

File No. 211144

Committee Item No. 5

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date December 1, 2021

Board of Supervisors Meeting Date _____

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- Motion
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OTHER (Use back side if additional space is needed)

- Executed Ground Lease 10/18/96
- Ground Lease - Addendum 1
- Airport Commission Resolution No. 21-0205 - 10/19/21
- _____
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- _____

Completed by: Brent Jalipa Date November 22, 2021

Completed by: Brent Jalipa Date _____

1 [Ground Lease Modification - United Airlines, Inc. - Three-Year Term Extension]

2

3 **Resolution approving Modification No. 1 to Ground Lease No. 96-0268 between the City**
4 **and County of San Francisco, acting by and through its Airport Commission, and**
5 **United Airlines, Inc. to extend the term by three years, provide for rent adjustments**
6 **during the extension term, and update certain legal provisions required by applicable**
7 **local, state, and federal laws, as defined herein, to take effect only after approval by the**
8 **Board of Supervisors.**

9

10 WHEREAS, On October 18, 1996, by Resolution No. 96-0268, the Airport Commission
11 (“Commission”) approved Lease No. 96-0268 (“Lease”) between the City and County of
12 San Francisco (the “City”) and United Airlines, Inc. (“United”) for approximately 11.30 acres of
13 land at the Airport, commonly known as Plot 7X (“Premises”), for a period of 25 years; and

14 WHEREAS, Prior to the Lease receiving approval from the Board of Supervisors, the
15 City and County of San Francisco enacted the Non-Discrimination in City Contracts and
16 Benefits Ordinance (the “Ordinance”); and

17 WHEREAS, Addendum No. 1 was subsequently incorporated into the Lease, which
18 provided United with a revised initial term of approximately two years from the
19 commencement date of the Lease, to provide United with the time to come into compliance
20 with the Ordinance, and the right to extend the term for an additional 23 years; and

21 WHEREAS, On February 21, 1997, by Resolution No. 131-97, the Board of
22 Supervisors approved the Lease, inclusive of Addendum No. 1; and

23 WHEREAS, United came into compliance with the Ordinance and exercised its right to
24 extend the Lease through August 31, 2021, the current expiration date; and

25

1 WHEREAS, The City and United have negotiated the terms of Modification No. 1 to the
2 Lease (“Modification No. 1”) to (i) extend the term for three years, (ii) provide for annual rent
3 adjustments during the extension term to reflect the increase, if any, in the “cost of living” over
4 the previous year; and (iii) update certain legal provisions required by applicable local, state,
5 and federal laws; and

6 WHEREAS, All other terms and conditions of the Lease remain unmodified and in full
7 force and effect; and

8 WHEREAS, On October 19, 2021, by Resolution No. 21-0205, the Commission
9 approved Modification No. 1; and

10 WHEREAS, The Effective Date of Modification No. 1 is the date it is approved by the
11 Board of Supervisors and is fully executed by all parties; and

12 WHEREAS, A copy of Modification No. 1 is on file with the Clerk of the Board of
13 Supervisors in File No. 211144, which is hereby declared to be part of this Resolution as if set
14 forth fully herein; now, therefore, be it

15 RESOLVED, That the Board of Supervisors hereby approves Modification No. 1; and,
16 be it

17 FURTHER RESOLVED, That within thirty (30) days of Modification No. 1 being fully
18 executed by all parties, the Airport Commission shall provide a copy of the final Modification
19 No. 1 to the Clerk of the Board for inclusion into the official file.

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Items 4 & 5
Files 21-1141, 21-1144

Department:
 Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve ground lease modifications between the San Francisco International Airport (Airport) as landlord and United Airlines as tenant for the following premises: (i) Plot 6, extending the term by three years through approximately December 2024 (File 21-1141); and (ii) Plot 7X, extending the term by three years through approximately December 2024 (File 21-1144).

Key Points

- United Airlines has ground leases for approximately 12.03 acres at Plot 6 and 11.3 acres at Plot 7X at the Airport. The leases expired in June 2021 and August 2021, respectively, and are currently in holdover status. Capital projects that had been anticipated at Plot 6 and Plot 7X have been delayed indefinitely, and the Airport and United Airlines have agreed to extend the leases three years.
- Under the proposed lease modifications, United Airlines would pay initial annual rent of at least \$2,267,934 for Plot 6 and \$2,198,394 for Plot 7. Rent would be adjusted based on the Consumer Price Index (CPI) upon commencement of the lease extensions and annually thereafter. The rent is based on an appraised value from 2016, with annual CPI adjustments.

Fiscal Impact

- Under the three-year term of the proposed lease modifications, the Airport would receive at least \$6,803,803 for the Plot 6 lease and at least \$6,445,183 for the Plot 7X lease, for total revenue of at least \$13,248,986.

Policy Consideration

- The subject properties were most recently appraised in 2016. Under the terms of the original leases, the properties were reappraised every five years as part of the rent adjustment process, but that is no longer a requirement in the proposed lease extensions. Airport staff instead opted to continue rent adjustment by CPI rather than resetting the rent based on a new appraisal. Because the properties have not been appraised since 2016 and the Airport did not provide any other analysis related to the properties, we cannot evaluate whether the proposed lease modifications are reasonably priced.

Recommendation

- Because the properties have not been appraised since 2016, approval of the proposed resolutions is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, (2) have anticipated revenues to the City of \$1,000,000, or (3) the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND**Plot 6 (File 21-1141)**

In 2001, the Board of Supervisors retroactively approved a ground lease between the San Francisco International Airport (Airport) and United Airlines for approximately 16.04 acres at Plot 6 for the purpose of air cargo and aviation support activities, for a term of 12 years and one month from June 1999 through June 2011 (File 01-0052). In 2012, the Board of Supervisors retroactively approved Modification No. 1 to the lease, reducing the premises to approximately 12.54 acres and extending the term by 10 years through June 2021 (File 11-1290). In August 2020, the Board of Supervisors approved Modification No. 2 to the lease, reducing the premises to approximately 12.03 acres.¹ The lease expired June 30, 2021 and is currently in holdover status.

The Airport plans to build a new Concourse H on Plot 6 as part of the International Terminal. Due to the COVID-19 pandemic and its impact on air travel, the Concourse H project is delayed indefinitely due to the re-prioritization of the Airport's capital plan in light of lower than projected revenues induced by the pandemic. Airport staff believes that an extension of the United Airlines lease is in the best interest of the Airport. In October 2021, the Airport Commission approved Modification No. 3 to the lease, extending the term by three years through approximately December 2024.

Plot 7X (File 21-1144)

In 1997, the Board of Supervisors retroactively approved a ground lease between the Airport and United Airlines for approximately 11.3 acres at Plot 7X for the operation of an inflight kitchen, repair of its ground service equipment, and employee parking, for a term of two years from September 1996 through August 1998, with an option to extend 23 years through August 2021 (Resolution 131-97).² United Airlines subleases a portion of the premises to Gate Gourmet, which supports United flight operations.³ The lease expired August 31, 2021 and is currently in holdover status.

¹ Rent is assessed on 12.004 acres of land in Plot 6. Approximately 0.025 acres house electrical equipment used by the Airport and are not assessed rent.

² The lease originally had a term of 25 years. Before the Board of Supervisors approved the lease, the City enacted the Non-Discrimination in Contracts and Benefits Ordinance (Chapters 12B and 12C of the Administrative Code). The Airport and United Airlines agreed to Addendum 1 of the lease, which reduced the initial term to two years, and provided the option to extend 23 years if United achieved compliance with Chapters 12B and 12C. Resolution 131-97 included approval of Addendum 1 to the lease. United achieved compliance and the option was exercised.

³ Under the sublease, Gate Gourmet pays 45 percent of the rent charged to United Airlines, as Gate Gourmet subleases approximately 45 percent of United's leased premises in Plot 7X.

The Airport plans to use Plot 7X as part of the expanded airfield to support Airport operations. Due to the COVID-19 pandemic and its impact on air travel, the airfield expansion project is delayed. Airport staff believes that an extension of the United Airlines lease is in the best interest of the Airport. In October 2021, the Airport Commission approved Modification No. 1 to the lease, extending the term by three years through approximately December 2024.⁴

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following modifications to the Airport ground leases with United Airlines: (i) Modification No. 3 to the ground lease for Plot 6, extending the term by three years through approximately December 2024, with initial annual rent of at least \$2,267,934 (File 21-1141); and (ii) Modification No. 1 to the ground lease for Plot 7X, extending the term by three years through approximately December 2024, with initial annual rent of at least \$2,148,394. Rents would be adjusted based on the Consumer Price Index (CPI) upon commencement of the lease extensions. The proposed lease modifications would not change any other material terms of the leases.

According to Sean Murphy, Airport Property Manager, the rental rates were originally set as negotiated rates because ground leases are not subject to the annual Airport Rates and Charges. Under the leases, the rent is adjusted annually based on the CPI. Every five years, the premises are reappraised and rent is set to the greater of the Fair Market Rent determined in the appraisal or the adjusted rent of the previous year. The most recent appraisal, conducted by Runde & Partners in 2016, determined that annual Fair Market Rent was \$167,692 per acre for the Plot 6 lease, or \$2,098,500 for the premises,⁵ and \$168,584 per acre for the Plot 7X lease, or \$1,905,000 for the premises.

According to Property Manager Murphy, the Airport does not have an anticipated project start date for the Concourse H and airfield expansion projects. The Airport does not have plans for the premises beyond the expiration of the proposed lease extensions. If the leases are extended again, the Airport and United Airlines would determine at that time whether to conduct a new appraisal or continue the existing rents with annual adjustments.

FISCAL IMPACT

Over the three-year term of the proposed lease extensions, the Airport would receive at least \$13,248,984 in rent, subject to annual adjustments, as shown in Exhibit 1 below.

Exhibit 1: Rent Projections (Subject to Annual Adjustment)

Premises	Annual Rent	Rent over 3-Year Term
Plot 6 (File 21-1141)	\$2,267,934	\$6,803,803
Plot 7X (File 21-1144)	2,148,394	6,445,183
Total Rent	\$4,416,329	\$13,248,986

⁴ According to Property Manager Murphy, the proposed lease extensions were not approved before the existing leases expired because of extended negotiations between the Airport and United Airlines.

⁵ At the time of the appraisal, rent was assessed to 12.514 acres in Plot 6.

Source: BLA analysis of proposed leases. Totals may not add due to rounding.

The annual rent per acre is similar for each lease. The annual rent per acre is currently \$188,938 for Plot 6 and \$190,123 for Plot 7X.

POLICY CONSIDERATION

The subject properties were most recently appraised in 2016. Under the terms of the original leases, the properties were reappraised every five years as part of the rent adjustment process, but that is no longer a requirement in the proposed lease extensions.

In negotiating the proposed lease extensions, the Airport and United Airlines agreed to adjust the existing rent amounts based on the CPI, rather than conduct a new appraisal, even though more than five years had passed since the most recent appraisal. According to the Airport, staff decided not to conduct a new appraisal for the leases because of the depressed economic environment and uncertain recovery period at the time of the negotiations in early 2021 due to the COVID-19 pandemic. Airport staff instead opted to continue rent adjustment by CPI rather than resetting the rent based on a new appraisal.

Because the properties have not been appraised since 2016 and the Airport did not provide any other analysis related to the properties, we cannot evaluate whether the proposed lease modifications are reasonably priced. We therefore consider approval of the proposed resolutions to be a policy matter for the Board of Supervisors.

RECOMMENDATION

Approval of the proposed resolutions is a policy matter for the Board of Supervisors.

**MODIFICATION NO. 1 TO THE GROUND LEASE FOR PLOT 7X
AT SAN FRANCISCO INTERNATIONAL AIRPORT**

UNITED AIRLINES, INC.

THIS MODIFICATION NO. 1 TO THE GROUND LEASE FOR PLOT 7X AT SAN FRANCISCO INTERNATIONAL AIRPORT (this **Modification**), dated as of the Effective Date (as defined and set forth below), is entered into by and between City and County of San Francisco, a municipal corporation, acting by and through its Airport Commission (**City**), and United Airlines, Inc., a Delaware corporation (**Lessee**).

Recitals

- A. The City and County of San Francisco owns the San Francisco International Airport (the **Airport**) located in the County of San Mateo, State of California, and operates the Airport by and through its Airport Commission (the **Commission**), the chief executive officer of which is the Airport Director (the **Director**).
- B. On October 18, 1996, by Resolution No. 96-0268, the Commission awarded to Lessee the Ground Lease for Plot 7X (the **Original Lease**) at San Francisco International Airport, dated October 18, 1996 (as further described in the Original Lease, the **Demised Premises**). On February 21, 1997, by Resolution No. 131-97, the San Francisco Board of Supervisors (the **Board of Supervisors**) approved the Original Lease and the Addendum (as defined below). Addendum No. 1 to the Original Lease provided for an extension of the Initial Term to August 31, 2021 upon Lessee's satisfaction of certain conditions with regards to complying with Chapters 12B and 12C of the San Francisco Administrative Code (**Addendum 1**, and together with the Original Lease, collectively, the **Lease**).
- C. The current term of the Lease (the **Term**) expires on August 31, 2021 (the **Current Expiration Date**). City and Lessee desire to enter into this Modification to, among other things, (i) extend the Term of the Lease for a period of three (3) years; (ii) provide for the adjustment of base rent during the Extension Term (as defined below); (iii) provide for a holdover of the Lease until the Airport obtains Final City Approvals (defined below); and (iv) update certain legal provisions required by applicable local, state, and federal laws, each on the terms and conditions set forth below in this Modification.
- D. All capitalized terms used in this Modification, but not otherwise defined, will have the meaning provided in the Lease.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants set forth in this Modification, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties do mutually agree as follows:

1. **Effective Date; Defined Terms.** This Modification will become effective upon the last of the following to have occurred (the "**Effective Date**"): (i) the Commission and the Board of Supervisors have approved this Modification (**Final City Approvals**); and (ii) each of the parties have executed this Modification. Lessee will submit an executed copy of this Modification in order for City to obtain Final City Approvals. The

Effective Date will be evidenced as set forth in Section 2 below. For the avoidance of doubt, this Modification shall not take effect, and the Effective Date shall not occur until receipt of all Final City Approvals.

2. **Extension Term.** Upon the Effective Date, the Term of the Lease is extended for a period of three (3) years (the “**Extension Term**”), commencing on the first day of the calendar month immediately following later to occur of (i) the Effective Date; and (ii) the Current Expiration Date (the “**Extension Term Commencement Date**”); and expiring on the last day of the calendar month during which the third anniversary of the Extension Term Commencement Date occurs (the “**Extension Term Expiration Date**”). Upon the determination of the Effective Date, the Extension Term Commencement Date and the Extension Term Expiration Date, City will enter each date below and deliver a fully executed original copy of this Modification to Lessee:

Effective Date: _____

Extension Term Commencement Date: _____

Extension Term Expiration Date: _____

3. **Intentionally Omitted.**

4. **Base Rent Adjustment During Extension Term; Based on COLA Increase.** Rent for the current year of the Term through the Current Expiration Date is equal to \$190,123.39 per acre of the Demised Premises (**Base Rent**). Base Rent will be adjusted on the later to occur of (i) September 1, 2021; and (ii) the Extension Term Commencement Date (the “**First Adjustment Date**”), and again thereafter on each anniversary of the First Adjustment Date during the Extension Term (and each will be considered an “**adjustment date**” for purposes of adjusting Base Rent). On each such adjustment date, Base Rent will be adjusted to reflect the increase, if any, in the “cost of living” over the previous year, consistent with the formula set forth in Section 5.02 of the Original Lease (the “**COLA Increase**”). Notwithstanding Section 5.02 of the Original Lease, for purposes of adjusting the Base Rent for the COLA Increase on the First Adjustment Date and each adjustment date thereafter, the Beginning Index will be the Index published immediately prior to the date that is one (1) year prior to the First Adjustment Date. Additionally, notwithstanding anything in this Modification to the contrary, in no event will the Base Rent for any upcoming year be adjusted on any adjustment date to be lower than the year immediately prior to such adjustment date.

