

Airline Competition Plan Update - 2011

Kahului Airport

Kahului, Maui, Hawai'i

May 1, 2012

Prepared For:

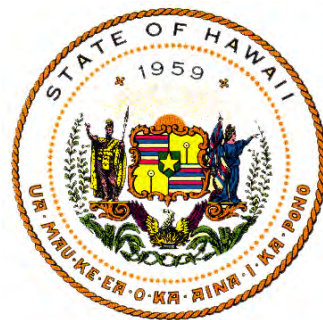
Federal Aviation Administration

Submitted By:

State of Hawai'i

Department of Transportation

Airports Division



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Section 1

Introduction

1.1 Background and Summary

Kahului Airport is located on the north central shore of Maui, northeast of the town of Kahului. The Airport encompasses approximately 1,391 acres of land and is owned and operated by the State of Hawai'i as part of the statewide airports system. Kahului Airport is classified as a medium hub airport which is defined as an airport enplaning between 0.25% to 0.99% of total U.S. passenger enplanements. In FY 2009, Kahului Airport enplaned 2,480,121 air carrier, commuter and international passengers which translated to 0.35% of national total enplanements (FAA, 2011).

Under the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, a Competition Plan is required at a covered airport which has more than .25% of the total number of passenger enplanements each year at all such airports and at which one or two air carriers control more than 50 percent of the passenger enplanements.

In calendar year 2010, there were a total of 2,668,325 enplaned passengers handled through Kahului Airport. One airline, Hawaiian Airlines accounted for approximately 1,267,146 enplaned passengers or 47.5% of all passenger enplanements. Of the Hawaiian Airlines total, it is noted 1,061,317 enplaned passengers or 39.8 % of all passenger enplanements at Kahului Airport were on short haul inter-island flights. The next highest airline was United Airlines, accounting for 450,409 passenger enplanements or 16.9% of all passenger enplanements (DOT, 2011a and b). Since Hawaiian and United Airlines combine for 64.4% of passenger enplanements at Kahului Airport, a Competition Plan is required.

From Federal Fiscal Year (FFY) 2001, the sponsors of all covered airports were required to submit a Competition Plan or update in order for a new Passenger Facility Charge (PFC) to be authorized for collection or a grant to be issued under the Airport Improvement Program (AIP) in that federal fiscal year. From FFY 2005, required updates to Competition Plans were limited to two updates unless the following special conditions occurred:

1. A new master use and lease agreement is executed or the existing master use and lease agreement is significantly revised, or
2. A competitive access disclosure notification is filed under Section 424 of Vision 100 (Public Law 108-176).

It is noted that a First Amended Lease Extension Agreement between the Airports Division and signatory airlines took effect on January 1, 2008. The original Airport-Airline Lease was executed in 1962. The Lease Extension Agreement was executed in 1994. Since the master use and lease agreement has been revised, an update to the Competition Plan is required to be submitted in order for a new PFC to be authorized for collection or a grant to be issued under the AIP.

The initial Kahului Airport Airline Competition Plan was submitted to the Federal Aviation Administration (FAA) on December 1, 2000. After additional information was provided, FAA accepted the Competition Plan on June 15, 2001. The Competition Plan was updated in July 2002. FAA accepted the update on August 29, 2002. Additional issues were requested to be addressed in the next Plan update. In Feb. 2004 the Department of Transportation submitted an update to its Competition Plan for Kahului Airport. The FAA (Dennis Roberts, May 12, 2004) indicated that “your Update meets the requirements of section 155 of AIR-21.” The following are comments provided by Mr. Roberts and responses of the Kahului Airport:

- Complete development of formal dispute resolution procedures that will:
 - *Establish specific procedures for filing written complaints;*
 - The Kahului Airport has implemented a procedure to receive and resolve complaints. The process starts with a written complaint made the Airport Manager. See Section 3.3
 - *Develop a standardized form to track decisions on the outcome of each dispute;*
 - Complaints received are made on a form available that the District Office that can be tracked.
 - *Designate an airport official at the District level to mediate disputes;*
 - *The designated official receiving complaints is the District Manager.*
 - *Establish a specific time frame for resolution of disputes; and*
 - The goal for dispute resolution is to resolve the dispute within 30 days. See Section 3.3
 - *Establish a process to appeal initial determinations to either senior airports Division management or the State Department of Transportation;*
 - Disputes not resolved at the local airport level are elevated to the Deputy Director for Airports. See Section 3.3.
- *Continue its evaluation of changes to the policy requiring a new entrant to submit audited financial statements for the past three years in order to receive signatory status;*
 - The general policy of the airport is not to deny access to any new airline desiring entrance to Kahului Airport. See Section 2.2.
- *Develop a formal gate assignment policy;*
 - The State of Hawai'i, as a general rule, maintains a policy of “common use” because all terminal facilities are owned by the State. A special “exclusive gate” use policy is currently being evaluated for an airline that has more than 6 operations per day at the airport. See Section 5.
- *Renegotiate the lease provision requiring carrier concurrence for capital improvement projects after the bankruptcy proceedings of current major carriers such as Hawaiian and United are clarified;*

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- The lease between the airlines and the State of Hawai'i is applicable for all airports and all signatories of the lease. See Appendix D for the 2008 update.
 - *Take short-term capacity initiatives, including adding two widebody capable aircraft gates and hold rooms for potential addition of flights on shoulders of peak period;*
 - This initiative was not implemented within the period leading up to this plan update for budgetary and reduced passenger enplanements reasons. See Section 9.
 - *Implement Common-use Terminal Equipment (CUTE) at certain interisland gates to increase flexibility in aircraft parking and gate assignments; and*
 - *This initiative was implemented in 2008.*
 - *Remodel the hold rooms to increase operational flexibility and shared use.*
 - *This initiative was not implemented due to budget constraints. The proposed action is still contemplated to be implemented in the future.*

In October 2005 the Department of Transportation submitted an update to its competition plan. On November 15, 2005, the Hawai'i Department of Transportation was advised that "a covered airport that has submitted an approved Competition Plan and two approved Plan updates will no longer need to submit periodic written Plan updates unless certain special conditions arise:

1. An airport files a competitive access report as required by Section 424 of Vision 100, codified as 49 U.S.C. 47107 (s) stating it had denied access to an air carrier for gates or facilities within the last six months. Section 424 requires any medium or large airport that has denied a carrier's request or requests for access to file a report with the FAA describing the carrier's requests, providing an explanation as to why the requests could not be accommodated, and providing a time frame within which, if any, the airport will be able to accommodate the requests.
 - Not applicable to Kahului Airport.
2. An airport executed a new master lease and use agreement, or significantly amended a lease and use agreement, including an amendment due to use of PFC financing for gates.
 - In 2008, the State of Hawai'i executed an amendment to the lease between itself and the airlines serving. The lease is discussed in Section 3, and the lease document is appended to this document as Appendix D.

These issues are addressed in the current plan update. The format for this update to the Competition Plan will follow *Program Guidance Letter 04-08* from the Manager, Airports Financial Assistance Division, APP-500.

Section 2

Availability of Gates and Related Facilities

2.1 Carriers Serving the Airport

Kahului Airport is currently served by 7 major and national, 2 foreign flag, and 4 commuter passenger air carriers. Table 1 shows the airlines serving Kahului Airport (excluding cargo airlines, passenger tour operators, passenger charter airlines, and fixed base operators).

