENDATION

Approve the proposed resolution.

Attachment





San Francisco International Airport

December 30, 2013

Ms. Angela Calvillo
Clerk of the Board
Board of Supervisors
City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2014 JAN 31 PM 1:18
L

Subject: Approval of Lease Agreement for Cargo Building 606 and Related Areas on Plot 9B No. L13-0257 between Southwest Airlines Co. and the City and County of San Francisco, acting by and through its Airport Commission

Dear Ms. Calvillo:

Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval the Lease Agreement for Cargo Building 606 and Related Areas on Plot 9B No. L13-0257 (the "Lease") between Southwest Airlines Co. and the City and County of San Francisco, acting by and through its Airport Commission. The Airport Commission approved the Lease through its adoption of Resolution No. 13-0257 on December 3, 2013.

The Lease allows Southwest Airlines Co.'s exclusive use of approximately 11,906 square feet of cargo warehouse and office space in Airport Cargo Building 606, and approximately 0.061 acres (2,640 square feet) of ramp space on Plot 9B.

The following is a list of accompanying documents (five sets):

- Board of Supervisors Resolution;
- Ethics Forms SFEC-126;
- Approved Airport Commission Resolution No. 13-0257 and Director's Memorandum; and
- A copy of Lease Agreement for Cargo Building 606 and Related Areas on Plot 9B No. L13-0257 approved as to form by the City Attorney's Office.

You may contact Teresa Rivor of Airport Aviation Management at (650) 821-4525 regarding this matter.

Very truly yours,

Jean Caramatti
Commission Secretary

Enclosures

cc: Teresa Rivor

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE
MAYOR

LARRY MAZZOLA
PRESIDENT

LINDA S. CRAYTON
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

JOHN L. MARTIN
AIRPORT DIRECTOR

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 13_0257

RESOLUTION 1) APPROVING A LEASE WITH SOUTHWEST AIRLINES CO. FOR CARGO WAREHOUSE, OFFICE SPACE AND RAMP SPACE IN CARGO BUILDING NO. 606 ON PLOT 9B; AND 2) DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL

WHEREAS, Southwest Airlines Co. ("Southwest") is a signatory airline pursuant to 2011 Lease and Use Agreement No. L10-0095; and

WHEREAS, Southwest currently conducts its cargo handling operations at Building 606 on Plot 9B (the "Premises"), pursuant to Permit No. 4295, on a month-to-month basis; and

WHEREAS, Southwest desires a longer term commitment with the Airport for the Premises by entering into a lease with a term of five (5) years; and

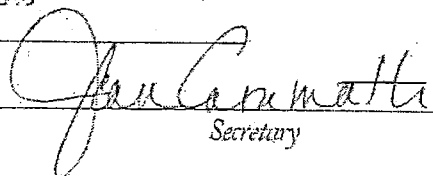
WHEREAS, the initial rent for the warehouse and office space will be \$258,360.20 based on Cargo Facilities Warehouse Rate II of \$21.70 per square foot per year, as adjusted by the Airport's rates and charges; and the initial rent for the ramp space will be \$4,392.00 based on \$72,000 per acre per year subject to Annual CPI adjustments; now, therefore, be it

RESOLVED, that the Airport Commission hereby approves and authorizes the Airport Director to execute a five (5) year Lease with Southwest for approximately 11,906 square feet of cargo warehouse and office space in Cargo Building No. 606 on Plot 9B, and approximately 2,640 square feet of ramp space adjacent to Cargo Building No. 606; and, be it further

RESOLVED, that the Commission Secretary is hereby directed to request approval of the Lease by resolution of the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

*I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of* _____

DEC 03 2013


Secretary



San Francisco International Airport

MEMORANDUM

December 3, 2013

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenlime
Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Approval of a Lease with Southwest Airlines Co.

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION:
1) APPROVING A LEASE WITH SOUTHWEST AIRLINES CO. FOR CARGO WAREHOUSE, OFFICE SPACE, AND RAMP SPACE IN CARGO BUILDING NO. 606 ON PLOT 9B; AND
2) DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

Southwest Airlines Co. ("Southwest") wishes to enter into a lease for cargo warehouse and office space at Cargo Building No. 606 on Plot 9B, as shown on the attached Exhibit A, to conduct its air cargo operation. The leasehold is comprised of approximately 11,906 square feet of cargo warehouse and office space, and approximately 0.061 acres (2,640 square feet) of ramp space, with a combined annual rent of \$262,752.20, based on \$21.70 per square foot per year for the warehouse and office space, and \$72,000 per acre per year for the ramp space ("Lease"). The Lease will have a term of five (5) years.

Background

Southwest has operated at San Francisco International Airport (the "Airport") since 2007 under permit, and became a signatory airline in 2011 under Airline-Airport Lease and Use Agreement No. L10-0095.

On June 1, 2007, Southwest entered into Permit No. 3958 with the Airport for cargo warehouse and office space in Cargo Building No. 632 on Plot 9; however, due to the start of construction for the new West Field Cargo Building, Southwest was required to vacate its premises. Staff worked closely with Southwest to identify an alternative location for its operations. Following a review of various options, Southwest opted to relocate its operation to Cargo Building No. 606 on Plot 9B.

On April 1, 2013, Southwest entered into Permit No. 4295, on a month-to-month basis, for exclusive use space in Cargo Building No. 606 and ramp space adjacent to the warehouse for their cargo operation. Southwest now desires to make a longer term commitment to the Airport by entering into the Lease with the Airport for its exclusive use space in Cargo Building No. 606 and ramp space adjacent to the warehouse. The Lease is subject to Airport Commission and Board of Supervisors' approval.

THIS PRINT COVERS CALENDAR ITEM NO. 14

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE LARRY MAZZOLA LINDA S. CRAYTON ELEANOR JOHNS RICHARD J. GUGGENHIME PETER A. STERN JOHN L. MARTIN
MAYOR PRESIDENT VICE PRESIDENT AIRPORT DIRECTOR

Proposal

The proposed major business terms are as follows:

1. **Permitted Use:** Conduct air cargo related business, including receiving, delivering, dispatching, processing, handling, and storage of air cargo, mail and any other lawful purpose related to such activities.
2. **Commencement Date:** Upon approval by City.
3. **Term:** Five (5) years
4. **Premises:**
 - a) Approximately 11,906 square feet of cargo warehouse and office space in Cargo Building No. 606 on Plot 9B;
 - b) Approximately 0.061 acres (2,640 square feet) of ramp space adjacent to Cargo Building No. 606 on Plot 9B.
5. **Non-Exclusive Areas:** ULD/GSE storage area and customer vehicle parking.
6. **Annual Rent:**
 - a) \$258,360.20 based on \$21.70 per square foot, per year according to Airport's Rates and Charges Warehouse II schedule, as the same may be adjusted from time to time;
 - b) \$4,392.00 per year based on a rate of \$72,000 per acre, per year for ramp space. Rate is subject to annual Consumer Price Index ("CPI") adjustments.
7. **Services and Utilities:** At Southwest's sole expense.
8. **Maintenance:** The Airport will maintain the base-building infrastructure and building systems to a point of connection. Southwest will maintain all tenant improvements and all other systems or equipment located in Cargo Building No. 606.

Recommendation

I recommend adoption of the accompanying Resolution that: 1) approves the Lease with Southwest Airlines Co., with a term of five (5) years, for a total of 11,906 square feet of warehouse/office space and 2,640 square feet of ramp space adjacent to the warehouse Cargo Building No. 606 at an annual rent of \$262,752.20; and 2) directs the Commission Secretary to forward the Lease to the Board of Supervisors for approval.



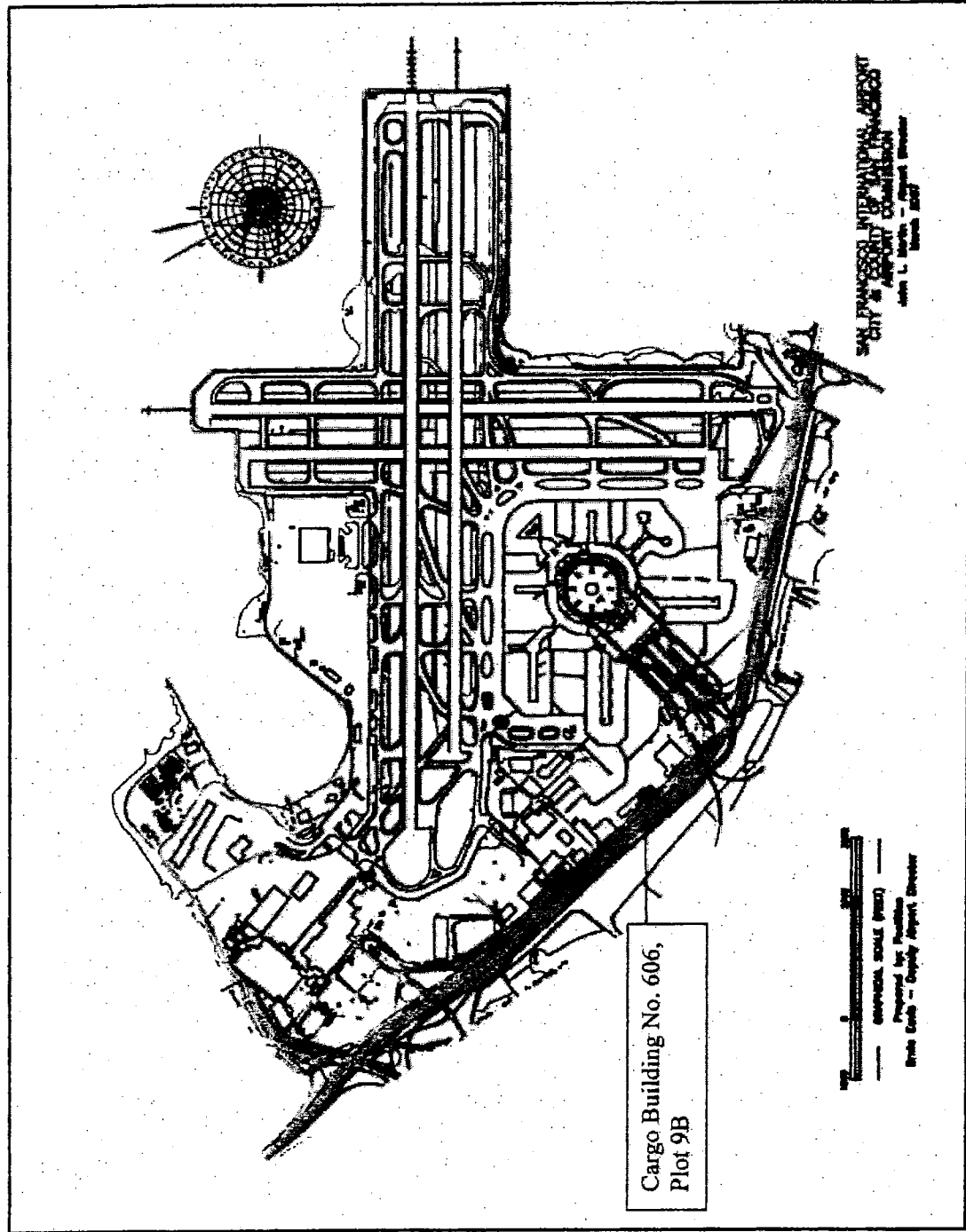
John L. Martin
Airport Director

Prepared by: Leo Fermin
Deputy Airport Director
Business & Finance

Attachment

Exhibit A

PREMISES



**LEASE AGREEMENT
OF SOUTHWEST AIRLINES CO.
FOR CARGO BUILDING 606 AND RELATED AREAS ON PLOT 9B
AT SAN FRANCISCO INTERNATIONAL AIRPORT**

by and between

SOUTHWEST AIRLINES CO.,
as tenant

and

**CITY AND COUNTY OF SAN FRANCISCO
ACTING BY AND THROUGH ITS AIRPORT COMMISSION,**
as landlord

Mayor Edwin M. Lee

AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenhime
Hon. Peter A. Stern

December, 2013

Lease No. L13-0257

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**LEASE AGREEMENT
OF SOUTHWEST AIRLINES CO.
FOR CARGO BUILDING 606 AND RELATED AREAS ON PLOT 9B
AT SAN FRANCISCO INTERNATIONAL AIRPORT**

MAJOR LEASE TERM SUMMARY

For the convenience of Tenant and City (as such terms are defined below), this Major Lease Term Summary (this "**Summary**") summarizes certain terms of this Lease (as defined below). This Summary is not intended to be a detailed or complete description of this Lease, and reference must be made to the other Sections below for the particulars of this Lease. In the event of any inconsistency between the terms of this Summary and any other provision of this Lease, such other provision shall prevail. Capitalized terms used elsewhere in this Lease and not defined elsewhere shall have the meanings given them in this Summary.

Effective Date: _____, 2013

Tenant: Southwest Airlines, Co.,
a Texas Corporation

**Tenant's Notice
Address:** Southwest Airlines Co.
P.O. Box 36611, HDQ-4PF
2702 Love Field Drive
Dallas, Texas 75235-1611

Attention: Mr. Gregory Gillis
Property Manager
Tel No.: (214) 792-4909
Fax No.: (214) 792-4086

City: The City and County of San Francisco, a municipal corporation,
acting by and through its Airport Commission

**City's Notice
Address:** San Francisco International Airport
International Terminal, 5th Floor
P.O. Box 8097
San Francisco, CA 94128

Attention: Airport Director
Fax No.: (650) 821-5005
Tel. No.: (650) 821-5000

Premises: Portions of Airport Building 606 comprised of two parcels at San Francisco International Airport, as described on Airport Drawing B606L1WN dated April 30, 2013. The Premises include:

(§ 1)

Parcel A: Approximately 11,906 square feet of cargo building space, located in Cargo Building 606 on Plot 9B (“the **Cargo Building**”) comprised of the following:

- 9,653 square feet of warehouse space
- 1,193 square feet of mezzanine office space
- 1,060 square feet of office space

Parcel B: Approximately 0.061 acres (2,640 square feet) of ramp space on Plot 9B (the “**Ramp Space**”).

Non-Exclusive Areas:

(§ 1)

ULD/GSE Storage Area
Customer Vehicle Parking
All Non-Exclusive Areas above, as described on Airport Drawing No. B606L1WN, dated April 30, 2013.

Term:

(§ 2)

Five (5) years

Commencement Date:

(§ 2)

Expiration Date:

(§ 2)

11:59 p.m. (PT) on _____ or upon earlier termination of this Lease, as provided herein.

Annual Rent:

(§ 4)

Parcel A: Cargo Building: Two Hundred Forty-Three Thousand Four Hundred Seventy-Seven Dollars and Seventy Cents (\$243,477.70) (“**Annual Rent**”), paid in advance in twelve (12) monthly installments of Twenty Thousand Two Hundred Eighty-Nine Dollars and Eighty-One Cents (\$20,289.81) per month, based on Cargo Facilities, Warehouse Rate II, as set forth annually in the Airport’s rates and charges, based on the rate of Twenty Dollars and Forty-Five Cents (\$20.45) per square foot per year for Eleven Thousand Nine Hundred and Six (11,906) square feet of warehouse and office space for the “**Cargo Building**”.

Parcel B: Ramp Space: Four Thousand Three Hundred Fifty-Six Dollars (\$4,356.00) (“**Annual Rent**”) paid in advance in twelve (12) monthly installments of Three Hundred Sixty-Three Dollars (\$363.00) per month, based on the acreage rate of Seventy Two Thousand Dollars (\$72,000) per acre per year for the “**Ramp Space**,” such rates will be adjusted in an amount equal to the increase in the Consumer Price Index.

Together the Annual Rent for Parcels A and B will be Two Hundred Forty-Seven Thousand Eight Hundred Thirty-Three Dollars and Seventy Cents (\$247,833.70) per year (Twenty Thousand Six Hundred Fifty Dollars and Eighty Cents (\$20,652.80) per month).

As used herein, the Term "Annual Rent" shall mean the sum of Parcels A and B.

Rent: Annual Rent, Additional Rent (as defined below), and all other amounts owing
(§ 4) by Tenant to City hereunder.

Deposit Amount: The higher of One Hundred Twenty-Three Thousand Nine Hundred and
(§ 12) Sixteen Dollars and Eighty Five Cents (\$123,916.85) and six (6) months rent.

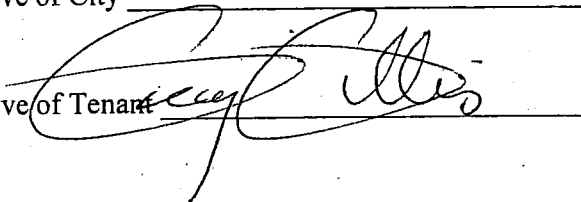
Resolution No: Number 13-0257, approved by the Airport Commission
on 12/03/2013.

Initial Tenant Gregory Gillis
Representative: Tel. No. (214) 792-6467
(§ 3.7)

Other Lease & Use Agreement 10-0095
Agreements: Permit 3974
(§ 14.1) Permit 3979
Permit 4260
Permit 4295

Exhibits: A – Premises and Non-Exclusive Areas
B – Mandatory City Contracting Provisions
C – City's Maintenance Obligations
D – Reimbursement Calculation Example – Unamortized Alteration Cost
E – List of Available Environmental Reports for Plots 9, 9A, and 9B

Initials of Authorized Representative of City _____

Initials of Authorized Representative of Tenant  _____

**LEASE AGREEMENT
OF SOUTHWEST AIRLINES CO.
FOR CARGO BUILDING 606 AND RELATED AREAS ON PLOT 9B AT
SAN FRANCISCO INTERNATIONAL AIRPORT**

THIS LEASE AGREEMENT (this "**Lease**"), dated as of the Effective Date, is entered into by and between the City and County of San Francisco, a municipal corporation ("**City**"), acting by and through its Airport Commission ("**Commission**"), and Southwest Airlines Co., a Texas corporation ("**Tenant**").

This Lease is made with reference to the following facts and objectives:

A. City owns San Francisco International Airport (the "**Airport**") located in the County of San Mateo, State of California, which Airport is operated by and through the Commission, the chief executive officer of which is the Airport Director ("**Director**"). The Airport's "**Terminal Building Complex**" is currently comprised of a Terminal 1, Terminal 2, Terminal 3, and the International Terminal, together with connecting concourses, piers, boarding areas and extensions thereof, and satellite, cargo, and support buildings now or hereafter constructed. The Airport's "**Cargo Building 606**" (the "**Cargo Building**") is comprised of a multi-tenant warehouse, with associated administrative, ramp, and parking facilities. The Airport's "**Ramp Space-Plot 9B**" (the "**Ramp Space**") is comprised of approximately 0.061 acres of ramp space located on Plot 9B, immediately adjacent to the Cargo Building. Tenant acknowledges that, from time to time, the Airport undergoes certain construction and renovation projects. Unless otherwise specified, the term "**Airport**" or "**Terminal Building Complex**" or "**Cargo Building**" or "**Ramp Space**" as used herein shall mean the Airport, Terminal Building Complex, Cargo Building or Ramp Space respectively, as the same may be expanded, contracted, improved, modified, renovated, or changed in any way. Unless otherwise specified below, references to "**City**" shall mean City, acting by and through its Airport Commission.

