File No. 4 Committee Item No. 100311
Board Item No.______________

COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Andrea S. Ausberry Date Friday, April 16, 2010
Completed by:_ ______________ Date ______________

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

[Airport Concession – Amendment to Paster Retail/Duty Free Concession Lease No. 99-0035 with DFS Group, L.P.]

Resolution approving Amendment No. 8 to the Post-Security Master Retail/Duty Free Concession Lease No. 99-0035 between DFS Group, L.P., and the City and County of San Francisco, acting by and through its Airport Commission.

WHEREAS, The Airport Commission approved Resolution No. 10-0047 amending the DFS Group, L.P.'s Lease No. 99-0035; now, therefore, be it

RESOLVED, That the Board of Supervisors authorizes the Airport Director to enter into any modifications to the Lease that the Airport Director determines, in consultation with the City Attorney, are in the best interests of the City and County of San Francisco (the "City"), do not otherwise materially increase the obligations or liabilities of the City, are necessary or advisable to effectuate the purposes of the Lease or this Resolution, and are in compliance with all applicable laws, including City's Charter; and, be it further

RESOLVED, That the Board of Supervisors hereby approves Amendment No. 8 to the DFS Lease, copies of which are contained in Board of Supervisors' File No. 100311.

Item 4 File 10-0311	Department(s): San Francisco Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve Amendment No. 8 to an existing lease between the San Francisco Airport (Airport) and DFS Group, L.P. (DFS) to (a) use Lease Year One's Consumer Price Index adjustment of zero for determining the Minimum Annual Guarantee (MAG) in the first option year, (b) add provisions to require DFS invest $2,400,000 in facility renovations in CY 2011, and (c) exercise two one-year options.

Key Points

- On April 5, 1999, based on a competitive bid conducted by the Airport, the Board of Supervisors approved the existing ten-year concession lease with DFS, from December 20, 2000 through December 19, 2010, with two one-year options (File No. 99-0395). DFS operates 43 stores covering 67,705 square feet in the International Terminal, which includes 12 duty-free stores totaling 30,686 square feet and 31 duty-paid stores totaling 37,019 square feet.

- The Board of Supervisors has previously approved six amendments to the existing lease with DFS to (a) change the rent provisions, (b) authorize DFS to exercise one five-year option to extend the lease, and (c) add and remove leased spaces.

- DFS exercised the five-year option under the Airport's Concession Support Program to extend the term of the existing lease, from December 20, 2010 through December 19, 2015. As stipulated in Amendment Nos. 1 and 2, DFS had to exercise its one five-year option to extend the term of the existing lease before the Airport could exercise the proposed subject two one-year options to extend the term of the lease, from December 20, 2015 through December 19, 2017, which is the subject of the proposed resolution.

Fiscal Impact

- Under the existing lease, DFS is required to pay the Airport annual rent of either the greater of (a) a percentage of gross revenues sales, or (b) the MAG of $26,400,000. Based on the Airport's projections of DFS gross revenues from duty-free and duty-paid sales, the Airport anticipates that DFS would pay the MAG of $26,400,000 for Lease Year 10 (December 20, 2009 through December 19, 2010) and for each of the subsequent seven option years from December 20, 2010 through December 19, 2017. The MAG is subject to annual Consumer Price Index adjustments, but the MAG cannot be decreased to an amount lower than $26,400,000. Therefore, the Airport will receive a minimum of $184,800,000 for all seven Option Years ($26,400,000 multiplied by seven years), from December 20, 2010 through December 19, 2017.

Policy Consideration

- As stated in Amendment No. 8 of the existing lease, "DFS agrees to invest $2.4 million in facility renovations." The Airport advises that DFS must expend a minimum of $2,400,000 in facility renovations and construction of one new duty-free store. However, Amendment No. 8 does not contain language stating that a minimum amount of $26,400,000 is required to be expended by DFS.

Recommendations

- Amend the proposed resolution to add language to require that DFS must expend a minimum of $2,400,000 for both facility renovations and construction of one new duty-free store. Approve the proposed resolution, as amended.

BACKGROUND/MANDATE STATEMENT

Background

On April 5, 1999, based on a competitive bid conducted by the San Francisco Airport (Airport), the Board of Supervisors approved the existing ten-year concession lease with DFS Group, L.P. (DFS), from December 20, 2000 through December 19, 2010 with two one-year options (File No. 99-0395). The lease agreement covers 67,705 square feet in 43 locations in the International Terminal, including 12 duty-free[1] stores totaling 30,686 square feet and 31 duty-paid[2] stores totaling 37,019 square feet.