Table 1
Airlines Serving Kahului Airport

Airline	Classification
Air Canada	Foreign
Alaska Airlines	National
American	National
Continental	National
Delta	Major
go! Mokulele	Commuter
Hawaiian	National
Island Air	Commuter
Mokulele Express	Commuter
Pacific Wings	Commuter
United	Major
U.S. Airways	National
WestJet	Foreign

On a scheduled non-stop basis, service from Kahului Airport is provided to seven interisland markets (Honolulu, Kona, Hilo, Līhu'e, Moloka'i, Hāna, and Kamuela/Waimea)

and thirteen overseas markets (Dallas/Fort Worth, Denver, Las Vegas, Los Angeles, Oakland, Phoenix, Portland (OR), Sacramento, San Diego, San Francisco, San Jose, Seattle/Tacoma, and Vancouver). There are additional seasonal flights to six overseas markets (Anchorage, Calgary, Chicago O'Hare, Edmonton, Oakland, and Orange County). Table 2 shows markets served by airlines using Kahului Airport.

Table 2
Markets Served by Airlines Using Kahului Airport

Airline	Routes
Air Canada	Vancouver Seasonal: Calgary
Alaska Airlines	Oakland, Portland (OR), Sacramento, San Diego, San Jose (CA), Seattle/Tacoma Seasonal: Anchorage
American Airlines	Dallas/Fort Worth, Los Angeles
Continental Airlines	Seasonal: Orange County
Delta Airlines	Los Angeles
go! Mokulele operated by Mesa Airlines	Honolulu
Hawaiian Airlines	Hilo, Honolulu, Kona, Las Vegas, Līhu'e, Portland (OR), Seattle/Tacoma Seasonal: Oakland
Island Air	Honolulu, Kona, Līhu'e, Moloka'i
Mokulele Express	Kona, Moloka'i
Pacific Wings	Hāna, Kamuela/Waimea
United Airlines	Denver, Los Angeles, San Francisco Seasonal: Chicago-O'Hare, Kona
US Airways	Phoenix
WestJet	Vancouver Seasonal: Calgary, Edmonton

2.2 The Process for Accommodating New Service and Descriptions of the Process for Accommodating New or Expanded Services

Gate assignments are controlled by Airports Division's Maui District Airport Operations Control Unit Aircraft Parking and Gates Assignment Policy. See **Appendix A**. Since Airports Division owns, in fee, the terminal facilities at Kahului Airport, it retains control of the terminal gates. Gate usage is monitored to obtain the best utilization of available gates.

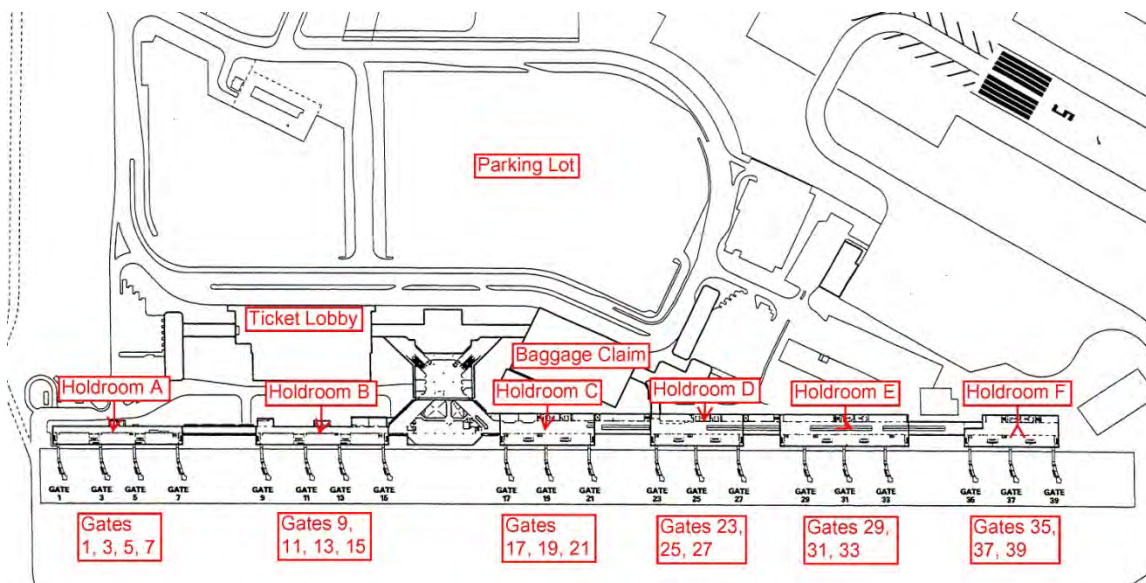
A new service or expansion request would be submitted to the Maui Airport District Office or the Airports Division office. First, the District Office would determine if the type of space required is available. If the request desired is a month to month tenancy, space is available and the use is appropriate for the space, the Maui District Office could then initiate the necessary paperwork to allow use of the space. A revocable permit could be initiated within a few weeks.

If space is not available, the Maui District Office, in conjunction with the Airports Division administrative office, would review and explore various alternatives such as but not limited to joint uses, uses at different times, reconfiguring spaces or making alternative spaces available.

2.3 Number of Gates Now Available at the Airport

There are 20 terminal gates with loading bridges at Kahului Airport. The existing design of Kahului Airport was intended primarily to accommodate inter-island travel which utilizes narrow bodied aircraft. With the increasing use of wide bodied aircraft and long narrow bodied aircraft for overseas flights, certain gates have space limitations. See **Figure 1**.

Figure 1
Terminal Gate Configuration
Kahului Airport



Source: Department of Transportation

Generally, two to four gates (holdrooms) are utilized for wide-bodied aircraft at Kahului Airport. Because of the space needed at adjacent gates to accommodate large aircraft, Gates 3, 25, 31, and 37 are seldom used.

All of the remaining gates are in use. However, the constraints pertaining to inter-island and overseas flights are noted as follows. Inter-island operations provide air service within the Hawaiian Islands. Interisland flight distances from Kahului Airport are short, varying from 25 miles to 202 miles. Narrow-bodied aircraft, primarily Boeing 717s and CRJ 200s are used. Overseas operations provide air service to the continental United States and Canada. Flight distances are long, 2,400 miles and greater. Generally, wide-bodied aircraft, such as Boeing 767 and Boeing 777-200s, and long ranged narrow-bodied aircraft, such as Boeing 737-800s and Boeing 757s are used. Aircraft used for these two types of air carrier operations affects gate assignments. As shown in Table 3, while aircraft used for inter-island operations can be accommodated at all gates, those used for overseas operations aircraft can't. These gate restrictions will affect the aircraft mix that can be accommodated.

Table 3
Possible Gate Assignments Based on Type of Aircraft

Gate	Type of Aircraft
Gate 1	Narrow Bodied such as B737
Gate 1A	Narrow and Wide Bodied such as B737, B757, B767
Gate 3	Narrow Bodied such as B737
Gate 5	Narrow and Wide Bodied such as B737, B757, B767
Gate 5A	Narrow Bodied such as B737
Gate 7	Narrow Bodied such as B737
Gate 7A	Narrow and Wide Bodied such as B737, B757, B767
Gate 7B	Wide Bodied such as B777
Gate 9	Narrow Bodied such as B737, CRJ 200
Gate 11	Narrow Bodied such as B737, CRJ 200
Gate 13	Narrow Bodied such as B737, CRJ 200
Gate 15	Narrow Bodied such as B737, CRJ 200, B757
Gate 17	Narrow and Wide Bodied such as B717, B737, B767
Gate 19	Narrow Bodied such as B717, B737
Gate 21	Narrow and Wide Bodied such as B717, B737, B767
Gate 23	Narrow Bodied such as B737
Gate 23A	Narrow and Wide Bodied such as B757, B767
Gate 25	Narrow Bodied such as B737, B757
Gate 27	Narrow and Wide Bodied such as B737, B757, B767
Gate 27A	Narrow Bodied such as B737
Gate 27-1	Wide Bodied such as B777