B. Pursuant to Lease No. 10-0095, effective July 1, 2011 through June 30, 2021, entered into by the City and Tenant and approved under Airport Commission Resolution No. 10-0095 on March 16, 2010 and Board of Supervisors' Resolution No. 208-10 on May 21, 2010, Tenant is a signatory carrier at the Airport (the "**Lease and Use Agreement**"). Unless otherwise specified, the terms "**Airport Revenue Bonds**", "**Master Bond Documents**" and "**Special Revenue Bonds**" as used in the Lease and Use Agreement shall mean the Airport Revenue Bonds, Master Bond Documents and Special Revenue Bonds respectively herein, as the same may be expanded, contracted, improved, modified, renovated, or changed in any way.

C. City desires to lease certain real property at the Airport for the purpose of conducting an integrated air cargo business.

D. Pursuant to the Resolution, Commission has authorized the execution of this Lease by City.

Accordingly, Tenant and City agree as follows:

1. PREMISE

1.1 Extent of Leasehold. On the terms, conditions, and covenants in this Lease, City hereby leases to Tenant and Tenant hereby leases from City, the Premises.

1.2 Rights of Ingress and Egress. Tenant shall also have the non-exclusive right of ingress and egress across Airport property to conduct its permitted operations hereunder provided that such ingress and egress activity: (a) shall not impede or interfere unduly with the operation of the Airport by City, its tenants, customers, employees and other authorized occupants; (b) shall be subject to Airport Rules and Regulations, as amended from time to time as amended, (the "Airport Rules"), including those pertaining to badge, permitting, and other security requirements, and the requirements of this Lease; and (c) shall be in or on highways, roads, and other areas designated by Director from time to time. Said rights of ingress and egress shall likewise apply to Tenant's employees, guests, patrons and suppliers, including the right of transport of equipment, material, cargo, machinery and other property, provided however, that Director may impose a charge upon Tenant's suppliers or furnishers of service in an amount sufficient to compensate City for the out-of-pocket costs reasonably and directly incurred by City in the reasonable regulation by City of such suppliers or furnishers of service in the exercise by such suppliers or furnishers of the foregoing right of ingress and egress, and provided further, that such right of ingress and egress shall not alter or affect whatever contractual arrangements which may now or hereafter exist between City and Tenant's suppliers or furnishers of service.

1.3 Non-Exclusive Space. In addition to the Premises, Tenant shall be granted non-exclusive use of areas (collectively, the "Non-Exclusive Areas") adjacent to, and around, the Cargo Building, as further described on *Exhibit A*, or as otherwise designated by Director, for the purposes set forth below:

(a) Customer Vehicle Parking: Tenant shall be entitled to the non-exclusive use of the vehicle parking area adjacent to the Cargo Building, as shown on *Exhibit A*, for customer parking within the established limits set by the Airport, which may be amended from time to time.

(b) ULD/GSE Storage: Tenant shall be entitled to the non-exclusive use of space on the ramp area in and adjacent to the Cargo Building for ULD and GSE storage, which areas are shown on *Exhibit A*, or as otherwise designated by Director.

For purposes of this Lease relating to Tenant's responsibilities and liabilities, including Sections 3.7, 3.11, 5.1, 6.1, 7, 9, 11, 15 and 16, and City's rights [including Sections 1.4 and 1.6], unless otherwise specified, the term the "Premises" shall include the Non-Exclusive Areas; provided, however, that Tenant shall have no obligation to repair or make changes to the Non-Exclusive Areas except and to the extent the same is caused by or results from (a) any act or omission of Tenant or any Tenant Entity as defined below, (b) Tenant's use of the Premises, the Non-Exclusive Areas, or operations at the Airport, or (c) any default by Tenant or any Tenant Entity hereunder. As used herein, the term "Tenant Entity" shall mean any officer, employee, affiliate, contractor, agent, licensee, or invitee of Tenant.

1.4 Relocation, Expansion, Contraction.

(a) At any time City may, by appropriate Commission Resolution, and upon six (6) months prior notice to Tenant, require that (i) Tenant relocate and surrender all or part of the Premises (such change to the Premises referred to as a “**Required Surrender**”), and/or (ii) the Premises be contracted (such change to the Premises referred to as a “**Premises Change**”) on the terms set forth in this Section 1.4. City shall give notice (the “**Change Notice**”) setting forth a description of the Required Surrender or the Premises Change, as applicable, the approximate effective date thereof (the “**Target Effective Date**”), and with respect to a Required Surrender, the location of comparable on-Airport replacement premises if such replacement premises shall exist. Thereafter, the Tenant shall surrender all or part of the Premises, as applicable, on a date (the “**Surrender Date**”) determined by the Director (which shall be no earlier than the Target Effective Date).

(b) With respect to a Required Surrender, if the replacement premises are deemed unsatisfactory to Tenant, then Tenant may terminate this Lease by giving notice thereof to City within sixty (60) days after the Change Notice is given. In the event Tenant gives such notice of termination, then this Lease shall terminate on the Surrender Date, and on such date, Tenant shall surrender the Premises in the condition required by this Lease. Provided Tenant does not terminate this Lease pursuant to the foregoing, Tenant shall surrender the Premises in a condition as required by this Lease and relocate to the replacement premises on the Surrender Date.

(c) With respect to a Premises Change, if the contracted premises are deemed unsatisfactory to Tenant, then Tenant may terminate this Lease by giving notice thereof to City within sixty (60) days after the Change Notice is given. In the event Tenant gives such notice of termination, then this Lease shall terminate on the Surrender Date, and on such date, Tenant shall surrender the Premises in the condition required by this Lease. Provided Tenant does not terminate this Lease pursuant to the foregoing, Tenant shall surrender that portion of the Premises as prescribed in the Change Notice on the Surrender Date determined by Director (which shall be no earlier than the Target Effective Date) in a condition as required by this Lease.

(d) In connection with a Required Surrender, City shall reimburse Tenant for Tenant’s Unamortized Approved Alteration Costs (as defined below) for the permanent improvements located on the surrendered Premises. As used herein, the term “**Unamortized Approved Alteration Costs**” shall mean the unamortized portion of the Approved Alteration Costs (as defined in Section 7.3), where such costs have been amortized on a straight-line basis over a period commencing on the Commencement Date based on work completed on the Completion Date (as defined in Section 7.3) and ending on the Expiration Date of the Initial Term. In no event will the total Unamortized Approved Alteration Costs exceed Three Hundred Eighteen Thousand Four Hundred Seventy One Dollars and Thirty-Two Cents (\$318,471.32) without Director’s prior approval of a specific increase. In no event will Tenant be entitled to any reimbursement for any Required Surrender of a Non-Exclusive Area.

(e) With respect to a Required Surrender, the Annual Rent shall be increased, or decreased, as the case may be, pro rata, to reflect the increase or decrease, as the case may be, in the size of the replacement premises compared to the original Premises.

(f) With respect to a Premises Change, where the original Premises will be expanded or contracted, the Annual Rent shall be increased, or decreased, as the case may be, pro rata to reflect the increase or decrease, as the case may be, in the size of the expanded or contracted premises compared to the original Premises.

(g) A Required Surrender or a Premises Change shall not require a formal amendment of this Lease.

(h) Notwithstanding anything to the contrary herein, City shall not require a Required Surrender or a Premises Change unless City shall have considered other reasonable alternatives and rejected them.

1.5 Underutilization of Premises. It is the intent of the parties hereto that Tenant shall use the entirety of the Premises continuously for the Permitted Use and shall not allow the Premises to be underutilized. For purposes of determining whether the Premises are "**Underutilized**", only the air cargo of Tenant (and not of any third party being handled by Tenant) shall be considered. Further, underutilization shall be based on quantities of air cargo and mail passing through the Premises during each immediately preceding calendar year period. The Director reserves the right to review annual cargo volumes being processed or handled at the Premises upon giving one month prior written notice to Tenant. In the event Director determines that the Premises are underutilized, Tenant shall enter into discussion with City regarding better utilization of the Premises.

(a) Recapture of Premises. In the event City determines the Premises to be Underutilized, City may, upon six (6) months prior written notice to Tenant, require that Tenant surrender a portion of the Premises (such change to the Premises referred to as "**Required Recapture**") on the terms set forth below. City shall give notice specifying the amount of space in the Premises to be recaptured and the approximate date thereof (the "**Recapture Effective Date**"). Tenant will submit a written proposal to City specifying which portion of the Premises will be surrendered. If Director determines, at his/her sole discretion, that Tenant's proposal does not provide a functional space for another air cargo airline and/or a related air cargo service provider, Director may reject the proposal and specify alternate space that would provide such functional space. On the Recapture Effective Date, Tenant shall surrender such space as required herein.

(i) With respect to the Required Recapture, the Annual Rent shall be decreased pro rata to reflect the decrease in the size of the Premises as compared to the original Premises.

(ii) A Required Recapture shall not require a formal amendment of this Lease.

(iii) Tenant shall not be entitled to, and Airport shall have no obligation to pay, any Unamortized Approved Alteration Costs or any other amounts in connection with a Required Recapture.

(b) Accommodation of Other Airlines. In the event City determines the Premises to be Underutilized, City may, upon six (6) months prior written notice to Tenant, require that Tenant accommodate air cargo handling operations of other airlines on reasonable terms and conditions and

without undue adverse consequences for Tenant's operations on and use of the Premises. City shall give Tenant notice specifying the nature and duration of such accommodation and reserves the right to review and approve the terms and conditions of the accommodation on a case-by-case basis. If such accommodation results in a Bonus Value (as defined in Section 5.2 below) to Tenant, then City shall share in such Bonus Value in a manner to be determined on a case-by-case review of the business terms of such accommodation.

1.6 Changes to Airport. Tenant acknowledges and agrees that (a) City shall have the right at all times to change, alter, expand, and contract the Airport, including the Terminal Building Complex, the Cargo Building, Ramp Space, and Non-Exclusive Areas; (b) City has made no representations, warranties, or covenants to Tenant regarding the design, construction, pedestrian traffic, or views of the Airport or the Premises. Without limiting the generality of the foregoing, Tenant acknowledges and agrees that the Airport (i) is currently undergoing, and may from time to time hereafter undergo renovation, construction, and other Airport modifications; and (ii) may from time to time adopt rules and regulations relating to security and other operational concerns that may affect Tenant's business. Although City will use reasonable efforts to minimize the effect of the Master Plan Expansion and other Airport changes on Tenant's business, Tenant acknowledges that such activity may have some effect on cargo operations occurring at the Airport.

2. TERM

2.1 Commencement and Expiration. The Term shall commence on the Commencement Date and expire on the Expiration Date, unless terminated prior thereto as provided herein.

2.2 Early Termination Right. Without limiting City's rights in Section 1.4 [Relocation, Expansion, Contraction], notwithstanding anything to the contrary herein, City shall have the right to terminate this Lease early, in the sole and absolute discretion of the Director, and as provided in this Section 2.2. Such early termination shall be accomplished by giving Tenant twelve (12) months prior written notice of City's intent to exercise the right of early termination. In the event of such early termination, City shall reimburse Tenant an amount equal to the Unamortized Approved Alteration Costs, which in no event will exceed the amount approved by the Director prior to issuance of the building permit for such Alterations. An example of such calculation is attached hereto as *Exhibit D*. In no event will Tenant be entitled to any reimbursement for Alterations in a Non-Exclusive Areas.

2.3 Holding Over. If, without objection by City, Tenant holds possession of the Premises after the Expiration Date, Tenant shall become a tenant from month to month, upon the terms of this Lease except that, at City's sole discretion, Annual Rent shall be double the then prevailing Annual Rent. No such holdover shall be deemed to operate as a renewal or extension of the Term. Such month-to-month tenancy may be terminated by City or Tenant by giving thirty (30) days' notice of termination to the other at any time.

2.4 No Renewal or Extension Rights. Tenant shall have no rights to renew or extend the Term of this Lease.

3. USE AND OPERATION

3.1 Permitted Use. Tenant shall use the Premises to conduct the Permitted Use provided below, subject to prior Director approval. In the event Tenant desires to use the Premises for any purpose other than the Permitted Use, or if Tenant desires to handle air cargo of third parties, Tenant may submit a written request to Director. Director may, in his/her sole and absolute discretion approve or deny such request. Any such decision shall be binding on Tenant.

3.2 No Exclusivity. Tenant acknowledges and agrees that Tenant has no exclusive rights to conduct the business of the Permitted Use and that City may arrange with others for similar activities at the Airport.

3.3 References to Airport. Tenant shall not, without the prior written consent of Director, reference City or the Airport for any purpose other than the address of the business to be conducted by Tenant in the Premises, nor will Tenant do or permit anything in connection with Tenant's business or advertising which in the judgment of City may reflect unfavorably on City or the Airport, or confuse or mislead the public as to the relationship between City and Tenant.

3.4 Prohibited Activities. Without limiting any other provision herein, Tenant shall not, without the prior written consent of Director: (a) cause or permit anything to be done, in or about the Premises, or bring or keep anything thereon which might (i) increase in any way the rate of fire insurance on the Cargo Building or the Airport or any of its contents by way of increased risk of fire or explosion; (ii) create a nuisance; (iii) in any way obstruct or interfere with the rights of others in the Cargo Building or injure or annoy them; (b) commit or suffer to be committed any waste upon the Premises; (c) use, or allow the Premises to be used, for any improper, immoral, unlawful or objectionable purpose; (d) place any loads upon the floor, walls or ceiling which endanger the structure or obstruct the sidewalk, passageways, stairways or escalators, in front of, within, or adjacent to the Cargo Building, or (e) do or permit to be done anything in any way tending to injure the reputation of City or appearance of the Airport; or (f) conduct any advertising or promotional activities on the Airport; or (g) conduct any non-emergency aircraft maintenance operations; or (h) conduct any aircraft washing.

3.5 Inspection of Operations. At any time and from time to time, City may conduct an inspection of Tenant's operations at the Airport to confirm that such operations comply with the requirements set forth herein. Tenant shall cooperate with such inspection.

3.6 Representative of Tenant; Access. Tenant shall at all reasonable times retain in the Cargo Building at least one qualified representative authorized to represent and act for it in matters pertaining to its operation, and shall keep Director informed in writing of the identity of each such person. The initial person so designated is the Initial Tenant Representative. Tenant shall assure City of emergency access to the Premises by providing a list of current emergency telephone numbers at which Initial Tenant Representative may be reached on a 24-hour basis.

3.7 Compliance with Laws. Tenant shall promptly, at its sole expense, cause the Premises (including any permitted Alterations (as defined below)), and Tenant's use of the Premises and operations therein, to comply at all times with all present and future federal, state and local laws, rules, regulations, directives, as the same may be amended from time to time, whether foreseen or

unforeseen, ordinary as well as extraordinary, including all laws, rules, regulations, directives, relating to (a) health and safety; (b) disabled access, including the Americans with Disabilities Act, 42 U.S.C.S. Sections 12101 et. seq. and Title 24 of the California Code of Regulations (collectively "ADA"), (c) Hazardous Materials (as defined below), and (d) fire sprinkler, seismic retrofit, and other building code requirements including all Airport Operation Bulletins and Airport Directives (collectively "Laws"); the Airport's Tenant Improvement Guide, as amended from time to time (as amended, the "Airport's TI Guide"); and the Airport Rules. The parties acknowledge and agree that Tenant's obligation to comply with all Laws, the Airport's TI Guide, and the Airport Rules, is a material part of the bargained for consideration under this Lease. Any work or installations made or performed by or on behalf of Tenant or any person or entity claiming through or under Tenant on the Premises shall be subject to and performed in compliance with the provisions of this Lease, including this Section 3.7. Notwithstanding the foregoing, this Section 3.7 shall not impose on Tenant any liability to make any alterations to the Building Systems, except to the extent the same is (x) installed by Tenant pursuant to Section 8 [Utilities], or otherwise, or (y) necessitated by Tenant's Alterations or by any act or omission of Tenant or any Tenant Entity. Tenant shall keep current all licenses and permits, whether municipal, county, Airport, state or federal, required for conduct of its operations at Airport, and pay all fees promptly when due.

3.8 Fuel System. Tenant acknowledges that City has granted to a third-party the sole and exclusive right to operate a fuel system on the Airport. Tenant acknowledges and agrees that, to the extent it desires to receive distribution of jet fuel on Airport premises, it must receive such distribution from such party, on the terms and conditions established by such party. In no event will Tenant have the right to operate a competing fuel system on the Airport.

3.9 Premises Must Be Used. Tenant shall use the entirety of the Premises continuously for the Permitted Use and shall not allow the Premises to be Underutilized or unoccupied without prior written consent of City, which consent may be withheld in City's sole discretion.

3.10 Certified Handlers. Tenant may utilize handlers to perform the Permitted Use provided that all such handlers shall be (a) Airport-certified, (b) party to an Airport-issued operating permit, and (c) obligated to operate in compliance with this Lease.

3.11 Third-Party Handling. With the prior written consent of Director, which consent shall not be unreasonably withheld, conditioned, or delayed, Tenant may handle air cargo and mail of other airlines. In connection with requesting such consent, Tenant shall advise Director of the fees to be charged by Tenant to such other airline for such handling services. Tenant acknowledges and agrees to submit, in writing to Director, any subsequent amendments to an Airport approved handling agreement during the Term to reflect changes and termination. Director's consent of a singular request does not constitute a blanket approval. Director's consent is required on each individual handling request.

3.12 Prevention of Trespass. Tenant shall use reasonable precautions to prevent unauthorized persons from gaining access to restricted flight and aircraft operational areas and all other nonpublic areas around restricted flight and aircraft operational areas and all other nonpublic areas around the Premises.

3.13 Antennae and Telecommunications Dishes. No antennae, telecommunications dish, wireless telecommunications system, or other similar facilities may be installed on the Premises

without the prior written approval of Director, which approval shall not be unreasonably withheld, conditioned or delayed. No such antennae shall interfere with City's emergency and non-emergency communications facilities or the transmission facilities of City.

4. RENT

4.1 Definitions. For purposes of this Lease, the following capitalized terms shall have the following meanings:

(a) "**Consumer Price Index**" means that index published by the United States Department of Labor, Bureau of Labor Statistics known as "All Urban Consumers – Not Seasonally Adjusted - All Items for the San Francisco-Oakland-San Jose Area, CA (1982-84 = 100)." In the event such index is discontinued, then "**Consumer Price Index**" shall mean an index chosen by Director which is, in Director's reasonable judgment, comparable to the index specified above.

(b) "**Rent Adjustment Date**" means the first anniversary of the Commencement Date, or the first day of the first calendar month following such anniversary if the Commencement Date does not fall on the first day of calendar month, and each anniversary of such Rent Adjustment Date thereafter.

(c) "**Base Index**" means the most recent Consumer Price Index published three (3) months prior to the Commencement Date if the Commencement Date falls on the first calendar day of a month, or two (2) months prior to the Commencement Date if the Effective Date does not fall on the first calendar day of a month.

(d) "**Comparison Index**" means the most recent Consumer Price Index published three (3) months prior to each Rent Adjustment Date.

(e) "**Lease Year**" means the period commencing on the Commencement Date and expiring on the day before the first Rent Adjustment Date, and each subsequent 12-month period, commencing on each Rent Adjustment Date and expiring on the day before the subsequent Rent Adjustment Date, or expiring on the termination of the Lease, as the case may be.