5. **Intentionally Omitted.**

6. **Holdover of Original Lease.** In the event that the City has not obtained the Final City Approvals for this Modification, and the Effective Date has not occurred prior to the Current Expiration Date, the Lease will not terminate, but Lessee may hold over on a month-to-month basis and remain in possession of the Demised Premises pursuant to Section 2 of the Original Lease until such time as either (i) the Final City Approvals are ultimately obtained and the Effective Date will occur; or (ii) City will terminate the holdover tenancy upon thirty (30) days written notice to Lessee. In the event that the Airport will not be able to obtain the Final City Approvals, then this Modification will be of no further force or effect, and the provisions of Section 2 of the Original Lease will control with respect to such holdover tenancy of Lessee.

7. **References to Tenant Improvement Guide.** References throughout the Original Lease to the “Tenant Improvement Guide” will be amended to refer to the “Tenant Improvement Guide or any other successor tenant improvement guide, instrument, applicable building code, rule and regulation or statutory authority, as the context of the Lease requires.”

8. **Updates to Local, State and Federal Law Provisions.** The updated local, state, and federal law provisions set forth on Exhibit A attached to this Modification are incorporated into the Lease (**Updated Applicable Law Provisions**) as new Article 16. In addition, the following sections of Article 15 of the Original Lease [Miscellaneous Provisions] are deleted and replaced with the corresponding Updated Applicable Law Provisions, as set forth in the table below:

Original Lease Provision	Updated Applicable Law Provision
15.02 Conflict of Interest	Exhibit A, Section 16.01
15.06 Federal Non-Discrimination Regulations	Exhibit A, Section 16.02
15.12 Applicability of Charter Provisions	Exhibit A, Section 16.09

9. **Accessibility Disclosures.** California Civil Code Section 1938 requires commercial landlords to disclose to tenants whether the property being leased has undergone inspection by a Certified Access Specialist (CASp) to determine whether the property meets all applicable construction-related accessibility requirements. The law does not require landlords to have the inspections performed. Lessee is advised that the Demised Premises have not been inspected by a CASp. A CASp can inspect the Premises and determine if they comply with all the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the Demised Premises, City may not prohibit Lessee from obtaining a CASp inspection of the Demised Premises for the occupancy or potential occupancy of Lessee if requested by Lessee. City and Lessee will mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the CASp inspection fee, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the Demised Premises.


10. **No Other Modification.** Except as expressly set forth in this Modification, the Lease remains unmodified and in full force and effect.

11. **Board of Supervisors Approval.** NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS MODIFICATION, LESSEE ACKNOWLEDGES AND AGREES THAT NO CITY OFFICER OR EMPLOYEE HAS AUTHORITY TO COMMIT CITY TO THIS MODIFICATION UNLESS AND UNTIL CITY’S BOARD OF SUPERVISORS HAS DULY ADOPTED A RESOLUTION APPROVING THIS MODIFICATION AND AUTHORIZING THE TRANSACTIONS CONTEMPLATED HEREBY. THEREFORE, ANY CITY OBLIGATIONS OR LIABILITIES UNDER THIS MODIFICATION ARE CONTINGENT ON ADOPTION OF A RESOLUTION, AND THIS MODIFICATION WILL BE NULL AND VOID IF CITY’S MAYOR AND THE BOARD OF SUPERVISORS DO NOT APPROVE THIS MODIFICATION IN THEIR RESPECTIVE SOLE DISCRETIONS. APPROVAL OF THIS MODIFICATION BY ANY CITY DEPARTMENT, COMMISSION, OR AGENCY WILL NOT BE DEEMED TO IMPLY THAT A BOARD RESOLUTION WILL BE ADOPTED, AND NO APPROVAL WILL CREATE ANY BINDING CITY OBLIGATIONS.

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IN WITNESS WHEREOF, the parties hereto have entered into this Modification as of the Effective Date.

LESSEE: UNITED AIRLINES, INC.,
a Delaware corporation

By: 
Name: Michael Yost
Title: Managing Director Airport Affairs

CITY: CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation, acting by and through
its Airport Commission

Ivar C. Satero
Airport Director

APPROVED AS TO FORM:
DENNIS J. HERRERA,
City Attorney

By _____
Christopher W. Stuart
Deputy City Attorney

8.25.21
X:\TENANTS\AIRLINES\LEASES\UAL Plot 7X L96-0268 Mod 1

EXHIBIT A

UPDATED APPLICABLE LAW PROVISIONS

[Incorporated as New Article 16 to the Original Lease]

16.01 Conflict of Interest. Through its execution of this Lease, Lessee acknowledges that it is familiar with the provision of Section 15.103 of the City's Charter (**City 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.

16.02 Federal Grant Agreement Covenants. Lessee 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 Federal Aviation Administration (**FAA**), as they may apply to Lessee.

A. Lessee 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 U.S. Department of Transportation (**DOT**) program or activity is extended, or for another purpose involving the provision of similar services or benefits, Lessee will 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. Lessee 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 will 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 will be excluded from participation or denied the benefits of, or otherwise be subjected to discrimination, (3) that Lessee will 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 will 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 will not become effective until the procedures of 49 CFR Part 21 are followed and completed including expiration of appeal rights.

D. Lessee will furnish its accommodations and/or services on a fair, equal and not unjustly discriminatory basis to all users thereof and it will charge fair, reasonable and not unjustly discriminatory prices for each unit or service; provided, that Lessee 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 will constitute a material breach of this Lease and in the event of such non-compliance City will 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 will have the right to judicially enforce Subsections (A), (B), (C), and (D) of this Section.

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

G. Lessee assures that it will comply with pertinent statutes, executive orders and such rules as are promulgated to assure that no person will, 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 Lessee 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 City's Master Bond Documents; or (b) by the FAA, the DOT, the Transportation Security Administration (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 Lessee and without interference or hindrance.

I. This Lease will 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. Lessee 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 permitted premises.

K. Lessee, 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 Lessee.

L. Lessee, 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 will be at the expense of Lessee.

M. All provisions of this Lease will be subordinate to the rights of the United States of America to operate the Airport or any part thereof during time of war or national emergency. Such rights will supersede any provisions of this Lease inconsistent with the operations of the Airport by the United States of America.

16.03 List of Pertinent Nondiscrimination Acts and Authorities. During the performance of this Lease, Lessee, for itself, its assignees, and successors-in-interest agrees to comply with the following nondiscrimination statutes and authorities, including but not limited to:

- Title VI of the Civil Rights Act of 1964 (42 USC §2000d et seq., 78 stat. 252), (prohibits discrimination on the basis of race, color, national origin);
- 49 CFR part 21 (Non-discrimination In Federally-Assisted Programs of The Department of Transportation-Effectuation of Title VI of The Civil Rights Act of 1964);
- The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 USC §4601) (prohibits unfair treatment of persons displaced or whose property has been acquired because of Federal or Federal-aid programs and projects);
- Section 504 of the Rehabilitation Act of 1973, (29 USC. §794 et seq.), as amended (prohibits discrimination on the basis of disability); and 49 CFR §27;
- The Age Discrimination Act of 1975, as amended (42 USC §6101 et seq.), (prohibits discrimination on the basis of age);
- Airport and Airway Improvement Act of 1982, (49 USC §471, Section 47123), as amended (prohibits discrimination based on race, creed, color, national origin, or sex);
- The Civil Rights Restoration Act of 1987, (PL 100-209), (Broadened the scope, coverage and applicability of Title VI of the Civil Rights Act of 1964, The Age Discrimination Act of 1975 and Section 504 of the Rehabilitation Act of 1973, by expanding the definition of the terms “programs or activities” to include all of the programs or activities of the Federal-aid recipients, sub-recipients and contractors, whether such programs or activities are Federally funded or not);
- Titles II and III of the Americans with Disabilities Act of 1990, which prohibit discrimination on the basis of disability in the operation of public entities, public and private transportation systems, places of public accommodation, and certain testing entities (42 USC §12131 - 12189) as implemented by Department of Transportation regulations at 49 CFR §37 and 38 and the Department of Justice regulations at 28 CFR, parts 35 and 36;
- The Federal Aviation Administration’s Non-discrimination statute (49 USC §47123) (prohibits discrimination on the basis of race, color, national origin, and sex);
- Executive Order 12898, Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations, which ensures non-discrimination against minority populations by discouraging programs, policies, and activities with disproportionately high and adverse human health or environmental effects on minority and low-income populations;
- Executive Order 13166, Improving Access to Services for Persons with Limited English Proficiency, and resulting agency guidance, national origin discrimination includes discrimination because of limited English proficiency (LEP). To ensure compliance with Title VI, you must take reasonable steps to ensure that LEP persons have meaningful access to your programs (70 CFR at 74087 to 74100);

- Title IX of the Education Amendments of 1972, as amended, which prohibits you from discriminating because of sex in education programs or activities (20 USC §1681 et seq.).

16.04 No Advertising or Promotions; Prohibition of Tobacco Advertising. Lessee will have no right to conduct any advertising or promotional activities on the Airport. Lessee acknowledges and agrees that no sales or advertising of cigarettes or tobacco products is allowed on the Demised Premises. 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.

16.05 Sunshine Ordinance. In accordance with Section 67.24(e) 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.

16.06 Requiring Health Benefits for Covered Employees.

A. Unless exempt, Lessee agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (as amended, the **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 herein. The text of the HCAO is available on the web at <http://www.sfgov.org/olse>. Capitalized terms used in this Section and not defined in this Lease will have the meanings assigned to such terms in Chapter 12Q.

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

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

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

E. Any Subcontract entered into by Lessee will require the Subcontractor to comply with the requirements of the HCAO and will contain contractual obligations substantially the same as those set forth in this Section. Lessee will notify City's Purchasing Department when it enters into such a Subcontract and will 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. Lessee will 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 Lessee based on the Subcontractor's failure to comply, provided that City has first provided Lessee with notice and an opportunity to obtain a cure of the violation.

F. Lessee will not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying City with regard to Lessee'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. Lessee 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. Lessee will maintain employee and payroll records in compliance with California Labor Code and Industrial Welfare Commission orders.

I. Lessee will keep itself informed of the current requirements of the HCAO.

J. Lessee will 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. Lessee will 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. Lessee will allow City to inspect Lessee's Demised Premises and to have access to Lessee's employees in order to monitor and determine compliance with HCAO.

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

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

16.07 Requiring Minimum Compensation for Covered Employees.

A. Lessee 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 www.sfgov.org/olse/mco. A partial listing of some of Lessee's obligations under the MCO is set forth in this Section. Lessee is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

B. The MCO requires Lessee to pay Lessee'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 Lessee is obligated to keep informed of the then-current requirements. Any sublease entered into by Lessee will require the subtenant to comply with the requirements of the MCO and will contain contractual obligations substantially the same as those set forth in this Section. It is Lessee's obligation to ensure that any subtenants of any tier under this Lease comply with the requirements of the MCO. If any subtenant under this Lease fails to comply, City may pursue any of the remedies set forth in this Section against Lessee.

C. Lessee will 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 ninety (90) days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

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

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

F. Lessee'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 will 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 Lessee fails to comply with these requirements. Lessee 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 Lessee's noncompliance. The procedures governing the assessment of liquidated damages will be those set forth in Section 12P.6.2 of Chapter 12P.

G. Lessee understands and agrees that if it fails to comply with the requirements of the MCO, the City will 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, Lessee fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, Lessee fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the City will have the right to pursue any rights or remedies available under applicable law, including those set forth in Section 12P.6(c) of Chapter 12P. Each of

these remedies will be exercisable individually or in combination with any other rights or remedies available to the City.

H. Lessee 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 Lessee 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 Lessee later enters into an agreement or agreements that cause contractor to exceed that amount in a Fiscal Year, Lessee will 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 Lessee and Commission to exceed \$25,000 in the Fiscal Year.

16.08 Limits on Campaign Contributions. By executing this Lease, Lessee acknowledges its obligations under section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with, or is seeking a contract with, any department of the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, for a grant, loan or loan guarantee, or for a development agreement, from making any campaign contribution to (i) a City elected official if the contract must be approved by that official, a board on which that official serves, or the board of a state agency on which an appointee of that official serves; (ii) a candidate for that City elective office; or (iii) a committee controlled by such elected official or a candidate for that office, at any time from the submission of a proposal for the contract until the later of either the termination of negotiations for such contract or twelve months after the date the City approves the contract. The prohibition on contributions applies to each prospective party to the contract; each member of Lessee's board of directors; Lessee's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 10% in Lessee; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by Lessee. Lessee certifies that it has informed each such person of the limitation on contributions imposed by Section 1.126 by the time it submitted a proposal for the contract, and has provided the names of the persons required to be informed to the City department with whom it is contracting.

16.09 Compliance with Laws; Applicability of Charter Provisions. Lessee will keep itself fully informed of the City Charter, codes, ordinances and regulations of the City and of all State, and federal laws in any manner applicable to the performance of this Lease, and must at all times comply with such applicable local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time. All terms of this Lease will be governed by and subject to all provisions of the City Charter now and as may be amended from time to time.

16.10 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.

16.11 Food Service Waste Reduction. If and to the extent applicable, the Lessee 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, Lessee 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 will 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, Lessee agrees that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine; further, Lessee 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 will not be considered a penalty, but rather agreed monetary damages sustained by City because of Lessee's failure to comply with this provision.

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

16.13 Preservative-Treated Wood Containing Arsenic. As of July 1, 2003, Lessee 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" will 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. Lessee 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 Lessee from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" will mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

16.14 Vending Machines; Nutritional Standards and Calorie Labeling Requirements. Lessee may not install or permit any vending machine on the Demised Premises without the prior written consent of the Director. Any permitted vending machine will comply with applicable food and beverage nutritional standards and calorie labeling requirements set forth in San Francisco Administrative Code Section 4.9-1(c), as may be amended from time to time (the **Nutritional Standards Requirements**). Lessee will incorporate the Nutritional Standards Requirements into any contract for the installation of a vending machine on the Demised Premises or for the supply of food and beverages to that vending

machine. Failure to comply with the Nutritional Standards Requirements or to otherwise comply with this Section 1821 will be a material breach of this Lease. Without limiting City's other rights and remedies under this Lease, City will have the right to require the immediate removal of any vending machine on the Demised Premises that is not permitted or that violates the Nutritional Standards Requirements.