Gate 29	Wide Bodied such as B757, B767
Gate 29A	Narrow Bodied such as B737
Gate 29B	Narrow and Wide Bodied such as B737, B757, B767
Gate 31	Narrow Bodied such as B737
Gate 33	Wide Bodied such as B757, B767
Gate 33A	Narrow and Wide Bodied such as B737, B757, B767
Gate 33B	Narrow Bodied such as B737
Gate 33-1	Wide Bodied such as B777
Gate 35	Narrow Bodied such as B737
Gate 35A	Narrow Bodied such as B737
Gate 37	Narrow Bodied such as B737
Gate 39	Narrow and Wide Bodied such as B737, B757, B767
Gate 39A	Narrow and Wide Bodied such as B737, B757, B767
Gate 39-1	Wide Bodied such as B777

Currently, nine gates are designated for overseas operations (Gates 1, 5, 7, 23, 27, 29, 33, 35 and 39). Generally, a gate fully utilized for overseas operations will handle five operations per day, from 6:00 a.m. to 11:00 p.m.

Currently, seven gates are used for inter-island operations (Gates 9, 11, 13, 15, 17, 19, and 21). Only Gates 17 and 21 are configured to handle wide-bodied aircraft such as Boeing 767s. Gate 15 is configured to handle large narrow-bodied aircraft such as Boeing 757s. The remaining inter-island gates cannot accommodate aircraft larger than Boeing 717s and Boeing 737s. Currently, the maximum usage of an inter-island gate is 16 operations per day, from 6:00 a.m. to 10:00 p.m.

2.4 Number of Gates with Common Use Status

There are 20 loading bridges/gates connected to 6 holdrooms that are all non-leased facilities. While certain gates may be assigned for use by specific airlines, the Airports Division owns these facilities and assigns usage to carriers based on the overall needs of the airport.

2.5 Gate Utilization

For a typical week (February 13-19, 2011), there are 179 overseas and 304 inter-island departures per week for a total of 483 departures per week from the main terminal.

Currently, interisland departures are assigned to 7 gates (Gates 9, 11, 13, 15, 17, 19, and 21) and two holdrooms (Holdrooms B and C). This averages to 6.2 operations per gate per day. For the Competition Plan update in 2002, the number of inter-island departures totaled 485 per week or about 10 operations per gate per day. The 2011 numbers represent a 37.3% decline compared to 2002.

Overseas departures use 9 gates (Gates 1, 5, 7, 23, 27, 29, 33, 35 and 39) and four holdrooms (Holdrooms A, D, E, and F). These gates handle one to four operations per day, averaging 2.8 operations each day. Overseas departures during the 2002 Competition Plan update showed 110 overseas departures per week or 1.7 operations per gate per day. Overseas departures thus showed a 65% increase from the 2002 figures.

As described above, overseas operations can only be accommodated at a limited selection of gates. During the last Competition Plan update, there was an existing high occupancy of the overseas gates between the peak hours of 10:30 a.m. to 1:30 p.m. Much of the increase in overseas flights have been accommodated in the later afternoon and evening hours. Some flights also depart in the morning hours as well. Thus, the expansion in the number of overseas flights has been accommodated during non-peak hours.

The maximum capacity for each gate is dependent upon the airline schedule, type of operation and aircraft. Although overseas operations have increased, inter-island operations have declined. There is still some flexibility to accommodate new requests for access utilizing the existing overseas gates. Depending on the extent of further declines in inter-island traffic, a limited number of gates such as Gate 15, 17 or 21 may be considered for overseas operations with wide-bodied or large narrow-bodied aircraft.

There are 56 ticket counter positions, 16 are under lease and 40 are under revocable permits. However, usage of the counters under lease averaged over 50% daily, while those under revocable permits varied from 19% to 33% daily. New requests would be reviewed by Airports Division to explore alternatives such as joint uses, reconfiguring spaces or reallocating spaces to more fully utilize existing space.

2.6 Gate Recapture

Since Airports Division owns all gates in fee simple interest, gate usage is monitored to obtain the best utilization of gates and more efficient use of fixed assets. As noted above, this has been done by spreading scheduled flights as evenly as possible throughout the day.

As noted in the previous section, overseas departures have increased while inter-island departures have decreased. In the August 29, 2002 letter, the FAA asked whether the increase in overseas departures was due to expansion in service by existing carriers or new entrants providing additional service.

Since the Competition Plan in 2002, there have been several new airlines providing overseas service to Kahului Airport as well as service to several additional destinations by existing carriers.

Regarding new carriers which did not provide service to Kahului Airport in 2002, Alaska Airlines now provides service to Oakland, Portland, Sacramento, San Diego, San Jose, Seattle/Tacoma, and seasonally to Anchorage. Certain time slots at Gates 33, 35, and 39 have been utilized by Alaska Airlines. Continental Airlines provides service to Orange County on a seasonal basis and utilizes time slots at Gate 39. With Continental's merger with United, the market profile may change. US Airways provides service to Phoenix. Certain time slots at Gate 1 and Gate 35 have been utilized by US Airways. WestJet provides service to Vancouver and seasonally to Calgary and Edmonton. WestJet utilizes available time slots at Gates 9, 11, 13, and 15.

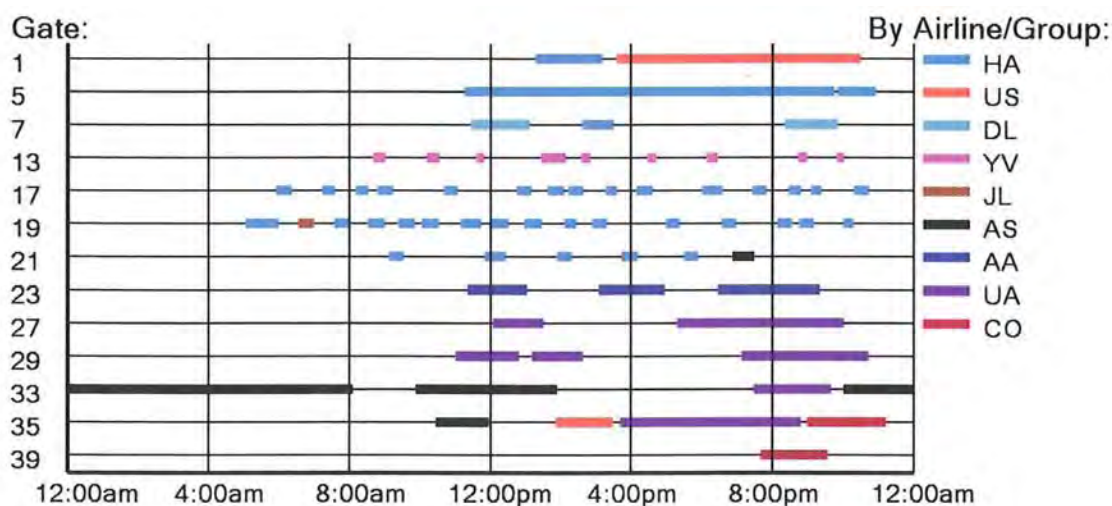
Of the existing carriers who provided service at Kahului Airport in 2002, United Airlines now flies to Denver and seasonally to Chicago. This is in addition to service to Los Angeles, San Francisco, and seasonally to Kona. Certain time slots at Gates 27, 29, and 33 have been utilized by United. In addition to its inter-island service, Hawaiian Airlines also provides service to additional destinations such as Las Vegas, Portland, Seattle, and seasonally to Oakland. For its overseas routes, Hawaiian has utilized time slots at Gates 1, 5 and 7.