4.2 Monthly Rent Payments. Tenant shall pay, as rent for the Premises, the monthly installment of the Annual Rent in advance on or before the first (1st) day of each calendar month of the Term.

(a) On or before the Commencement Date and the first (1st) day of each calendar month, of the Term, Tenant shall pay the monthly installment of the current Annual Rent. If the Commencement Date occurs on a date other than the first day of a calendar month, then the monthly Rent for such first month ("**First Month**") shall be prorated based on the actual number of days, as the case may be, in such month.

(b) All payments hereunder shall be paid at the office of Director, or at such other place as City may from time to time designate in writing. All Rent shall be paid in lawful money of the United States, free from all claims, demands, setoffs, or counterclaims of any kind. Any Rent not paid when due shall be subject to a service charge equal to the lesser of the rate of one and one-half percent

(1 ½%) per month, and the maximum rate permitted by law. Acceptance of any service charge shall not constitute a waiver of Tenant's default on the overdue amount or prevent City from exercising any of the other rights and remedies available to City.

4.3 Prepay Rent. Notwithstanding anything to the contrary herein, in the event Tenant shall fail to pay any Rent when due hereunder, Director shall have the right to require Tenant to pay Rent (including Annual Rent, utility charges, and all other amounts) one (1) month in advance of when such payment would otherwise be due. Such right shall be exercised by a notice from Director to Tenant, which notice may be given any time after such default by Tenant, regardless of whether the same is cured by Tenant.

4.4 Additional Rent. Tenant shall pay to City any and all charges and other amounts under this Lease as additional rent, including fines pursuant to Section 14.7 [Special Liquidated Damages], at the same place where Annual Rent is payable. City shall have the same remedies for a default in the payment of any such additional charges as for a default in the payment of Annual Rent.

4.5 Adjustments to Annual Rent.

(a) On each Rent Adjustment Date for the Parcel A – Cargo Building, the Annual Rent will be adjusted in accordance with Airport's rates and charges for Cargo Facilities, Warehouse Rate II and adjustment from time to time based on changes to the Airport's rates and charges.

(b) On each Rent Adjustment Date for Parcel B – Ramp Space, the Annual Rent will be adjusted as follows: if the Comparison Index shall exceed the Base Index, then the Annual Rent with respect to the upcoming Lease Year shall be increased to equal the following amount:

$$\text{Initial Annual Rent} \quad \times \quad \frac{\text{Comparison Index}}{\text{Base Index}}$$

Notwithstanding anything to the contrary herein, in no event will the Annual Rent for any Lease Year of the Term for Parcel B – Ramp Space be lower than the Annual Rent with respect to the prior Lease Year.

4.6 Nature of Lease. The Annual Rent and other Rent due City hereunder shall be absolutely net to City and shall be paid without assertion of any counterclaim, setoff, deduction or defense and without abatement, suspension, deferment or reduction. Under no circumstances or conditions, whether now existing or hereafter arising, and whether or not beyond the present contemplation of the parties, shall City be expected or required to make any payment of any kind whatsoever with respect to the Premises or be under any obligation or liability hereunder except as expressly set forth in this Lease. Except as otherwise expressly provided herein, this Lease shall continue in full force and effect, and the obligations of Tenant hereunder shall not be released, discharged or otherwise affected, by reason of: (a) any damage to or destruction of the Premises, the Non-Exclusive Areas, or any portion thereof or any improvements thereon, or any taking thereof in eminent domain; (b) any restriction or prevention of or interference with any use of the Premises, the Non-Exclusive Areas, or the improvements or any part thereof; (c) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other proceeding relating to City, Tenant or any constituent partner of Tenant or any sublessee, licensee or concessionaire or any action taken with respect to this

Lease by a trustee or receiver, or by any court, in any proceeding; (d) any claim that Tenant or any other person has or might have against City (e) any failure on the part of City to perform or comply with any of the terms hereof or of any other agreement with Tenant or any other person; (f) any failure on the part of any sublessee, licensee, concessionaire, or other person to perform or comply with any of the terms of any sublease or other agreement between Tenant and any such person; (g) any termination of any sublease, license or concession, whether voluntary or by operation of law; or (h) any other occurrence whatsoever, whether similar or dissimilar to the foregoing in each case whether or not Tenant shall have notice or knowledge of any of the foregoing. The obligations of Tenant hereunder shall be separate and independent covenants and agreements. Tenant hereby waives to the full extent permitted by applicable law, all rights now or hereafter conferred by statute, including without limitation the provisions of Civil Code Sections 1932 and 1933, to quit, terminate or surrender this Lease or the Premises or any part thereof, or to any abatement, suspension, deferment, diminution or reduction of any rent hereunder.

4.7 Cargo Revenue Policy. Tenant acknowledges that City is considering the adoption of a Cargo Services Revenue Policy, which policy may initiate the imposition of a charge or fee assessed on cargo-related activity that: (1) occurs on the Premises, and/or (2) is performed by subtenants, third-party vendors, contractors, or agents on behalf of Tenant. Accordingly, Tenant agrees that if City adopts such policy, Tenant shall: (a) pay to City as "Additional Rent" the cargo services charge or fee consistent with such policy; (b) provide the cargo services reports and permit City audit rights as required by such policy; and (c) perform such other related actions as may be required by the Cargo Service Revenue Policy. City shall use reasonable efforts to give notice to Tenant outlining the proposed cargo services revenue policy prior to the adoption thereof.

4.8 Accounting. Tenant shall maintain for a period of five (5) years after the revocation or termination of this Lease or, in the event of a claim by City, until such claim of City for payments hereunder shall have been fully ascertained, fixed and paid, separate and accurate records of Tenant's operations hereunder. All such books and records shall be kept in accordance with generally accepted accounting principles, consistently applied, showing in detail all business done or transacted in, on, about or from or pertaining to the Airport. Upon Director's written request, Tenant shall make available immediately to City and/or its auditors any and all books, records and accounts pertaining to its operations under this Lease.

5. ASSIGNMENT OR SUBLETTING

5.1 No Assignment. Tenant shall not assign, sublet, encumber, or otherwise transfer, whether voluntary or involuntary or by operation of law, the Premises or any part thereof, or any interest herein, without City's prior written consent, which consent may be granted or denied in City's sole and absolute discretion (the term "Transfer" shall mean any such assignment, subletting, encumbrance, or transfer). City's consent to one Transfer shall not be deemed a consent to subsequent Transfers. Any Transfer made without City's consent shall constitute a default hereunder and shall be voidable at City's election.

5.2 No Bonus Value. It is the intent of the parties hereto that the Lease shall confer upon Tenant only the right to use and occupy the Premises and Non-Exclusive Areas and to exercise such other rights as are conferred upon Tenant by the Lease. The parties agree that the Lease is not intended and thus shall have no Bonus Value (as defined below) nor serve as a vehicle whereby Tenant may

profit by a future Transfer of the Lease or by the right to use or occupy the Premises as a result of any favorable terms contained herein or any future changes in the market for leased space. As used herein, the term "**Bonus Value**" shall mean consideration or compensation paid or payable under or by virtue of any Transfer, immediately or over the aggregate of the Term, directly or indirectly exceeding that paid or payable by Tenant under the Lease (less expenses for verifiable and reasonable costs for tenant improvements, lease concessions, value of Tenant's trade fixtures and special equipment conveyed in connection with the Transfer). If Tenant receives any Bonus Value during the Term of this Lease or in case of the sublease of a portion of the Premises in excess of such rent that is fairly allocable to such portion, Tenant shall pay City fifty percent (50%) of the difference between each such payment of sublease rent or other consideration and the Rent required hereunder.

5.3 Changes in Tenant. The merger of Tenant with any other entity or the transfer of any controlling ownership interest in Tenant, or the assignment or transfer of a substantial portion of the assets of Tenant, whether or not located on the Premises, shall constitute a Transfer. Without limiting the generality of the foregoing, if Tenant is a partnership, a withdrawal or change, voluntary, involuntary or by operation of law of the partner or partners owning fifty-one percent (51%) or more of the partnership, or the dissolution of the partnership, shall be deemed a Transfer. If Tenant is a corporation or limited liability company, any dissolution, merger, consolidation or other reorganization of Tenant, or the sale or other transfer of a controlling percentage of the capital stock or membership interests of Tenant, or the sale of at least fifty-one percent (51%) of the value of the assets of Tenant, shall be deemed a Transfer. The phrase "**controlling percentage**" means the ownership of, and the right to vote, stock or interests possessing at least fifty-one percent (51%) of the total combined voting power of all classes of Tenant's capital stock or interests issued, outstanding and entitled to vote for the election of directors. This paragraph shall not apply to corporations or limited liability companies the stock or interests of which is traded through an exchange or over the counter.

5.4 No Release. In no event will City's consent to a Transfer be deemed to be a release of Tenant as primary obligor hereunder.

6. TAXES, ASSESSMENTS AND LIENS

6.1 Taxes. Tenant recognizes and understands that this Lease may create a possessory interest subject to property taxation and that Tenant may be subject to the payment of property taxes levied on such interest. Tenant further recognizes and understands that any Transfer permitted under this Lease and any exercise of any option to renew or other extension of this Lease, if applicable, may constitute a change in ownership for purposes of property taxation and therefore may result in a revaluation of any possessory interest created hereunder. Tenant shall pay all taxes of any kind, including possessory interest taxes, that may be lawfully assessed on the leasehold interest hereby created and to pay all other taxes, excises, licenses, permit charges and assessments based on Tenant's usage of the Premises, all of which shall be paid when the same become due and payable and before delinquency. Tenant shall report any Transfer, or any renewal or extension hereof, to the County of San Mateo Assessor within sixty (60) days after such Transfer transaction, or renewal or extension. Tenant further agrees to provide such other information as may be requested by the City to enable the City to comply with any reporting requirements under applicable law with respect to possessory interests.

6.2 Other Liens. Tenant shall not permit or suffer any liens to be imposed upon the Premises, the Cargo Building, the Terminal Building Complex, other Airport property, or any part

thereof including mechanics, materialmen's and tax liens, as a result of its activities without promptly discharging the same. Notwithstanding the foregoing, Tenant may in good faith contest any such lien if Tenant provides a bond in an amount and form acceptable to City in order to clear the record of any such liens. Tenant shall assume the defense of and indemnify and hold harmless City against any and all liens and charges of any and every nature and kind which may at any time be established against said premises and improvements, or any part thereof, as a consequence of any act or omission of Tenant or as a consequence of the existence of Tenant's interest under this Lease.

7. TENANT IMPROVEMENTS; ALTERATIONS

7.1 Improvements. Subject to the provisions of Section 7.2 [City's Approval Rights] below, Tenant at its own expense may construct, place or erect on the Premises any improvements which it may consider necessary or useful in connection with or related to Tenant's business, including Tenant's trade fixtures, specialty equipment, furnishings, finishes, or other necessary improvements to Premises and thereafter, to alter, modify or enlarge the same.

7.2 City's Approval Rights. Tenant shall not make or suffer to be made any alterations, additions, or improvements to the Premises or any part thereof or attach any fixtures or equipment thereto, including the Initial Improvements (collectively, "Alterations") without Director's prior written consent. In no event will Tenant construct any Alterations on the Non-Exclusive Areas. Tenant shall cause all such Alterations to be performed in a workmanlike manner, in compliance with the requirements of the Airport's TI Guide and all applicable Laws. Without limiting the generality of the foregoing, all Exterior Alterations (as defined below) shall conform to Commission's established architectural design scheme for Cargo Building, and may require the approval of the Airport's Design Review Committee. As used herein, the term "Exterior Alterations" means Alterations to be installed on the exterior of Cargo Building or visible from any common area space within Cargo Building. Prior to the construction of any Alterations, Tenant shall submit detailed plans and specifications to the Director for approval. Tenant shall include with its plans and specifications schematic renderings of the common area, materials, and a color board(s). With respect to the Exterior Alterations, all decisions by the Airport's Design Review Committee shall be made subject to the approval of the Airport Commission. Director's approval rights will extend to and include architectural and aesthetic matters and City reserves the right to reject any designs submitted and to require Tenant to resubmit designs until they meet Director's approval. The Commencement Date shall not be extended if Director rejects any designs submitted. In the event of disapproval by City of any portion of the plans and specifications, Tenant will promptly submit necessary modifications and revisions thereof. No changes or alterations will be made in said plans or specifications after approval by Director. City agrees to act within a reasonable period of time upon such plans and specifications and upon requests for approval of changes or alterations in said plans or specifications. One copy of plans for all proposed Alterations will, within fifteen (15) days after approval thereof by Director be signed by Tenant and deposited with City as an official record thereof. All Alterations shall be effected through the use of contractors approved by Director who shall furnish to Director within fifteen (15) days such completion bonds and labor and material bonds as Director may require so as to assure completion of the Alterations on a lien-free basis.

7.3 Costs of Alterations. Tenant shall certify to the Director all out-of-pocket costs incurred by Tenant in connection with an approved Alterations project, which certification shall include copies of invoices for such Alterations, together with evidence of payment of such Alterations.

The term “**Approved Alteration Costs**” shall mean the actual out-of-pocket costs incurred by Tenant for Alterations projects approved by City, to the extent such costs are approved by Director.

“**Approved Alteration Costs**” shall not include any oversight or management fees, any relocation costs incurred by Tenant in connection with any Alteration, or the cost of any of Tenant’s personal property, equipment, or cargo-related fixtures. In the event Tenant fails to give such notice, the actual initial cost of such permanent improvement shall be determined by Director. As used herein, the term “**Completion Date**” means April 1, 2013, the date upon which Tenant had originally completed the Alterations and occupied the Premises under Airline Nonterminal Space of Use Permit No. 4295.

7.4 Notice and Permits. Tenant shall give written notice to Director not less than seven (7) days prior to the commencement of any Alterations work in order that City may post appropriate notices of non-responsibility, and agrees that such notices may remain posted until the acceptance of such work by City. Tenant shall obtain, and pay all fees for all permits required by the City or other legal jurisdictions, for improvements that it is required to construct or install and it shall furnish copies of all such permits to City prior to the commencement of any work.

7.5 Title to Alterations. Title to all Alterations of such a nature as cannot be removed without substantial damage to the Premises including all carpeting, decorations, finishes, and counters, shall vest in City on the Expiration Date. All other equipment of such nature as to constitute specialty equipment or trade fixtures shall remain the property of Tenant. On the Expiration Date, Tenant may remove said specialty equipment or trade fixtures or Director may require that Tenant remove same at Tenant’s expense. Prior to the Commencement Date, Tenant shall submit to Director a proposed list of such specialty equipment and trade fixtures; said list may be subsequently amended during the Term to reflect any changes in said specialty equipment and trade fixtures. Tenant agrees and understands that “specialty equipment or trade fixtures” are defined as objects, affixed or unaffixed, to the realty by Tenant to aid it in carrying on its business on the Premises in accordance with the Permitted Use. On the Expiration Date, all fixtures and equipment, other than those deemed specialty equipment or trade fixtures by City shall become the property of City. Tenant shall be liable to City for City’s costs for storing, removing and disposing of any alterations of Tenant’s personal property, and of restoration of the Premises.

7.6 Effect of Alterations on Airport. If and to the extent that Tenant’s activities or proposed Alterations trigger an obligation or requirement on the part of City to make changes to other Airport premises (including ADA requirements) including other areas of the Cargo Building, Tenant shall indemnify, defend, and hold harmless City from and against any and all Losses (as defined below) arising out of such activities or Alterations.

8. UTILITIES

8.1 Services

(a) Tenant shall have the right to obtain service from City’s water, sewerage, storm water drainage and electric power facilities, but shall acquire no title thereto. Tenant shall have the right to request and receive telephone and communications services and illuminating or industrial gas service, subject to the customary rules and regulations of these utility companies, from the utility companies furnishing such services, whether the companies deliver such services directly through their own conduits or pipes or through conduits or pipes owned by City. Tenant agrees to pay all charges

legally exacted for said utility services. Tenant may alter, relocate, or add to said existing facilities and utilities, provided written approval by City of plans for such alteration or relocation is first obtained. Tenant shall not cross connect water supplies from sources other than City's supply pipes. City shall have the right, at all times, without unreasonably or unduly interfering with Tenant's use of the Premises to enter upon the Premises and install, construct, maintain, operate and remove water pipes, drainage pipes, electric power supply lines, telephone and communication conduits, sewerage lines for general Airport use. Unless due to the fault of Tenant, the expense of any said operation shall be borne by City. In the event of any excavation by City upon the Premises for any of said purposes, said Premises shall be restored to the immediately prior condition at City's expense, unless due to the fault of Tenant.

(b) Prior to the beginning of any construction by Tenant, Tenant shall locate all existing underground utilities belonging to City or its tenants in order to avoid damage to said utilities. Any damage to existing pavement, underground facilities or other improvements belonging to City caused by Tenant's operations shall be repaired to the satisfaction of City by Tenant at its expense. Tenant shall promptly backfill any trench made by it on the Premises so as to leave the surface of the ground thereover, as nearly normal as practical, and restore pavement and landscaping to its original condition. This shall include Tenant's restoration of landscaping, fencing, gates, roadways, traffic signs, driveways, parking lots, guardrails or any other improvements.

(c) Drains or other facilities provided by Tenant for the purpose of disposing of storm or other waters shall in no case be connected to sanitary sewers. In the event that Tenant's facilities (either storm or sanitary) are below an elevation that will permit gravity flow into facilities provided by City, then Tenant shall provide and maintain such pumping facilities as may be necessary to deliver storm water or sanitary sewage to the proper drainage system facilities or sanitary sewers provided by City for the disposal of same. Tenant must provide adequate separations to prevent flow into the sanitary sewer system of petroleum products or chemicals or any foreign matter. Tenant shall take all reasonable precautions to prevent material going into the drainage system which would create interference with the flow therein, or which would cause undue hazards or unlawful contamination of the waters of the San Francisco Bay into which the drainage flow may be deposited.

8.2 Utility Costs. Tenant shall pay the whole cost for all utility services as invoiced to Tenant by City and for such other special services which it may require in the Premises, and Tenant hereby expressly waives the right to contest any utility rates.

8.3 Waiver of Damages. Tenant hereby expressly waives any and all claims for damages arising or resulting from failures or interruptions of utility services to the Premises, including electricity, gas, water, plumbing, sewage, telephone, communications, heat, ventilation, air conditioning, or for the failure or interruption of any public or passenger conveniences. Without limiting the generality of the foregoing, Tenant shall have no rights to abate Rent or terminate this Lease in the event of any interruption or failure of utility services.