The Board of Supervisors has previously approved six amendments and the Airport Commission has previously approved one amendment, as summarized in the Attachment based on data submitted by the Airport.

Existing Lease Rent: Under the existing lease, DFS pays the Airport an annual rent of the greater of either (a) the percentage gross sales from duty-free and duty-paid sales or (b) a Minimum Annual Guarantee (MAG) of $26,400,000. The MAG is subject to an annual Consumer Price Index (CPI)[3] adjustment on the anniversary date of the existing lease. If the CPI decreases, the rent will not decrease to a value less than the previous year's rent under the provisions of the existing lease.

Existing Lease Term and Extension Options: Although the original lease provided for a ten-year term with two one-year options to extend the lease, the Board of Supervisors approved Amendments No. 1 and 2 (see the Attachment) to additionally allow DFS to exercise a five-year option to extend the lease under the Concession Support Program[4]. DFS exercised the five year option to extend from December 20, 2010 to December 19, 2015.

Mandate Statement

In accordance with Charter Section 9.118(c), any lease amendments, in which the City would receive $1,000,000 or more in revenues, is subject to Board of Supervisors approval.

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[1] Duty-free merchandise are goods sold at the Airport without Sales Tax to international travelers leaving the United States.

[2] Duty-paid merchandise are goods sold at the Airport with Sales Tax.

[3] The CPI represents changes in prices of all goods and services for All Urban Consumers in the San Francisco-Oakland-San Jose area and is published by the Bureau of Labor Statistics under the United States Department of Labor.

[4] The Concession Support Program was created to assist Airport concession lessees that experienced declines in business due to reduced levels of air travel since the events of September 11, 2001. As part of the Concession Support Program, 42 lessees were granted options to extend their leases by five years beyond their current terms to allow more time for the lessees to recoup their initial investments for leases that started in 1998 or later.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 8 to an existing lease between the Airport and DFS, to:

(a) Revise the method for adjusting the MAG, as discussed below;

(b) Require DFS to invest a minimum $2,400,000 in facility renovations and construction in various locations in the International Terminal and Terminal 3; and

(c) Exercise, at this time, both of the two one-year options, which are included in the existing lease to extend the term for two years, from December 20, 2015 through December 19, 2017. As noted above, another five-year option was previously exercised to extend the lease through December 19, 2015.

MAG Adjustment: Under the existing lease, the MAG can be adjusted annually by the ratio of the current year CPI and the base year CPI[5], with the exception that the adjustment cannot decrease the MAG. Under the original ten-year lease, the base year was CY 2000 for purposes of calculating the ratio of the current year and base year CPI. According to Ms. Cheryl Nashir, Associate Deputy Director of the Airport, when the lessee exercised the five-year option to extend the lease effective December 20, 2010, the base year became CY 2011.

The proposed Amendment No. 8 would substitute CY 2000, instead of CY 2011, as the base year for purposes of calculating the CPI adjustment to the MAG. This would result in no CPI adjustment to the MAG for 2011, the first year of the five-year option period under the existing lease.

According to Ms. Cheryl Nashir, Associate Deputy Director of the Airport, the requested substitution of CY 2000, for CY 2011, as the base year for calculating the CPI adjustment to the MAG was negotiated between the Airport and DFS because, according to Ms. Nashir, the existing MAG of $26,400,000 is above the market rate MAG of $21,940,000. According to Ms. Nashir, if the Airport were to competitively rebid the duty-free and duty-paid lease at this time, the Airport would set the minimum MAG amount between $20 million to $22 million.

Facility Renovations and Construction: Amendment No. 8 would also add provisions to the existing lease to require DFS to invest a minimum $2,400,000 in facility renovations and construction in various locations in the International Terminal and Terminal 3, to be conducted in CY 2011. According to Ms. Nashir, DFS will (a) renovate various Duty Free stores in the International Terminal and (b) construct one new Duty Free store in Terminal 3[6].

[5] The base year CPI is the most recent Consumer Price Index published adjacent to the commencement date of the lease.

[6] According to Ms. Cheryl Nashir, Associate Deputy Director of the Airport, Terminal 3 has several International departures. DFS currently has a temporary Duty-Free kiosk in Terminal 3 and the Airport has requested that DFS construct a store in Terminal 3 to cater to the International flight patrons.