Aloha Airlines closed its business in 2008. They traditionally used Gates 9, 11, 13, and 15. These gates are now used by commuter airlines, go! Mokulele, and Island Air as well as overseas carrier, WestJet, which flies primarily Boeing 737s.

2.7 Gate Allocation or Assignments Since the Last Competition Plan Update

As noted above, gates may be utilized by particular airlines but it should be emphasized no gate is limited to exclusive use and gates are not assigned on a permanent basis. Airports Division continually monitors gate usage to obtain an optimum state of usage. Emphasis is placed on moving increased congestion to less congested gates and time frames. Airlines are encouraged to work with the Airports Division in scheduling new flights to fill in available less congested time slots and gates. Table 4 illustrates gate activity by airline and time of day.

Table 4
Gate Activity Chart for Kahului Airport
August 20, 2010



Key:	HA	Hawaiian Airlines
	US	US Airways
	DL	Delta Airlines
	YV	Mesa Airlines
	JL	Japan Airlines
	AS	Alaska Airlines
	AA	American Airlines
	UA	United Airlines
	CO	Continental Airlines

Source: Department of Transportation

2.8 Remain Overnight (RON) position allocation and assignments since the last Competition Plan update

All RON aircraft parking positions are in common use. There are currently 20 RON aircraft parking positions, one available at each gate. At this time, there is no demand for aircraft hardstand parking. However, the general purpose apron adjacent to the Alien Species Action Plan Cargo Inspection Facility can allow for RON parking as well as temporary parking of disabled aircraft. The person on duty at the Maui District Ramp Control Office approves the RON positions. Approval is granted consistent with maximizing gate usage and providing maximum availability during business hours.

Section 3

Leasing and Subleasing Arrangements

3.1 Copies of Amended Lease and Use Agreements Executed During the Update Period

Airports Division owns, in fee, the terminal facilities at Kahului Airport. The airlines are charged for using terminal facilities, either through the First Amended Lease Extension Agreement for signatory airlines or through fees and charges applicable to non-signatory carriers as provided by Administrative Rules.

The Airports Division and the airline companies serving the airports system (signatory airlines) operated pursuant to a 1962 Airport-Airline Lease Agreement that was originally set to expire on July 31, 1992 (1962 lease agreement). See **Appendix B**. Under the 1962 lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the airports system and to occupy certain premises and facilities thereon. The 1962 lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter referred to as the Lease Extension Agreement) See **Appendix C**. The Lease Extension Agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the Airports Division and a majority of the signatory airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. See **Appendix D**.

Under the Lease Extension Agreement, the airports system rates and charges were calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of \$100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on appraisal and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units), and (5) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landed weight basis (per thousand pound units).

Effective January 1, 2008, under the First Amended Lease Extension Agreement, the airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. Signatory airlines presently providing service to Kahului Airport are shown in Table 5.

Table 5
Kahului Airport Signatory Carriers by Service Type

Name of Company	Service Type
Air Canada	Passenger
Alaska Airlines Inc.	Passenger
American Airlines Inc.	Passenger
Continental Airlines Inc.	Passenger
Delta Airlines Inc.	Passenger
Hawaiian Airlines	Passenger
Mesa Airlines (go! Mokulele)	Passenger
Mesa Airlines/Mokulele Flight Service (Mokulele Express)	Passenger, Commuter
Pacific Wings LLC	Commuter
United Airlines Inc.	Passenger
United Parcel Service Co.	Cargo
US Airways Inc.	Passenger
WestJet	Passenger

As can be seen in Table 5, ten of the signatory airline companies provide only passenger services. These include Air Canada, Alaska Airlines Inc., American Airlines Inc., Continental Airlines Inc., Delta Airlines Inc., Hawaiian Airlines, Inc., Mesa Airlines, United Airlines Inc., US Airways Inc., and WestJet. One carrier (Mokulele Express) provides a combination of passenger and commuter service. One (Pacific Wings LLC) provides only commuter service. One company (United Parcel Service Co.) only provides cargo services.

Charges applicable to non-signatory airlines are governed by Chapter 19-16.1, Hawai'i Administrative Rules. A revocable permit provides for use of the terminal facilities, but contains language that allows Airports Division to cancel the permit upon thirty days written notice. The Joint Use Premises Charge, Airport System Support Charge, Landing Fee, and a Charge for the Overseas and International Arrivals Area are established by Hawai'i Administrative Rules.

Non-signatory carriers providing service at Kahului Airport classified by service type is shown in Table 6.

Table 6
Kahului Airport Non-Signatory Carriers by Service Type

Company Name	Service Type
Aeko Kula, Inc. (Aloha Air Cargo)	Cargo
Aero Micronesia	Cargo
Airmed Hawai'i, LLC	Passenger - Charter (air ambulance)
Alika Aviation, Inc.	Passenger - Tour Operator (helicopter)
Aris Inc.	Passenger - Tour Operator (helicopter)
Big Island Air Inc.	Passenger - Tour Operator (sightseeing airline service)
Bradley Pacific Aviation Inc.	Fixed Base Operator (Ground Handling Services)
Corporate Air	Cargo
George's Aviation Services, Inc.	Passenger - Tour Operator
Gould, Steve	Passenger - Tour Operator
Hawai'i Helicopters, Inc.	Passenger - Tour Operator
Hawai'i Island Air (Island Air)	Passenger (commuter)
Helicopter Consultants of Maui	Passenger - Tour Operator
Kamaka Air Inc.	Cargo
Makani Kai Helicopters Ltd.	Cargo
Marjet Inc.	Passenger - Tour Operator (private air service)
Maui Island Air Inc.	Passenger - Tour Operator
Omni Air International Inc.	Passenger (charter)
Pacific Air Charters Inc.	Passenger – Charter

Pacific Helicopter Tours Inc.	Passenger - Tour Operator
Paragon Air Inc.	Passenger - Tour Operator
Sunshine Helicopters Inc.	Passenger - Tour Operator
Trans Executive Airlines	Passenger - Tour Operator, Cargo
Universal Enterprises, Inc.	Fixed Base Operator (Ground Handling Services)

As can be seen in Table 6, the predominant type of non-signatory carriers are passenger - tour operators which operate primarily for sightseeing purposes. There are 13 of these types of companies providing these services. There are 6 companies providing cargo services. There are two fixed base operators. There are 3 companies providing passenger charter services. There is only one non-signatory airline carrier providing general passenger service. This is Island Air which is a commuter airline providing inter-island service.

3.2 Description of Any Major Changes

- **Contractual Arrangements at the Airport, for example, Disposition of Any Individual Gate Lease Agreements that were Renewed or Changed;**

Since the last Competition Plan update, there has been a change in the number of signatory airlines. In 2002, there were 11 signatory airlines serving Kahului Airport (Air Canada, Aloha Airlines, American Airlines, American Trans-Air, Delta Airlines, Hawaiian Airlines, Trans-World Airlines, United Airlines, Federal Express, United Parcel Service, and Island Air). Five of these carriers (Aloha Airlines, American Trans-Air, Trans-World Airlines, Federal Express, Island Air) are no longer signatory carriers in 2011. However, seven airlines (Alaska Airlines, Continental Airlines, Mesa Airlines, Mokulele Express, Pacific Wings, US Airways, and WestJet) have been added to the list of signatory airlines for a total of 13 signatory airlines in 2011.