16.15 Local Hire. Any undefined, initially-capitalized term used in this Section will have the meaning given to such term in San Francisco Administrative Code Section 23.62 (the **Local Hiring Requirements**). All Alterations under this Lease are subject to the Local Hiring Requirements unless the cost for such work is (a) estimated to be less than \$750,000 per building permit; or (b) meets any of the other exemptions in the Local Hiring Requirements. Unless subject to an exemption, Lessee agrees that it will comply with the Local Hiring Requirements to the extent applicable only for all Covered Projects. Before starting any Alteration, Lessee will contact City's Office of Economic Workforce and Development (**OEWD**) to verify if the Local Hiring Requirements apply to the work (i.e., whether the work is a **Covered Project**). Unless subject to an exemption or if the construction work is not a Covered Project, Lessee will include, and will require its subtenants to include, a requirement to comply with the Local Hiring Requirements in any contract for a Covered Project with specific reference to San Francisco Administrative Code Section 23.62. Each such contract will name the City and County of San Francisco as a third-party beneficiary for the limited purpose of enforcing the Local Hiring Requirements, including the right to file charges and seek penalties. Lessee will cooperate, and require its subtenants to cooperate, with City in any action or proceeding against a contractor or subcontractor that fails to comply with the Local Hiring Requirements when required. Lessee's failure to comply with its obligations under this Section will constitute a material breach of this Lease. A contractor's or subcontractor's failure to comply with this Section will enable City to seek the remedies specified in San Francisco Administrative Code Section 23.62 against the breaching party. So long as Lessee requires compliance with this Section in the construction contract for the Covered Project and reasonably cooperates with the City in any enforcement action, then it will not be in breach of this Lease due to a Contractor's or Subcontractor's failure to comply or to meet the mandatory participation levels.

16.16 Prohibition on Alcoholic Beverage Advertising. Lessee acknowledges and agrees that no advertising of alcoholic beverages is allowed on the Demised Premises. For purposes of this section, "alcoholic beverage" will be defined as set forth in California Business and Professions Code Section 23004, and will not include cleaning solutions, medical supplies and other products and substances not intended for drinking. This advertising prohibition includes the placement of the name of a company producing, selling or distributing alcoholic beverages or the name of any alcoholic beverage in any promotion of any event or product. This advertising prohibition does not apply to any advertisement sponsored by a state, local, nonprofit or other entity designed to (i) communicate the health hazards of alcoholic beverages; (ii) encourage people not to drink alcohol or to stop drinking alcohol; or (iii) provide or publicize drug or alcohol treatment or rehabilitation services. The foregoing prohibition will not apply to areas of the Demised Premises operated by Lessee as customer dining or lounge facilities.

16.17 Resource-Efficient City Buildings. Lessee acknowledges that City has enacted San Francisco Environment Code Chapter 7 (**Env. Code Chapter 7**) relating to green building requirements. Lessee hereby agrees that it will comply with all provisions of Env. Code Chapter 7 applicable to construction work performed by or on behalf of Lessee in the Demised Premises.

16.18 All-Gender Toilet Facilities. If applicable, Lessee will comply with San Francisco Administrative Code Section 4.1-3 requiring at least one all-gender toilet facility on each floor of the Demised Premises in any building where extensive renovations are made by Lessee. An “all-gender toilet facility” means a toilet that is not restricted to use by persons of a specific sex or gender identity by means of signage, design, or the installation of fixtures, and “extensive renovations” means any renovation where the construction cost exceeds 50% of the cost of providing the toilet facilities required by Administrative Code Section 4.1-3. If Lessee has any question about applicability or compliance, Lessee should contact Building Inspection and Code Enforcement (BICE) for guidance.

16.19 Compliance with Americans with Disabilities Act and Air Carrier Access Act. Lessee acknowledges that, pursuant to the ADA and the ACAA, to the extent applicable to Lessee, 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) Lessee will 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) Lessee agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Lease; and (c) Lessee further agrees that any violation of this prohibition on the part of Lessee, its employees, agents or assigns will constitute a material breach of this Lease.

16.20 Pesticide Prohibition. Lessee will 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 Lessee 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 Lessee may need to apply to the Demised Premises during the terms of this Lease; (b) describes the steps Lessee 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 Lessee’s primary IPM contact person with the City. In addition, Lessee will comply with the requirements of Sections 303(a) and 303(b) of the Pesticide Ordinance. Nothing herein will prevent Lessee, through the Director, from seeking a determination from the Commission on the Environment that it is exempt from complying with certain provisions of the Pesticide Ordinance as provided in Section 303 thereof.

BUSINESS DEVELOPMENT AND MANAGEMENT

FILE #: 86-0268

FILE NAME: UNITED PLOT 7X
file LEFT side -or- file RIGHT side

**UNITED
CONTRACT
136928**

GROUND LEASE

FOR

PLOT 7X

AT

SAN FRANCISCO INTERNATIONAL AIRPORT

CITY AND COUNTY OF SAN FRANCISCO

WILLIE L. BROWN, JR., MAYOR

AIRPORT COMMISSION

Henry E. Berman, President
Roland A. Quan, Vice President
Michael S. Strunsky
Larry Mazzola
Linda S. Crayton

John L. Martin
Airport Director

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ATTACHMENTS

- I. Charter of City and County of San Francisco
Section 8.105, Conflict of Interest

- II. Drawing No. CA 21562

EXHIBITS

- A. Relocation Reimbursement Calculation Example

PLOT 7X GROUND LEASE

AT SAN FRANCISCO INTERNATIONAL AIRPORT

THIS PLOT 7X GROUND LEASE (this "Lease") is made and entered into in the City and County of San Francisco this October 18, 1996, by and between the City and County of San Francisco, a municipal corporation (hereinafter referred to as "City"), acting by and through its Airport Commission (hereinafter referred to as "Commission"), as lessor, and United Air Lines, Inc. (hereinafter referred to as "Lessee"), as lessee, who agree as follows:

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

(a) City owns the San Francisco International Airport in the County of San Mateo, State of California (hereinafter referred to as "Airport"), and operates the Airport by and through its Airport Commission (hereinafter referred to as the "Commission"), the Chief Executive Officer of which is the Airport Director (hereinafter referred to as "Director").

(b) Lessee desires to lease certain real property at the Airport for the purpose of conducting aviation related business.

1. PREMISES

1.01. Extent of Leasehold

Subject to the terms, covenants and conditions of this Lease, including the reservations to City described below, City hereby leases to Lessee and Lessee hereby hires from City, the following parcel of real property (hereinafter referred to as "Demised Premises"):

That certain parcel of real property situated in the county of San Mateo, State of California, commonly known as 7X and particularly described as follows:

Commencing at the intersection of the centerline of the Bayshore Freeway and the axis line to the San Francisco International Airport which point of intersection is California Highway Commission Station "F" 392+433.41 P.O.C. and California Highway Commission Station "Axis" 74+54.42 P.O.C., Route 68, Section F, District IV, as shown on Sheet 12 of 62 sheets entitled, "Plan and Profile of State Highway in San Mateo County, between Colma Creek in South San Francisco and Broadway in Burlingame," thence along said axis line to Airport North 72° 46' 09" East (D) 985.85 feet, to a

point on the northeasterly right of way line of the Bayshore Freeway, said point being distant along said right of way South 17° 13' 51" East (D) 143.00 feet from a California Highway Commission concrete monument; thence along said right of way South 17° 13' 51" East (D) 1.50 feet to a point which is distance North 17° 13' 51" West (D) 141.50 feet from a California Highway Commission concrete monument; thence along the Airport Local 'C' axis North 90° 00' 00" East (c) 414.87 feet; thence North 0° 00' 00" East 2123.95 feet to the True Point of the Beginning of this description; thence North 0° 00' 00" East 782.00 feet; thence North 90° 00' 00" East 330.00 feet; thence North 0° 00' 00" East 223.67 feet; thence North 90° 00' 00" East 478.58 feet; thence South 06° 07' 07" East 269.46 feet; thence South 45° 00' 00" West 1004.18 feet; thence along a curve to the right tangent to the preceding course, a radius of 181.00 feet, a central angle of 14° 19' 30", and arc length 45.25 feet; thence N 90° 00' 00" West 91.59 feet to the true point of the beginning of this description containing 11.30 acres more or less.

The foregoing land is identified by Airport Drawing No. CA 21562 attached hereto and made a part hereof. Lessee shall also have rights of way incidental, appurtenant or related to the use and enjoyment of said Demised Premises, which rights of way Lessee shall have the right to use and enjoy as hereinafter provided, all of which are to be used for any and all purposes in any way connected with, related or incidental to Lessee's present or future air transportation operations and activities.

Except as otherwise provided herein, and if Lessee is not in default of the terms of this Lease, Lessee shall have the use of and enjoy the quiet and peaceful possession of the Demised Premises.

1.02. Right of Relocation

At any time during the term of this Lease, City may, by appropriate Commission Resolution, and upon 24 months prior notice to Lessee, require that Lessee relocate and surrender all or part of the Demised Premises, such surrendered portion referred to herein as the "Surrendered Premises."

City shall give notice (the "Replacement Site Notice") to Lessee setting forth a description of the Surrendered Premises, the approximate proposed date of relocation, and the location of comparable on-Airport replacement premises. If the proposed replacement premises are deemed unsatisfactory by Lessee, then Lessee may terminate this Lease by giving notice thereof within one hundred twenty (120) days after the Replacement Site Notice is given. In the event Lessee gives such notice of termination, then this Lease shall terminate twenty-four (24) months after the Replacement Site Notice is given, and on such date, Lessee shall surrender the Demised Premises in the condition required below.

Provided Lessee does not terminate this Lease pursuant to the foregoing, Lessee shall surrender the Surrendered Premises and relocate to the replacement premises on a date (the "Surrender Date") determined by City (which shall be no earlier than the date specified in the Replacement Site Notice). On the Surrender Date, Lessee shall surrender the Demised Premises in the condition required below. In such event, City shall reimburse Lessee for Lessee's unamortized Improvement Costs (as defined below) for the permanent improvements located on the Surrendered Premises. As used herein, the term "Improvement Costs" shall mean the actual initial cost of each permanent improvement on the Surrendered Premises, amortized on a straight-line basis over a period commencing on the Completion Date (as defined below) and ending on the Expiration Date (as defined in Section 2). An example of such calculation is attached hereto as Exhibit A. Within thirty (30) days after the earlier of (a) the date on which any permanent improvement on the Demised Premises is substantially complete, and (b) the date on which Lessee takes occupancy of such permanent improvement (the "Completion Date"), Lessee shall give notice to City certifying to City the actual initial cost of such permanent improvement. In the event Lessee fails to give such notice, the actual initial cost of such permanent improvement shall be determined by City.

At City's option, the parties shall amend this Lease or enter into a new lease on substantially the same terms as this Lease, to reflect the replacement premises.

On the Surrender Date, Lessee shall surrender the Demised Premises in the condition required hereunder.

Notwithstanding anything to the contrary herein, City agrees that it shall not require the surrender and relocation of the Demised Premises described above except where the City desires to use the current location of the Demised Premises for its own use, and City has been unable to determine an alternative site for such use acceptable to City in its commercially reasonable judgment.

1.03. Rights of Way

Lessee shall have the use and enjoyment of suitable rights of way over lands within the Airport not otherwise available hereunder to Lessee, between the Demised Premises and any other premises at the Airport which Lessee now has or may hereafter have the right to use and enjoy under any other lease, permit, license or other agreement with City, which rights of way shall be at locations and in a manner first to be approved by Commission resolution. Such rights of way shall be for the sole purpose of enabling Lessee to install and maintain conduits, ducts, pipes and wires, and incidental accessories, equipment and devices which are or may be necessary or convenient thereto in connection with Lessee's communications, control, telephone, teletype, interphone, pneumatic tube, power, steam, drainage, sewage, water supply, illuminating and industrial gas supply, fuel (including

gasoline) pipelines, or in connection with other similar facilities and supplies. Said rights of way for fuel (including gasoline) pipelines shall include but shall not be limited to rights of way between the Demised Premises and any other premises at the Airport which Lessee now has or may hereafter have the right to use and enjoy under any other lease, permit, license or other agreement, and also between the Demised Premises and any other premises or place at the Airport which may be the source of Lessee's fuel supply or the place of delivery or storage of said fuel. With respect to Lessee's obligations under this Lease, including without limitation, Lessee's repair, maintenance, and surrender obligations, the term "Demised Premises" shall include the rights of way described above.

1.04. Condition of Land and Facilities Assigned

(a) Lessee shall accept the Demised Premises, and any land and facilities, herein or hereafter assigned to it in their present condition and "as is". Lessee acknowledges and agrees that neither City nor any of its agents have made, and City hereby disclaims, any representations or warranties, express or implied, concerning (i) title or survey matters affecting the Demised Premises, (ii) the physical, geological, seismological or environmental condition of the Demised Premises, (iii) the quality, nature or adequacy of any utilities serving the Demised Premises, (iv) the present or future suitability of the Demised Premises for Lessee's business and intended uses, (v) the feasibility, cost or legality of constructing any improvements on the Demised Premises if required for Lessee's use and permitted under this Lease, or (vi) any other matter whatsoever relating to the Demised Premises or their use, including, without limitation, any implied warranties or merchantability or fitness for a particular purpose. Lessee agrees to maintain and to repair at Lessee's own cost and expense, any damages caused by its operation and shall replace with equal quality any facility of City used by Lessee which requires replacement by reason of Lessee's use thereof in its operation, reasonable wear and tear and settlement of the land excepted.

(b) Notwithstanding anything to the contrary herein, Lessee shall have no liability or obligation with respect to any Pre-Commencement Date Condition (as defined below), including repair or remediation obligations with respect thereto. As used herein, a "Pre-Commencement Date Condition" shall mean (i) any violation by the Demised Premises of any applicable law, regulation, or legal requirement, to the extent Lessee is able to establish that such violation existed on the Commencement Date, and was not exacerbated by Lessee on or after the Commencement Date, and (ii) the existence of any hazardous materials on the Demised Premises, to the extent Lessee is able to establish that the hazardous materials were located on the Demised Premises on the Commencement Date, and that Lessee did not exacerbate such condition on or after the Commencement Date.

2. TERM

The term of this Lease commences on June 1, 1996 (the "Commencement Date"), and continues for twenty-five (25) years thereafter, expiring on May 31, 2021 (the "Expiration Date"), unless sooner terminated or cancelled as hereinafter provided.

In the event Lessee shall, with the consent of Director, hold over and remain in possession of the Demised Premises after the expiration of the term of this Lease, such holding over shall not be deemed to operate as a renewal or extension of this Lease but shall only create a tenancy from month-to-month under the same terms, conditions and covenants, including consideration, contained herein.

Lessee shall have no rights to extend or renew this Lease.

3. USE

3.01. Uses Permitted

Lessee shall use the Demised Premises to conduct aviation related businesses, specifically to construct and operate an in-flight kitchen and GSE facility, including related activities such as parking activity for Lessee's employees working at such facility, and for no other purposes.

Lessee expressly agrees that the rights granted hereunder, except as otherwise noted, are non-exclusive. Lessee understands and agrees that City may arrange with others for similar activities on Airport.

The use of said City property by Lessee shall be limited solely to the purposes set forth in this Lease. No structure of any kind except those expressly allowed to Lessee shall be erected or placed thereon or therein.

3.02. Ingress and Egress

Lessee shall possess the right of ingress to and egress from the Demised Premises over Airport roads or routes as may be necessary in fulfillment of the terms of this Lease subject to Airport rules and regulations, provided that the exercise of such right shall not impede or interfere unduly with the operation of Airport by City, its lessees or other authorized occupants. Truck routes shall be as designated from time to time by Director. Said rights of ingress and egress shall likewise apply to Lessee's employees, guests, patrons and suppliers, including the right of transport of equipment, material, cargo, machinery and other property, provided however, that City may impose a charge upon Lessee'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 them 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 Lessee's suppliers or furnishers of service.