As of the writing of this report, the specific location of the Duty Free store has not been finalized. Once the specific location has been finalized, DFS will complete specific construction plans. The Airport will add an exhibit to the existing lease indicating the location and size of the additional Duty Free store, since the existing lease allows the Airport to add and remove square footage from the lease without receiving approval from the Board of Supervisors. Since the rent structure of the existing lease is based on a percentage of gross revenue sales, the gross revenues from the new space would be calculated as part of the DFS's total percentage of gross revenue sales.

According to Ms. Nashir, the Airport conducted an inspection of the DFS's duty-free stores and determined possible locations for the new duty-free store. As a result, Ms. Nashir advises that a minimum investment of $2,400,000 would be sufficient to cover the proposed renovations and construction (see Policy Analysis section below). Ms. Nashir estimates that DFS will expend approximately $400,000 for the construction of a new store and $2,000,000 for the various renovations.

Two One-year Options to Extend: Under Amendment No. 8, the Airport is also requesting to exercise, at the time, both of the two one-year options to extend the term for two years, from December 20, 2015 through December 19, 2017 in order to provide DFS with two additional years to amortize the $2,400,000 in facility renovation and construction costs.

FISCAL ANALYSIS

Annual Rental Payments to the Airport under the Existing Lease

Under the existing lease, DFS is required to pay the Airport an annual rent of either the greater of (a) a percentage of gross revenues from duty-free and duty-paid sales, or (b) the Minimum Annual Guarantee (MAG). Table 1 below shows the total payments that DFS has paid the Airport under the exisitng ten-year lease.

Table 1: DFS Payments to the Airport

Lease/ Option Year*	Lease/ Option Year Dates		MAG	DFS Total Percentage Gross Revenues	Total Annual DFS Payments to Airport
	Start	End			
Lease Year 1	12/20/2000	9/10/2001	$ $18,877,808*	$18,943,548	$18,943,548
Lease Year 1	9/11/2001	12/19/2001	No MAG	$2,858,014	$2,858,014
Lease Year 2	12/20/2001	12/19/2002	No MAG	$12,681,447	$12,681,447
Lease Year 3	12/20/2002	12/19/2003	No MAG	$13,812,284	$13,812,284
Lease Year 4	12/20/2003	12/19/2004	$23,490,000	$21,602,998	$21,602,998
Lease Year 5	12/20/2004	12/19/2005	$23,490,000	$22,128,778	$22,128,778
Lease Year 6	12/20/2005	12/19/2006	$26,100,000	$10,406,915	$26,100,000
Lease Year 7	12/20/2006	12/19/2007	$26,275,000**	$12,554,596	$26,275,000
Lease Year 8	12/20/2007	12/19/2008	$26,400,000	$14,917,511	$26,400,000
Lease Year 9	12/20/2008	12/19/2009	$26,400,000	$12,124,000	$26,400,000
Lease Year 10	12/20/2009	12/19/2010	$26,400,000	$12,855,200***	$26,400,000

* The annual MAG in Lease Year 1 was $26,100,000. There are 264 days between December 20, 2000 and September 10, 2001. Therefore, 264 days of $26,100,000 is $18,877,808.

** The annual MAG for the first six months was $26,100,000 and the annual MAG for the second six months was $26,400,000. The total annual MAG for CY 2007 was $26,275,000 ($26,100,000 divided by 12 multiplied by 6 months PLUS $26,400,000 divided by 12 multiplied by 6 months).

*** Estimated by the Airport

As shown in Table 1 above, DFS is projected to pay the Airport the MAG of $26,400,000 in the current Lease Year 10, from December 20, 2009 through December 19, 2010.

Estimated Rent Payable to the Airport from December 20, 2010 through December 19, 2017

As shown in Table 2 below, DFS is projected to pay the Airport the MAG of $26,400,000 rather than a percentage of gross sales in each year from Option Year 1 beginning on December 20, 2010 through Option Year 7 ending on December 19, 2017, based on the Airport's projections of DFS gross sales from duty-free and duty-paid sales. The MAG could increase in future option years since the MAG is subject to annual CPI adjustments, but it cannot be decreased to an amount lower than $26,400,000. As shown in Table 2 below, the Airport would therefore receive a minimum total of $184,800,000 for all seven option years.