The First Amended Lease Extension Agreement, effective January 1, 2008, is a change which took place since the last Competition Plan update. The 2008 amendment is designed to recover costs of specific facilities from signatory airlines that directly use them. It is based on a cost center residual rate-setting methodology. Although signatory airlines bear the additional risk of agreeing to a residual rate-setting methodology, the intent of the 2008 amendment has been to charge signatory airlines based on relative usage. Thus, it is an inherently more equitable method of assessment from an individual airline point of view. However, airlines not party to the lease do pay 125% of those fees paid by signatory lessees.

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- **Policies and procedures for monitoring sublease fees and arrangements; and**

Subleasing is allowed only on a lease and is prohibited under a revocable permit. However, the Airports Division policy has been to convert every lease to a revocable permit at its first opportunity. Only one airline still leases space under the Airport Airline Agreement and currently does not sublease space.

Conditions in the existing lease require Airport Division's approval on any sublease. Also, it is Airports Division policy to deny, take all or portion of, or require a change to sublease rents which it considers excessive and/or speculative. The DOT's Sublease Evaluation Policy is still in effect. In summary, it states the following:

1. The sublease rental amount cannot be an amount that would provide a large excess sandwich profit to the sub-lessor.
2. The term of the sublease cannot exceed the term of the lease between the sub-lessor and the State.
3. The use of the sublease must conform to uses allowed under the lease.
4. If there are conflicting terms between the sublease and the lease, the lease shall prevail.

- **Availability of third party ground service providers or in airport policies governing third party ground service provider access to the airport.**

Carriers and Fixed Base Operators (FBO) are currently providing ground handling of aircraft at Kahului Airport. While the FBOs generally handle general aviation and corporate clients, they also provide fuel for airline aircraft. All companies providing ground handling services operate either through a lease or revocable permit. Airports Division provides site preparation (grading, access, and utilities) of lease lots while the ground handlers provide the facilities needed for their operation. Currently, all improved lease lots are leased or under permit.

At this juncture, there is insufficient demand for additional space for ground handling services. When demand requirements are such to support the feasibility for improved lots in the future, a site preparation project will be implemented.

3.3 Resolution of Any Disputes Between Carriers Relating to Access Since Previous Submittal.

Past recommendations by the FAA include formalizing a process to resolve disputes regarding denial of reasonable access, sublease fees or terms, or ground handling services.

Air carrier use and occupancy of facilities at Kahului Airport is governed by terms and conditions of Revocable Permits. Paragraph 33 of the Permit states that "Any and all disputes and/or questions arising under this Permit shall be referred to the Director of Transportation and his determination of such disputes or questions shall be final and binding on the parties." The Airports Division may receive written statements from the affected parties to consider in their determination. An assessment is made considering

all the facts and circumstances presented by the parties by the District Manager at Kahului Airport. Dispute resolution can usually be ruled on within 30 to 180 days.

If the dispute in question cannot be resolved at the local level, appeals can be made to the Deputy Director, Department of Transportation.

Section 4

Patterns of Air Service – Identification of Changes Relating to New Markets Served, New Markets Served by Low Fare Carriers, or the Number of Markets Served by One Carrier.

On a scheduled non-stop basis, service at Kahului Airport in February 2011 is provided to five inter-island markets (Honolulu, Kona, Hilo, Līhu'e and Moloka'i). (It is noted that the 2011 data also included commuter airline service but inter-island service to Hāna and Kamuela/Waimea was not included in the data during this time frame.) During the 2000 Competition Plan submittal, it was noted that four inter-island markets were served (Honolulu, Kona, Hilo, and Līhu'e).

In February 2011, Kahului Airport provided service to 17 domestic and international overseas markets. Fourteen domestic overseas markets were served (Anchorage, Chicago, Dallas/Fort Worth, Denver, Las Vegas, Los Angeles, Oakland, Phoenix, Portland, Sacramento, San Diego, San Francisco, San Jose, and Seattle/Tacoma). (Orange County is also served on a seasonal basis but was not included in the February data.) Three international overseas markets are served (Calgary, Edmonton, and Vancouver).

This compares to the 2000 Competition Plan submittal where seven domestic and international overseas markets were served. Five domestic markets served included Los Angeles, Oakland, Phoenix (destination only), San Francisco, and St. Louis. International markets served at the time were Vancouver and Midway (origin only). In terms of the number of overseas destinations, there has been a 142% increase comparing Year 2000 and Year 2011 figures. This is especially evident in the numerical increase of domestic overseas destinations served (from 5 to 14).

It is noted that 2011 data did include initial destinations on flights where there are two destinations. However, the second destination of the same flight was not included as a non-stop destination.

In February 2011, average numbers of flights were 43 inter-island flights and 24 overseas (domestic and international) flights per day. This compares to the year 2000 when there were an average of 85 inter-island and 16 overseas flights per day.

Table 7 shows the Departures per Week and Carriers for Inter-Island Markets.

Table 7
Departures Per Week and Carriers for Inter-Island Markets

Inter-Island Destination	Market	February 2011 Departures Per Week	Carriers
Hilo		7	Hawaiian Airlines
Honolulu		241	go! Mokulele Airlines, Hawaiian Airlines, Island Air
Kona		21	Hawaiian Airlines, Island Air
Līhu'e		27	Hawaiian Airlines, Island Air
Moloka'i		7	Island Air
Total		303	

Table 8 shows the Departures Per Week and Carriers for Domestic Overseas Non-Stop Markets.

Table 8
Departures Per Week and Carriers for Domestic Overseas Non-Stop Markets

Domestic Market Destination	February 2011 Departures/Week	Carriers
Anchorage	3	Alaska Airlines
Chicago	1	United Airlines
Dallas/Fort Worth	7	American Airlines
Denver	1	United Airlines
Las Vegas	1	Hawaiian Airlines
Los Angeles	43	American Airlines, Delta Airlines, Continental Airlines, United Airlines

Oakland	4	Alaska Airlines
Phoenix	7	US Airways
Portland	14	Alaska Airlines, Hawaiian Airlines
Sacramento	7	Alaska Airlines
San Diego	7	Alaska Airlines
San Francisco	15	United Airlines
San Jose	3	Alaska Airlines
Seattle/Tacoma	28	Alaska Airlines, Hawaiian Airlines
Total	141	

Table 9 shows the Departures Per Week and Carriers for International Overseas Non-Stop Markets.

Table 9
Departures Per Week and Carriers for International
Overseas Non-Stop Markets

International Market Destination	February 2011 Departures/Week	Carriers
Calgary	8	WestJet, Air Canada
Edmonton	3	WestJet
Vancouver	19	WestJet, Air Canada
Total	30	

The only low fare carrier in 2011 at Kahului Airport is WestJet which serves the Calgary, Edmonton and Vancouver markets. During the 2000 Competition Plan, American Trans Air (ATA) was the only low fare carrier which served Los Angeles, San Francisco, Midway (origin) and Phoenix (destination). ATA ceased operations in 2008.

Along with the increase in the number of markets served, there has also been an increase in the number of markets served by one carrier as the individual carriers seek to establish more direct flights to new and in some cases, smaller markets. Currently, there are 11 cities served by only one carrier for flights from Kahului Airport: Anchorage (Alaska Airlines), Chicago (United Airlines), Dallas/Fort Worth (American Airlines), Denver (United Airlines), Las Vegas (Hawaiian Airlines), Oakland (Alaska Airlines), Phoenix (US Airways), Sacramento (Alaska Airlines), San Diego (Alaska Airlines), San Francisco (United Airlines) and San Jose (Alaska Airlines). This compares to four markets (Oakland, St. Louis, Midway, and Phoenix) served by one carrier during the 2000 Competition Plan submittal.