Said rights of ingress and egress for the purpose of construction, maintenance, replacement and removal of Lessee's appurtenances across lands of City shall be by means of then existing roads and lanes thereon, if such there be, and if there be no such roads and lanes, then over such route as shall be agreed upon by City and Lessee.

3.03. Reservations by City

City shall have the right, without any obligation to do so, at any reasonable time and as often as it considers necessary (a) to enter on the Demised Premised to inspect the same, (b) to enter thereon to make ordinary repairs to City property, and (c) in the event of an emergency, to take such action therein, at the sole cost of Lessee, as may be required for the protection of persons or property. In conducting such inspection or action, City shall not unreasonably interfere with Lessee's operations.

Lessee shall assure City of emergency access to the Demised Premises by providing a list of current emergency telephone numbers at which Lessee or Lessee's agent may be reached on a 24-hour basis.

City reserves the right to grant easements or crossings in, over, upon and under the Demised Premises, and nothing herein contained shall be construed as limiting the powers of City to lease, convey or otherwise transfer or encumber during the term of this Lease the hereinbefore described lands for any purpose whatsoever not inconsistent or incompatible with the rights or privileges granted to Lessee by this Lease.

City also reserves the right to construct, reconstruct, install, maintain, repair, remove, renew, operate and use from time to time, other pipelines, conduits, power lines, telephone lines, sewer drains, roads and roadways or other structures across, over or under the Demised Premises and any rights of way or easements and/or pipelines used by Lessee.

Each of City and Lessee shall be responsible for sufficiently identifying, locating and ensuring protection of its respective appurtenances and connecting subsurface pipelines, telecommunications equipment, utility equipment and pipes, and any other subsurface items from damage caused by any such construction within the Demised Premises and any rights of way or easements.

Notwithstanding anything to the contrary in this Lease, City reserves and retains all of the following rights relating to the Demised Premises:

(a) Any and all water and water rights, including, but not limited to, (i) any and all surface water and surface water rights, including, without limitation, riparian rights and appropriative water rights to surface streams and the underflow of streams, and (ii) any and all groundwater and subterranean water rights, including, without limitation, the right to export percolating groundwater for use by City or its water customers; and

(b) Any and all minerals and mineral rights of every kind and character now known to exist or hereafter discovered in the Demised Premises, including, but not limited to, oil and gas and rights thereof, together with the sole, exclusive, and perpetual right to explore for, remove, and dispose of those minerals by any means or methods suitable to City or its successors and assigns, in such manner as not to damage permanently the surface of the Demised Premises or to unreasonably interfere with the permitted use thereof by Lessee, without Lessee's prior written consent.

3.04. Compliance with Laws and Regulations

Lessee shall at all times during the term of this Lease comply with, and subject to Section 1.04(b) hereof, cause the Demised Premises and the improvements thereon to comply with, all applicable laws, rules and regulations and any amendment thereto, as they now exist or may hereafter be adopted or amended, of the United States, State of California, City and County of San Francisco, the County of San Mateo, and any legal authority having jurisdiction. Such laws shall include, without limitation, all laws relating to health and safety and disabled accessibility including, without limitation, the Americans with Disabilities Act, 42 U.S.C. §§ 12101 *et seq.* and Title 24 of the California Code of Regulations, all present and future environmental laws and all present and future life safety, fire sprinkler, seismic retrofit and other building code requirements. Lessee further agrees that it will use the Demised Premises for no purpose other than that specified herein, and in accordance with all rules and regulations adopted by Commission in operation of the Airport as they now exist or may hereafter be adopted or amended. Lessee further agrees to submit such report or reports, or convey information regarding its operation, as Director may require.

Lessee shall keep current all licenses and permits, whether municipal, county, Airport, state, or federal, required for the conduct of its operations at Airport, and pay all fees promptly when due.

3.05. Prohibited Uses

The Demised Premises shall not be used except for the purposes specified in Section 3 hereof. Lessee shall not do, or cause or permit anything to be done, in or about the Demised Premises, or bring or keep anything thereon which will increase the risk of fire or explosion on Airport property; or create a nuisance; or in any way obstruct or interfere with the rights of others on Airport property, injure or annoy them; or allow any sale by auction on the Demised Premises; or commit or suffer to be committed any waste upon the

Demised Premises; or use or allow any portion of the Demised Premises to be used for any improper, immoral, unlawful or objectionable purposes or do or permit to be done anything in any way tending to injure the reputation or appearance of said premises.

3.06. Lessee's Compliance With Environmental Laws

Lessee shall at all times comply with, and subject to Section 1.04(b) hereof, cause the Demised Premises and the improvements thereon to comply with, all environmental laws, and any amendments thereto affecting Lessee's operation on the Airport, including all federal, state and local laws, ordinances and regulations relating to hazardous materials. Lessee's compliance shall conform with the San Francisco International Airport Tenant Improvement Guide and Airport Commission's Rules and Regulations as they now exist or may hereafter be adopted or amended.

3.07. Hazardous Material Notification

Lessee shall provide to City an immediate, verbal report of any known unauthorized release or threatened release of a hazardous material which report shall be made in conformance with those procedures established in the Airport Tenant Improvement Guide and the Airport's Rules and Regulations.

Lessee shall immediately notify City in writing of: (1) any known condition of contamination; (2) any enforcement, clean-up, removal or other Governmental or regulatory action instituted, completed or threatened pursuant to any hazardous materials laws; (3) any claim made or threatened by any person against Lessee or the Demised Premises relating to damage, contribution, cost recovery compensation, loss or injury resulting from or claimed to result from any hazardous materials upon the Demised Premises; and (4) any reports made to any environmental agency arising out of or in connection with any hazardous materials on, in or removed from the Demised Premises, including any complaints, notices, warnings or asserted violations in connection therewith. Lessee shall also supply to City as promptly as possible, and in any event within five (5) business days after Lessee first receives the same, with copies of all claims, reports, complaints, notices or warnings of asserted violations relating in any way to the Demised Premises or Lessee's use thereof.

As used herein, the term "hazardous material" means any material that, because of its quantity, concentration or physical or chemical characteristics, poses a present or potential hazard to human health and safety or to the environment if released into the workplace or the environment. Hazardous materials include, but are not limited to, those materials as defined in the Airport Tenant Improvement Guide or any substance as determined by Director.

3.08. Hazardous Material Clean-Up

Lessee shall take action as directed and in accordance with the Airport Tenant Improvement Guide to initiate clean-up of unauthorized release of any hazardous material. In the event Lessee fails to take action as directed, the Director shall have the right to enter the Demised Premises and correct any deficiencies. Lessee shall pay all costs associated with any required clean-up of hazardous material including but not limited to the cost for disposal and any fees or penalties imposed by governmental entities with jurisdiction over same to include costs for personnel, labor, materials, services required and overhead.

4. ASSIGNMENT OR SUBLETTING

Lessee shall not, directly or indirectly, assign, transfer or encumber its interest in this Lease or any other right, privilege or license conferred by this Lease, either in whole or in part, nor sublet or encumber the Demised Premises or any part thereof, without obtaining in advance the written consent of City, which consent may be granted or denied in City's sole discretion. Any assignment, encumbrance or sublease without City's consent shall be voidable and, at City's election, shall constitute a default. No consent to any assignment, encumbrance or sublease shall constitute a further waiver of the provisions of this paragraph.

If Lessee is a partnership or limited liability company, a withdrawal or change, voluntary, involuntary or by operation of law of the partner or partners, or member or members, owning 51% or more of the partnership or limited liability company, or the dissolution of the partnership or limited liability company, shall be deemed a voluntary assignment.

If Lessee is a corporation, any dissolution, merger, consolidation or other reorganization of Lessee, or the sale or other transfer of a controlling percentage of the capital stock of Lessee, or the sale of at least 51% of the value of the assets of Lessee, shall be deemed a voluntary assignment. The phrase "controlling percentage" means the ownership of, and the right to vote, stock possessing at least 51% of the total combined voting power of all classes of Lessee's capital stock issued, outstanding and entitled to vote for the election of directors. This paragraph shall not apply to corporations the stock of which is traded through an exchange or over the counter.

No sublease will be approved which by its terms provides for enrichment of Lessee. Lessee may not charge sublessees a rental rate per acre or per square foot for the land or improvements which exceeds its direct cost for the space plus such administrative fee as authorized by Commission. Approval of proposed subleases will be conditioned on Director's determination of the reasonableness of the rental rate as well as on the suitability of the proposed sublessee and use.

5. RENTAL

5.01. Rental Payments

Lessee hereby covenants and agrees to pay City as rental for the use of the Demised Premises described herein, and under the terms and conditions set forth in this Lease, rental in the sum of \$47,500 per acre per year, which rental amount is subject to adjustment as described below. The parties hereby agree that, as of the date hereof, the Demised Premises comprise 11.30 acres. Accordingly, the monthly rent shall be \$44,729.17, until the adjustment described below.

Concurrently with its execution of this Lease, Lessee shall pay one (1) month's rent, and on or before the tenth (10th) day of each and every subsequent month, during the term of this Lease, Lessee shall pay the rental due City, at the office of Director, or at such other place as City may from time to time designate in writing.

Said rental shall be paid to City in equal installments, in advance on the first day of each and every month. Rental for a portion of a month shall be prorated. Rental payments shall be made in lawful money of the United States, free from all claims, demands, set-offs, or counter-claims of any kind against City. Payments of rental not paid when due shall be subject to interest thereon at the lower of the rate of one and one-half percent (1-1/2%) per month and the highest rate permitted by law. Payment of interest shall not excuse or cure any default by Lessee.

5.02. Cost of Living Adjustment

On each of the first through fourth, sixth through ninth, eleventh through fourteenth, sixteenth through nineteenth and the twenty-first through twenty-fourth anniversaries of the Commencement Date (each, an "adjustment date"), the rental specified in Section 5.01 hereof shall be adjusted to reflect the increase, if any, in the cost of living over the previous year, as follows:

The base for computing the adjustment is the Consumer Price Index, all Items, all Consumers, San Francisco-Oakland, published by the United States Department of Labor, Bureau of Labor Statistics ("Index"), which is published immediately preceding the date set forth below ("Beginning Index"):

Adjustment Date	Use Index Published Immediately Preceding the Date Below ("Beginning Index")
First through Fourth Anniversaries of Commencement Date	Commencement Date
Sixth through Ninth Anniversaries of Commencement Date	Fifth Anniversary of Commencement Date
Eleventh through Fourteenth Anniversaries of Commencement Date	Tenth Anniversary of Commencement Date
Sixteenth through Nineteenth Anniversaries of Commencement Date	Fifteenth Anniversary of Commencement Date
Twenty-First through Twenty-Fourth Anniversaries of Commencement Date	Twentieth Anniversary of Commencement Date

If the Index published immediately preceding the adjustment date ("Adjustment Index") has increased over the Beginning Index, the annual rent per acre for the following year(s) (until the next rent adjustment) shall be set by multiplying the rent per acre set forth herein by a fraction, the numerator of which is the Adjustment Index and the denominator of which is the Beginning Index. In no case shall the annual rent per acre be less than the annual rent per acre with respect to the prior year.

If the Index is changed so that the Adjustment Index differs from the Beginning Index, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

5.03. Reappraisal

In addition to the adjustment set forth in Section 5.02, the rental rate per acre is to be reviewed every five (5) years and adjusted on the fifth (5th), tenth (10th), fifteenth (15th) and twentieth (20th) anniversaries of the Commencement Date. City, at its own expense, shall cause an appraisal to be performed on the land comprising the Demised Premises. To the extent such appraisal shows that the value of such land has increased over the value of the land as of the Commencement Date or the date of the last appraisal, then the rental hereunder shall be adjusted proportionately to reflect such increase. In no event will the annual rent per acre be less than the annual rent per acre with respect to the prior year.

5.04. Other Charges and Fees

Lessee shall pay all other charges or fees occasioned by Lessee's operation or activities on or about the Airport, including but not limited to utility charges and fees.

6. TAXES, ASSESSMENTS AND LIENS

6.01. Taxes, Assessments, Licenses, Permit Fees and Liens

Lessee recognizes and understands that this Lease may create a possessory interest subject to property taxation and that Lessee may be subject to the payment of property taxes levied on such interest. Lessee further recognizes and understands that any sublease or assignment permitted under this Lease and any exercise of an option to renew or other extension of this Lease, if any, may constitute a change in ownership for purposes of property taxation and therefore may result in a revaluation of any possessory interest created hereunder.

Lessee agrees to pay taxes of any kind, including, but not limited to, 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 Lessee's usage of the Demised Premises or assessed against Lessee's personal property or any improvements located upon the Demised Premises that may be imposed upon Lessee by law, all of which shall be paid when the same become due and payable and before delinquency.

Lessee agrees not to allow or suffer a lien for any such taxes to be imposed upon the Demised Premises or upon any equipment or property located thereon without promptly discharging the same, provided that Lessee, if so desiring, shall have reasonable opportunity to contest the validity of the same.

Lessee shall report any assignment, sublease or other transfer of any interest in this Lease or the Demised Premises, or any renewal or extension hereof, to the County of San Mateo Assessor within sixty (60) days after such assignment or sublease transaction, or renewal or extension. Lessee further agrees to provide such other information as may be reasonably requested by the City to enable the City to comply with any reporting requirements under applicable law with respect to possessory interests.

Lessee shall pay as additional rent to City an amount equal to Lessee's proportionate share of real property taxes not separately assessed to the Demised Premises. Lessee's pro-rata share of real property taxes attributable to San Mateo County Assessor's Tax Parcel C for Plot 7X which expressed as a percentage is 1.00%(one percent). Payment of Lessee's pro-rata share of real property taxes due shall be paid in full to City within ten (10) days of Lessee's receipt of City's invoice and copy of the assessors tax bill covering the Demised

Premises following each fiscal tax year ending June 30 and following the end of each subsequent year or portion of a year thereafter for the remaining term of this lease. Real property taxes not covering a full tax year shall be prorated according to the dates of commencement and termination of this Lease.

Lessee shall, upon City's request, furnish to City within ten (10) days after the date when any charges are due and payable, official receipts of the appropriate taxing authority or other evidence reasonably satisfactory to City, evidencing payment thereof.

6.02. Liens

Lessee agrees not to permit or suffer any liens to be imposed upon the Demised Premises or any part thereof as a result of its activities without promptly discharging the same, provided, however, that Lessee may, if it so desires, contest the legality of same. In the event of a contest, Lessee shall provide a bond in an amount and form reasonably acceptable to City in order to clear the record of any such liens. Lessee 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 Demised Premises and improvements, or any part thereof, as a consequence of any act or omission of Lessee or as a consequence of the existence of Lessee's interest under this Lease.

7. IMPROVEMENTS

7.01. Buildings and Structures

Subject to the conditions herein set forth, Lessee shall have the right, but not the obligation, at its own cost and expense, from time to time, to place, construct or erect on said Demised Premises any buildings, structures, and improvements, which it may consider necessary or useful in connection with or related to Lessee's said business, and thereafter to alter, modify or enlarge the same. All such buildings, structures and improvements, and all such alterations, modifications and enlargements shall be in conformity with (a) the general architectural and structural requirements of City, (b) all local building codes and ordinances as well as all applicable County, State and Federal laws and regulations, and (c) the then-current Airport Tenant Improvement Guide.