9. MAINTENANCE AND REPAIR

9.1 "As-Is" Condition. THE PARTIES ACKNOWLEDGE AND AGREE THAT TENANT HAS USED, OCCUPIED, AND CONTROLLED THE PREMISES AND THE NON-EXCLUSIVE AREAS CONTINUOUSLY SINCE APRIL 1, 2013. TENANT SPECIFICALLY ACKNOWLEDGES

AND AGREES THAT CITY IS LEASING THE PREMISES TO TENANT ON AN "AS IS WITH ALL FAULTS" BASIS AND THAT TENANT IS NOT RELYING ON ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND WHATSOEVER, EXPRESS OR IMPLIED, FROM CITY OR ITS AGENTS, AS TO ANY MATTERS CONCERNING THE PREMISES INCLUDING THE NON-EXCLUSIVE AREAS, INCLUDING: (i) the quality, nature, adequacy and physical condition and aspects of the Premises including landscaping, (ii) the quality, nature, adequacy, and physical condition of soils, geology and any groundwater, (iii) the existence, quality, nature, adequacy and physical condition of utilities serving the Premises, (iv) the development potential of the Premises, and the Premises use, habitability, merchantability, or fitness, suitability, value or adequacy of the Premises for any particular purpose, (v) the zoning or other legal status of the Premises or any other public or private restrictions on use of the Premises, (vi) the compliance of the Premises or its operation with any applicable codes, laws, regulations, statutes, ordinances, covenants, conditions and restrictions of any governmental or quasi-governmental entity or of any other person or entity, (vii) the presence of Hazardous Materials on, under or about the Premises or the adjoining or neighboring property, (viii) the quality of any labor and materials used in any improvements on the real property, (ix) the condition of title to the Premises, and (x) any agreements affecting the Premises.

9.2 Tenant's Maintenance Obligations.

(a) Except as provided in Section 9.3 [City's Maintenance Obligations] below, Tenant shall at all times during the Term and at Tenant's sole cost and expense, keep the Premises and every part thereof in good condition and repair, and in compliance with applicable Laws and the Airport's TI Guide, including the replacement of any facility of City used by Tenant which requires replacement by reason of Tenant's use thereof, excepting (a) ordinary wear and tear, and (b) damage due to casualty with respect to which the provisions of Section 13 [Damage or Destruction] shall apply.

(b) Tenant hereby waives all right to make repairs at the expense of City or in lieu thereof to vacate the Premises as provided by California Civil Code Section 1941 and 1942 or any other law, statute or ordinance now or hereafter in effect. As provided below in Section 14.3 [City's Right to Perform], in the event Tenant fails to perform its maintenance and repair obligations hereunder, City shall have the right to do so, at Tenant's expense.

(c) Notwithstanding this Section 9.3(c) Tenant shall, and shall cause its Tenant Entities to, maintain and keep the truck dock, ramp and parking area in a neat, clean and orderly condition, free from litter, debris, refuse, petroleum products or grease that may accumulate thereon as a result of Tenant's operations hereunder.

9.3 City's Maintenance Obligations. City shall, at all times, at City's sole cost and expense, provide maintenance, repair, and replacement (if necessary) of Base-Building infrastructure, systems, and equipment, at Cargo Building, deemed City Responsibility, as provided on *Exhibit C*. In addition, City shall provide routine maintenance and repair of the ramp and parking areas adjacent to said Premises. However, if damage to such Premises, infrastructure, systems, and/or equipment is caused by Tenant or Tenant Entity, and is not the result of normal wear and tear, then the cost to repair or replace the same shall be borne by Tenant.

The maintenance, repair, and replacement of all other systems or equipment, including all systems or systems installed by Tenant, or located within the Premises, shall be the sole obligation

of the Tenant. Notwithstanding anything to the contrary herein, City shall have no obligation to perform any maintenance or repair if such maintenance or repair arose from the negligence or misconduct of Tenant as to which Tenant shall be solely liable.

City shall provide janitorial services on all public areas, including public hallways, lobbies, elevators, stairwells, and bathrooms.

10. SIGNS AND ADVERTISING

10.1 No Advertising. Tenant may, at its own expense, install and operate necessary and appropriate identification signs on the Premises, subject to the approval of Director, including the approval of the number, size, height, location, color and general type and design. Such approval shall be subject to revocation by Director at any time. Without express written consent of Director, Tenant shall not display any advertising or promotional materials. In no event will any advertising of any cigarettes or tobacco products be permitted. This prohibition does not apply to any advertisement sponsored by a state, local or nonprofit entity designed to communicate the health hazards of cigarettes and tobacco products or to encourage people not to smoke or to stop smoking.

10.2 Removal of Signage. Upon the expiration or the sooner termination of this Lease, Tenant, if requested by Director, shall remove, obliterate, or paint out any and all signs, and similar devices placed by Tenant on the Premises. In the event of the failure on the part of Tenant to so remove, obliterate, or paint out each and every sign so requested by Director, City may perform such work and Tenant shall pay the cost thereof to City upon demand.

11. WAIVER; INDEMNITY; INSURANCE

11.1 Waiver. Tenant, on behalf of itself and its successors and assigns, waives its rights to recover from and forever releases and discharges City and all City Entities and their respective heirs, successors, personal representatives and assigns, from any and all Losses whether direct or indirect, known or unknown, foreseen or unforeseen, that may arise on account of or in any way be connected with (a) the physical and environmental condition of the Premises or any law or regulation applicable thereto, including all Environmental Laws; (b) any damage suffered or sustained by Tenant or any person whatsoever may at any time be using or occupying or visiting the Premises or the Airport, or (c) any act or omission (whether negligent, non-negligent, or otherwise) of Tenant or any Tenant Entity, whether or not such Losses shall be caused in part by any act, omission, or negligence of any of City, Commission, its members, or any officers, agents, and employees of each of them, and their successors and assigns (each, a "City Entity"), except if caused by the sole gross negligence or willful misconduct of City. In connection with the foregoing waiver, Tenant expressly waives the benefits of Section 1542 of the California Civil Code, which provides as follows: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR EXPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN TO HIM MUST HAVE MATERIALLY AFFECTED THE SETTLEMENT WITH THE DEBTOR."

11.2 Indemnity. In addition to, and not in limitation of the foregoing, Tenant shall forever indemnify, defend, hold and save City and each City Entity free and harmless of, from and against any and all Losses caused in whole or in part by (a) any act or omission of Tenant or any Tenant Entity, (b) Tenant's use of the Premises or operations at the Airport, or (c) any default by Tenant or any Tenant

Entity hereunder, whether or not Losses shall be caused in part by any act, omission or negligence of City or any City Entity. The foregoing indemnity shall not extend to any loss caused solely by the sole gross negligence or willful misconduct of City.

11.3 Losses. For purposes hereof "Losses" shall mean any and all losses, liabilities, judgments, suits, claims, damages, costs and expenses (including reasonable attorneys' fees, investigation costs, remediation costs, and court costs), of any kind or nature.

11.4 Notice. Without limiting the foregoing waiver and indemnity, each party hereto shall give to the other prompt and timely written notice of any Loss coming to its knowledge which in any way, directly or indirectly, contingently or otherwise, affects or might affect either, and each shall have the right to participate in the defense of the same to the extent of its own interest.

11.5 Public Liability and Property Insurance.

(a) Tenant, at its sole cost and expense, and for the full Term of the Lease or any renewal thereof, shall obtain and maintain all of the following minimum insurance:

(i) An Aircraft Liability policy, with coverage of at least \$500 million combined single limit for bodily injury and property damage, which shall include but not necessarily be limited to all of the following coverages: Aircraft Liability, including General Liability, Aircraft Products and Completed Operations, Liquor Liability, Premises Liability, Products & Completed Operations, Contractual Liability, Hangarkeepers Liability, Motor Vehicle Liability within the secured side of the Airport, Cargo Legal Liability and Fueling and Refueling, if such operations are conducted by Tenant.

(ii) At least \$100 million War and Named Perils coverage for bodily injury and property damage, each occurrence and annual aggregate, or the U.S. Government equivalent.

(iii) A Workers' Compensation and Employers' Liability policy written in accordance with the laws of the state providing coverage for any and all employees of Tenant and providing coverage as follows:

- a. Workers' Compensation (Coverage A);
- b. \$2 million in Employers' Liability (Coverage B);
- c. Broad Form All States Endorsement;
- d. Voluntary Compensation Endorsement; and
- e. Waiver of Subrogation in favor of City

(iv) A Commercial Business Auto policy with a minimum limit of not less than \$2 million combined single limit for bodily injury and property damage providing that coverages shall be applicable to any and all leased, owned, hired or non-owned vehicles used in pursuit of any of the activities associated with this Lease. Any and all mobile equipment, including cranes, which is not

covered under the Comprehensive Business Auto policy shall have said coverage provided for under the Comprehensive General Liability policy required above.

(v) Property Insurance in an amount equal to "Value of Tenant Improvements and Betterments" during the course of construction and after completion. Coverage shall include Replacement Value, covering Tenant improvements and betterments, for Fire & Extended Coverage, including Sprinkler Leakage, Vandalism & Malicious Mischief, and Debris Removal.

(b) Any deductibles or self-insured retentions must be disclosed to the City.

(c) Except for U.S. government equivalent War and Named Perils coverage, Workers Compensation/Employer's Liability Insurance and Property Coverage, the insurance policies shall contain, or be endorsed to contain, the following provisions:

(i) City and its officials, employees, agents and contractors shall be covered as additional insureds to the extent of Tenant's indemnity obligations under this Lease. The coverage shall contain no special limitations on the scope of protection afforded to City, its officials, employees, agents and contractors.

(ii) Tenant's insurance coverage shall be primary insurance with respect to City, its officials, employees, agents and contractors. Any insurance or self-insurance maintained by City, its officials, employees, agents or contractors, shall be excess of Tenant's insurance and shall not contribute with it.

(d) Any failure to comply with reporting provisions of the policies shall not affect coverage provided to City, its officials, employees, agents or contractors.

(e) Coverage shall state that Tenant's insurance shall apply separately to each insured against whom claim is made or suit is brought, except at the limits of the insurer's liability.

(f) City shall retain the right at any time to review the coverage, form, and amount of the insurance required hereby. If, in the opinion of City, the insurance provisions in this Lease do not provide adequate protection for City and/or for members of the public, City may require Tenant to obtain insurance sufficient in coverage, form, and amount to provide adequate protection. City's requirements shall be commercially reasonable but shall be designed to assure protection from and against the kind and extent of risk which exists at the time a change in insurance is required (provided such protection is available on commercially reasonable terms), and Tenant agrees to provide same within thirty (30) days of receiving notice from City.

(g) Provisions of this paragraph as to maintenance of insurance shall not be construed as limiting in any way the extent to which Tenant may be held responsible for the payment of damages to persons or property resulting from its activities or of any person or persons for which it is otherwise responsible.

(h) Each insurance policy required by this Section shall be endorsed to state that coverage shall not be suspended, voided, canceled, or reduced in limits except after thirty (30) days prior written notice has been given to City (notwithstanding the foregoing, the notice period for War Risks and Named Allied Perils insurance may be seven (7) days or such lesser period as may be

customarily available, and the notice period for cancellations due to non-payment of premium for the Property, Worker's Compensation/Employers Liability, and Commercial Business Auto policies shall be five (5) days).

(i) Insurance is to be placed with insurers reasonably acceptable to City's Risk Manager.

(j) Tenant shall furnish City with certificates of insurance, and "Additional Insured" endorsements where appropriate, as required by this clause. The certificates for each insurance policy shall be signed by a person authorized by that insurer to bind coverage on its behalf.

(k) Proof of insurance shall be mailed to the following address or any subsequent address as may be directed in writing by the Airport Risk Manager, with a copy to Tenant's Property Manager at the address set forth in the Summary:

Airport Risk Manager
San Francisco International Airport
PO Box 8097
San Francisco, CA 94128
Fax: (650) 821-5554

(l) Tenant shall either self-insure (by establishing reserves in accordance with accepted accounting practices) or procure and keep in force fire and extended coverage insurance upon its leasehold improvements located at the Airport, to the full replacement cost, insurable value thereof and shall furnish City, upon execution of this Lease, with evidence that such self-insurance reserves have been established or such coverage has been procured and is being maintained in full force and effect. Said evidence of insurance shall be endorsed to require thirty (30) days written notice to City of cancellation or material change and to provide that any insurance carried by City be excess insurance only.

(m) City and Tenant agree to have all property insurance carried with respect to the Airport, the Premises or any property therein endorsed with a clause that waives all rights of subrogation that the insurer of one party may have against the other party hereto. To that effect, City and Tenant will respectively employ diligent efforts to cause their insurance companies to endorse the affected property insurance policies with a waiver of subrogation clause as required herein.

12. DEPOSIT

12.1 Form of Deposit. Prior to the Effective Date, Tenant will deliver to Director a security deposit (the "Deposit") in the Deposit Amount. Such Deposit shall be in the form of (a) a surety bond payable to City, naming City as obligee, and otherwise in form satisfactory to City's City Attorney, and issued by a surety company satisfactory to Director, or (b) a letter of credit naming City as beneficiary, and otherwise in form satisfactory to City's City Attorney, issued by a bank satisfactory to Director. Such bond or letter of credit shall be renewed annually and increased annually such that at all times, the Deposit is equal to six (6) times the monthly installment of the then current Annual Rent, all at Tenant's cost. Such bond or letter of credit shall be kept in full force and effect during the Term to ensure the faithful performance by Tenant of all covenants, terms, and conditions of this Lease,

including payment of Rent. Tenant shall cause the surety company or bank issuing such bond or letter of credit to give Director notice, in writing by registered mail at least forty-five (45) days prior to the expiration date of such bond or letter of credit, of its intention not to renew said bond or letter of credit.

12.2 Use of Deposit. If Tenant fails to pay Rent or otherwise defaults with respect to any provision of this Lease, City may use, apply or retain all or any portion of the Deposit for the payment of Rent or other charge in default or for the payment of any other sum to which City may become obligated by reason of Tenant's default or to compensate City for any loss or damage which City may suffer thereby. If City so uses or applies all or any portion of the Deposit, Tenant, within ten (10) days after demand therefore, shall deposit other security acceptable to Director with City in an amount sufficient to restore the Deposit to the full amount thereof. In the event the bonding company or bank declines to renew or elects to cancel the bond or letter of credit comprising the Deposit, Tenant shall, at least fifteen (15) days prior to the expiration or cancellation date, replace such bond or letter of credit with another bond or letter of credit. If Tenant fails to do so, City may, without notice to Tenant, draw on the entirety of the Deposit and hold the proceeds thereof as security hereunder. City shall not be required to keep the Deposit separate from its general accounts. If Tenant performs all of Tenant's obligations hereunder, the Deposit, or so much thereof as has not theretofore been applied by City, shall be returned, without payment of interest or other increment for its use, to Tenant (or, at City's option, to the last assignee, if any, of Tenant's interest hereunder) at the expiration of the Term, and after Tenant has vacated the Premises. No trust relationship is created herein between City and Tenant with respect to the Deposit.

12.3 Other Agreements. If Tenant defaults with respect to any provision of any other agreement between City and Tenant, including the Other Agreements, City may use, apply or retain all or any portion of the Deposit for payment of any sum owing to City or to which City may become obligated by reason of Tenant's default or to compensate City for any loss or damage which City may suffer thereby. Likewise, if Tenant defaults with respect to any provision under this Lease, City may use, apply, or retain all or any portion of any deposit provided under any other agreement between City and Tenant, including the Other Agreements, for payment of any sum owing to City or to which City may become obligated by reason of Tenant's default or to compensate City for any loss or damage which City may suffer thereby. In the event the Deposit or any other deposit is so used, Tenant shall deposit other security acceptable to Director with City in an amount sufficient to restore the Deposit to the full amount thereof.

13. DAMAGE OR DESTRUCTION

13.1 Partial Destruction of the Premises. In the event the improvements on the Premises are damaged by any casualty which is required to be insured against pursuant to this Lease, then Tenant shall repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. In the event such improvements are damaged by any casualty not covered under an insurance policy required to be maintained pursuant to this Lease, then City may, at City's option, either (i) repair such damage as soon as reasonably possible at City's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Tenant within sixty (60) days after the date of occurrence of such damage of City's intention to terminate this Lease. Such termination shall be effective as of the date specified in such notice. Notwithstanding the foregoing, if such damage is caused by an act or omission to act of Tenant or a Tenant Entity, then Tenant shall repair such damage, promptly at its sole cost and expense. In the event City elects to terminate this Lease pursuant to this

Section 13.1, Tenant shall have the right within ten (10) days after receipt of the required notice to notify City of Tenant's intention to repair such damage at Tenant's expense, without reimbursement from City, in which event this Lease shall continue in full force and effect and Tenant shall proceed to make such repairs as soon as reasonably possible. If Tenant does not give such notice within the ten (10) day period, this Lease shall be terminated as of the date specified in City's notice. City shall not be required to repair any injury or damage by fire or other cause, or to make any restoration or replacement of any office fixtures, partitions, railings, ceilings, floor covering, equipment, machinery or fixtures or any other improvements or property installed in the Premises by Tenant or at the direct or indirect expense of Tenant. Tenant shall be required to restore or replace same in the event of damage.

13.2 Total Destruction of Premises. If the improvements on the Premises are totally destroyed during the Term from any cause whether or not covered by the insurance required herein (including any destruction required by any authorized public authority), this Lease shall automatically terminate as of the date of such total destruction.

13.3 Partial Destruction of the Cargo Building. If fifty percent (50%) or more of the Cargo Building shall be damaged or destroyed by an insured risk, or if fifteen percent (15%) or more of the Cargo Building shall be damaged or destroyed by an uninsured risk, notwithstanding that the Premises may be unaffected thereby, each of City and Tenant may elect to terminate this Lease by giving notice to the other within ninety (90) days from the date of occurrence of such damage or destruction, in which event the Term of this Lease shall expire on a mutually agreed upon date and Tenant shall thereupon surrender the Premises to City as required hereunder.

13.4 Damage Near End of the Term. If during the last year of the Term the improvements on the Premises are partially destroyed or damaged, City may at City's option terminate this Lease as of the date of occurrence of such damage by giving written notice to Tenant of City's election to do so within thirty (30) days after the date of occurrence of such damage. In the event City elects to terminate this Lease pursuant hereto, Tenant shall have the right within ten (10) days after receipt of the required notice to notify City in writing of Tenant's intention to repair such damage at Tenant's expense, without reimbursement from City, in which event this Lease shall continue in full force and effect and Tenant shall proceed to make such repairs as soon as reasonably possible. If Tenant does not give such notice within the ten (10) day period, this Lease shall be terminated as of the date specified in City's notice.

13.5 No Abatement of Rent; Tenant's Remedies.

(a) If the Premises are partially destroyed or damaged, Tenant shall have no claim against City for any damage suffered by reason of any such damage, destruction, repair or restoration. Tenant waives California Civil Code Sections 1932(2) and 1933(4) providing for termination of hiring upon destruction of the thing hired. In no event will Tenant be entitled to an abatement of Rent resulting from any damage, destruction, repair, or restoration described herein.