Larger markets served by a single carrier include Chicago (United Airlines), Dallas/Fort Worth (American Airlines), Denver (United Airlines), Las Vegas (Hawaiian Airlines), Phoenix (US Airways), San Diego (Alaska Airlines), San Francisco (United Airlines), and San Jose (Alaska Airlines). Smaller markets which have been added include Anchorage (Alaska Airlines) and Sacramento (Alaska Airlines) which can be considered smaller communities with a population under 500,000. Also, on the inter-island routes, Hilo, Kona, Līhu'e and Moloka'i all fall under the 500,000 population threshold.

Section 5

Gate Assignment Policy – Identification of Major Changes in Assignment Policies, Including Changes in RON Position Assignment Policies.

During the previous Competition Plan Updates, the FAA encouraged the Airports Division to develop policies and procedures for informing prospective new entrants of gate availability.

It is noted that the Competition Plan and FAA responses are on the DOT website. Any subsequent updates will also be placed on the DOT website to inform prospective applicants of gate availability. If there is any interest from prospective new entrants or existing carriers wishing to schedule new flights or change flight times, the Airports Division can be contacted which will then work to coordinate gate usage and, if necessary, reassign gates and time slots. Because Airports Division owns, in fee, the terminal facilities at Kahului Airport, it retains total control of the terminal gates at all times. Gate usage is monitored by Airports Division to obtain the best utilization of available gates.

The Aircraft Parking and Gate Assignment Policy dated July 1, 1998 is still in effect and has worked well. All gates are assigned but not leased. Gate assignment is made in a manner which will permit the Airports Division the maximum flexibility in obtaining the highest and best utilization of available gate or aircraft storage or parking positions from both an operational and economic standpoint. In assigning gates, Airports Division considers the following factors:

1. Carrier signatory status.
2. Frequency of a carrier's operation or activity during the period in which assignment is sought.
3. Aircraft size and passenger load.
4. Carrier gate preference.
5. Operational sanctions.
6. Requested side-by-side gate positioning.
7. Gate restrictions/limitations.

No formal announcements are made when gates become available. Communication is on a case by case basis either when requested by a new entrant wishing to serve the Airport or by existing airlines. All RON aircraft parking positions are common use and assigned by the person on duty in the Kahului Airport's Ramp Control Office. No formal announcements are made regarding availability of RON aircraft parking positions.

Section 6

Gate Use Requirements – Identification of Major Changes in Requirements for Signatory Status; Lease Requirements; Common Use Gate Priorities; Gate Use Monitoring; and Calculation of Rental Rates and Common Use Fees as well as Disparities in Fees, if not Addressed under Gate Availability or Leasing and Subleasing Headings.

Past concerns were raised by the FAA relating to changes in signatory status requirements. The only requirements to become a signatory airline at the Airports System are (1) the execution of the Airport-Airline Lease Agreement, as amended and extended from time to time and (2) the provision of the appropriate security deposits and insurances. Past requirements included three years of either audited financial statements or federal tax returns. This is currently not required.

There are 13 airlines providing service to Kahului Airport which are signatory. This compares to 11 airlines which were signatory at the 2002 Competition Plan update. In 2011, it is notable that 12 of the 13 signatory air carriers provide passenger service. The remaining is a cargo carrier. This contrasts with 24 non-signatory carriers which provide service at Kahului Airport, of which, only one provides inter-island passenger commuter service. The remaining non-signatory airlines include cargo airlines, passenger - tour operator, passenger – charter, and fixed base operators.

An important factor which enters into consideration for signatory airlines has been a shift in emphasis to charge the signatory carriers for those services which they directly use. Although the signatory airlines are still subject to a residual rate setting methodology, it is based on a fee for service philosophy which is ultimately a more equitable method of determining charges to the airlines.

While signatory status may provide a greater overall financial risk to the signatory airlines, the shift in emphasis to fee for service has been an important factor in encouraging air carriers to become signatory.

It is noted that rates for non-signatory carriers are listed by specific amounts in the Airports Division Administrative Rules. Due to the length of time that is required to amend the Rules, it was not uncommon in the past for the amounts paid to be less than the costs incurred. A proposed amendment to the Rules would set the rate at 125% of the base rates for signatory carriers. This is to ensure that the signatory airlines, which have agreed to make up any shortfall in airport operating revenue, do not pay higher fees than non-signatory carriers who have not made such a commitment. This should further encourage those airlines who have a significant stake in Kahului Airport operations to either become signatory or retain signatory status.

Lease requirements, common use gate priorities, gate use monitoring, calculation of rental rates and common use fees as well as disparities in fees have been addressed in previous sections.

Section 7

Financial Constraints – Identification of any Additional Financial Constraints Since the Previous Submittal or the Relaxation of any Financial Constraints.

Airports Division operates a system of 15 airports, including Kahului Airport, within the State of Hawai'i. This system is required, by State law, to be operated on a self-sustaining basis.

Airports Division revenues in FY 2009 totaled \$289 million, consisting of:

- Airline revenues (\$119 million or 41%);
- Concession revenues (\$114 million or 39%);
- Other Aeronautical Revenues and Non-signatory airline revenues (\$16 million or 6%);
- Miscellaneous operating and other revenues (\$16 million or 6%);
- Interest Income (\$16 million or 6%); and
- Federal grants (\$7 million, or 2%) (DOT, 2010).

Airline revenues are from landing fees, passenger terminal and non-terminal revenue, and aviation fuel taxes. A significant portion of the charges are governed by the First Amended Lease Extension Agreement for the signatory airlines which took effect on January 1, 2008. This reflects a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. The landing fee rate and the Honolulu terminal rental rate are calculated under cost center residual methodologies. The terminal rental rates for all neighbor island airports in the Airports System are discounted as provided in the First Amended Lease Extension Agreement. To the extent that landing fee revenues and terminal rental revenues, together with other revenues, are inadequate to meet all obligations, an Airports System Support Charge (ASSC) would be implemented to meet the rate covenant, thus making the overall rates and charges methodology a residual Airports System that incorporates costs and revenues for the neighbor island airports. The Airports Division does not share remaining revenue with the signatory airlines. Table 10 shows the rates and charges effective January 1, 2011.

Table 10
FY 2010 Signatory Rates and Charges
(Effective January 1, 2011)

