



**MEMORANDUM**

December 22, 2015

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

FROM: Airport Director

SUBJECT: Modification No. 1 to US Airways, Inc.'s 2011 Lease and Use Agreement  
No. L10-0276 to Terminate the Agreement

DIRECTOR'S RECOMMENDATION: ADOPT RESOLUTION APPROVING  
MODIFICATION NO. 1 TO US AIRWAYS, INC.'S 2011 LEASE AND USE AGREEMENT  
NO. L10-0276, WHICH GRANTS EARLY TERMINATION OF THE AGREEMENT.

**Executive Summary**

On November 29, 2011, American Airlines, Inc. and certain of its affiliates ("American" or "Debtors") filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. The resulting bankruptcy plan contemplated the merging of American and US Airways, Inc. ("US Airways"), both of which are signatories to the 2011 Lease and Use Agreement, under the parent company AMR Corporation. In conjunction with the bankruptcy proceedings, City and American negotiated a Cure Stipulation Agreement which provided that US Airways would have the option to co-locate with American in Terminal 2 and eliminate the Exclusive Use Space occupied under the US Airways' 2011 Lease and Use Agreement No. L10-0276 (the "US Airways Agreement"). On a related matter, the Airport's Terminal 1 Project requires that the Airport recapture all of the original spaces leased to US Airways in Terminal 1. US Airways is now seeking the Airport Commission's ("Commission") consent to terminate the US Airways Agreement, pursuant to Modification No. 1 (the "Modification"), effective upon full City approval.

**Background**

Pursuant to Commission Resolution No. 10-0276, dated August 17, 2010, and Board of Supervisors Resolution No. 505-10, dated November 5, 2010, US Airways became a signatory to the US Airways Agreement whereby, effective July 1, 2011, US Airways commenced a ten-year

THIS PRINT COVERS CALENDAR ITEM NO. 12

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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

agreement with the City for landing rights and rental of approximately 25,070 square feet of Exclusive Use Space and approximately 216 square feet of Joint Use Space in Terminal 1 and Boarding Area B (“BAB”). The Exclusive Use Space was subsequently adjusted to approximately 20,347 square feet pursuant to an Exhibit L Space Change Summary Notice (an “Exhibit L”), dated May 19, 2015, as further described below. The annual rent for FY 2015/16 is \$2,750,844.09.

Pursuant to Commission Resolution No. 10-0078, dated March 16, 2010, and Board of Supervisors Resolution No. 208-10, dated May 21, 2010, American became a signatory to 2011 Lease and Use Agreement No. L10-0078 (the “American Agreement”) whereby American also commenced a ten-year agreement with the City for landing rights and rental of approximately 47,509 square feet of Exclusive Use Space and approximately 78,747 square feet of Joint Use Space in Terminal 2 and Boarding Area D (“BAD”). The annual rent for FY 2015/16 is \$8,491,039.91.

On November 29, 2011, Debtors filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. On April 15, 2013, Debtors filed a Joint Chapter 11 Plan, as subsequently amended, which contemplated a merger of AMR Merger Sub, Inc. and US Airways Group, Inc. pursuant to an Agreement and Plan of Merger. The merger occurred on December 9, 2013 resulting in the formation of American Airlines Group, Inc., a subsidiary of AMR Corporation, and American and US Airways became affiliates under common control of the new entity.

In conjunction with the bankruptcy proceedings, City and American negotiated a Cure Stipulation Agreement, dated June 5, 2013, which among other things, specified that American and US Airways would have the option to co-locate in Terminal 2, and eliminates the Exclusive Use Space under the US Airways Agreement. On April 8, 2015, the Federal Aviation Administration issued a single operating certificate for American and US Airways. On October 1, 2015, US Airways co-located its passenger check-in functions with American in Terminal 2, and on October 17, 2015, it ceased all flights nationwide under the US Airways brand.

On a related matter, to accommodate the Airport’s Terminal 1 Project, US Airways was required to relocate all of its Category III and V Exclusive Use Space used for its airfield operation from BAB to Boarding Area C (“BAC”), which occurred on May 19, 2015. The net effect on the premises under the US Airways Agreement was as follows:

Boarding Area	Category	Relinquished	Added	Net Change
BAB	III	4,121 sq. ft.		
BAC	III		3,776 sq. ft.	(345) sq. ft.
BAB	V	7,178 sq. ft.		
BAC	V		2,800 sq. ft.	( 4,378 sq. ft.)

These space changes were accomplished pursuant to an Exhibit L to the US Airways Agreement. In early 2016, US Airways must relinquish all Category I, II and IV spaces to accommodate the Terminal 1 Project. At or around that time, to accommodate further co-location with US Airways, American will add approximately 604 square feet of Category I space and approximately 1,406 square feet of Category II space in Terminal 2 to the American Agreement. These space changes will be accomplished pursuant to an Exhibit L to the respective agreements.

### **Proposal**

Pursuant to the Modification, US Airways and City now desire to terminate the US Airways Agreement in its entirety, to be effective on the first day of the month following full City approval, conditioned upon the following:

1. Airport Commission and Board of Supervisors shall have approved this Modification;
2. US Airways shall have relinquished possession of the Category I, II and IV Exclusive Use Spaces and the Joint Use Spaces in Terminal 1 and BAB, as shown below;
3. American shall have incorporated the incremental Category I and II Exclusive Use Spaces in Terminal 2 and BAD into the American Agreement, pursuant to an Exhibit L;
4. American shall have incorporated the Category III and V Exclusive Use Spaces in Terminal 1, as shown below, into the American Agreement, pursuant to an Exhibit L; and
5. US Airways' obligations under those terms of the US Airways Agreement that expressly survive expiration or termination shall continue in full force and effect.

Category Type	US Airways Exclusive Use Space	
	<i>Pre Modification</i>	<i>Post Modification</i>
Category I	755	0
Category II	7,288	0
Category III	3,776	0
Category IV	5,728	0
Category V	2,800	0

Category Type	US Airways Joint Use Space	
	<i>Pre Modification</i>	<i>Post Modification</i>
Category II	216	0

**Recommendation**

I recommend adoption of the accompanying Resolution that approves Modification No. 1 to the US Airways Agreement, which grants early termination of the agreement for approximately 20,347 square feet of Exclusive Use Space and approximately 216 square feet of Joint Use Space in Terminal 1 and Boarding Area B, has a remaining term of approximately five years, and an annual rent of \$2,750,844.09, and directs the Commission Secretary to forward the proposed Modification of the US Airways Agreement to the Board of Supervisors for approval.



John L. Martin  
Airport Director

Prepared by: Leo Fermin  
Chief Business & Finance Officer

**Attachments**

JLM/LF/DA:gp

bcc: admin/chron/doc/Diane Artz/Dan Ravina/Dorothy Bong-Shao/Luke W. Bowman

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Exhibit A

US Airways Locations