14. DEFAULT; REMEDIES

14.1 Event of Default. The occurrence of any one or more of the following events shall constitute a breach of this Lease and an "Event of Default" hereunder:

(a) Tenant shall fail duly and punctually to pay Rent, or to make any other payment required hereunder, when due to City, and such failure shall continue beyond the date specified in a written notice of such default from Director, which date shall be no earlier than the third (3rd) day after the effective date of such notice. Notwithstanding the foregoing, in the event there occurs two (2) defaults in the payment of Rent or other payment during the Term, thereafter Tenant shall not be entitled to, and City shall have no obligation to give, notice of any further defaults in the payment of Rent or other payment. In such event, there shall be deemed to occur an "Event of Default" immediately upon Tenant's failure to duly and punctually pay Rent or other payment hereunder; or

(b) Tenant shall become insolvent, or shall take the benefit of any present or future insolvency statute, or shall make a general assignment for the benefit of creditors, or file a voluntary petition in bankruptcy, or a petition or answer seeking an arrangement for its reorganization, or the readjustment of its indebtedness under the federal bankruptcy laws, or under any other law or statute of the United States or of any state thereof, or consent to the appointment of a receiver, trustee, or liquidator of any or substantially all of its property; or

(c) A petition under any part of the federal bankruptcy laws, or an action under any present or future insolvency law or statute, shall be filed against Tenant and shall not be dismissed within thirty (30) days after the filing thereof; or

(d) There shall occur a Transfer without the prior approval of City; or

(e) Tenant shall voluntarily abandon, desert or vacate the Premises; or

(f) Any lien shall be filed against the Premises as a result of any act or omission of Tenant, and shall not be discharged or contested by Tenant in good faith by proper legal proceedings within twenty (20) days after receipt of notice thereof by Tenant; or

(g) Tenant shall fail to provide the Deposit within ten (10) days after the Effective Date or shall fail to maintain in full such Deposit at all times during the Term of this Lease, and such failure shall continue for a period of more than three (3) days after delivery by Director of written notice of such breach or default; or

(h) Tenant shall fail to obtain and maintain the insurance required hereunder, or provide copies of the policies or certificates to City as required herein; or

(i) Tenant shall fail to keep, perform and observe each and every other promise, covenant and agreement set forth in this Lease, and such failure shall continue for a period of more than three (3) days after delivery by Director of a written notice of such failure (the "First Notice"); or if satisfaction of such obligation requires activity over a period of time, if Tenant fails to commence the cure of such failure within three (3) days after receipt of the First Notice, or thereafter fails to diligently

prosecute such cure, or fails to actually cause such cure within one hundred twenty (120) days after the giving of the First Notice; or

(j) Tenant shall use or give its permission to any person to use any portion of the Airport, Cargo Building or Ramp Space for any illegal purpose, or any purpose not approved by Director; or

(k) There shall occur a default under any other agreement between Tenant and City, including the Other Agreements, if any, and such default is not cured as may be provided in such agreement; provided, however, that nothing herein shall be deemed to imply that Tenant shall be entitled to additional notice or cure rights with respect to such default other than as may be provided in such other agreement.

14.2 Remedies. Upon the occurrence and during the continuance of an Event of Default, City shall have the following rights and remedies in addition to all other rights and remedies available to City at law or in equity:

(a) City shall have the rights and remedies provided by California Civil Code Section 1951.2 (damages on termination for breach), including the right to terminate Tenant's right to possession of the Premises. In the event this Lease is so terminated, City may recover from Tenant the following damages:

(i) The "**worth at the time of the award**" of the unpaid Rent earned to the time of termination hereunder;

(ii) The "**worth at the time of the award**" of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rent loss that Tenant proves could be reasonably avoided; and

(iii) The "**worth at the time of the award**" of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rent loss that Tenant proves could be reasonably avoided; and

(iv) Any other amount necessary to compensate City for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

For purposes of the foregoing, the "**worth at the time of award**" of the amounts referred to in clauses (i) and (ii) above is computed by allowing interest at the lower of eighteen percent (18%) per annum and the highest rate legally permitted under applicable law. The "**worth at the time of award**" of the amount referred to in clause (iii) above is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Notwithstanding any other provisions hereof, any efforts by City to mitigate damages caused by Tenant's breach of this Lease shall not constitute a waiver of City's right to recover damages hereunder and shall not affect the right of City to indemnification pursuant to the provisions of Section 11 [Waiver; Indemnity; Insurance] hereof.

(b) City shall have the right and remedy described in California Civil Code Section 1951.4. City may elect not to terminate this Lease and let this Lease continue, in which case City may enforce all its rights and remedies under this Lease, including the right to recover Rent as it becomes due under this Lease. Acts of maintenance or preservation or efforts to relet the Premises or the appointment of a receiver upon the initiative of City to protect City's interest under this Lease shall not constitute a termination of Tenant's right to possession.

(c) City shall have the right and power, as attorney in fact for Tenant, to enter and to sublet the Premises, to collect rents from all subtenants and to provide or arrange for the provision of all services and fulfill all obligations of Tenant (as permitted in accordance with the terms of this Lease) and City is hereby authorized on behalf of Tenant, but shall have absolutely no obligation, to provide such services and fulfill such obligations and to incur all such expenses and costs as City deems necessary in connection therewith. Tenant shall be liable immediately to City for all costs and expenses City incurs in collecting such rents and arranging for or providing such services or fulfilling such obligations. City is hereby authorized, but not obligated, to relet the Premises or any part thereof on behalf of Tenant, to incur such expenses as may be necessary to effect a relet and make said relet for such term or terms, upon such conditions and at such rental as City in its sole discretion may deem proper. Tenant shall be liable immediately to City for all reasonable costs City incurs in reletting the Premises required by the reletting, and other costs. If City relets the Premises or any portion thereof, such reletting shall not relieve Tenant of any obligation hereunder, except that City shall apply the rent or other proceeds actually collected by it as a result of such reletting against any amounts due from Tenant hereunder to the extent that such rent or other proceeds compensate City for the nonperformance of any obligation of Tenant hereunder. Such payments by Tenant shall be due at such times as are provided elsewhere in this Lease, and City need not wait until the termination of this Lease, by expiration of the Term hereof or otherwise, to recover them by legal action or in any other manner. City may execute any lease made pursuant hereto in its own name, and the lessee thereunder shall be under no obligation to see to the application by City of any rent or other proceeds, nor shall Tenant have any right to collect any such rent or other proceeds. City shall not by any reentry or other act be deemed to have accepted any surrender by Tenant of the Premises or Tenant's interest therein, or be deemed to have otherwise terminated this Lease, or to have relieved Tenant of any obligation hereunder, unless City shall have given Tenant express written notice of City's election to do so as set forth herein.

(d) City shall have the right to have a receiver appointed upon application by City to take possession of the Premises and to collect the rents or profits therefrom and to exercise all other rights and remedies pursuant to this Section 14.2.

(e) City shall have the right to enjoin, and any other remedy or right now or hereafter available to a landlord against a defaulting tenant under the laws of the State of California or the equitable powers of its courts, and not otherwise specifically reserved herein.

(f) City may elect to terminate any other agreement between Tenant and City, including the Other Agreements, if any.

14.3 City's Right to Perform. All agreements and provisions to be performed by Tenant under any of the terms of this Lease shall be at its sole cost and expense and without any abatement of Rent. If Tenant shall fail to make any payment or perform any act on its part to be performed

hereunder and such failure shall continue for ten (10) days after notice thereof by City, City may, but shall not be obligated to do so, and without waiving or releasing Tenant from any obligations of Tenant, make any such payment or perform any such other act on Tenant's part to be made or performed as provided in this Lease. All sums so paid by City and all necessary incidental costs shall be deemed Additional Rent hereunder and shall be payable to City on demand, and City shall have (in addition to any other right or remedy of City) the same rights and remedies in the event of the nonpayment thereof by Tenant as in the case of default by Tenant in the payment of Rent.

14.4 Rights Related to Termination. In the event of any termination based on any breach of the covenants, terms and conditions contained in this Lease, City shall have the option at once and without further notice to Tenant to enter upon the Premises and take exclusive possession of the same. City may remove or store any personal property located therein, at the sole cost and expense of Tenant without City being liable to Tenant for damage or loss thereby sustained by Tenant. Upon such termination by City, all rights, powers and privileges of Tenant hereunder shall cease, and Tenant shall immediately vacate any space occupied by it under this Lease, and Tenant shall have no claim of any kind whatsoever against City or any City Entity by reason of such termination, or by reason of any act by City or any City Entity incidental or related thereto. In the event of the exercise by City of such option to terminate, Tenant shall have no right to or claim upon any improvements or the value thereof, which may have been previously installed by Tenant in or on the Premises.

14.5 Cumulative Rights. The exercise by City of any remedy provided in this Lease shall be cumulative and shall in no way affect any other remedy available to City under law or equity.

14.6 Prepayment. As provided in Section 4.3 [Prepay Rent], if Tenant defaults in the payment of Rent, City may require prepayment of Rent. Such right shall be in addition to and not in lieu of any and all other rights hereunder, or at law or in equity.

14.7 Special Liquidated Damages. If Tenant defaults under any of the Lease terms specified below, after notice by City that such a default has occurred, and affording Tenant ten (10) days to cure such a default, Director may elect to impose the fines described below on the basis of per violation per day:

<u>Violation</u>	<u>Section</u>	<u>Fine</u>
Violation of Premises Clause	1	\$300
Violation of Use Clause	3	\$300
Failure to cause operations or Premises to comply with Laws	3.7	\$300
Construction or Alterations without City approval	7.2	\$300
Failure to make required repairs	9	\$300

<u>Violation</u>	<u>Section</u>	<u>Fine</u>
Failure to obtain or maintain insurance	11	\$100
Failure to obtain or maintain Deposit	12	\$100

Director's right to impose the foregoing fines shall be in addition to and not in lieu of any and all other rights hereunder, in the Airport Rules, or at law or in equity. City shall have no obligation to Tenant to impose fines on or otherwise take action against any other tenant at the Airport.

THE PARTIES HAVE AGREED THAT A VIOLATION OF ANY OF THE ABOVE TERMS SHALL RESULT IN CITY INCURRING DAMAGES, WHICH ARE IMPRACTICAL OR IMPOSSIBLE TO DETERMINE. THE PARTIES HAVE AGREED THAT THE ABOVE FINES ARE A REASONABLE APPROXIMATION OF SUCH DAMAGES. Such fines shall constitute "Additional Rent".

14.8 Commencement of Legal Actions. Any legal action by City to enforce any obligation of Tenant or in the pursuit of any remedy hereunder shall be deemed timely filed if commenced at any time prior to one (1) year after the expiration or termination of the Term hereof or prior to the expiration of the statutory limitation period that would be applicable except for this Section 14.8, whichever period expires later.

14.9 Waiver of Notice. Except as otherwise expressly provided in this Section 14, Tenant hereby expressly waives, so far as permitted by law, the service of any notice of intention to enter or re-enter provided for in any statute, or of the institution of legal proceedings to that end, and Tenant, for and on behalf of itself and all persons claiming through or under Tenant, also waives any right of redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 or 1179, or under any other present or future law, if Tenant is evicted or City takes possession of the Premises by reason of any default by Tenant hereunder.

15. SURRENDER

Tenant shall at the end of the Term surrender to City the Premises and all Alterations, additions and improvements thereto in the same condition as when received, ordinary wear and tear and damage by fire, earthquake, act of God, or the elements excepted. Subject to City's right to require removal pursuant to Section 7 [Tenant Improvements; Alterations] hereof, all Alterations and improvements installed in the Premises by Tenant (other than Tenant's specialty equipment and trade fixtures), shall, without compensation to Tenant, then become City's property free and clear of all claims to or against them by Tenant or any third person. In the event that Tenant shall fail to remove its personal property, including specialty equipment and trade fixtures, on or before the Expiration Date, such personal property shall become City's property free and clear of all claims to or against them by Tenant or any third person. In such event, City shall not be responsible for any Losses related to such personal property, and City may sell or otherwise dispose of such personal property.

16. HAZARDOUS MATERIALS

16.1 Definitions. As used herein, the following terms shall have the meanings hereinafter set forth:

(a) “**Environmental Laws**” shall mean any federal, state, local or administrative law, rule, regulation, order, or requirement relating to industrial hygiene, protection of human health and safety, environmental conditions or Hazardous Materials, whether now in effect or hereafter adopted or amended from time to time, including without limitation the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Resources Conservation and Recovery Act of 1976 (42 U.S.C. Section 9601, et seq.), the Clean Water Act (33 U.S.C. Section 1251, et seq.), the Safe Drinking Water Act (14 U.S.C. Section 401, et seq.), the Hazardous Materials Transportation Act (49 U.S.C. Section 1801, et seq.), the Toxic Substance Control Act (15 U.S.C. Section 2601, et seq.), the California Hazardous Waste Control Law (California Health and Safety Code Section 25100, et seq.), the Porter-Cologne Water Quality Control Act (California Water Code Section 13000, et seq.), and the Safe Drinking Water and Toxic Enforcement Act of 1986 (California Health and Safety Code Section 25249.5, et seq.); and applicable and controlling federal or state court decisions.

(b) “**Hazardous Materials**” shall mean (a) any material that, because of its quantity, concentration or physical or chemical characteristics, is deemed by any federal, state or local governmental authority to pose a present or potential hazard to human health or safety or to the air, water, soil or environment; and (b) any materials, substances, products, by products, waste, or other materials of any nature or kind whatsoever whose presence in and of itself or in combination with other materials, substances, products, by products, or waste may give rise to liability under any Environmental Laws or permits. “**Hazardous Material**” includes any material or substance identified, listed, or defined as a “hazardous waste” “hazardous substance,” or “pollutant” or “contaminant” or term of similar import, or is otherwise regulated pursuant to Environmental Laws; any asbestos and asbestos-containing materials; petroleum, including crude oil or any fraction thereof, natural gas or natural gas liquids.

(c) “**Release**” when used for Hazardous Materials shall include any actual spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into or on any property or the environment, and includes any threat of Release to the extent regulated under Environmental Laws.

(d) “**Pre-Existing Condition**” means the existence of any Hazardous Materials on the Premises immediately prior to April 1, 2013, including, without limitation, those conditions described in the reports listed in *Exhibit E* attached hereto that are applicable to the Premises. A “Pre-Existing Condition” shall not include the existence of any Hazardous Materials caused or contributed to by the act or omission of Tenant or any Tenant Entity at any time.

16.2 Tenant’s Covenants. Tenant covenants the following:

(a) Tenant and any Tenant Entity shall at all times and in all respects comply with all Environmental Laws and permits applicable to Tenant’s operations on the Airport. The Release of

Hazardous Materials is strictly prohibited, except in compliance with applicable Environmental Laws or permits issued pursuant to applicable Environmental Laws.

(b) Neither Tenant nor any Tenant Entity shall cause any Hazardous Material to be brought upon, kept, used, stored, generated, treated, managed, or disposed of in, on or about the Airport, or transported to or from or within the Airport, except to the extent that such Hazardous Material, in kind and quantity, is normally necessary or useful to Tenant's conduct of the Permitted Uses under Section 3.1 and will be used, kept, and stored in a manner that complies with all applicable Environmental Laws, the Airport Rules, and all other applicable laws. At all times, Tenant shall ensure and certify that to the extent Tenant is required to decontaminate the Premises and/or dispose of Hazardous Materials under this Lease or applicable law, including Environmental Laws, that such decontamination of the Premises and/or disposal of Hazardous Materials shall be performed in compliance with the foregoing and any relevant permits. Any reuse of contaminated soil by Tenant at the Airport shall be subject to: (a) this Section and considered a Release of Hazardous Materials caused by Tenant and not a Pre-Existing Condition, and (b) Director's approval in writing to the reuse of contaminated soil.

(c) Tenant, at Tenant's sole cost and expense, shall promptly investigate and remediate, in accordance with requirements of all applicable Environmental Laws and permits, any Release of Hazardous Materials on the Airport, including, but not limited to, any Release into soil or groundwater, which was caused or results in whole or in part from the activities of Tenant or any Tenant Entity, but excluding: (a) the disposal of Hazardous Materials through the Airport's sewage system so long as such disposal complies with all applicable Environmental Laws and any predischARGE treatment requirements issued by the Airport; or (b) the portions of said Release that the Tenant demonstrates to the reasonable satisfaction of the City was caused exclusively by the City or City Entity.

In addition to any remedy provided in this Lease, City, in its discretion, may after reasonable written notice to Tenant (except that notice is not required for any Release that poses an imminent harm to the environment or other emergency situation), pay to have such Release investigated and remediated as required by applicable Environmental Laws, and Tenant shall reimburse City for its share of the documented costs within thirty (30) days of City's demand for payment if: (a) Tenant does not promptly commence investigation of any such Release; (b) Tenant does not diligently pursue appropriate remedial activities as required by applicable Environmental Laws and permits; or (c) City determines that its performance of the investigation and/or remediation is needed to achieve the City's operational needs or construction objectives. The failure to commence investigation and provide City with a preliminary schedule for diligent pursuit of any required remediation within thirty (30) business days after (a) Tenant's discovery of such Release or (b) notice of such Release shall constitute prima facie evidence of failure to promptly commence investigation and remediation.

(d) Tenant shall provide Director with a copy of any application for a permit, if required, for use or storage of Hazardous Materials on the Airport from any regulatory agency responsible for enforcement of applicable Environmental Laws and shall also provide a copy of any permit received from such agency.

16.3 Access for Environmental Inspection. City shall have reasonable access to the Premises to inspect the same in order to confirm that Tenant is using the Premises in accordance with all applicable Environmental Laws or permits. City will, where practical, give Tenant the opportunity to have a Tenant representative present during the inspection. Tenant shall cooperate fully with any such inspections provided that such inspections shall not unreasonably interfere with Tenant's operations.

16.4 Liability. In addition to any remedy provided in this Lease, Tenant shall be solely and fully responsible and liable for costs, including without limitation costs of clean-up or other remedial activities, fines or penalties assessed directly against the Airport, attributable to (a) storage, use or disposal of Hazardous Materials on the Airport by Tenant or any Tenant Entity; or (b) any Hazardous Material release or discharge which is caused or results from the activities of Tenant or any Tenant Entity.

16.5 Environmental Indemnity. Tenant shall indemnify, defend, and hold harmless City from and against any and all losses resulting or arising from: (a) a breach by Tenant of its obligations contained in Section 16.2; (b) any Release of Hazardous Material from, in, on or about the Airport caused by the act or omission of Tenant or any Tenant Entity or otherwise arising from Tenant's operations hereunder; or (c) the existence of any Hazardous Materials on the Premises, except to the extent that (i) Tenant can demonstrate to the reasonable satisfaction of City that such Hazardous Materials constitutes a Pre-Existing Condition and Tenant or Tenant Entity did not exacerbate such Pre-Existing Condition, or (ii) such Hazardous Material was exclusively caused by City or a third party other than an Tenant Entity. Nothing herein shall constitute a release of Tenant for any losses arising out of any Pre-Existing Conditions to the extent Tenant is responsible therefore pursuant to any other agreement or under applicable law.

16.6 Environmental Audit. Upon reasonable written notice, Director shall have the right but not the obligation to conduct or cause to be conducted by a firm acceptable to Director, an environmental audit of the Premises and Tenant's operations, equipment and fixtures thereon for the purpose of assessing Tenant's compliance with Environmental Laws and permits. City will give Tenant an opportunity to have an Tenant representative present during the audit. Tenant shall pay all reasonable costs associated with said audit, but only to the extent City's actions are consistent with Section 16.2(C), in the event such audit shall disclose any Hazardous Materials contamination as to which Tenant is liable hereunder. Tenant shall be provided the opportunity to review and comment on the report of the audit results prior to finalization. Tenant will promptly correct any deficiencies associated with its compliance with this Lease or Environmental Laws or permits as identified in the final audit report.