	Effective January 1, 2011
Joint Use Baggage System Rates were revised. All other rates effective July 1, 2010 remain unchanged	
LANDING FEE	
(\$ per 1,000 pound units of landed weight)	
Overseas	\$3.89
Interisland	\$1.52
Airports System Support Charge (ASSC)	\$0.00
(\$ per 1,000 pound units of landed weight)	
TERMINAL RENTAL RATES	
HONOLULU INTERNATIONAL	
Adjusted Terminal Rental Rate (\$ per sq.ft.)	<u>\$49.53</u>
Joint Use Holdroom Rate (\$ per epax)	\$1.43
Joint Use Baggage System Rate (\$ per bag)	\$3.40
Common Use Ticketing Position (\$ per epax)	-
International Arrival Area Rate (\$ per dpax)	\$8.47
HONOLULU COMMUTER TERMINAL	
Joint Use Holdroom Rate (\$ per epax)	\$1.13
Joint Use Baggage System Rate (\$ per dpax)	\$0.87
KAHULUI	
Adjusted Terminal Rental Rate (\$ per sq.ft.)	<u>\$75.48</u>
Joint Use Holdroom Rate - Overseas (\$ per epax)	\$3.02
Joint Use Holdroom Rate - Interisland (\$ per epax)	\$1.18
Joint Use Baggage System Rate - Overseas (\$ per bag)	\$1.32
Joint Use Baggage System Rate - Interisland (\$ per bag)	\$1.32
Common Use Ticketing Position - Overseas (\$ per epax)	-
Common Use Ticketing Position - Interisland (\$ per epax)	-
KONA INTERNATIONAL AT KEAHOLE	
Adjusted Terminal Rental Rate (\$ per sq.ft.)	<u>\$28.89</u>
Joint Use Holdroom Rate - Overseas (\$ per epax)	\$1.13
Joint Use Holdroom Rate - Interisland (\$ per epax)	\$0.44
Joint Use Baggage System Rate - Overseas (\$ per bag)	\$1.09
Joint Use Baggage System Rate - Interisland (\$ per bag)	\$1.09
Common Use Ticketing Position - Overseas (\$ per epax)	-
Common Use Ticketing Position - Interisland (\$ per epax)	-
International Arrival Area Rate (\$ per dpax)	\$8.47
LIHUE	
Adjusted Terminal Rental Rate (\$ per sq.ft.)	<u>\$52.82</u>
Joint Use Holdroom Rate - Overseas (\$ per epax)	\$1.54
Joint Use Holdroom Rate - Interisland (\$ per epax)	\$0.60
Joint Use Baggage System Rate - Overseas (\$ per bag)	\$1.73
Joint Use Baggage System Rate - Interisland (\$ per bag)	\$1.73
Common Use Ticketing Position - Overseas (\$ per epax)	-
Common Use Ticketing Position - Interisland (\$ per epax)	-
HILO INTERNATIONAL	
Adjusted Terminal Rental Rate (\$ per sq.ft.)	<u>\$45.70</u>
Joint Use Holdroom Rate - Overseas (\$ per epax)	\$8.72
Joint Use Holdroom Rate - Interisland (\$ per epax)	\$3.40
Joint Use Baggage System Rate - Overseas (\$ per bag)	\$1.77
Joint Use Baggage System Rate - Interisland (\$ per bag)	\$1.77
Common Use Ticketing Position - Overseas (\$ per epax)	-
Common Use Ticketing Position - Interisland (\$ per epax)	-

Source: Department of Transportation

Concession fees are the rentals and fees paid to Airports Division by private parties operating concessions for the Airports System. Separate contracts are maintained for food and beverage, barber, foreign exchange, business center, parking services, ground transportation, rental cars, newsstands, shower and locker facilities, operations of duty free, florist, gift, sundries, camera and jewelry shops, telephone call board, and various vending services such as ATMs and luggage carts. Concession fees are a significant source of revenue for the Airports system. It is noted that most of the concession revenue is generated at Honolulu International Airport.

Other aeronautical revenues consist of rentals, primarily to the airlines, for the exclusive use of space in the terminal building and for areas at an airport. Other miscellaneous fees derive from rental of land, terminal building space and other buildings and space to entities other than air carriers. Interest income is derived primarily from the investment of airports funds and the proceeds of bonds.

Airports Division generally has been able to generate a positive cash flow and operational income before depreciation. In the 2005-6 time frame when economic conditions were more robust, passenger traffic was stable along with operational revenue. However, operational expenses increased in order to maintain airport services and facilities. The steady income stream from passenger facility charges, interest income, funding from federal discretionary grants along with the decrease in airport system revenue bond interest supported the increase in operational expenses. (Auditor, 2006).

However, there has been reduced passenger traffic due to the economic downturn in the 2008-2009 time frame. This has required Airports Division to implement increases in signatory airline fees in order to sustain decreases in concession revenues, interest income, and federal operating grants. Passenger facility charges have also increased from \$3.00 to \$4.50 per passenger on overseas flights, effective October 28, 2008. In addition, Airports Division was instrumental in implementing operational cost saving measures relating mainly to personnel, security, and utility cost. Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. (Auditor, 2010).

The low point in passenger traffic appears to have been in 2009. In 2010, passenger traffic has posted a slight increase. Table 11 shows the total number of enplaned and deplaned passengers by selected years at Kahului Airport.

Since the last Competition Plan update, one significant change has been the use of passenger facility charges (PFC). PFCs were authorized under the Aviation Safeguard Capacity Expansion Act of 1990, which was recodified as Title 49 United States Code Section 40117. Subject to FAA approval, PFCs have been assessed on enplaning overseas domestic and international passengers at Kahului Airport as well as Honolulu International Airport, Kona International Airport, and Līhu'e Airport. No PFCs have been implemented on inter-island travel. Airports use these fees to fund FAA-approved projects that enhance safety, security or capacity; reduce noise, or increase air carrier competition.

Table 11
Total Number of Enplaned and Deplaned
Passengers Between 2006-2010 at Kahului Airport

Year	Total Number of Enplaned and Deplaned Passengers	% Increase/Decrease From Previous Year
2006	5,690,876	-
2007	6,500,384	+14.2%
2008	5,463,787	-15.9%
2009	5,192,693	-5.0%
2010	5,346,694	+3.0%

PFCs have been assessed starting on October 2004 at a level of \$3.00 per passenger. Currently, PFCs are authorized to be collected at \$4.50 per passenger. PFCs have generated significant sources of capital improvement revenue. In the latest FAA authorization which took effect on January 1, 2010, a total of \$145,081,000 was approved to be collected up to February 1, 2014.

Major projects which have been funded or are projected to be funded by PFC revenue at the Kahului Airport are noted as follows:

Runway Safety Improvements - \$7,500,000

This involves the implementation of safety improvements to Runways 2-20 and 5-23. Site grading and construction of a new drainage system including installation of underground box culverts are included.

Taxiway A Pavement Improvements - \$33,000,000

This project involves the reconstruction of Taxiway A which is the parallel taxiway to Runway 2-20, the primary commercial service runway at Kahului Airport.

Air Cargo Apron Improvements (Phase II) - \$5,410,000

This is an extension of the aircraft parking apron in front of the new cargo building. The apron allows the airport to isolate arriving aircraft from the terminal building in the case of possible bomb or biological threats.

Section 8

Airport Controls Over Airside and Groundside Capacity – Identification of any Major Changes in Rates and Charges Policy and Description of Whether and Why the Majority-in-Interest (MII) Clause has been Invoked in the Period Covered by the Update.

The First Amended Lease Extension Agreement airport-airline is based on a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. This has been discussed in Section 3 of this report.

The Lease Extension Agreement executed in June 1994 provides a concurrence methodology for capital improvement projects in excess of the concurred capital improvement program. This provision is still in effect under the First Amended Lease Extension Agreement. New projects go through a concurrence process in which fifty percent of the signatory airlines representing at least fifty percent of the total landing fees and Airport System Support Charges can delay the project by withholding concurrence. However, the provision allows Airports Division to proceed with a non-concurred project in the State Fiscal Year following the year concurrence was withheld. In essence, the provision allows the signatory airlines, by withholding concurrence, to delay a capital improvement project up to one year.

In the acceptance letter in the last Competition Plan update, FAA indicated that the concurrence methodology "appears to be a form of a majority-in interest (MII) agreement." FAA's Airport Business Practices and Their Impact on Airline Competition (October 1999) recommends that airports ensure that MII agreements do not prevent or delay projects that could be beneficial to new entrants or other competitors. Furthermore, FAA indicated that Airports Division may want to carefully consider revising the agreement language to gain greater control over capital development on the airport when the opportunity presents. (Letter from Catherine M. Lang, 2001).

Since the last Competition Plan update, however, there has not been an instance where capital improvements have been delayed because of airline non-concurrence. Moreover, since the last Competition Plan update, there have been a number of new air carriers providing service to Kahului Airport. These include Alaska Airlines, Continental Airlines, Mesa Airlines, Mokulele Express, US Airways and WestJet. All new entrants have opted to become signatory airlines. This has diluted the power of any one airline to exercise its rights to withhold concurrence. Instead, discussions and/or disagreements between/among the airlines as well as the Airports Division tend to be informally mediated.