Major power lines and telephone lines constructed by Lessee on the Demised Premises shall be placed underground. Before commencing the construction of any new building or structure, or any alterations, modifications or enlargements to any existing building or structure, Lessee shall submit plans and specifications therefor to Commission through the Director, which shall either approve, disapprove, or require such modifications as may be necessary to meet City's architectural and structural requirements. All construction shall be in conformity with the latest edition of the Airport Tenant

Improvement Guide, as amended, and in conformity with the plans and specifications submitted by Lessee and approved by Commission, and shall meet all local building codes and ordinances as well as all applicable county, state and federal regulations. Upon the completion of any such alterations, modifications or enlargements, or such new construction, Lessee shall furnish City, through Director, the septia and seven (7) complete sets of detailed plans and specifications of the work as completed. In the event of construction or alteration, City shall have the right to enter and post and maintain upon the Demised Premises notices of non-responsibility.

Any improvements constructed on or affixed to the Demised Premises by or on behalf of Lessee shall be and remain Lessee's property during the term of this Lease. Upon the Expiration Date or any earlier termination hereof, all such improvements shall remain on the Demised Premises and become the property of City, unless City, at its sole option elects that such improvements be removed from the Demised Premises, in which event, Lessee shall, at its sole cost, promptly remove same.

Lessee shall have the right at any time during the period of this Lease to demolish and remove, in whole or in part, any of said buildings or structures which are of a temporary character or which, although not of a temporary character, are replaced by other buildings or structures of at least equal value. Lessee shall have no right to remove a building or structure of a permanent character, without the prior written consent of Commission. It is acknowledged that the Commission at its own discretion may require Lessee to remove all improvements at Lessee's own expense and restore the Demised Premises to its original condition in accordance with all applicable rules, regulations, and the Airport Tenant Improvement Guide. A temporary building or structure is herein defined to mean a building or structure, which, at the time it is constructed or erected, is intended to temporarily serve its purpose for a determined period of time as may be agreed by Lessee and City. All other types of buildings or structures shall be deemed permanent.

Lessee shall make no substantial change, addition, or alteration in the Demised Premises without prior written approval of City which approval shall not be unreasonably withheld or delayed.

Lessee, or its contractors or subcontractors, will coordinate the entry onto the Demised Premises with City and Lessee shall assume responsibility for identifying and locating any underground utilities, appurtenances and connecting subsurface pipelines on the Demised Premises prior to the commencement of construction.

7.02. Relocation of Pipelines

In the event that any City-owned pipelines used by Lessee, or pipelines and appurtenances installed by Lessee be so located that it shall be necessary to change, alter, remove or reconstruct same in order to allow City to install a sewer or drain line, or if a

change of concourse, Terminal buildings or aircraft apron boundaries is required by City, Lessee at its own and sole expense, shall make such change, alteration, removal or reconstruction of said pipeline as is requested by City, necessitated by such change, even though said pipelines are owned by City; however, such relocation shall occur only after all other alternatives have been considered and deemed unreasonable by City.

7.03. Utilities

During the term of this Lease, Lessee shall have the right to obtain adequate service from City's water, sewage, stormwater drainage and electric power facilities, but shall acquire no title thereto. Lessee shall have the right to request and receive telephone and communications services and electricity 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. In the event City decides to provide directly to the Demised Premises telephone, communications, electricity or industrial gas service, then Lessee shall pay to City a charge therefore determined by City which shall not exceed the amount which would have been charged had the utility provided such service. Lessee agrees to pay all charges legally exacted for said utility services as are fixed by the Public Utilities Commission of the City and County of San Francisco.

It is agreed that adequate connections available to Lessee for the herein mentioned utilities are now located in the vicinity of the Demised Premises and specifically at those points ascertained by Lessee from City by a field inspection made by Lessee prior to the execution of this Lease. Lessee 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 which approval shall not be unreasonably withheld or unduly delayed. Any such alterations, relocations, or additions shall be made at the sole cost and expense of Lessee. Lessee shall not cross connect water supplies from sources other than City's supply pipes. City shall have no liability for failure, uncontrollable upon the part of City, of any said utility or other services hereinabove enumerated, to Lessee. City shall have the right, at all times, without unreasonably or unduly interfering with Lessee's use of the Demised Premises, to enter upon the Demised Premises and install, construct, maintain, operate and remove water pipes, drainage pipes, electric power supply lines, telephone and communication conduits, sewage lines for general airport use, and, unless due to the fault of Lessee, the expense of any said operation shall be borne by City. In the event of any excavation by City upon the Demised Premises for any of said purposes, said Demised Premises shall be restored to the immediately prior condition at City's expense, unless due to the fault of Lessee, in which event such costs shall be borne by Lessee.

Prior to the beginning of any construction by Lessee, Lessee shall locate all existing underground utilities belonging to City or its tenants in order to avoid damage to said utilities. City shall cooperate in such action by providing to Lessee, within a reasonable

time after Lessee's request, documents and data relating to such utilities, to the extent reasonably available to City. Any damage to existing pavement, underground facilities or other improvements belonging to City or its lessees caused by Lessee's operations shall be repaired to the satisfaction of City by Lessee at Lessee's expense. Lessee shall promptly backfill any trench made by it on said Demised 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 Lessee's restoration of landscaping, fencing, gates, roadways, traffic signs, dryways, driveways, parking lots, guardrails or any other improvements.

Lessee shall pay the whole cost for all utility services as invoiced to Lessee by Airport and for such other special services which it may require upon the Demised Premises, and Lessee hereby expressly waives the right to contest any utility rates.

7.04. Waiver of Damage

Lessee hereby expressly waives any and all claims against City, the Commission, and its members, and all of the officers, agents, and employees of each of them, for damages arising or resulting from failures or interruptions of utility services furnished by City hereunder including but not limited to electricity, gas, water, plumbing, sewage, telephone, communications, or for the failure or interruption of any public or passenger conveniences.

7.05. Sewers and Drains

Drains or other facilities provided by Lessee for the purpose of disposing of storm or other waters shall in no case be connected to sanitary sewers.

In the event that Lessee's facilities (either storm or sanitary) are below an elevation that will permit gravity flow into facilities provided by City, then Lessee shall provide and maintain such pumping facilities as may be necessary to deliver stormwater or sanitary sewage to the proper drainage system facilities or sanitary sewers provided by City for the disposal of same. Lessee must provide adequate separations to prevent flow into the sanitary sewer system of petroleum products or chemicals or any foreign matter. Lessee 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.

7.06. Removable Property and Equipment

At any time during the period that this Lease is in effect, and within thirty (30) days after the expiration thereof, if Lessee is not in default hereunder, Lessee may remove all or any Removable Property and Equipment (as defined below) which Lessee theretofore has

placed or installed upon the Demised Premises, provided that upon said removal, Lessee shall repair at its own expense any damage resulting therefrom. Said removal shall be subject to the prior approval of City.

For purposes of this section, "Removable Property and Equipment" shall be defined as (1) any personal property or fixtures of Lessee which is in no way permanently affixed to the premises or to the buildings, structures or improvements thereon, (2) property which, if affixed permanently to the Demised Premises, may be removed without damaging or impairing the Demised Premises, and (3) any personal property or fixtures of Lessee affixed to the premises, or to the buildings, structures or improvements thereon, which prior to its installation, is designated a trade fixture by agreement in writing between Director and Lessee.

7.07. Maintenance, Repair and Restoration

Lessee agrees, at its own expense, to keep the Demised Premises and all improvements in good repair and condition. Lessee agrees to maintain and to repair at its own expense any damages caused by its operation, and to replace any facility of City used by Lessee which requires replacement by reason of Lessee's use thereof, reasonable wear and tear excepted, with a facility of equal quality. For purposes of the foregoing, damages caused by the natural settlement of land, or any damage due to the willful or negligent act or omission of City, its agents, employees, or contractors, shall not be deemed to be caused by Lessee's operations or use.

If, during the term of this Lease or any extension thereof, the Demised Premises are totally or partially destroyed by fire or other casualty, Lessee shall, with all diligence, restore the Demised Premises to substantially the same condition as they were in immediately before destruction. Such destruction shall not terminate this Lease, but shall be cause for abatement or reduction of rent between the date of destruction and the date of completion of restoration, based on the extent to which the destruction interferes with Lessee's use of the Demised Premises.

Lessee expressly waives all rights to make repairs at the expense of City or to terminate this Lease because of City's failure to keep the Demised Premises in good order, condition, and repair as provided for in Sections 1941 and 1942 of the Civil Code of the State of California.

7.08. Signs

Lessee may, at its own expense, install and operate necessary and appropriate identification signs on the Demised Premises, subject to the approval of Director as to the number, size, height, location, color and general type and design. Such approval shall be subject to revocation by Director at any time. The foregoing approval shall not be

unreasonably withheld, delayed, or revoked.

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

Without express written consent of Director, Lessee shall not display any advertising, promotional, or informational pamphlets, circulars, brochures or similar materials.

8. INDEMNITY, LIABILITY, AND INSURANCE

8.01. Indemnity

Lessee agrees to defend, indemnify and hold harmless City, Commission and its members, and all of the officers, agents, and employees of each of them, from and against all liability, claims, demands, damages, causes of action, suits or judgments, including attorneys' fees and all costs and expenses incurred in connection therewith, because of claims or liabilities of any kind whatsoever by reason of injuries to or deaths of persons or damage to or destruction of property, including property of the City and Lessee, unless such cost, liability, damage or expense is due to the sole negligence or willful misconduct of the City or an employee of the City.

Lessee shall not cause or permit any hazardous material to be brought upon, kept or used in or about the Demised Premises by Lessee, its agents, employees, contractors or invitees without the prior written consent of City, which City shall not unreasonably withhold as long as Lessee demonstrates to City's reasonable satisfaction that such hazardous material is necessary or useful to Lessee's business and will be used, kept and stored in a manner that complies with the Airport Tenant Improvement Guide, and the Airport Rules and Regulations as they now exist or may be amended and all federal, state and local laws regulating any such hazardous material so brought upon, used or kept in or about the Demised Premises.

If Lessee breaches the obligations stated in the preceding paragraph, or if the presence or release of hazardous material on the property caused or permitted by Lessee results in contamination of the Demised Premises by hazardous material or otherwise occurs, then Lessee shall indemnify and hold harmless the City and County of San Francisco, its officers, employees and agents without cost to them, from any and all losses, claims, costs, liability or damages, including legal costs, remediation costs, fees, and fines, arising out of, or alleged to arise out of such presence or release, or any act or omission of such owner or operator. This indemnification of City by Lessee includes, without limitation, costs incurred in connection with any investigation of site conditions or any

clean-up, remedial, removal or restoration work required by City and any federal, state or local governmental agency or political subdivision.

Without limiting the foregoing, if the presence of any hazardous material on the Demised Premises caused or permitted by Lessee results in any contamination of the Demised Premises, Lessee shall promptly take all actions at its sole expense as are necessary to return the Demised Premises to the condition existing prior to the introduction of any such hazardous material to the Demised Premises; provided that City's approval of such actions shall first be obtained in conformity with the latest addition of the Airport Tenant Improvement Guide, or any subsequent amendment thereto which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Demised Premises on the Airport.

Each party hereto shall give to the other prompt and timely written notice of any claim made or suit instituted 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. Lessee shall promptly supply City with copies of all notices, reports, correspondence and submissions made by Lessee to any governmental entity regarding any hazardous substance spill, leak discharge or clean-up including all test results subject to the provisions of Section 3.07 of this Lease.

8.02. Insurance

A. Lessee shall maintain throughout the term of this Lease, at Lessee's expense, insurance as follows:

1. Workers' Compensation insurance, including Employers' liability with limits not less than \$1,000,000 each accident, \$1,000,000 each disease (Employee and policy);
2. Comprehensive or Commercial General Liability Insurance with limits not less than \$25,000,000 each occurrence Combined Single Limit for Bodily Injury and Property Damage, including coverages for Contractual Liability, Personal Injury, Independent Contractors, Explosion, Collapse and Underground, Broadform Property Damage, Sudden and Accidental Pollution, Products Liability and Completed Operations;
3. Comprehensive or Business Automobile Liability Insurance with limits not less than \$2,000,000 each occurrence Combined Single Limit for Bodily Injury and Property Damage, including coverages for owned, non-owned and hired automobiles, and Sudden and Accidental Pollution, as applicable;

4. Property insurance on an all-risk form, excluding earthquake and flood, in an amount equal to the replacement value of all improvements on the Demised Premises defined as permanent in this Lease. Should any insured permanent improvements be damaged or destroyed by an insured peril, all proceeds of the property insurance shall be used for the repair or replacement of such improvements or for such other purpose mutually agreed to by City and Lessee, recognizing that the amount of such proceeds may be contingent upon whether repair or replacement is actually accomplished in accordance with the terms of such property insurance.

B. Should any of the required insurance be provided under a claims-made form, Lessee shall maintain such coverage continuously throughout the term of this Lease and thereafter, put in place reporting or tail coverage, without lapse, for a period of three years beyond the Lease termination.

C. Should any of the required insurance be provided under a form of coverage that includes a general annual aggregate limit or provides that claims investigation or legal defense costs be included in such general annual aggregate limit, such general annual aggregate limit shall be not less than double the occurrence limits specified above.

D. Should any required insurance lapse during the Lease term, City may, at its sole option, terminate this Lease effective on the date of such lapse of insurance.

E. Liability policies shall be endorsed to provide the following:

1. Name as additional insureds the City and County of San Francisco, its Officers, Agents, Employees and Members of Airport Commission.
2. That such insurance is primary to any other insurance available to the additional insureds with respect to claims covered under the policy and that insurance applies separately to each insured against whom claim is made or suit is brought, but the inclusion of more than one insured shall not operate to increase the insurer's limit of liability.

F. All policies shall be endorsed to provide thirty (30) days prior written notice of cancellation, non-renewal or reduction in coverage or limits to:

Deputy Airport Director
Business and Finance
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

G. Before commencement of the term of this Lease, certificates of insurance, with insurers acceptable to City, evidencing all required insurance, shall be furnished City, with complete copies of policies to City promptly upon request.

Lessee agrees that the terms of these insurance requirements may be increased and revised upon the written demand of the City, which demand must be based on reasonable and justifiable grounds.

In lieu of insurance as hereinabove required, Lessee may provide equal protection under a self-insurance plan acceptable to the City Controller and in form approved by the City Attorney; however, the granting of such permission shall in no way void the indemnity and insurance coverage requirements set forth herein.

All insurance coverage shall be in a form satisfactory to City's City Attorney.

Lessee shall not do anything, or permit anything to be done, in or about the Demised Premises or any improvements permitted hereunder that would create any unusual fire risk, and shall take commercially reasonable steps to protect City from any potential premises liability. Lessee shall faithfully observe, at its expense, any and all reasonable requirements of City's Risk Manager with respect thereto and with the requirements of any policies of public liability, fire or other policies of insurance at any time in force with respect to the Demised Premises and any improvements as required hereunder.

8.03. Deposit

Concurrently herewith, Lessee will, at its own expense, deliver to Director a surety bond or bonds in an amount equal to three (3) months rental to secure Lessee's faithful performance of all terms, covenants and conditions of this Lease. Said bond or bonds shall be payable to City, naming City as obligee and issued by a surety company or companies in such form as approved by City's City Attorney. Said surety bond or bonds shall be kept in full force and effect during the term of this Lease and for any extension thereof to insure the faithful performance by Lessee of all the covenants, terms and conditions of this Lease, inclusive of but not restricted to the payment of all considerations provided herein. The surety company issuing said bond or bonds shall give Director notice in writing by registered mail at least sixty (60) days prior to an anniversary date of its intention not to renew said bond or bonds. In lieu of such surety bond or bonds, Lessee may deposit with City an Irrevocable Letter of Credit in a form acceptable to City, and issued by a financial institution acceptable to City, in the above amounts, as security for faithful performance by Lessee as hereinabove provided. Such bond or letter of credit shall provide thirty (30) days' prior written notice to City of cancellation or material change thereof. In the event of any nonextension of the letter of credit or bond, Lessee shall replace such security with another form permitted hereunder at least ten (10) days prior to expiration and if Lessee fails to do so City shall be entitled to present its written demand for payment of the entire face amount

of such letter of credit or bond and to hold the funds so obtained as the security deposit required hereunder. Such bond or letter of credit and any proceeds thereof shall be referred to herein as the "Deposit."