16.7 Notice by Tenant. Tenant shall give City verbal and written notice of any unauthorized Release of any Hazardous Material, except for Releases considered to be de minimis under Environmental Laws, known to Tenant. Such report shall be made in conformance with those procedures established in the Airport Rules. In addition, to the extent known to Tenant, Tenant shall notify City in writing, to the extent related to the Airport, of: (a) a pre-existing condition of contamination other than such conditions previously disclosed to the Tenant by City; (b) any enforcement, clean-up, removal or other government or regulatory action instituted, completed or threatened against Tenant or the Airport pursuant to any Environmental Laws; (c) any claim made or threatened by any person against Tenant or the Airport relating to damage, contribution, cost recovery compensation, loss or injury resulting from or claimed to result from any Hazardous Materials on or

about the Premises; and (d) any reports made by Tenant to any environmental agency arising out of or in connection with any Hazardous Materials or pursuant to any Environmental Laws or permits on or about the Premises. Tenant shall also supply to City as promptly as possible, and in any event within ten (10) business days after Tenant first receives or sends the same, with copies of all claims, reports, complaints, notices or warnings of, and any other communications related to asserted violations of Environmental Laws or permits by Tenant relating in any way to the Premises or Tenant's use thereof.

16.8 Stormwater. Notwithstanding any other provisions or terms of this Lease, Tenant acknowledges that certain properties within the Airport are subject to federal and state stormwater rules and regulations. Tenant agrees to observe and abide by such stormwater rules and regulations as may be applicable to City's property and Tenant's use thereof.

(a) City and Tenant both acknowledge that cooperation is necessary to ensure compliance with any stormwater discharge permit terms and conditions, as well as to ensure safety and to minimize cost of compliance. Tenant acknowledges further that it may be necessary to undertake such actions to minimize the exposure of stormwater to "significant materials" generated, stored, handled or otherwise used by Tenant, as such term may be defined by applicable stormwater rules and regulations, by implementing and maintaining "best management practices" as that term may be defined in applicable stormwater rules and regulations.

(b) City will provide Tenant with written notice of any stormwater discharge permit requirements applicable to Tenant and with which Tenant may be obligated to comply from time-to-time, including, but not limited to: certification of non-stormwater discharges; collection of stormwater samples if required by law; preparation of stormwater pollution prevention or similar plans; implementation of best management practices; and maintenance of necessary records. Such written notice shall include applicable deadlines. Tenant shall agree that within thirty (30) days of receipt of such written notice it shall notify City in writing if it disputes any of the stormwater permit requirements it is directed to undertake. If Tenant does not provide such timely notice, Tenant will be deemed to assent to undertake such stormwater permit requirements applicable to Tenant's operations. In that event, Tenant agrees to undertake, at its sole expense, unless otherwise agreed to in writing between City and Tenant, those stormwater permit requirements applicable to Tenant's operations for which it has received written notice from City, and Tenant agrees that it will hold harmless and indemnify City for any violations or non-compliance with any such permit requirements. Additionally, City will endeavor, where practical, to notify Tenant in advance of negotiations with federal or state regulators concerning new or revised stormwater permit conditions that directly affect the Tenant.

16.9 Tenant Obligations Upon Termination. Prior to vacating the Premises, and in addition to all other requirements under this Lease and without limiting Tenant's indemnification obligations herein, Tenant shall:

(a) Remove any Hazardous Materials on the Premises except (i) to the extent Tenant demonstrates to the reasonable satisfaction of City that said Hazardous Material constitutes a Pre-Existing Condition and Tenant or Tenant Entity did not exacerbate said Pre-Existing Contamination; (ii) to the extent the Tenant can demonstrate to the reasonable satisfaction of City that said Hazardous Material was exclusively caused by City or a third party other than an Tenant Entity; or (iii) said Hazardous Material is addressed pursuant to Section 16.9(b). Moreover, Tenant shall demonstrate to City's reasonable satisfaction that such removal is in compliance with all applicable Environmental

Laws and permits, including without limitation conducting any environmental audits and/or site investigations as may be reasonably required by City to demonstrate such removal has been completed according to the terms of this Lease. This removal and demonstration shall be a condition precedent to City's return of the Deposit, if any, to Tenant upon termination or expiration of this Lease.

(b) With respect to any Release of Hazardous Materials on the Premises not removed pursuant to Section 16.9(a) above and not subject to the exceptions therein, Tenant shall promptly investigate and remediate it in accordance with the requirements of all applicable Environmental Laws and permits ("Tenant's remediation"). If Tenant's remediation will leave Hazardous Materials at the Airport (including but not limited to in the soil or groundwater), prior to completion of the remediation, the Tenant shall: (i) obtain the City's written determination that such Hazardous Materials will not interfere with any reuse of the Premises reasonably contemplated or anticipated by the City; (ii) provide the City with a plan for long-term care and surveillance of any such Hazardous Material and (iii) provide the City with a written acknowledgement of responsibility and indemnification for any and all losses or disruption associated with such contamination. The Tenant's full compliance with this Section 16.13(b) shall be a condition precedent to the City's return of the Deposit, if any, to Tenant upon termination or expiration of this Lease.

16.10 Cumulative Remedies. All remedies of the City as provided herein with regard to Hazardous Materials or any actual or threatened violations of any Environmental Laws and permits are deemed to be cumulative in nature. The City's right to indemnification as provided in this Section shall survive the expiration or early termination of this Lease with respect to occurrences during the Term of this Lease.

16.11 Prior Agreements. Notwithstanding any provisions in this Lease, nothing herein shall affect the terms and conditions of any prior settlement agreements reached between City and Tenant relating to Hazardous Materials at the Airport, including the civil action captioned City and County of San Francisco v. Atlantic Richfield et al (N.D. Cal. Case No. C97-2965), and nothing herein shall be construed in any way to limit the releases granted by the parties in those prior agreements.

17. EMINENT DOMAIN

17.1 Definitions. For purposes of this Section 17, the following capitalized terms shall have the following meanings:

(a) "**Award**" means all compensation, sums or value paid, awarded or received for a Taking, whether pursuant to judgment, agreement, settlement or otherwise.

(b) "**Date of Taking**" means the earlier of: (a) the date upon which title to the portion of the Premises taken passes to and vests in the condemnor, and (b) the date on which Tenant is dispossessed.

(c) "**Taking**" means a taking or damaging, including severance damage, by eminent domain, inverse condemnation or for any public or quasi-public use under applicable Laws. A Taking may occur pursuant to the recording of a final order of condemnation, or by voluntary sale or conveyance in lieu of condemnation or in settlement of a condemnation action.

17.2 General. If during the Term or during the period between the execution of this Lease and the Commencement Date, any Taking of all or any part of the Premises or any interest in this Lease occurs, the rights and obligations of the parties hereunder shall be determined pursuant to this Section 17. City and Tenant intend that the provisions hereof govern fully in the event of a Taking and accordingly, the Parties each hereby waives any right to terminate this Lease in whole or in part under Sections 1265.120 and 1265.130 of the California Code of Civil Procedure or under any similar Law now or hereafter in effect.

17.3 Total Taking; Automatic Termination. If a total Taking of the Premises occurs, then this Lease shall terminate as of the Date of Taking.

17.4 Partial Taking; Election to Terminate. If a Taking of any portion (but less than all) of the Premises occurs, then this Lease shall terminate in its entirety if all of the following exist: (a) the partial Taking renders the remaining portion of the Premises untenable or unsuitable for continued use by Tenant for the Permitted Use; (b) the condition rendering the Premises untenable or unsuitable either is not curable or is curable but City is unwilling or unable to cure such condition; and (c) City elects to terminate. If a partial Taking of a material portion of the Cargo Building occurs, City shall have the right to terminate this Lease in its entirety. City's elections to terminate this Lease pursuant to this Section 17 shall be exercised by City's giving notice to Tenant on or before the date that is one hundred twenty (120) days after the Date of Taking, and thereafter this Lease shall terminate upon on the thirtieth (30th) day after such notice is given.

17.5 Tenant Monetary Obligations; Award. Upon termination of this Lease pursuant to an election under Section 17.4 [Partial Taking; Election to Terminate] above, then: (a) Tenant's obligation to pay Rent shall continue up until the date of termination, and thereafter shall cease, and (b) City shall be entitled to the entire Award in connection therewith (including any portion of the Award made for the value of the leasehold estate created by this Lease), and Tenant shall have no claim against City for the value of any unexpired term of this Lease, provided that Tenant may make a separate claim for compensation, and Tenant shall receive any Award made specifically to Tenant, for Tenant's relocation expenses or the interruption of or damage to Tenant's business or damage to Tenant's personal property.

17.6 Partial Taking; Continuation of Lease. If a partial Taking of the Premises occurs and this Lease is not terminated in its entirety under Section 17.4 [Partial Taking; Election to Terminate] above, then this Lease shall terminate as to the portion of the Premises so taken, but shall remain in full force and effect as to the portion not taken, and the rights and obligations of the Parties shall be as follows: (a) the Rent shall be adjusted by Director to reflect the Taking, and (b) City shall be entitled to the entire Award in connection therewith (including, but not limited to, any portion of the Award made for the value of the leasehold estate created by this Lease). Tenant shall have no claim against City for the value of any unexpired Term of this Lease, provided that Tenant may make a separate claim for compensation. Tenant shall retain any Award made specifically to Tenant for Tenant's relocation expenses or the interruption of or damage to Tenant's business or damage to Tenant's personal property.

17.7 Temporary Takings. Notwithstanding anything to contrary in this Section, if a Taking occurs with respect to all or any part of the Premises for a limited period of time not in excess of one hundred eighty (180) consecutive days, this Lease shall remain unaffected thereby, and Tenant shall

continue to pay Rent, and to perform all of the terms, conditions and covenants of this Lease. In the event of such temporary Taking, City shall be entitled to receive any Award.

18. MISCELLANEOUS PROVISIONS

18.1 Airport Intellectual Property. Pursuant to Resolution No. 01-0118, adopted by the Airport Commission on April 18, 2001, the Airport Commission affirmed that it will not tolerate the unauthorized use of its intellectual property, including the SFO logo, CADD designs, and copyrighted publications. All proposers, bidders, contractors, tenants, permittees, and others doing business with or at the Airport (including subcontractors and subtenants) may not use the Airport intellectual property, or any intellectual property confusingly similar to the Airport intellectual property, without the Director's prior consent.

18.2 Labor Disputes. Tenant agrees to use commercially reasonable efforts to avoid disruption to City, other airlines, Airport tenants, or members of the public arising from labor disputes involving Tenant, and in the event of a strike, picketing, demonstration or other labor difficulty involving Tenant, to use commercially reasonable efforts, including the utilization of available legal remedies, to minimize or eliminate any disruption to City, other airlines, Airport tenants, or members of the public, arising from such strike, picketing, demonstration or other labor difficulty.

18.3 No Individual Liability. No Commissioner, director, officer, agent or employee of either party shall be charged personally or held contractually liable by or to the other party under any term or provision of this Lease or because of any breach thereof or because of its or their execution or attempted execution.

18.4 Agreements With Governments. Except for the payment of Annual Rent and other fees provided for herein, this Lease is subject and subordinate to the provisions of any agreement and amendments thereto heretofore made between City and the United States, relative to the operation or maintenance of the Airport, the execution of which has been required as a condition precedent to the transfer of federal rights or property to City for Airport purposes, or to the expenditure of federal funds for the extension, expansion, or development of the Airport, including the expenditure of federal funds for the development of the Airport in accordance with the provisions of the Federal Aviation Act of 1958, as it has been amended from time to time.

18.5 Governing Law. This Lease shall be deemed to have been made in, and be construed in accordance with, the laws of the state and the City Charter. This Lease is governed by and subject to the provisions of the City Charter.

18.6 Notices. Any notice given under this Lease shall be effective only if in writing and given by delivering the notice in person or by sending it first-class mail or certified mail with a return receipt requested or by overnight courier, return receipt requested, with postage prepaid, to: (a) Tenant, (i) at Tenant's address set forth in the Tenant's Address Notice, or (ii) at any place where Tenant or any agent of Tenant may be found if sent subsequent to Tenant's vacating, abandoning or surrendering the Premises; or (b) City, at City's address set forth in the City's Notice Address; or (c) to such other address as either City or Tenant may designate as its new address for such purpose by notice given to the other in accordance with the provisions of this Section at least ten (10) days prior to the effective date of such change. Any notice hereunder shall be deemed to have been given two (2) days after the

date when it is mailed if sent by first class or certified mail, one day after the date it is mailed if sent by overnight courier, or upon the date personal delivery is made. For convenience of the parties, copies of notices may also be given by facsimile to the telephone number set forth in the City's Notice Address and the Tenant's Notice Address or such other number as may be provided from time to time; however, neither party may give official or binding notice by facsimile. Tenant shall promptly provide City with copies of any and all notices received regarding any alleged violation of laws or insurance requirements or any alleged unsafe condition or practice related to Tenant's use of, or its operations at, the Airport. Any provision herein that one party shall notify the other of some matter is to be construed as a requirement that notice is to be given in accordance with the provisions of this Section.

18.7 No Implied Waiver. No failure by City to insist upon the strict performance of any obligation of Tenant under this Lease or to exercise any right, power or remedy arising out of a breach thereof, irrespective of the length of time for which such failure continues, prior to the expiration of the Term by any City, shall constitute a waiver of such breach or of City's right to demand strict compliance with such term, covenant or condition or operate as a surrender of this Lease. No express written waiver of any default or the performance of any provision hereof shall affect any other default or performance, or cover any other period of time, other than the default, performance or period of time specified in such express waiver. One or more written waivers of a default or the performance of any provision hereof shall not be deemed to be a waiver of a subsequent default or performance. Any consent by City hereunder shall not relieve Tenant of any obligation to secure the consent of City in any other or future instance under the terms of this Lease.

18.8 Federal Grant Agreement Covenants. Tenant acknowledges that City is subject to Federal Grant Agreement obligations as a condition precedent to granting of funds for improvement of the Airport, and, accordingly, agrees to be bound by the following covenants provided by the FAA, as they may apply to Tenant.

(a) Tenant for itself, its personal representatives, successors in interest, and assigns, as part of the consideration hereof, does hereby covenant and agree that in the event facilities are constructed, maintained, or otherwise operated at the Airport for a purpose for which a DOT program or activity is extended, or for another purpose involving the provision of similar services or benefits, Tenant shall maintain and operate such facilities and services in compliance with all other requirements imposed pursuant to Title 49, Code of Federal Regulations, DOT, Sub-title A, Office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, and as said regulations may be amended.

(b) Tenant for itself, its personal representatives, successors in interest, and assigns, as part of the consideration hereof, does hereby covenant and agree that (1) no person on the grounds of race, color, or national origin shall be excluded from participation, denied the benefits of, or be otherwise subjected to discrimination in the use of said facilities, (2) that in the construction of any improvements on, over, or under the Airport and the furnishing of services thereon, no person on the grounds of race, color, or national origin shall be excluded from participation or denied the benefits of, or otherwise be subjected to discrimination, (3) that Tenant shall use all City premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, DOT, Sub-title A, Office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, and as said Regulations may be amended.

(c) That in the event of breach of any of the above nondiscrimination covenants, City shall have the right to terminate this Lease, to re-enter and repossess any of said Airport premises and the facilities thereon, and to hold the same as if this Lease had never been made or issued. This provision shall not become effective until the procedures of 49 CFR Part 21 are followed and completed including expiration of appeal rights.

(d) Tenant shall furnish its accommodations and/or services on a fair, equal and not unjustly discriminatory basis to all users thereof and it shall charge fair, reasonable and not unjustly discriminatory prices for each unit or service; provided, that Tenant may be allowed to make reasonable and nondiscriminatory discounts, rebates or other similar types of price reductions to volume purchasers.

(e) Non-compliance with Subsection (D) above shall constitute a material breach of this Lease and in the event of such non-compliance City shall have the right to terminate this Lease and any estate hereby created without liability therefor or, at the election of City or the United States, either or both said governments shall have the right to judicially enforce Subsections (A), (B), (C), and (D) of this Section.

(f) Tenant agrees that it shall insert or incorporate by reference the provisions in Subsections (A)-(E) of this Section in any agreement by which Tenant grants a right or privilege to any person, firm or corporation to render accommodations and/or services to the public at the Airport.

(g) Tenant assures that it will comply with pertinent statutes, executive orders and such rules as are promulgated to assure that no person shall, on the grounds of race, creed, color, national origin, sex, age, or handicap, be excluded from participating in any activity conducted with or benefiting from federal assistance. This paragraph obligates Tenant or its transferee for the period during which federal assistance is extended to the airport program, except where federal assistance is to provide, or is in the form of, personal property or real property or interests therein or structures or improvements thereon. In these cases, this paragraph obligates the party or any transferee for the longer of the following periods: (i) the period during which the property is used by the sponsor or any transferee for a purpose for which federal assistance is extended, or for another purpose involving the provision of similar services or benefits; or (ii) the period during which the airport sponsor or any transferee retains ownership or possession of the property. In the case of contractors, this paragraph binds the contractors from the bid solicitation period through the completion of the contract.

(h) Notwithstanding anything set forth herein to the contrary, to the extent required: (a) under the Master Bond Documents; or (b) by the FAA, the DOT, the TSA or a similar governmental authority, other than City, having jurisdiction over the Airport, City reserves the right to further develop or improve the landing area of the Airport as required, regardless of the desires or views of Tenant and without interference or hindrance.

(i) This Lease shall be subordinate to the provisions and requirements of any existing or future agreement between City and the United States relative to the development, operation or maintenance of the Airport.

(j) Tenant agrees to comply with the notification and review requirements covered in Part 77 of the Federal Aviation Regulations in the event any future structure or building is planned

for the Airport premises or in the event of any planned modification or alteration of any present or future building or structure situated on the leased premises.

(k) Tenant, by accepting this Lease, agrees for itself and its successors and assigns that it will not make use of the Airport premises in any manner which might interfere with the landing and taking off of aircraft from the Airport or otherwise constitute a hazard. In the event the aforesaid covenant is breached, City reserves the right to enter upon the Airport premises and cause the abatement of such interference at the expense of Tenant.

(l) Tenant, by accepting this Lease, expressly agrees for itself and its successors and assigns that it will not erect nor permit the erection of any structure or object, nor permit the growth of any tree on the Airport premises, above the main sea level elevation that would exceed FAR Part 77 standards or elevations affecting the Airport navigable airspace. In the event the aforesaid covenants are breached, City reserves the right to enter upon the permitted premises and to remove the offending structure or object and cut the offending tree, all of which shall be at the expense of Tenant.

18.9 Force Majeure. Neither City nor Tenant shall be deemed in violation of this Lease if it is prevented from performing any of its obligations hereunder by reason of strikes, boycotts, labor disputes, embargoes, shortages of material, acts of terrorism, riots, rebellion, sabotage or any other casualty which is not within its control; provided, however, that these provisions shall not excuse Tenant from payment of the Annual Rent and other fees specified in this Lease.