Table 2: DFS Estimated Payments to the Airport from January 1, 2010 through December 19, 2017

Option Year	Option Year Dates		MAG	DFS Total Percentage Gross Revenues*	Total Estimated Annual DFS Payments to Airport
	Start	End			
Option Year 1	12/20/2010	12/19/2011	$26,400,000	$14,429,120	$26,400,000
Option Year 2	12/20/2011	12/19/2012	$26,400,000	$15,275,600	$26,400,000
Option Year 3	12/20/2012	12/19/2013	$26,400,000	$16,164,440	$26,400,000
Option Year 4	12/20/2013	12/19/2014	$26,400,000	$17,097,480	$26,400,000
Option Year 5	12/20/2014	12/19/2015	$26,400,000	$18,077,354	$26,400,000
Option Year 6	12/20/2015	12/19/2016	$26,400,000	$17,803,929	$26,400,000
Option Year 7	12/20/2016	12/19/2017	$26,400,000	$19,106,222	$26,400,000
				Total	**$184,800,0000**

* Based on the Airport's projections of DFS Gross Revenues

POLICY ANALYSIS

As stated in Amendment No. 8 of the existing lease, "DFS agrees to invest $2.4 million in facility renovations." Ms. Nashir advises that DFS must expend a minimum of $2,400,000 for facility renovations of the existing duty-free stores in the International Terminal and construction of one new duty-free store in Terminal 3. However, the requested Amendment No. 8 does not contain language that a minimum amount of $2,400,000 is required to be expended by DFS. Therefore, the Budget and Legislative Analyst recommends that the proposed resolution be amended to add language stating that DFS must expend a minimum of $2,400,000 for both facility renovations of the existing duty-free stores and construction of one new duty-free store in Terminal 3.

RECOMMENDATIONS

1. Amend the proposed resolution to require that DFS must expend a minimum of $2,400,000 for facility renovations of the existing duty-free stores in the International Terminal and construction of one new duty-free store in Terminal 3.

2. Approve the proposed resolution, as amended.

Table 1: Amendments of the Existing Lease

Date	Description
8/23/2002	**Amendment Nos. 1 and 2** Due to reduced levels of air travel since the events of September 11, 2001, the Concession Support Program was created to assist Airport concession lessees that experienced declines in business which: (a) waived the MAG rent requirement payable by DFS to the Airport for the DFS duty-free and duty-paid stores even if the resulting rent was less than the MAG of $26,100,000 and only required DFS to pay the Airport the percentage rent based on gross revenues from duty-free and duty-paid sales, as shown in Table 2 below; (b) changed the percentage of gross revenues due as shown in Table 2 below; (c) authorized DFS to exercise one five-year option to extend the lease; and (d) specified that if the MAG for the duty-free stores is reinstated before the MAG for the duty-paid stores is reinstated then the MAG would be separated into (i) a duty-free MAG of $23,490,000 annually, or 90 percent of the original MAG of $26,100,000 and (ii) a duty-paid MAG of $2,610,000, or 10 percent of the total MAG of $26,100,000 (File No. 02-1230).
12/23/2002	**Amendment No. 3** (a) continued to waive the MAG rent requirement for the DFS duty-free and duty-paid stores; and (b) changed the percentage of gross revenue due, as shown in Table 2 below. (File No. 03-1526).
2/10/2004	**Amendment No. 4** reinstated the MAG of $23,490,000 for ONLY the DFS duty-free stores beginning January 1, 2004, as shown in Table 2 below. (File No. 04-0020).
5/24/2005	**Amendment No. 5** extended the MAG rent requirement for DFS duty-free stores and percentage of gross revenue from Amendment No. 4 until December 31, 2010, as shown in Table 2 below. (File No. 04-1766).
12/18/2006	**Amendment No. 6** (a) reverted the MAG back to $26,100,000 on January 1, 2006 for both DFS duty-free and duty-paid stores and changed the percentage of gross revenue due as shown in Table 2 below; (b) added 3,234 square feet for two new facilities and two kiosks to the leased premises; (c) relinquished 168 square feet of the DFS leased space for the Airport's Secured Connector Project*; (d) relieved DFS of its obligation to operate off-Airport premises**; and (e) increased the MAG for DFS duty-free and duty-paid stores by $300,000, or 1.1 percent, from $26,100,000 to $26,400,000 on June 1, 2007, as shown in Table 2 below (File No. 06-1479).
11/9/2007	**Amendment No. 7** added 420 square feet in Terminal 1 and two kiosks to the leased premises, which did not require Board of Supervisors approval since the existing lease allows the Airport to add and remove square footage from the lease without receiving approval from the Board of Supervisors.