Lessee agrees that City may (but shall not be required to) apply the Deposit in whole or in part (a) toward unpaid rent, or (b) to remedy any damage to the Demised Premises caused by Lessee, its agents or invitees, or any damage resulting from any failure of Lessee to perform any other terms, covenants or conditions contained in this Lease, without waiving any of City's other rights and remedies hereunder or at law or in equity. Should City use any portion of the Deposit to cure any default by Lessee hereunder and following any rent increase hereunder, Lessee shall immediately replenish the Deposit such that, at all times the Deposit represents three (3) months rent, and Lessee's failure to do so within five (5) days of City's notice shall constitute a Event of Default under this Lease. City's obligations with respect to the Deposit are solely that of debtor and not trustee. City shall not be required to keep the Deposit separate from its general funds, and Lessee shall not be entitled to any interest on such deposit. The amount of the Deposit shall not be deemed to limit Lessee's liability for the performance of any of its obligations under this Lease.

9. DEFAULT BY LESSEE

9.01. Events of Default

Lessee shall be in default under this Lease if:

(a) Lessee fails to duly and punctually pay the rental, or to make any other payment required hereunder, when due to City, and such failure shall continue for a period of more than ten (10) days after delivery by Director of written notice of such breach or default; or

(b) Lessee becomes insolvent, or takes 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, is filed against Lessee and shall not be dismissed within thirty (30) days after the filing thereof; or

(d) The interest of Lessee under this Lease is transferred, without the approval of the

City, by reason of death, operation of law, assignment, sub-lease or otherwise, to any other person, firm or corporation; or

(e) Lessee voluntarily abandons, deserts or vacates the Demised Premises; or

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

(g) Lessee fails to maintain a performance bond or letter of credit at all times during the term of this Lease, in such amount and form as specified in Section 8.03, and such failure shall continue for a period of more than three days after delivery by Director of written notice of such breach or default; or

(h) Lessee 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 breach or default, except where fulfillment of its obligation requires activity over a period of time, and Lessee shall have commenced in good faith to perform whatever may be required for fulfillment within three (3) days after receipt of notice and continues such performance without interruption except for causes beyond its control; or

(i) Lessee shall use or give its permission to any person to use any portion of Airport under this Lease for any illegal purpose.

9.02. City's Remedies

If default is made by Lessee in any of the terms, covenants, and conditions herein contained, City may elect to:

(a) Allow this Lease to continue in full force and effect and to enforce all of City's rights and remedies hereunder, including, without limitation, the right to collect rent as it becomes due together with interest thereon at the rate of one and one-half percent (1.5%) per month;

(b) Terminate this Lease without prejudice to any other remedy or right of action for arrearages to rent; and/or

(c) Have a receiver appointed for Lessee upon application by City to take possession of the Premises.

In the event of any termination based on any breach of the terms, covenants, and

conditions contained in this section, City shall have the option at once and without further notice to Lessee to enter upon the Demised Premises and take exclusive possession of same. City may remove or store any personal property located therein, at the sole cost and expense of Lessee, without City being liable to Lessee for damage or loss thereby sustained by Lessee.

Upon such termination by City, all rights, powers and privileges of Lessee hereunder shall cease, and Lessee shall immediately vacate any space occupied by it under this Lease, and Lessee shall have no claim of any kind whatsoever against City, Commission, or the members thereof, or their employees or agents by reason of such termination, or by reason of any act by City incidental or related thereto. In the event of the exercise by City of such option to terminate, Lessee shall have no right to or claim upon any improvements or the value thereof, which may have been previously installed by Lessee in or on the Demised Premises.

City will not be deemed to have terminated this Lease in the absence of service of written notice upon Lessee to that effect.

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.

9.03. Monetary Damages

In the event City elects to terminate this Lease, Lessee shall pay to City an amount equal to the sum of:

(a) All amounts owing at the time of lease termination on account of breach of any term, covenant or condition of this Lease including but not limited to unpaid rent plus interest thereon on all such amounts from the date due until paid at the rate of one and one-half percent (1.5%) per month;

(b) Any other amount to compensate City fully for all damages proximately caused by Lessee's failure to perform its obligations hereunder or which in the ordinary course would likely result therefrom;

(c) The worth at the time of award of the amount by which the rent and other sums payable hereunder, which would have been due after the date of lease termination and with respect to the balance of the lease term specified herein, exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided. Efforts by City to mitigate the damages caused by Lessee's default hereunder shall not constitute a waiver of City's right to recover hereunder.

(d) The "worth at the time of award" of the amount referred to in subsection (c)

hereof 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%).

(e) Any and all costs or expenses which City may incur as a result of Lessee's breach including but not limited to, reasonable legal expenses, attorneys fees, brokerage fees, and reasonable costs of alteration to the Demised Premises in connection with reletting.

9.04. No Waiver of Subsequent Breaches or Defaults

The failure of City at any time to insist upon a strict performance of any of the terms, conditions and covenants herein shall not be deemed a waiver of any subsequent breach or default in the terms, conditions and covenants herein.

10. SUSPENSION AND ABATEMENT

If City's operation of Airport or Lessee's operations at the Airport should be substantially restricted by action of any competent authority with sovereignty over City, either party hereto shall have the right, upon written notice to the other, to a suspension of this Lease and an abatement of a just proportion of the services and facilities to be afforded hereunder, or a just proportion of the rental to become due hereunder from the time of such notice until such restriction shall have been removed.

In the event that all or a portion of the Demised Premises may be required by the United States for use in connection with national defense, City, in addition to any other options to terminate, may immediately suspend this Lease in its entirety by giving to Lessee written notice, if possible.

11. SURRENDER OF PREMISES

Lessee shall yield and deliver peaceably to City possession of the Demised Premises and, at City's option, the leasehold improvements thereupon on the date of the cessation of the letting, whether such cessation be by termination, expiration or otherwise. Such properties shall be in a condition similar to that which existed at the commencement of the letting or at the time of installation, except for reasonable wear and tear arising from use of the Demised Premises to the extent permitted elsewhere in this Lease.

Lessee shall remove Lessee's signs and trade fixtures from the Demised Premises and shall surrender the Demised Premises and appurtenances thereto in clean and sightly condition. City will retain the Deposit until such time as all terms, covenants, and conditions herein are performed and Director determines that the Demised Premises are clean, sightly, and in good repair as provided by this Section and Airport Tenant

Improvement Guide.

Lessee shall be liable to City for City's costs for storing, removing and disposing of any personal property or fixtures and for restoration of the Demised Premises.

12. ENVIRONMENTAL AUDIT

City shall have the right to conduct an environmental audit at Lessee's expense conducted by a firm acceptable to City and reasonably acceptable to Lessee, or conduct any other appropriate investigation of the Demised Premises for possible environmental contamination.

13. DECONTAMINATION

At all times Lessee shall ensure and certify that decontamination of the Demised Premises and disposal of hazardous materials is in compliance with federal, state and local laws.

14. CONDEMNATION

Notwithstanding the foregoing or anything to the contrary provided in this Lease, in the event of a taking or condemnation of the Demised Premises involving a Material Portion (as defined below) of the rentable or usable square footage of the Demised Premises then leased by Lessee, Lessee shall have the right to terminate the Lease effective as of the date when possession of the part so taken shall be required for such use and purpose, and in such event, all rent, including additional rent, shall be apportioned and prorated and shall be payable only up to and including the date of such termination. In such event of a partial taking or condemnation of the Demised Premises involving a Material Portion (as defined below) of the rentable or usable area of the Demised Premises then leased by Lessee, then the rentable area of the Demised Premises shall be reduced for all purposes under the Lease by the number of square feet or rentable area of the Demised Premises so taken or condemned, and all rent shall abate in proportion to the same ratio that the rentable area of the Demised Premises so taken or condemned bears to the rentable area of the Demised Premises prior to such taking or condemnation.

For purposes of the foregoing, a "Material Portion" shall be deemed to mean a portion of the Demised Premises that is at least twenty percent (20%) of the original size of the Demised Premises, and the taking of which will result in a material and substantial interference with Lessee's use of the Demised Premises for the purposes described herein.

15. MISCELLANEOUS PROVISIONS

15.01. Declaration Regarding Airport Private Roads

Lessee hereby acknowledges and agrees that all roads existing at the date of execution hereof within the boundaries of the San Francisco International Airport, as shown on the current official Airport Plan and as it may be revised, are the private property and private roads of the City and County of San Francisco, with the exception of that portion of the old Bayshore Highway (designated as South Airport Blvd. on the official Airport Plan) 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 (designated as North Access Road on said Airport Plan), 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 as shown on said Airport Plan. It further acknowledges that each and every road hereafter constructed or opened by City within the Airport boundaries will be the private property and road of City, unless otherwise designated by appropriate action.

15.02. Conflict of Interest

Lessee hereby states that it is familiar with the provisions of Section 8.105 of the San Francisco Charter and Section 87100 et seq. of the California Government Code, and certifies that it knows of no facts which constitute a violation of said sections. It further certifies that it will make a complete disclosure to Commission of all facts bearing upon any possible interest, direct or indirect, which it believes any member of Commission or other officer or employee of City presently has or will have in this Lease or in the performance thereof or in any portion of the profits thereof. Said disclosure shall be made by Lessee contemporaneously with the execution of this Lease and at any time thereafter that such facts become known to Lessee. Willful failure of Lessee to make such disclosure, if any, shall constitute grounds for termination of this Lease by City.

15.03. MacBride Principles - Northern Ireland

The City and County of San Francisco 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 and County of San Francisco also urges San Francisco companies to do business with corporations that abide by the MacBride Principles. Lessees acknowledges that it has read and understands the above statement of the City and County of San Francisco concerning doing business in Northern Ireland.

15.04. Tropical Hardwoods

The City and County of San Francisco urges Lessee not to import, purchase, obtain,

or use for any purpose, any tropical hardwood or tropical hardwood product.

15.05. Drug-Free Workplace Policy

Lessee 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. Lessee agrees that any violation of this prohibition by the Lessee, its employees, agents or assigns shall be deemed a material breach of contract.

15.06. Federal Nondiscrimination Regulations

Lessee understands and acknowledges that City has given to the United States of America, acting by and through the Federal Aviation Administration, certain assurances with respect to nondiscrimination, which have been required by Title VI of the Civil Rights Act of 1964, as effectuated by Title 49 of the Code of Federal Regulations, Subtitle A - Office of the Secretary of Transportation Part 21, as amended, as a condition precedent to the government making grants in aid to City for certain Airport programs and activities, and that City is required under said Regulations to include in every agreement or concession pursuant to which any person or persons other than City, operates or has the right to operate any facility on the Airport providing services to the public, the following covenant, to which Lessee agrees: Lessee, in its operation at and use of San Francisco International Airport covenants that,

"(1) no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or be otherwise subjected to discrimination in the use of said facilities,

(2) in the construction of any improvements on, over, or under such land and the furnishing of services thereon, no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination,

(3) the grantee, licensee, Lessee, etc., shall use the Demised Premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Subtitle A, Office of the Secretary of Transportation, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation -- Effectuation of Title VI of the Civil Rights Acts of 1964, and as said regulations may be amended."

15.07. Federal Affirmative Action Regulations

Lessee assures that it will undertake an affirmative action program as required by 14 CFR Part 152, Subpart E, to insure that no person shall on the grounds of race, creed,

color, national origin, or sex be excluded from participating in any employment activities covered in 14 CFR Part 152, Subpart E. Lessee assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by this subpart. Lessee assures that it will require that its covered sub-organizations provide assurances to Lessee as required by 14 CFR Part 152, Subpart E, to the same effect.

15.08. City's Nondiscrimination and Affirmative Action Ordinance

Lessee shall not, in the operation and use of the Demised Premises, discriminate against any person or group of persons solely because of race, color, creed, national origin, ancestry, age, sex, sexual orientation, gender identity, disability or acquired immune deficiency syndrome (AIDS) or AIDS related condition (ARC). The provisions of Chapters 12B and 12C of the San Francisco Administrative Code, relating to non-discrimination by Parties contracting with the City and County of San Francisco, are incorporated herein by reference and made a part hereof as though fully set forth herein. Lessee agrees to comply with all of the provisions of such Chapters 12B and 12C that apply to lessees of the City and County of San Francisco.

15.09. Prevention of Trespass

Lessee shall use reasonable precautions to prevent unauthorized persons from gaining access to restricted flight and public aircraft operational areas and all other hazardous areas through the Demised Premises. All permitted access shall be in compliance with this Lease.

15.10. Prevention of Nuisances or Hazards

Lessee shall maintain such facilities and take such precautions as are necessary to eliminate any nuisance or undue hazards created by its operations upon the Demised Premises.

15.11. Other Leases, Etc. Not Affected

If the parties hereto previously have entered into or do enter into any other lease, license, permit or agreement covering premises or facilities at the Airport, this Lease and the terms, conditions, provisions and covenants hereof shall apply only to the Demised Premises herein particularly described, and this Lease or any of the terms, conditions, provisions or covenants hereof shall not in any way or in any respect change, amend, modify, alter, enlarge, impair or prejudice any of the rights, privileges, duties or obligations of either of the parties hereto under or by reason of any other said lease, permit, license or other agreement between said parties.

The provisions of this section shall be without prejudice to any claim or contention either of the parties hereto make, or may hereafter make, with respect to the legality or

validity of any provision in any other lease, permit, license or other agreement existing between the parties.

15.12. Applicability of Charter Provisions

All terms of this Lease shall be governed by and shall be subject to all the provisions of City's Charter now and as may be amended from time to time.

15.13. Subordination to Sponsor's Assurance Agreement

This Lease shall be subordinate and subject to the terms of any "Sponsor's Assurance Agreement" which has been furnished to the Federal Aviation Administrator acting for the Government of the United States of America or any other like agreement between City and the Federal government. Such agreements shall not be considered as waivers of any claim of Lessee against the United States of America.

15.14. Successors and Assigns

Each and all of the conditions and covenants of this Lease shall extend to and bind and inure to the benefit of City and Lessee, and the legal representatives, successors and assigns of either or both of them.

15.15. Notices

Except as may be expressly otherwise provided herein, all notices required to be given to Lessee hereunder shall be in writing and given by certified first-class mail, commercial overnight courier, or by personal delivery, addressed to Lessee at P.O. Box 66100, Chicago, IL 60666 or other address to be designated by Lessee by written notice to City. All notices required to be given to City hereunder shall be in writing and given by certified first-class mail, commercial overnight courier, or by personal delivery, addressed to Airport Director, San Francisco International Airport, San Francisco, California 94128 or such other address designated by City by written notice to Lessee. Any notice hereunder shall be deemed to have been given two (2) days after the date when it is mailed if sent by certified mail, one day after the date it is mailed if sent by commercial overnight courier, or on the date personal delivery is made, if sent by personal delivery, and any refusal by either party to accept the attempted delivery of any notice shall be deemed receipt of such notice provided such notice satisfies the requirements described above. For convenience of the parties, copies of notices may also be given by telefacsimile to the telefacsimile number set forth above; however, neither party may give official or binding notice by telefacsimile. The effective time of a notice shall not be affected by the receipt, prior to receipt of the original, of a telefacsimile copy of the notice.