18.10 Environmental Sustainability Measures. From time to time, City may adopt certain environmental sustainability measures to minimize the environmental footprint of Airport operations. Airlines operating at the Airport may also pursue various sustainability measures. City encourages such initiatives and from time to time may call upon Tenant to cooperate with City where practicable in implementing sustainability measures that impact Tenant operations, such as energy and water conservation, solid waste reduction and recycling, electrification of ground services equipment, maximizing the use of preconditioned air, or single engine taxiing, provided that such sustainability measures are lawful. Tenant shall agree to implement sustainability measures as required to meet City, state and federal regulations.

18.11 Invalid Provisions and Severability. In the event any covenant, condition or provision herein contained is held to be invalid or unenforceable by a court of competent jurisdiction, the invalidity or unenforceability of any such covenant, condition or provision shall in no way affect any other covenant, condition or provision herein contained, provided the invalidity or unenforceability of any such covenant, condition or provision does not materially prejudice either City or Tenant in their respective rights and obligations contained in the valid covenants, conditions and provisions of this Lease.

18.12 Headings. The headings of the several Sections of this Lease are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope or intent of any provisions of this Lease, and shall not be construed to affect in any manner the term and provisions hereof or the interpretation or construction thereof.

18.13 Non-Exclusiveness of Tenant's Rights. Nothing herein contained shall be deemed to grant to Tenant any exclusive right or privilege within the meaning of 49 U.S.C. Section 40103(e) or

49 U.S.C. Section 47107(a)(4) for activity on the Airport, except that, subject to the terms and provisions hereof, Tenant shall have the exclusive use of the Premises, if any, permitted to Tenant under the provisions of this Lease.

18.14 Withholding Required Approvals. Whenever the approval of the Director, Commission, City or Tenant is required herein, no such approval shall be unreasonably refused, withheld or delayed.

18.15 Declaration Regarding Airport Private Roads. Tenant hereby acknowledges and agrees that all roads existing at the date of execution hereof within the boundaries of the Airport, as shown on the current official Airport plan and as it may be revised, are the private property and private roads of City, with the exception of that portion of the Old Bayshore Highway which runs through the southern limits of the City of South San Francisco and through the northern portion of the Airport to the intersection with the North Airport Road, and with the exception of that portion of the North Airport Road which runs from the off- and on-ramps of the State Bayshore Freeway to the intersection with said Old Bayshore Highway. It further acknowledges that any and all roads hereafter constructed or opened by City within the Airport boundaries will be the private property and roads of City, unless otherwise designated by appropriate action.

18.16 Subordination of Lease.

(a) This Lease and all rights of Tenant and City hereunder are expressly subject to the lien of any pledge, transfer, hypothecation or assignment made at any time by City to secure Airport Revenue Bonds and to the terms and conditions of the Master Bond Documents. Tenant acknowledges that any failure by Tenant to make payments under this Lease as and when such payments are due may result in a default by City on such Airport Revenue Bonds and related agreements.

(b) With respect to property permitted by City to Tenant hereunder which was or is to be acquired by City with proceeds of Airport Revenue Bonds, the interest on which is, or is intended to be, excludable from the gross income of the holders of such Airport Revenue Bonds for federal income tax purposes, the parties hereby covenant not to take or fail to take any action that would impair the tax-exempt status of such Airport Revenue Bonds. In particular, Tenant shall make an irrevocable election not to claim depreciation or an investment credit with respect to any property permitted to Tenant hereunder.

(c) Tenant agrees to execute all instruments, certificates, or other documents reasonably requested by City to assist City and bond counsel in determining and assuring that Airport Revenue Bonds are issued in compliance with applicable rules and regulations of the Internal Revenue Service and the Securities and Exchange Commission, and Tenant shall provide whatever additional relevant information is reasonably requested by City initially or on an ongoing basis in connection with complying with any of those rules and regulations.

18.17 Inspection of Records. Tenant and City, each at its own expense and upon reasonable notice, shall have the right to inspect the books, records and other data of the other party relating to the provisions and requirements hereof, provided such inspection is made during regular business hours. City agrees to provide Tenant with a copy of the report of the annual audit covering the Airport.

18.18 Successors and Assigns. All of the terms, provisions, covenants, stipulations, conditions and considerations in this Lease shall extend to and bind the legal representatives, successors (except as to the Annual Rent and other fees and charges), and assigns of the respective parties hereto.

18.19 Taxes, Assessments and Liens.

(a) Tenant shall pay all taxes, assessments and charges of a like nature, if any (including any possessory interest tax), which at any time during the term of this Lease may be levied against Tenant or become a lien by virtue of any levy, assessment or charge against Tenant by the federal government, the state, San Mateo County or any governmental successor in authority to the foregoing, or any other tax- or assessment-levying bodies, in whole or in part, upon or in respect to (a) the Premises or such facilities of the Airport as are made available for use by Tenant hereunder or (b) any personal property belonging to Tenant situated on or in the Premises. The property interest of Tenant, if any, created by this Lease may be subject to property taxation, and Tenant may be subject to the payment of property tax levied on such interest. Payment of such additional charges for all such taxes, assessments and charges, when and if levied or assessed, shall be made by Tenant directly to the taxing or assessing authority charged with collection thereof, in which event Tenant shall be responsible for obtaining bills for all of said taxes, assessments and charges and promptly providing City with evidence of payment therefor.

(b) Tenant may, at its expense, contest the amount or validity of any tax or assessment or the inclusion of the Premises as taxable or assessable property directly against the taxing or assessing authority. Tenant shall indemnify City from all taxes, penalties, costs, expenses, and attorneys' fees incurred by City resulting directly or indirectly from all such tax contests other than contests of City-imposed taxes.

(c) Upon any termination of this Lease, all lawful taxes then levied or a lien upon any of such property or taxable interest therein shall be paid in full by Tenant forthwith or as soon as a statement thereof has been issued by the tax collector if termination occurs during the interval between the attachment of the lien and the issuance of the statement.

18.20 Appendices, Exhibits and Schedules. All exhibits referred to herein and all exhibits and schedules referred to in any appendices, and any appendices, exhibits or schedules which may, from time to time, be referred to in any duly executed amendment hereto are (and including future amendments, shall be) by such reference incorporated herein and shall be deemed a part of this Lease as fully as if set forth herein. In the event of any inconsistency between an exhibit or schedule and any provision of this Lease, such provision shall prevail.

18.21 Entire Agreement. The parties intend that this Lease (including all of the attached exhibits, which are made a part of this Lease) shall be the final expression of their agreement concerning the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous written or oral agreements or understandings. The parties further intend that this Lease shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever (including prior drafts hereof and changes therefrom) may be introduced in any judicial, administrative or other legal proceeding involving this Lease. Tenant hereby acknowledges that neither City nor City's agents have made any representations or warranties concerning the Premises or this

Lease except as expressly set forth herein, and no rights, easements or licenses are or shall be acquired by Tenant by implication or otherwise unless expressly set forth herein.

18.22 Approvals. All approvals, consents, waivers, and determinations to be made by City or Commission hereunder can be given, withheld, or made by Director, unless otherwise provided or required. All approvals, consents, waivers, and determinations to be made by Tenant can be made by the Tenant Representative, unless otherwise provided or required. Without limiting the generality of the foregoing, if a Terminal Company of which Tenant is a member is representing Tenant for certain limited purposes under this Lease and such representation is consistent with the organizational documents of such Terminal Company, City may rely on an approval, consent, waiver, or determination of such corporation or committee for such purposes. In no event shall a Terminal Company be authorized to amend or modify this Lease on behalf of Tenant.

18.23 Amendments. Neither this Lease nor any terms or provisions hereof may be changed, waived, discharged or terminated, except by a written instrument signed by the party against which the enforcement of the change, waiver, discharge or termination is sought. Whenever this Lease requires or permits the giving by City of its consent or approval, the Director, or his or her designee shall be authorized to provide such approval, except as otherwise provided by applicable law, including the Charter. Any amendments or modifications to this Lease, including, without limitation, amendments to or modifications to the exhibits to this Lease, shall be subject to the mutual written agreement of City and Tenant, and City's agreement may be made upon the sole approval of the Director, or his or her designee.

18.24 Interpretation of Lease. As amended hereby, each and every of the terms, conditions, and covenants in this Lease shall remain in full force and effect. The captions preceding the articles and sections of this Lease and in the table of contents have been inserted for convenience of reference only and such captions shall in no way define or limit the scope or intent of any provision of this Lease. This Lease has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with herein and shall be interpreted to achieve the intents and purposes of the parties, without any presumption against the party responsible for drafting any part of this Lease. Provisions in this Lease relating to number of days shall be calendar days, unless otherwise specified; provided, however, that if the last day of any period to give notice, reply to a notice or to undertake any other action occurs on a Saturday, Sunday or a bank or City holiday, the last day for undertaking the action or giving or replying to the notice shall be the next succeeding business day. Use of the word "including" or similar words shall not be construed to limit any general term, statement or other matter in this Lease, whether or not language of non-limitation, such as "without limitation" or similar words, are used.

18.25 Duty Free Merchandise and International Travel Merchandise. Tenant shall not sell, take orders, deliver, or transport duty free merchandise and/or international travel merchandise ("ITM") as such terms are defined by the United States Department of the Treasury/U.S. Customs Service, and its applicable regulations and directives, on any flight into or out of the Airport under a program in which Tenant solicits or accepts orders for purchase by passengers of, or delivers, ITM at any time prior to the departure of Tenant's aircraft on the outbound flight from the Airport.

18.26 No Third-Party Beneficiaries. Except as expressly stated herein, there are no third-party beneficiaries to this Lease.

18.27 No Joint Venture. It is expressly agreed that City is not, in any way or for any purpose, a partner of Tenant in the conduct of Tenant business or a member of a joint enterprise with Tenant, and does not assume any responsibility for Tenant's conduct or performance of this Lease.

18.28 Nature of Lease. Under no circumstances will City be expected or required to make any payment of any kind for Tenant's use or occupancy of the Premises, except as may be otherwise expressly set forth herein. Except as otherwise expressly provided herein, this Lease shall continue in full force and effect, and the obligations of Tenant hereunder shall not be released, discharged or otherwise affected, by reason of: (a) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other proceeding relating to City, Tenant or any constituent partner of Tenant or any licensee or concessionaire or any action taken under this Lease by a trustee or receiver, or by any court, in any proceeding; (b) any claim that Tenant or any other person has or might have against City; (c) any failure on the part of City to perform or comply with any of the terms hereof or of any other agreement with Tenant or any other person; (d) any failure on the part of any, licensee, concessionaire, or other person to perform or comply with any of the terms of any agreement between Tenant and any such person; (e) any termination of any license or concession, whether voluntary or by operation of law; or (f) any other occurrence whatsoever, whether similar or dissimilar to the foregoing in each case whether or not Tenant shall have notice or knowledge of any of the foregoing. The obligations of Tenant hereunder shall be separate and independent covenants and agreements. Except as otherwise provided for in this Lease, Tenant hereby waives to the full extent permitted by applicable law, all rights now or hereafter conferred by statute, including without limitation the provisions of Civil Code Sections 1932 and 1933, to quit, terminate or surrender this Lease or the Premises or any part thereof, or to any abatement, suspension, deferment, diminution or reduction of any amounts due hereunder.

18.29 Tenant Operations Information and Planning. For planning purposes, Tenant shall upon request cooperate to the greatest extent possible to furnish to City any and all pertinent information regarding Tenant's current and future operations (including forecasts) at the Airport. City will not disclose such information unless required to by law without first having Tenant's consent, unless disclosure of such information is, in the Director's sole discretion, required for the sale of bonds or other indebtedness. Notwithstanding the foregoing, City shall be entitled, from time to time, to release consolidated statistics for all Air Carriers operating at the Airport.

18.30 Waiver of Visual Artists Rights. Tenant shall not install any object in the Premises that constitutes a work of visual art under the Visual Artists Rights Act of 1990 ("VARA") unless and until Tenant has (a) obtained the prior written approval of the Director and (b) provided City with a written waiver from the author of such work of visual art, in form and substance reasonably satisfactory to City, which waiver shall identify specifically the work of visual art and the uses of that work to which the waiver applies in accordance with 17 U.S.C. §106A(e)(1). Tenant shall also provide City with a similar written waiver that is effective to bar any claim by an artist for a work of fine art under the California Art Preservation Act, Cal. Civ. Code §§ 987-989.

18.31 Authority. If Tenant signs as a corporation, a limited liability company, or a partnership, each of the persons executing this Lease on behalf of Tenant does hereby covenant and warrant that Tenant is a duly authorized and existing entity, that Tenant has and is duly qualified to do business in California, that Tenant has full right and authority to enter into this Lease, and that each and all of the persons signing on behalf of Tenant are authorized to do so. Upon City's request, Tenant

shall provide City evidence reasonably satisfactory to City confirming the foregoing representations and warranties.

18.32 Counterparts. This Lease may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

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X:\TENANTS\AIRLINES\LEASES\Southwest Airlines Cargo Lease-Final.doc

IN WITNESS WHEREOF, the parties have executed this Lease as of the Effective Date.

TENANT: Southwest Airlines Co.,
[Signatory also to initial summary] a Texas corporation

By: Bob Montgomery
Name: Bob Montgomery
Title: Vice President - Airport Affairs

CITY: CITY AND COUNTY OF SAN FRANCISCO,
[Signatory also to initial summary] a municipal corporation,
acting by and through its Airport Commission

John L. Martin
Airport Director

AUTHORIZED BY AIRPORT
COMMISSION

Resolution No. 13-0257

Adopted: December 3, 2013

Attest: _____
Secretary
Airport Commission

APPROVED AS TO FORM:
DENNIS J. HERRERA
City Attorney

By David Senor
Deputy City Attorney

LIST OF EXHIBITS

EXHIBIT A – Premises and Non-Exclusive Areas

EXHIBIT B – Mandatory City Contracting Provisions

EXHIBIT C – City’s Maintenance Obligations

EXHIBIT D – Reimbursement Calculation Example – Unamortized Alternation Costs

EXHIBIT E – List of Available Environmental Reports for Plots 9, 9A, and 9B

EXHIBIT A

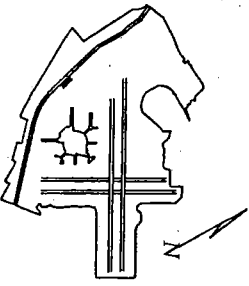
PREMISES AND NON-EXCLUSIVE AREAS



RAMP
2640'

PLOT 9B

KEY PLAN



TENANT LOCATION LEASE DRAWING

LOCATION: SFA BLDG 606, PLOT 9B
 SOUTHWEST AIRLINES
 CITY & COUNTY OF SAN FRANCISCO
 AIRPORTS COMMISSION
 SAN FRANCISCO INTERNATIONAL AIRPORT

DWG: B606L1WN
 SCALE: 1/4" = 10'-0"
 DATE: 04/30/2013

LOCATION	TENANT	CAT	AREA	CONTRACT	EFF DATE
MEZZ	SOUTHWEST		1193'		
OFFICE	SOUTHWEST		1060'		
WAREHOUSE	SOUTHWEST		9653'		
RAMP	SOUTHWEST		2640'		

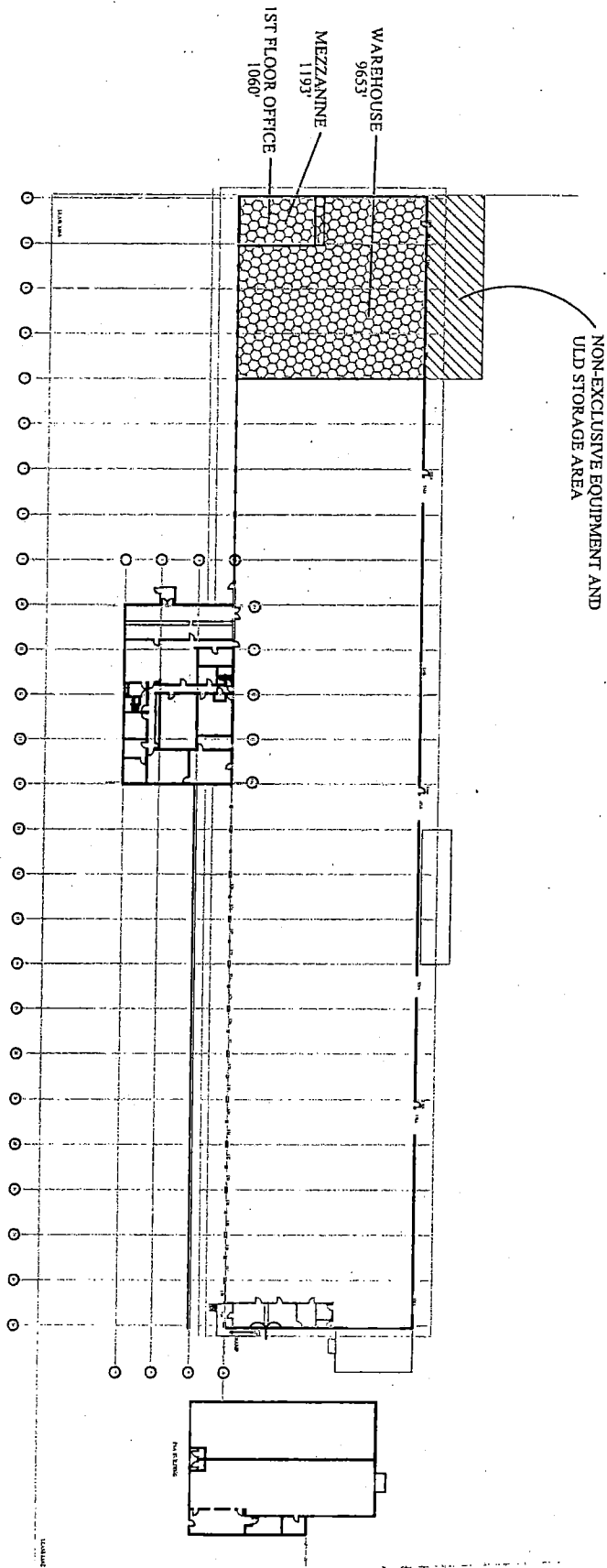


EXHIBIT B

MANDATORY CITY CONTRACTING PROVISIONS

Section 1 **Nondiscrimination Ordinance.** Tenant shall comply with the following:

A. **Tenant Shall Not Discriminate.** In the performance of this Lease, Tenant agrees not to discriminate against any employee, City employee working with Tenant, applicant for employment with Tenant, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

B. **Transfers; No Subleases.** Tenant shall have the right to Transfer this Lease only as provided in Article 5 hereof. Tenant shall not have the right to sublease any space under this Lease.

C. **Nondiscrimination in Benefits.** Tenant does not as of the date of this Lease and will not during the Term, in any of its operations in San Francisco on real property owned by City, or where work is being performed for City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in Section 12B.2(b) of the San Francisco Administrative Code.

D. **Conditions to Contract.** As a condition to this Lease, Tenant shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (Form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission. Tenant hereby represents that prior to execution of this Lease, (i) Tenant executed and submitted to the HRC Form HRC-12B-101 with supporting documentation, and (ii) the HRC approved such form.