Source: Airport

* The Airport's Secured Connector Project created a new passageway to allow passengers to walk between Domestic Terminal No. 3 and the International Terminal without leaving the security checkpoint area.

** DFS operated off-Airport premises, such as the downtown Duty-Free store, for taking orders of duty-free items for delivery at the Airport.

Table 2: Changes to the Percentage of Annual Gross Revenues and MAG of the Existing Lease

	Percentage of Annual Gross Revenues from Sales		MAG
Annual Gross Revenues	**Duty-Free**	**Duty-Paid**	
Original Lease			
From December 20, 2000 through September 10, 2001			MAG of $26,100,000 = $21,663,000 for Duty-Free + $4,437,000 for Duty-Paid
Up to and including $50,000,000	15%	12%	
$50,000,000.01 - $100,000,000	20%	14%	
Over $100,000,000	25%	16%	
Amendments Nos. 1 and 2			
From September 11, 2001 through March 31, 2002			No MAG for both Duty-Free and Duty-Paid
Up to and including $12,000,000	15%	No Change	
$12,000,000.01 - $24,000,000	20%		
Over $24,000,000	25%		
From April 1, 2001 through December 31, 2002			
Any Amount	30%	No Change	
Amendment No. 3*			
From January 1, 2003 through December 31, 2003			No MAG for both Duty-Free and Duty-Paid
Up to and including $36,000,000	25%	No Change	
Over $36,000,000	31%		
Amendment No. 4*			
From January 1, 2004 through December 31, 2004			- MAG of $23,490,000 for Duty-Free only -No MAG for Duty-Paid
Up to and including $36,000,000	25%**	No Change	
Over $36,000,000	31%**		
Amendment No. 5*			
From January 1, 2005 through December 31, 2005			- MAG of $23,490,000 for Duty-Free only -No MAG for Duty-Paid
Up to and including $36,000,000	25%**	No Change	
Over $36,000,000	31%**		
Amendment No. 6			
From January 1, 2006 through December 19, 2010			1/1/2006 – 5/31/2007 MAG of $26,100,000 = $21,663,000 for Duty-Free + $4,437,000 for Duty-Paid
Up to and including $50,000,000	15%	No Change	
$50,000,000.01 - $100,000,000	20%		
Over $100,000,000	25%		
Additional Facilities***			6/1/2007 – 12/19/2010 MAG of $26,400,000 = $21,912,000 for Duty-Free + $4,488,000 for Duty-Paid
Up to and including $50,000,000	Not Applicable	12%	
$50,000,000.01 - $100,000,000		14%	
Over $100,000,000		16%	

Source: Airport

* DFS will pay the percentage of annual gross revenues from DFS sales AND if monthly gross revenues of DFS sales were 10 percent higher than same month of the previous year, DFS will pay an additional $312,500 per month.

** Total Duty Free store rent cannot be more than 40 percent of gross revenues

*** The additional facilities rent structure is for a sublease of a retail space that DFS has with In Motion Entertainment

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 10-0047

APPROVAL OF AMENDMENT NO. 8 TO THE POST-SECURITY MASTER RETAIL/DUTY FREE CONCESSION LEASE NO. 99-0035 WITH DFS GROUP, L.P.

WHEREAS, pursuant to Airport Commission Resolution No. 99-0035, adopted February 16, 1999, DFS Group, L.P. ("DFS") was awarded the Post-Security Master Retail/Duty Free Concession in the New International Terminal Building (the "Original Lease"); and

WHEREAS, the Original Lease was subsequently amended by Amendment No. 1, pursuant to Resolution No. 02-0039, adopted February 19, 2002 (authorizing the Airport Director to implement the Airport Concession Support Program); by Amendment No. 2, pursuant to Resolution No. 02-0072, adopted April 2, 2002 (approving additional terms and conditions for DFS under the Concession Support Program); by Amendment No. 3, pursuant to Resolution No. 03-0144, adopted August 19, 2003 (approving terms and conditions for DFS for the 2003 Lease Year); by Amendment No. 4, pursuant to Resolution No. 04-0005, adopted January 13, 2004 (providing that DFS' Base Rent for 2004 would be capped at 40% of 2004 Gross Revenues); by Amendment No. 5, pursuant to Resolution No. 04-0233, adopted December 7, 2004, (providing that DFS' Base Rent for 2005 would be capped at 40% of 2005 Gross Revenues); and by Amendment Nos. 6 and 7, pursuant to Resolution No. 06-0179, adopted September 19, 2006 (adding premises and increasing the MAG) (the Original Lease, Amendments No. 1, No. 2, No. 3, No. 4, No. 5, No. 6 and No. 7 shall be referred to herein as the "Lease"); and