15.16. Severability

In the event any covenant, term or condition herein contained is held to be invalid by any court of competent jurisdiction, such invalidity shall not affect any other valid covenant, term or condition herein contained.

15.17. Integrated Agreement. Modification

This Lease, including Exhibit A and Addendum No. 1 hereto, represents the entire agreement between the parties hereto, and shall not be varied in its terms otherwise than by an instrument in writing of subsequent date hereto executed by both parties.

15.18. Attorneys' Fees

In the event that either City or Lessee fails to perform any of its obligations under this Lease or in the event a dispute arises concerning the meaning or interpretation of any provision of this Lease, the defaulting party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights hereunder (whether or not such action is prosecuted to judgment), including, without limitation, court costs and reasonable attorneys' fees. For purposes of this Lease, reasonable fees of attorneys of City's Office of the City Attorney shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the City Attorney's services were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the Office of the City Attorney.

15.19. Time of Essence

Time is of the essence with respect to all provisions of this Lease in which a definite time for performance is specified.

15.20. Cumulative Remedies

All rights and remedies of either party hereto set forth in this Lease shall be cumulative, except as may otherwise be provided herein.

15.21. Survival of Indemnities

Termination of this Lease shall not affect the right of either party to enforce any and all indemnities and representations and warranties given or made to the other party under this Lease, nor shall it affect any provision of this Lease that expressly states it shall survive termination hereof. Lessee specifically acknowledges and agrees that, with respect to each of the indemnities contained in this Lease, Lessee has an immediate and independent

obligation to defend City and the other Indemnified Parties from any claim which actually or potentially falls within the indemnity provision even if such allegation is or may be groundless, fraudulent or false, which obligation arises at the time such claim is tendered to Lessee by City and continues at all times thereafter.

15.22. Relationship of Parties

City is not, and none of the provisions in this Lease shall be deemed to render City a partner in Lessee's business, or joint venturer or member in any joint enterprise with Lessee. Neither party shall act as the agent of the other party in any respect hereunder, and neither party shall have any authority to commit or bind the other party without such party's consent as provided herein. This Lease is not intended nor shall it be construed to create any third party beneficiary rights in any third party, unless otherwise expressly provided. The granting of this Lease by City does not constitute authorization or approval by City of any activity conducted by Lessee on, in or relating to the Demised Premises.

15.23. Transfer by City

If City sells or otherwise transfers the Demised Premises, City shall be released from its obligations hereunder arising on or after the date of such sale or transfer and Lessee shall look solely to the successor-in-interest to City. Upon a sale of the Demised Premises by City, Lessee shall attorn to the purchaser or transferee, such attornment to be effective and self-operative without the execution of any further instruments on the part of the parties to this Lease. This Lease shall not be deemed to constitute any commitment by City, or create any priority or right in favor of Lessee, with regard to any future sale or other disposition of the Demised Premises, or any portion thereof.

15.24. Recording

Lessee agrees that it shall not record this Lease nor any memorandum or short form hereof in the Official Records.

15.25. Non-Liability of City Officials, Employees and Agents

No elective or appointive board, commission, member, officer, employee or other Agent of City shall be personally liable to Lessee, its successors and assigns, in the event of any default or breach by City or for any amount which may become due to Lessee, its successors and assigns, or for any obligation of City under this Agreement.

15.26. 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.

15.27. Brokers

Neither party has had any contact, dealings, or communication regarding the leasing of the Demised Premises through any licensed real estate broker or other person who could claim a right to a commission or finder's fee in connection with this Lease. In the event any broker or finder perfects a claim for a commission or finder's fee based upon any such contact, dealings or communication, the party through whom the broker or finder makes a claim shall be responsible for such commission or fee and shall indemnify the other party against the same.

15.28. Interpretation

(a) The language of this Lease shall be construed according to its fair meaning, and not strictly for or against either City or Lessee. This Lease shall be deemed to be made, construed and performed according to the laws of the State of California.

(b) The sectional headings herein are for the convenience of City and Lessee, and are not to be used to construe the intent of this Lease or any part thereof, nor to modify, amplify, or aid in the interpretation or construction of any of the provisions thereof.

(c) The use of any gender herein shall include all genders, and the use of any number shall be construed as the singular or the plural, all as the context may require.

///

///

///

x:\tenants\airlines\leases\ua7xr61.wpd

IN WITNESS WHEREOF, the parties hereto have executed this Lease in triplicate by their duly authorized officers the day and year first hereinabove written.

AUTHORIZED BY
AIRPORT COMMISSION

Resolution No. 96-0288
97-0061

Adopted: OCT 18 1996

MAR 3 1997

Attest: *Jan Caramatti*
Secretary
Airport Commission

LESSOR

CITY AND COUNTY OF SAN FRANCISCO
A Municipal Corporation,
acting by and through its Airport Commission

By *[Signature]*
JOHN L. MARTIN
Airport Director

APPROVED AS TO FORM:
LOUISE H. RENNE
City Attorney

By *Adrienne G*
Deputy City Attorney

LESSEE
UNITED AIR LINES, INC.

By: *[Signature]*
Title: LARRY D. CLARK
VICE PRESIDENT
PROPERTIES & FACILITIES

EXHIBIT A

RELOCATION REIMBURSEMENT CALCULATION EXAMPLE

Lease Expiration Date: May 31, 2021

Assumptions:

Example Complete Date (for Improvements):	July 1, 1997
Example Total Improvement Cost:	\$10,000,000
Example Surrender Date:	June 30, 2015

Calculations:

Monthly straight line amortization of \$10,000,000 between July 1, 1997 and May 31, 2021 is \$34,843.21 each month ($\$10,000,000 \div 287$ months).

If Lessee surrenders the premises on June 30, 2015, the unamortized improvements will be \$2,473,866.64 [216 months from July 1, 1997 through June 30, 2015: $\$10,000,000 - \$7,526,133.36$ ($216 \times \$34,843.21$)].

Unrecl Plot 7X

SAN FRANCISCO INTERNATIONAL AIRPORT

PLOT 7X

Drawing No. CA 21562

Commencing at the intersection of the centerline of the Bayshore Freeway and the axis line to the San Francisco International Airport which point of intersection is California Highway Commission Station "F" 392+433.41 P.O.C. and California Highway Commission Station "Axis" 74+54.42 P.O.C., Route 68, Section F, District IV, as shown on Sheet 12 of 62 sheets entitled, "Plan and Profile of State Highway in San Mateo County, between Colma Creek in South San Francisco and Broadway in Burlingame;" thence along said axis line to Airport North $72^{\circ} 46' 09''$ East (D) 985.85 feet, to a point on the northeasterly right of way line of the Bayshore Freeway, said point being distant along said right of way South $17^{\circ} 13' 51''$ East (D)143.00 feet from a California Highway Commission concrete monument; thence along said right of way South $17^{\circ} 13' 51''$ East (D)1.50 feet to a point which is distance North $17^{\circ} 13' 51''$ West (D)141.50 feet from a California Highway Commission concrete monument; thence along the Airport Local 'C' axis North $90^{\circ} 00' 00''$ East (C) 414.87 feet; thence North $0^{\circ} 00' 00''$ (C) East 2123.95 feet to the True Point of Beginning of this description;

thence North $0^{\circ} 00' 00''$ East 782.00 feet;

thence North $90^{\circ} 00' 00''$ East 330.00 feet;

thence North $0^{\circ} 00' 00''$ East 223.67 feet;

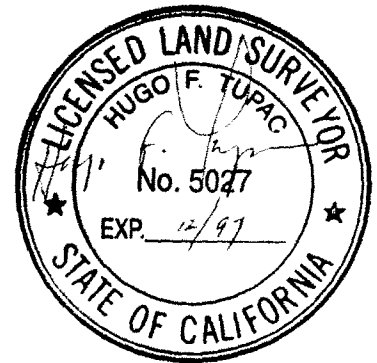
thence North $90^{\circ} 00' 00''$ East 478.58 feet;

thence South $06^{\circ} 07' 07''$ East 269.46 feet;

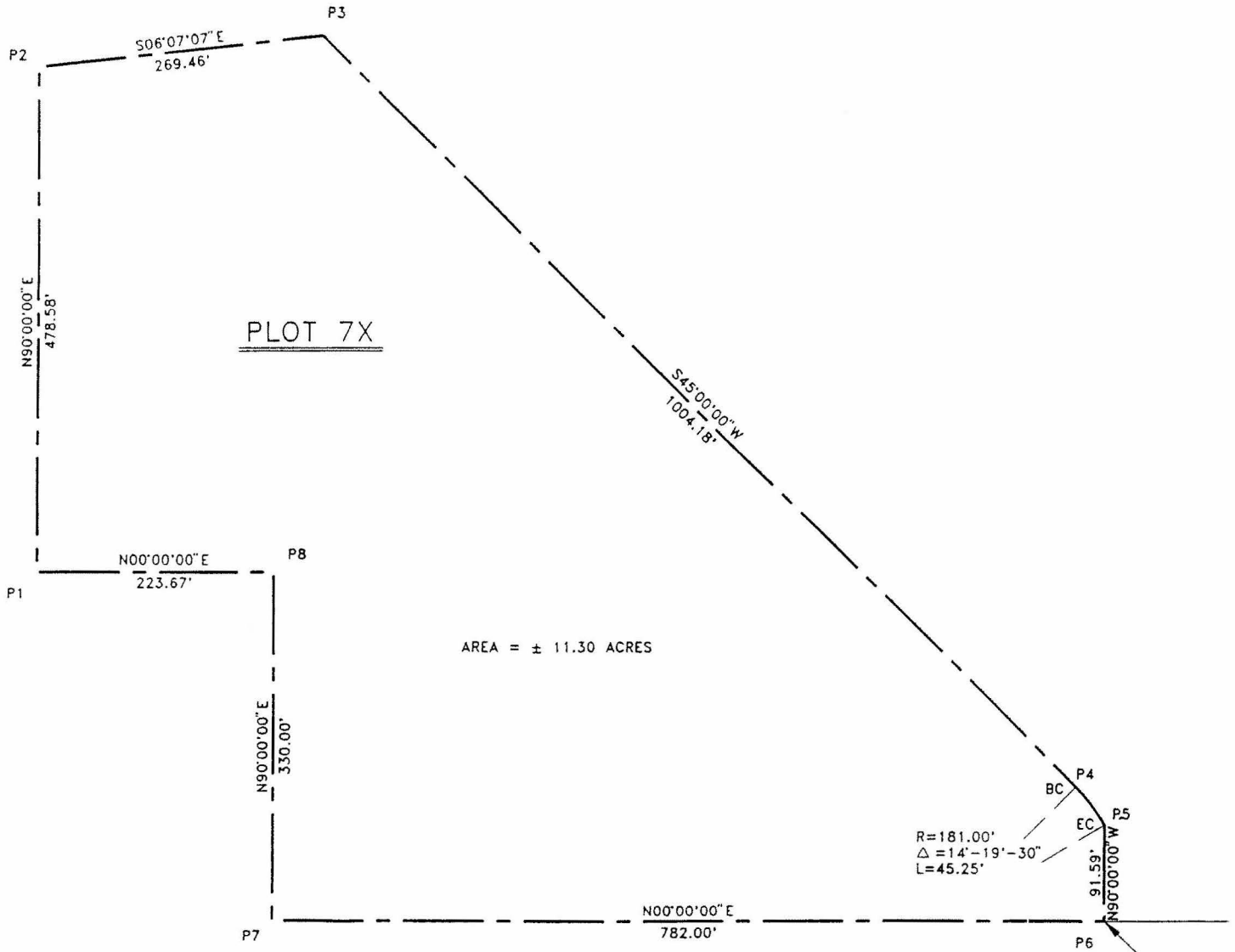
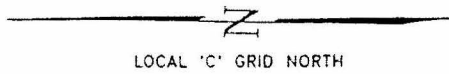
thence South $45^{\circ} 00' 00''$ West 1004.18 feet;

thence along a curve to the right tangent to the preceding course, a radius of 181.00 feet, a central angle of $14^{\circ} 19' 30''$, and arc length 45.25 feet;

thence N $90^{\circ} 00' 00''$ West 91.59 feet to the True Point of Beginning of this description containing 11.30 acres more or less.



This document prepared by Hugo F. Tupac L.S. 5027,
San Francisco International Airport



PLOT 7X

AREA = ± 11.30 ACRES

R=181.00'
 $\Delta = 14^\circ - 19' - 30''$
 L=45.25'

"SFIA '95"
 LOCAL 'C' COORDINATES

P1	3129.62	-720.32
P2	3129.62	-241.74
P3	2861.70	-213.02
P4	2151.63	-923.08
P5	2123.95	-958.73
P6	2123.95	-1050.32
P7	2905.95	-1050.32
P8	2905.95	-720.32

TRUE POINT OF E

ADDENDUM NO. 1

**TO THE GROUND LEASE FOR PLOT 7X AT
SAN FRANCISCO INTERNATIONAL AIRPORT (the "Lease")**

This Addendum No. 1 to the Lease (the "Addendum") is entered into as of March 3, 1997, by and between the City and County of San Francisco, a municipal corporation, acting by and through its Airport Commission ("City"), as lessor, and United Air Lines, Inc., ("Lessee"), as lessee.

The terms and provisions of this Addendum modify, supplement and amend Section 2 of the Lease, as follows:

The term of the Lease shall be one (1) year and three hundred and sixty-four (364) days (the "Initial Term"), commencing on September 1, 1996 (the "Commencement Date") and expiring on August 30, 1998 (the "Initial Term Termination Date").

Notwithstanding the foregoing, Lessee shall have the right to extend the Initial Term for a period of twenty-three (23) years and one (1) day, commencing on the Initial Term Termination Date and expiring on August 31, 2021 (the "Expiration Date"). Lessee may exercise such right by delivering to the City, on or before the Initial Term Termination Date, but not prior to June 1, 1997, a notice of Lessee's intent to extend the Initial Term, which notice shall include Lessee's representation and warranty that Lessee is in compliance with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code that prohibit discrimination in the provision of benefits between employees with registered domestic partners and employees with spouses (the "City Contracts Nondiscrimination in Benefits Ordinance"), then in force and effect in the City and County of San Francisco.

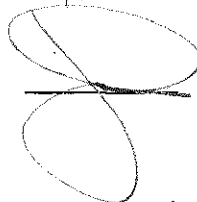
Except as expressly stated herein, the Lease, as amended by this Addendum, shall continue in full force and effect in accordance with its terms and provisions, which terms and provisions are confirmed, approved and ratified hereby, subject and subordinate to all applicable laws. All capitalized terms not otherwise defined in this Addendum shall have the meanings ascribed to them in the Lease.