E. **Incorporation of Administrative Code Provisions by Reference.** The provisions of Chapters 12B and 12C of the San Francisco Administrative Code relating to non-discrimination by parties contracting for the lease of City property are incorporated in this Section by reference and made a part of this Lease as though fully set forth herein. Tenant shall comply fully with and be bound by all of the provisions that apply to this Lease under such Chapters of the Administrative Code, including, but not limited to, the remedies provided in such Chapters. Without limiting the foregoing, Tenant understands that pursuant to Sections 12B.2(h), 12C.3(g) of the San Francisco Administrative Code, a penalty of fifty dollars (\$50) for each person for each calendar day during which such person was discriminated against in

violation of the provisions of this Lease may be assessed against Tenant and/or deducted from any payments due Tenant.

Section 2 Conflict of Interest. Through its execution of this Lease, Tenant acknowledges that it is familiar with the provision of Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State, and certifies that it does not know of any facts which constitutes a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Lease.

Section 3 Tropical Hardwoods and Virgin Redwoods. The City urges companies not to import, purchase, obtain or use for any purpose any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product. Except as expressly permitted by the application of Sections 802(B) and 803(B) of the San Francisco Environment Code, Tenant shall not provide any items to the construction of Tenant tenant improvements or the Alterations, or otherwise in the performance of this Lease, which are tropical hardwoods, tropical hardwood wood products, virgin redwood, or virgin redwood wood products. In the event Tenant fails to comply in good faith with any of the provisions of Chapter 8 of the San Francisco Environment Code, Tenant shall be liable for liquidated damages for each violation in any amount equal to Tenant's net profit on the contract, or five percent (5%) of the total amount of the contract dollars, whichever is greater.

Section 4 Drug-Free Workplace Policy. Tenant acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession or use of a controlled substance is prohibited on City premises. Tenant agrees that any violation of this prohibition by Tenant, its employees, agents or assigns shall be deemed a material breach of this Lease.

Section 5 Compliance with Americans With Disabilities Act and Air Carrier Access Act. Tenant acknowledges that, pursuant to the ADA and the ACAA, to the extent applicable to Tenant, programs, services and other activities provided by a public entity to the public, whether directly or through a contractor, must be accessible to the disabled public. To the extent the ADA or the ACAA is so applicable: (a) Tenant shall provide the services specified in this Lease in a manner that complies with the ADA or the ACAA, as applicable, and any and all other applicable federal, State and local disability rights legislation; (b) Tenant agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Lease; and (c) Tenant further agrees that any violation of this prohibition on the part of Tenant, its employees, agents or assigns shall constitute a material breach of this Lease.

Section 6 Pesticide Prohibition.

A. Tenant shall comply with the provisions of Section 308 of Chapter 3 of the San Francisco Environment Code (the "Pesticide Ordinance") which (i) prohibit the use of certain pesticides on City property, (ii) require the posting of certain notices and the maintenance

of certain records regarding pesticide usage, and (iii) require Tenant to submit to the Airport an integrated pest management ("IPM") plan that (a) lists, to the extent reasonably possible, the types and estimated quantities of pesticides that Tenant may need to apply to the Premises during the terms of this Lease, (b) describes the steps Tenant will take to meet the City's IPM Policy described in Section 300 of the Pesticide Ordinance, and (c) identifies, by name, title, address, and telephone number, an individual to act as the Tenant's primary IPM contact person with the City. In addition, Tenant shall comply with the requirements of Sections 303(a) and 303(b) of the Pesticide Ordinance.

B. Nothing herein shall prevent Tenant, through the Director, from seeking a determination from the Commission on the Environment that it is exempt from complying with certain portions of the Pesticide Ordinance as provided in Section 307 thereof.

Section 7 MacBride Principles – Northern Ireland. The City urges companies doing business in Northern Ireland to move toward resolving employment inequities and encourages them to abide by the MacBride Principles as expressed in San Francisco Administrative Code Section 12F.1 et seq. The City also urges San Francisco companies to do business with corporations that abide by the MacBride Principles. Tenant acknowledges that it has read and understands the above statement of the City concerning doing business in Northern Ireland.

Section 8 No Advertising or Promotions; Prohibition of Tobacco Advertising. Tenant shall have no right to conduct any advertising or promotional activities on the Airport. Tenant acknowledges and agrees that no advertising of cigarettes or tobacco products is allowed on any real property owned by or under the control of the City, including the Premises and the Airport. This prohibition includes the placement of the name of a company producing, selling or distributing cigarettes or tobacco products or the name of any cigarette or tobacco product in any promotion of any event or product. This prohibition does not apply to any advertisement sponsored by a state, local or nonprofit entity designed to communicate the health hazards of cigarettes and tobacco products or to encourage people not to smoke or to stop smoking.

Section 9 First Source Hiring Ordinance. The City has adopted a First Source Hiring Ordinance (Board of Supervisors Ordinance No. 264 -98) which establishes specific requirements, procedures and monitoring for first source hiring of qualified, economically disadvantaged individuals for entry level positions. Within thirty (30) days after the Real Estate Division of the Department of Administrative Services adopts a First Source Hiring Implementation and Monitoring Plan in accordance with the First Source Hiring Ordinance, Tenant shall enter into a First Source Hiring agreement that meets the applicable requirements of Section 83.9 of the First Source Hiring Ordinance.

Section 10 Sunshine Ordinance. In accordance with Section 67.24I of the San Francisco Administrative Code, contracts, contractors' bids, leases, agreements, responses to Requests for Solicitations, and all other records of communications between City and persons or firms seeking contracts will be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person's or organization's net worth or other proprietary financial data submitted for qualification for a contract, lease, agreement or other

benefit until and unless that person or organization is awarded the contract, lease, agreement or benefit. Information provided which is covered by this Section will be made available to the public upon request.

Section 11 Requiring Health Benefits for Covered Employees.

A. Unless exempt, Tenant agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated herein by reference and made a part of this Lease as though fully set forth. The text of the HCAO is available on the web at <http://sfgsa.org/index.aspx?page=391>. Capitalized terms used in this Section and not defined in this Lease shall have the meanings assigned to such terms in Chapter 12Q.

B. For each Covered Employee, Tenant shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If Tenant chooses to offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

C. Notwithstanding the above, if the Tenant is a small business as defined in Section 12Q.3(d) of the HCAO, it shall have no obligation to comply with Subsection (A) above.

D. Tenant's failure to comply with the HCAO shall constitute a material breach of this Lease. City shall notify Tenant if such a breach has occurred. If, within thirty (30) days after receiving City's written notice of a breach of this Lease for violating the HCAO, Tenant fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty (30) days, Tenant fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, City shall have the right to pursue the remedies set forth in Sections 12Q.5.1, 12Q.5(f)(1-6). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to City.

E. Any Subcontract entered into by Tenant shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. Tenant shall notify City's Purchasing Department when it enters into such a Subcontract and shall certify to the Purchasing Department that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. Tenant shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against Tenant based on the Subcontractor's failure to comply, provided that City has first provided Tenant with notice and an opportunity to obtain a cure of the violation.

F. Tenant shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying City with regard to Tenant's compliance or anticipated compliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

G. Tenant represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the HCAO.

H. Tenant shall maintain employee and payroll records in compliance with California Labor Code and Industrial Welfare Commission orders.

I. Tenant shall keep itself informed of the current requirements of the HCAO.

J. Tenant shall provide reports to the City in accordance with any reporting standards promulgated by the City under the HCAO, including reports on Subcontractors and Subtenants, as applicable.

K. Tenant shall provide City with access to records pertaining to compliance with HCAO after receiving a written request from City to do so and being provided at least ten (10) business days to respond.

L. Tenant shall allow City to inspect Tenant's Premises and to have access to Tenant's employees in order to monitor and determine compliance with HCAO.

M. City may conduct random audits of Tenant to ascertain its compliance with HCAO. Tenant agrees to cooperate with City when it conducts such audits.

N. If Tenant is exempt from the HCAO when this Lease is executed because its amount is less than twenty-five thousand dollars (\$25,000), but Tenant later enters into an agreement or agreements that cause Tenant's aggregate amount of all agreements with City to reach seventy-five thousand dollars (\$75,000), all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between Tenant and the Contracting Department to be equal to or greater than seventy-five thousand dollars (\$75,000) in the Fiscal Year.

Section 12 Requiring Minimum Compensation for Covered Employees.

A. Tenant agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Lease as though fully set forth. The text of the MCO is available on the web at <http://sfgsa.org/index.aspx?page=403>. A partial listing of some of Tenant's obligations under the MCO is set forth in this Section. Tenant is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

B. The MCO requires Tenant to pay Tenant's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and Tenant is obligated to keep informed of the then-current requirements.

C. Tenant shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

D. Tenant shall maintain employee and payroll records as required by the MCO. If Tenant fails to do so, it shall be presumed that the Tenant paid no more than the minimum wage required under State law.

E. The City is authorized to inspect Tenant's job sites and conduct interviews with employees and conduct audits of Tenant.

F. Tenant's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Lease. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Tenant fails to comply with these requirements. Tenant agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for Tenant's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

G. Tenant understands and agrees that if it fails to comply with the requirements of the MCO, the City shall have the right to pursue any rights or remedies available under Chapter 12P (including liquidated damages), under the terms of the contract, and under applicable law. If, within 30 days after receiving written notice of a breach of this Lease for violating the MCO, Tenant fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, Tenant fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the City shall have the right to pursue any rights or remedies available under applicable law, including those set forth in Section 12P.6I of Chapter 12P. Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

H. Tenant represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the MCO.

I. If Tenant is exempt from the MCO when this Lease is executed because the cumulative amount of agreements with this department for the Fiscal Year is less than \$25,000, but Tenant later enters into an agreement or agreements that cause contractor to exceed that amount in a Fiscal Year, Tenant shall thereafter be required to comply with the MCO under this Lease. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between Tenant and Commission to exceed \$25,000 in the Fiscal Year.

Section 13 Notification of Limitations on Contributions. Through its execution of this Lease, Tenant acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the selling or leasing any land or building to or from the City whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contribution to the officer at any time from the commencement of negotiations for such contract until the termination of negotiations for such contract or three (3) months has elapsed from the date the contract is approved by the City elective officer, or the board on which that City elective officer serves.

Section 14 Food Service Waste Reduction. If and to the extent applicable, the Tenant agrees to comply fully with and be bound by all of the applicable provisions of the Food Service Waste Reduction Ordinance, as set forth in the San Francisco Environment Code, Chapter 16, including the remedies provided therein, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Lease as though fully set forth herein. Accordingly, Tenant acknowledges that City contractors and lessees may not use Disposable Food Service Ware that contains Polystyrene Foam in City Facilities and while performing under a City contract or lease, and shall instead use suitable Biodegradable/ Compostable or Recyclable Disposable Food Service Ware. This provision is a material term of this Lease. By entering into this Lease, Tenant agrees that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine; further, Tenant agrees that the sum of one hundred dollars (\$100.00) liquidated damages for the first breach, two hundred dollars (\$200.00) liquidated damages for the second breach in the same year, and five hundred dollars (\$500.00) liquidated damages for subsequent breaches in the same year is a reasonable estimate of the damage that City will incur based on the violation, established in light of the circumstances existing at the time this Lease was made. Such amounts shall not be considered a penalty, but rather agreed monetary damages sustained by City because of Tenant's failure to comply with this provision.

Section 15 Preservative-Treated Wood Containing Arsenic. Tenant may not purchase preservative-treated wood products containing arsenic in the performance of this Lease unless an exemption from the requirements of Environment Code Chapter 13 is obtained from the Department of Environment under Section 1304 of the Environment Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniac copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. Tenant may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of Environment. This provision does not preclude Tenant from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

EXHIBIT C

CITY'S MAINTENANCE OBLIGATIONS

**Airport Building 606
Base-Building – Infrastructure, System, & Equipment**

Mechanical Maintenance	HVAC Unit with Gas Furnace – Located on Roof Exhaust Fans on Roof
Electrical	Electrical High Voltage Distribution Transformer Electrical High Voltage Switch Gear Exterior Lighting, Landside and AOA Main Supply Lines and Distribution Systems to the Meter
Plumbing	Main Supply Lines/ Distribution Main Fire Protection – Overhead Sprinkler System Sanitary Sewer System
Pavement and Grounds	Landside Parking Areas Aircraft Parking AOA Ramp Area
Building Envelope	Foundations Load Bearing Walls, Non-Load Bearing Walls Floor Slabs Exterior Surface of Facility Roof System Common Stairwells Glazing

EXHIBIT D

REIMBURSEMENT CALCULATION EXAMPLE UNAMORTIZED ALTERATION COST

Assumptions:

Example Approved Alteration Cost:	\$400,000
Example Completion Date (for Improvements):	April 1, 2013
Example Early Termination Date:	May 31, 2016
Example Lease Expiration Date:	September 30, 2018

Calculations:

If Tenant surrenders the Premises on May 30, 2016, the Unamortized Approved Alteration Cost will be \$146,666.67 calculated as follows:

Straight-line five-year amortization of \$400,000 between April 1, 2013 and May 31, 2018 is \$6,666.67 each month ($\$400,000 \div 60$ months).

22 months remaining in amortization period (June 1, 2016 through March 31, 2018).

22 months x \$6,666.67 per month = \$146,666.67.

	Date of Report	Title	Location	Area Name	Prepared by	Prepared for
1758	09-Jul-02	American Airlines Air Cargo Facility, Plot 9, Storm Drain Investigation Work Plan	Plot 9		Malcolm Pirnie	American Airlines
1594	30-Apr-99	Subsurface Investigation Report, Northwest Airlines Air Cargo Facility, Apron Fuel Distribution System and Supply Lines	Plot 9 Air Cargo Facility	Plot 9A - Northwest Cargo Facility	Dames & Moore	Northwest Airlines
1595	15-Nov-99	Fuel Hydrant System Investigation: American Airlines Air Cargo Facility, Plot 9	Plot 9 Air Cargo Facility	Plot 9B - American Airlines Cargo Facility	URS Greiner Woodward Clyde	American Airlines
1173	17-Jun-99	Comments on Annotated Fuel Pipeline Map Titled "Previously Abandoned Pipelines/Other Fuel Line Right-of-Ways, SFIA"	Plot 9 hydrant systems to Taxiway A/B	Plot 9	Dames & Moore	Northwest Airlines
400	23-May-96	Project manual and Specifications for: Project No.95-01 Stormwater Pollution Controls	Plot 9, Northwest Cargo	Plot 9	Gordon Johnson, AIA, Architect	Northwest Airlines
236	06-May-96	Geotechnical Investigation, Proposed Building Addition, Northwest Airlines Cargo Facility	Plot 9, Northwest Cargo	Plot 9	BSK & Associates	Northwest Airlines
853	01-Oct-96	Subsurface Investigation Northwest Airlines, Air Cargo Facility/Apron Fuel Distribution System SFIA	Plot 9, Northwest Cargo	Plot 9	Montgomery Watson	Northwest Airlines
1714	01-Nov-03	Final Remedial Action Plan, Northwest Airlines Cargo Facility Northwest Airlines Cargo Facility, SFIA	Plot 9A - Northwest Cargo Facility	Plot 9A - Northwest Cargo Facility	RMT, Inc.	Northwest Airlines
1707	11-Jul-03	Final Additional Subsurface Investigation Report, Northwest Airlines Air Cargo Facility Northwest Airlines Air Cargo Facility	Plot 9A - Northwest Cargo Facility	Plot 9A - Northwest Cargo Facility	URS	Northwest

EXHIBIT E

LIST OF AVAILABLE ENVIRONMENTAL REPORTS FOR PLOTS 9, 9A, AND 9B

	Date of Report	Title	Location	Area Name	Prepared by	Prepared for
1636	09-Aug-02	Storm Drain Investigation Work Plan, American Airlines Air Cargo Facility, Plot 9	Plot 9A, Plot 9B	Plot 9A - Northwest Cargo Facility	Malcolm Pirnie	American Airlines
1636	09-Aug-02	Storm Drain Investigation Work Plan, American Airlines Air Cargo Facility, Plot 9	Plot 9A, Plot 9B	Plot 9B - American Airlines Cargo Facility	Malcolm Pirnie	American Airlines
1855	30-Mar-05	American Airlines Air Cargo Facility, Remedial Action Completion Report	Plot 9B		Malcolm Pirnie	American Airlines
1771	01-Jun-04	Feasibility Study Remedial Action Plan Addendum, American Airlines' Air Cargo Facility Plot 9B	Plot 9B		Malcolm Pirnie	American Airlines
1786	01-Mar-05	Jet Fuel Hydrant Line Removal and Excavation/ Treatment of Impacted Soil, American Airline's Air Cargo Facility, Plot 9B, San Francisco International Airport	Plot 9B		Malcolm Pirnie	American Airlines
1676	18-Jul-03	American Airlines Air Cargo Facility, Plot 9, Storm Drain Investigation Work Plan Storm Drain Investigation Work Plan	Plot 9B - American Airlines Cargo Facility	Plot 9B - American Airlines Cargo Facility	Malcolm Pirnie	SFIA
1715	01-Dec-03	American Airlines' Air Cargo Facility, Feasibility Study Remedial Action Plan Plot 9, SFIA	Plot 9B - American Airlines Cargo Facility	Plot 9B - American Airlines Cargo Facility	Malcolm Pirnie	American Airlines
1759	08-Dec-03	Feasibility Study/Remedial Action Plan, American Airlines' Air Cargo Facility, Plot 9	Plot 9		Malcolm Pirnie	American Airlines
1763	01-Jan-00	Task 9 RWQCB Order 99-045, SWMMZ Tier 2 Evaluation Work Plan, San Francisco International Airline	Plot 9		Burns & McDonnell	United Airlines
1899	09-Jan-09	Final Construction Management Plan - Fuel Line Removal and Excavation - Northwest Airlines Cargo Bay	Plot 9		ERRG	Northwest Airlines
1686	30-May-03	SFIA Air Cargo Facility, Plot 9, Remedial Investigation Work Plan Remedial Investigation Work Plan	Plot 9	Plot 9	Malcolm Pirnie	American Airlines

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL
(S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information <i>(Please print clearly.)</i>	
Name of City elective officer(s):	City elective office(s) held:
Members, SF Board of Supervisors	Members, SF Board of Supervisors

Contractor Information <i>(Please print clearly.)</i>	
Name of contractor: Southwest Airlines Co.	
Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary.	
1) David W. Biegler; J. Veronica Biggins, Douglas H. Brooks, William H. Cunningham, John G. Denison, Gary C. Kelly, Nancy B. Loeffler, John T. Montford, Thomas M. Nealon, Daniel D. Villanueva	
2) Gary C. Kelley, CEO; Michael G. Van De Ven, COO; Tammy Romo, CFO	
3) None	
4) None	
Contractor address: 2702 Love Field Drive, Dallas, Texas 75235	
Date that contract was approved: Airport Commission – December 3, 2013	Amount of contract: Initial Rent of \$262,752.20
Describe the nature of the contract that was approved: Exclusive cargo warehouse, office, and ramp space at Airport Building No. 606 for cargo operations	
Comments: Five-year term; Rent is subject to adjustments from time to time	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form

a board on which the City elective officer(s) serves San Francisco Board of Supervisors
Print Name of Board

the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

Filer Information <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board of Supervisors	Contact telephone number: (415) 554-5184
Address: 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102-4689	E-mail: Board.of.Supervisors@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer)

Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk)

Date Signed