WHEREAS, staff has negotiated the terms and conditions for Amendment No. 8 to the Lease with DFS; now, therefore, be it

RESOLVED, that this Commission hereby approves Amendment No. 8 to the DFS Post-Security Master Retail/Duty Free Concession Lease No. 99-0035, on the terms and conditions specified in the staff report, containing such other terms and conditions as are consistent with the foregoing, including: (1) this Commission's exercise of the two one-year options under the Lease; (2) the modification of the base year and base index for CPI adjustments to reference data for the first year of the Lease; and (3) DFS' agreement to invest $2.4 million in facility renovations during the first year of the Option Period under the Concession Support Program; and, be it further

RESOLVED, that this Commission authorizes the Airport Director to enter into any modifications to the Lease that the Airport Director determines, in consultation with the City Attorney, are in the best interests of the City and County of San Francisco (the "City"), do not otherwise materially increase the obligations or liabilities of the City, are necessary or advisable to effectuate the purposes of the Lease or this Resolution, and are in compliance with all applicable laws, including City's Charter; and, be it further

RESOLVED, that the Commission Secretary is hereby directed to request approval of Amendment No. 8 of the Lease by Resolution from the Board of Supervisors pursuant to Section 9.118 of the City Charter.

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of FEB 18 2010

Jean Caramatti

Secretary

AMENDMENT NO. 8 TO POST-SECURITY MASTER RETAIL/DUTY-FREE CONCESSION LEASE NO. 99-0035 AT SAN FRANCISCO INTERNATIONAL AIRPORT

THIS AMENDMENT NO.8 TO POST-SECURITY MASTER RETAIL/DUTY-FREE CONCESSION AT THE SAN FRANCISCO AIRPORT LEASE NO. 99-0035 ("Amendment No. 8"), dated as of February 18, 2010 for reference purposes only, is entered by and between the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation (the "City"), acting by and through the SAN FRANCISCO AIRPORT COMMISSION (the "Airport"), as landlord, and DFS Group, LP as tenant (the "Tenant").

RECITALS

A. The Airport and Tenant entered into Lease No. 99-0035, dated as of December 14, 1999 (the "Lease") for the certain duty free and retail concession spaces located at the Airport in the International Terminal (the "Original Premises"). The Lease was previously approved by the Airport Commission pursuant to Resolution Number 99-0035 and by the Board of Supervisors pursuant to Resolution Number 1146-99.

B. Pursuant to Resolution No. 10-0047, adopted February 18, 2010, the Commission authorized the Airport Director to (a) exercise its two, 1-year options at its sole and absolute discretion; and (b) during the option period, modify the base year and base index to reference the data for the first year of the Lease.; and (c) DFS agrees to invest $2.4 million in facility renovations during the first year of the CSP Option Period.

C. All capitalized terms not otherwise defined herein shall have the same meaning given to them in the Lease.

NOW, THEREFORE, in consideration of the foregoing and for valuable consideration, the sufficiency of which is hereby acknowledged, City and Tenant hereby agree to amend the Lease as follows:

AGREEMENT

1. Recitals. The foregoing recitals are true and correct and are incorporated herein by this reference as if fully set forth herein.

2. Effective Date. The effective date of the modifications to the Lease contained in shall be the date on which both parties have fully executed Amendment No. 8.

3. Term. Section 2 of the Lease is hereby amended to reflect the Expiration Date as **December 31, 2017**.

4. Base Year CPI Used For Adjustments to the MAG. The terms specified in the Rider to Amendment 1 pertaining to the base year and base index for annual adjustments to the rent

IN WITNESS WHEREOF, the Airport and the Tenant execute this Amendment No. 7 to the Lease as of the last date set forth below.

TENANT: DFS Group, LP,
a Delaware limited partnership

DFS Group Limited
Its sole general partner

By: ______________________________
Name: Joe Lyons
Title: Vice President, Business Development

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

____
John L. Martin
Airport Director

AUTHORIZED BY AIRPORT COMMISSION

Resolution No. 10-0047
Adopted: February 18, 2010

Attest:______________________
Secretary
Airport Commission

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

By: ______________________
Deputy City Attorney