Initials of authorized representative of City:

a Alf



Initials of authorized representative of Lessee:



AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 21-0205

APPROVAL OF MODIFICATION NO. 1 TO GROUND LEASE NO. 96-0268 FOR PLOT 7X WITH UNITED AIRLINES, INC. FOR A THREE-YEAR TERM EXTENSION

- WHEREAS, on October 18, 1996, by Resolution No. 96-0268, the Airport Commission (Commission) approved the Ground Lease for Plot 7X (Lease) with United Airlines, Inc. (United) for approximately 11.30 acres of land, commonly known as Plot 7X, for a period of 25 years; and
- WHEREAS, prior to the Lease receiving approval from the Board of Supervisors, the City and County of San Francisco (City) enacted the Non-Discrimination in City Contracts and Benefits Ordinance (the Ordinance); and
- WHEREAS, Addendum No. 1 was subsequently incorporated into the Lease, which provided United with a revised initial term of approximately two years from the commencement date of the Lease in order to provide United with the time to come into compliance with the Ordinance, and the right to extend the term for an additional 23 years; and
- WHEREAS, on February 21, 1997, by Resolution No. 131-97, the Board of Supervisors approved the Lease, inclusive of Addendum No. 1; and
- WHEREAS, United came into compliance with the Ordinance and exercised its right to extend the Lease through August 31, 2021, the current expiration date; and
- WHEREAS, Staff and United have negotiated the terms of Modification No. 1 to the Lease to (i) extend the term for three years; (ii) provide for rent adjustments during the extension term; and (iii) update certain legal provisions required by applicable local, state, and federal laws; and
- WHEREAS, all other terms and conditions of the Lease will remain unmodified and in full force and effect; now, therefore, be it
- RESOLVED, that this Commission hereby approves Modification No. 1 to the lease, as summarized above and in the Director's memorandum accompanying this resolution; and, be it further
- RESOLVED, that this Commission directs the Commission Secretary to submit this Modification No. 1 to the Board of Supervisors for approval in accordance with 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 _____

OCT 19 2021



Secretary



San Francisco International Airport

MEMORANDUM

October 19, 2021

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Eleanor Johns, Vice President
Hon. Everett A. Hewlett, Jr.
Hon. Jane Natoli
Hon. Malcolm Yeung

21-0205
OCT 19 2021

FROM: Airport Director

SUBJECT: Approval of Modification No. 1 to Ground Lease No. 96-0268 for Plot 7X with United Airlines, Inc. for a Three-Year Term Extension

DIRECTOR'S RECOMMENDATION: APPROVE MODIFICATION NO. 1 TO GROUND LEASE NO. 96-0268 FOR PLOT 7X WITH UNITED AIRLINES, INC. TO EXTEND THE TERM FOR THREE YEARS, AND DIRECT THE COMMISSION SECRETARY TO SEEK APPROVAL OF THE LEASE MODIFICATION FROM THE BOARD OF SUPERVISORS UNDER SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

Under Ground Lease No. 96-0268 (Lease), United Airlines, Inc. (United) leases approximately 11.30 acres of land, known as Plot 7X (Premises), at San Francisco International Airport (SFO or Airport) for the operation of an inflight kitchen, repair of its ground service equipment, and parking for its employees working in these facilities. The Lease expired on August 31, 2021 and is currently on holdover status. We request that the Airport Commission (Commission) approve Modification No. 1 to the Lease, which will (i) extend the term for three years; (ii) provide for rent adjustments during the extension term; and (iii) update certain legal provisions required by applicable local, state, and federal laws (Modification No. 1). All other terms and conditions will remain unmodified. Modification No. 1 must receive the approval of the Board of Supervisors under Section 9.118 of the Charter of the City and County of San Francisco.

Background

On October 18, 1996, by Resolution No. 96-0268, the Commission approved the Lease for a term of 25 years. Before receiving the Board of Supervisors' approval, the City and County of San Francisco (City) enacted the Non-Discrimination in Contracts and Benefits Ordinance requiring compliance with Chapters 12B and 12C of the City's Administrative Code (the Ordinance). Through an addendum to the Lease, the base term was changed to an initial term of approximately two years from the commencement of the Lease (Addendum No. 1) to allow United time to come into compliance with the Ordinance. Addendum No. 1 also gave United the right to extend the term for approximately 23 years if it was deemed to be in compliance with the Ordinance, which it did. On February 21, 1997, by Resolution No. 131-97, the Board of Supervisors approved the Lease,

THIS PRINT COVERS CALENDAR ITEM NO. 6

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED MAYOR LARRY MAZZOLA PRESIDENT ELEANOR JOHNS VICE PRESIDENT EVERETT A. HEWLETT, JR. JANE NATOLI MALCOLM YEUNG IVAR C. SATERO AIRPORT DIRECTOR

inclusive of Addendum No. 1. The current Annual Rent is \$190,123.39 per acre of the Premises, or \$2,148,394.31.

With the Airport's consent, a portion of the Premises is subleased to Gate Gourmet, which supports the flight operations of United through the operation of a flight kitchen.

Under the Airport Development Plan, Plot 7X will be part of the expanded airfield to support Airport operations. This project is subject to all environmental reviews and approvals. Due to the COVID-19 pandemic, this planned expansion, as well as other Airport projects, is suspended or delayed due to an unprecedented decline in air travel. As such, Staff believes an extension of the Lease to be in the best interest of the Airport.

Proposal

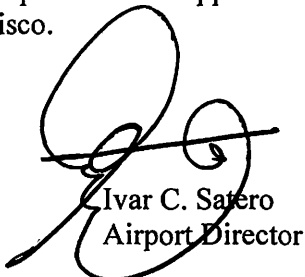
Staff and United negotiated the terms of Modification No. 1 to the Lease, as follows:

- (i) **Extension Term:** One three-year extension commencing on the Effective Date, occurring when (i) the Commission and the Board of Supervisors will have approved Modification No. 1, and (ii) both the City and United will have executed Modification No. 1.
- (ii) **Annual Rent Adjustments During Extension Term:** Each year during the extension term (commencing with the first year on the Effective Date), Base Rent is adjusted to reflect any increase in Consumer Price Index.
- (iii) **City and Other Governmental Provisions:** Modification No. 1 will update the Lease to comply with all applicable local, state, and federal laws.

All other terms and conditions of the Lease will remain unmodified and in full force and effect. The Lease is currently on a month-to-month holdover until the Effective Date of Modification No. 1.

Recommendation

I recommend this Commission adopt the attached resolution approving Modification No. 1 to Ground Lease No. 96-0268 with United Airlines, Inc., which (i) extends the term for three years; (ii) provides for rent adjustments during the extension term; and (iii) updates certain legal provisions required by applicable local, state, and federal laws. I further recommend this Commission direct the Commission Secretary to forward Modification No. 1 to the Board of Supervisors for approval in accordance with Section 9.118 of the Charter of the City and County of San Francisco.



Ivar C. Satero
Airport Director

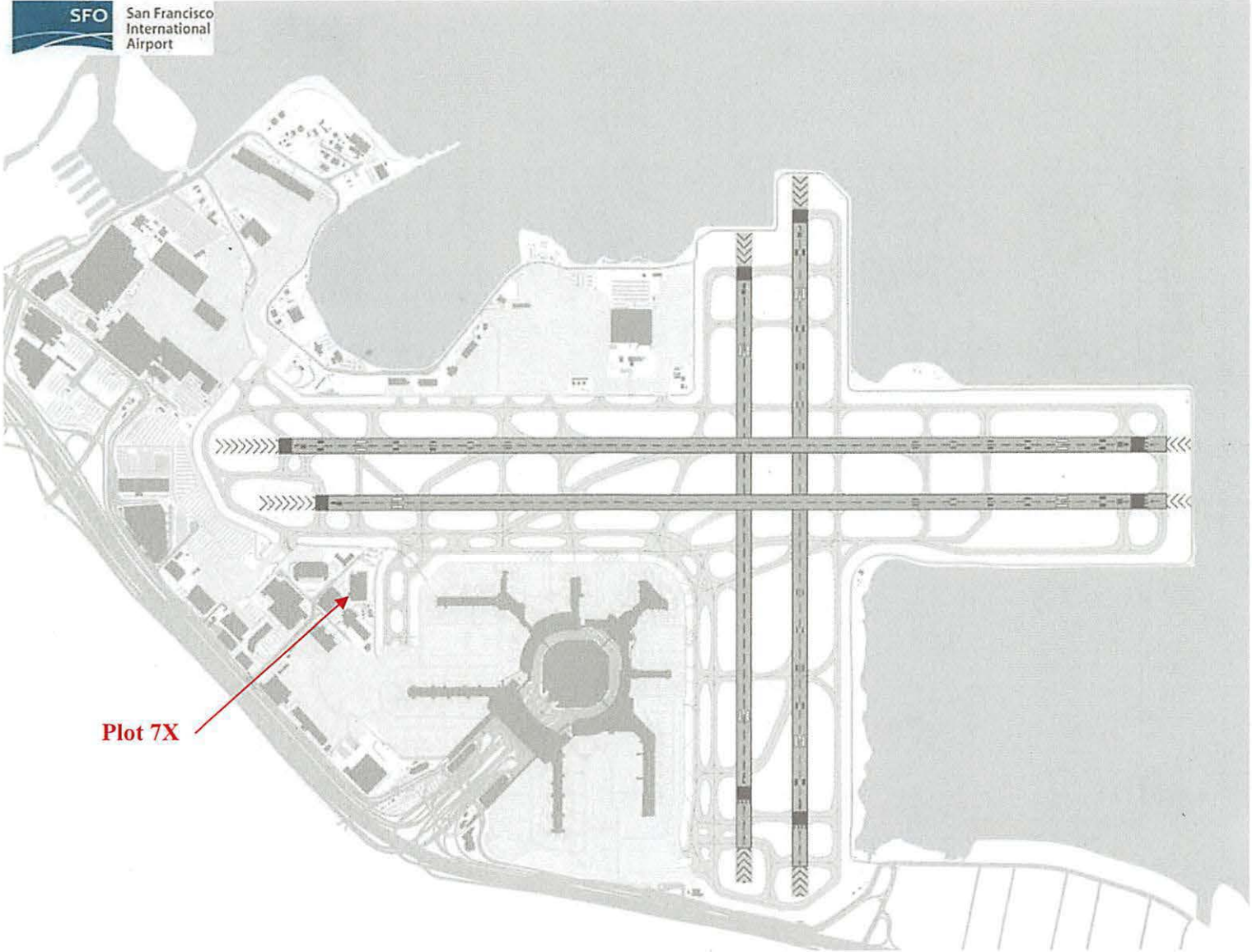
Prepared by: Kevin Bumen
Chief Commercial Officer

Attachments

Attachment 1

PREMISES

Ground Lease No. 96-0268 for Plot 7X with United Airlines, Inc.





San Francisco Ethics Commission

25 Van Ness Avenue, Suite 220, San Francisco, CA 94102

Phone: 415.252.3100 . Fax: 415.252.3112

ethics.commission@sfgov.org . www.sfethics.org

Received On:

File #: 211144

Bid/RFP #:

Notification of Contract Approval

SFEC Form 126(f)4

(S.F. Campaign and Governmental Conduct Code § 1.126(f)4)

A Public Document

Each City elective officer who approves a contract that has a total anticipated or actual value of \$100,000 or more must file this form with the Ethics Commission within five business days of approval by: (a) the City elective officer, (b) any board on which the City elective officer serves, or (c) the board of any state agency on which an appointee of the City elective officer serves. For more information, see: <https://sfethics.org/compliance/city-officers/contract-approval-city-officers>

1. FILING INFORMATION

TYPE OF FILING	DATE OF ORIGINAL FILING (for amendment only)
Original	
AMENDMENT DESCRIPTION – Explain reason for amendment	

2. CITY ELECTIVE OFFICE OR BOARD

OFFICE OR BOARD	NAME OF CITY ELECTIVE OFFICER
Board of Supervisors	Members

3. FILER'S CONTACT

NAME OF FILER'S CONTACT	TELEPHONE NUMBER
Angela Calvillo	415-554-5184
FULL DEPARTMENT NAME	EMAIL
office of the clerk of the Board	Board.of.Supervisors@sfgov.org

4. CONTRACTING DEPARTMENT CONTACT

NAME OF DEPARTMENTAL CONTACT	DEPARTMENT CONTACT TELEPHONE NUMBER
Cathy widener	650-821-5184
FULL DEPARTMENT NAME	DEPARTMENT CONTACT EMAIL
AIR San Francisco International Airport	Cathy.widener@flysfso.com

5. CONTRACTOR	
NAME OF CONTRACTOR United Airlines, Inc.	TELEPHONE NUMBER 650-874-7001
STREET ADDRESS (including City, State and Zip Code) Willis Tower, 233 S. Wacker Dr., Chicago, IL 60606	EMAIL

6. CONTRACT		
DATE CONTRACT WAS APPROVED BY THE CITY ELECTIVE OFFICER(S)	ORIGINAL BID/RFP NUMBER	FILE NUMBER (If applicable) 211144
DESCRIPTION OF AMOUNT OF CONTRACT Per Formula		
NATURE OF THE CONTRACT (Please describe) Modification No. 1 to Ground Lease No. 96-0268 of Plot 7x for United Airlines, Inc.		

7. COMMENTS

8. CONTRACT APPROVAL	
This contract was approved by:	
<input type="checkbox"/>	THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM
<input checked="" type="checkbox"/>	A BOARD ON WHICH THE CITY ELECTIVE OFFICER(S) SERVES Board of Supervisors
<input type="checkbox"/>	THE BOARD OF A STATE AGENCY ON WHICH AN APPOINTEE OF THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM SITS

9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
1	Kirby	J. Scott	Board of Directors
2	Laderman	Gerald	Board of Directors
3	Hart	Brett J.	Board of Directors
4	Kirby	J. Scott	CEO
5	Laderman	Gerald	CFO
6	Hart	Brett J.	COO
7			
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16			
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19			

9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
20			
21			
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27			
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9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
39			
40			
41			
42			
43			
44			
45			
46			
47			
48			
49			
50			

Check this box if you need to include additional names. Please submit a separate form with complete information. Select “Supplemental” for filing type.

10. VERIFICATION

I have used all reasonable diligence in preparing this statement. I have reviewed this statement and to the best of my knowledge the information I have provided here is true and complete.

I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

<p>SIGNATURE OF CITY ELECTIVE OFFICER OR BOARD SECRETARY OR CLERK</p> <p>BOS Clerk of the Board</p>	<p>DATE SIGNED</p>
---	---------------------------



San Francisco International Airport

November 1, 2021

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

Subject: Modification No. 1 to Ground Lease No. 96-0268 between United Airlines, Inc. 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 proposed Resolution, which approves Modification No. 1 to Ground Lease No. 96-0268 between the City and County of San Francisco, acting by and through its Airport Commission, and United Airlines, Inc.

The following is a list of accompanying documents:

- Board of Supervisors Resolution;
- Approved Airport Commission Resolution No. 21-0205;
- Memorandum accompanying Airport Commission Resolution No. 21-0205;
- A copy of SFEC-126(f)4 for United Airlines, Inc.;
- A copy of Modification No. 1 to Ground Lease No. 96-0268;
- A copy of Ground Lease No. 96-0268; and
- A copy of Addendum No. 1 to Ground Lease No. 96-0268.

The following person may be contacted regarding this matter:

Sean Murphy
Property Manager
(650) 821-4525
Sean.C.Murphy@flysfo.com

Very truly yours,

Kantrice Ogletree /s/

Kantrice Ogletree
Commission Secretary

Enclosures

cc: Sean Murphy, Aviation Management
Cathy Widener, Acting Chief, External Affairs Office
Dyanna Volek, Governmental Affairs

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED
MAYOR

LARRY MAZZOLA
PRESIDENT

ELEANOR JOHNS
VICE PRESIDENT

EVERETT A. HEWLETT, JR.

JANE NATOLI

MALCOLM YEUNG

IVAR C. SATERO
AIRPORT DIRECTOR