It is noted that the First Amended Lease Extension Agreement provides that the Airports Division must provide quarterly reports to the signatory airlines regarding the status of design and construction, the schedule and the actual or estimated cost of

capital improvements. At the request of a majority of the signatory airlines, Airports Division will meet with the signatory airlines to discuss any aspect of the capital improvement program.

Airports Division is also required to conduct at least one meeting each State fiscal year with the signatory airlines to discuss actual and forecast financial results and the capital improvement program.

It should be emphasized that should the non-concurrence provision become an obstruction or delay needed capital improvements in the future, Airports Division may seek alternatives to the provision.

Section 9

Airport Intentions to Build or Acquire Gates to be Used as Common Facilities

Currently, there are no approved plans for constructing or acquiring new gates at Kahului Airport in the short term (next 12-18 months). At the last Competition Plan update in 2005, overseas flights utilized gates around the 10:30 am to 1:30 pm time slot. Since then, more overseas flights have been added and gates have become more fully utilized through the various time slots of the day. Inter-island flights, however, have declined in number and frequency. Since Kahului Airport is currently designed to primarily utilize narrow bodied aircraft for inter-island use, this limits the number of gates which may accommodate wide bodied or long narrow aircraft utilized for overseas flights.

Airports Division is in the process of updating the Kahului Airport Master Plan which should take into consideration projected needs to the year 2035. Part of the update will focus on proposed terminal improvements. For the near term, Airports Division will continue to seek to optimize efficiency of gate usage by working to fill in less congested time slots and gates. In the longer term, space for two additional air carrier aircraft parking positions on the apron to the north is being considered as part of the Kahului Airport master planning process.

Section 10

Airfare Levels as Compared to Other Medium Hub Airports

The Office of the Assistant Secretary for Aviation and International Affairs publishes air fare data information for Airport competition Plans. The information is available at <http://ostpxweb.dot.gov/aviation>. The data does not include short haul markets (750 miles or less). Table 12 shows total passengers, average fare, average non-stop distance and yield by airline at Kahului Airport for 2008 computed from the Airport Competition Plan, Table 12, Carrier Detail by Airport – 2008. The data shows that the airlines providing overseas service at Kahului Airport are within a fairly narrow yield range of \$0.0786 to \$0.1158. The cumulative yield for all the overseas carriers serving Kahului Airport is \$0.1019.

Table 12
Kahului Airport Air Carrier Fare/Yield – 2008

Air Carrier	Total Passengers	Average Fare	Average Non-Stop Distance	Yield*
Interline Traffic (99)	2,910	\$375.80	1,151	\$0.3265
American Airlines (AA)	48,540	\$320.52	4,079	\$0.0786
Aloha Airlines (AQ)	27,190	\$284.11	2,453	\$0.1158
Alaska Airlines (AS)	31,440	\$237.92	2,640	\$0.0901
Delta Airlines (DL)	38,480	\$282.40	3,088	\$0.0915
Hawaiian Airlines (HA)	395,400	\$289.08	2,571	\$0.1124
Northwest Airlines (NW)	28,820	\$257.94	2,640	\$0.0977
American Trans Air (TZ)	9,700	\$210.44	2,845	\$0.0740
United Airlines (UA)	312,170	\$314.87	3,053	\$0.1031
US Airways (US)	59,420	\$375.54	3,577	\$0.1050
Kahului Airport (TOT)	954,070	\$300.93	2,953	\$0.1019

* Yield = Average Fare divided by Average Non-Stop Distance

Table 13 shows the total passengers, average fare, average non-stop distance and yield for all U.S. medium hub airports in 2008. The yield of \$0.1019 at Kahului Airport is extremely favorable compared to medium hub airports in the U.S. By this measure, there was only one airport with a lower more favorable yield (Sacramento International Airport). The remainder or 33 airports cost more per mile for long haul flights (750 miles or more) than Kahului Airport.

It is noted that average trip length should be taken into account when making yield comparisons, since shorter trips justify a higher per mile yield. Among medium hub airports, Kahului Airport had the longest average non-stop flight distance of 2,953 miles. This is primarily due to the fact that short haul interisland data were not included in the FAA data and the longer distances for overseas flights. The airport with the next longest flight distance is Anchorage International Airport with an average non-stop flight distance of 2,449 miles. It is noted that the yield at Anchorage International Airport (\$0.1119) is very similar to Kahului Airport (\$0.1019).

Table 13
U.S. Medium Hub Airports Air Carrier Fare/Yield – 2008

Medium Hub Airport	Total Passengers	Average Fare	Average Non-Stop Distance	Yield*
Albuquerque International Airport (ABQ)	4,493,080	\$164.45	1,127	\$0.1459
Anchorage International Airport (ANC)	2,616,840	\$274.13	2,449	\$0.1119
Austin – Bergstrom International Airport (AUS)	6,179,110	\$172.49	1,112	\$0.1551
Bradley International Airport (BDL) (Windsor Locks)	4,403,810	\$195.98	1,352	\$0.1450
Nashville International Airport (BNA)	6,111,370	\$162.28	927	\$0.1751
Buffalo Niagara International Airport (BUF)	3,535,590	\$151.67	1,139	\$0.1332
Burbank Bob Hope Airport (BUR)	4,823,820	\$134.87	1,141	\$0.1182
Cleveland Hopkins International Airport (CLE)	3,789,520	\$193.86	1,121	\$0.1729

Port Columbus International Airport (CMH)	4,012,970	\$171.79	1,085	\$0.1583
Dallas Love Field (DAL)	4,724,170	\$122.92	817	\$0.1504
Hobby Airport (HOU)	3,816,150	\$154.55	1,026	\$0.1506
Indianapolis International Airport (IND)	3,691,340	\$163.15	1,063	\$0.1535
Jacksonville International Airport (JAX)	2,198,680	\$166.06	1,192	\$0.1393
Kansas City International Airport (MCI)	3,548,490	\$161.37	1,004	\$0.1607
Chicago Midway Airport (MDW)	4,492,290	\$150.36	1,116	\$0.1347
Memphis Airport (MEM)	1,019,140	\$239.01	877	\$0.2725
General Mitchell International Airport (MKE) (Milwaukee)	1,536,530	\$183.12	1,115	\$0.1642
New Orleans International Airport (MSY)	1,571,750	\$187.35	1,244	\$0.1506
Oakland International Airport (OAK)	4,366,750	\$122.52	1,151	\$0.1064
Eppley Airfield (OMA) (Omaha)	1,165,960	\$157.15	1,053	\$0.1492
Ontario International Airport (ONT)	2,412,080	\$133.45	1,187	\$0.1124
Palm Beach International Airport (PBI)	992,150	\$163.62	1,362	\$0.1201
Portland International Airport (PDX)	3,463,650	\$148.74	1,174	\$0.1267
T.F. Green Airport (PVD) (Providence)	479,520	\$161.38	1,552	\$0.1040
Raleigh-Durham International Airport (RDU)	1,065,130	\$186.91	1,557	\$0.1200
Reno-Tahoe International Airport (RNO)	787,790	\$128.93	779	\$0.1655

Southwest Florida International Airport (RSW) (Fort Myers)	402,690	\$185.33	1,516	\$0.1222
San Antonio International Airport (SAT)	726,380	\$192.11	1,194	\$0.1609
Louisville International Airport (SDF)	358,450	\$176.81	1,381	\$0.1280
San Jose International Airport ((SJC)	928,800	\$130.95	1,096	\$0.1195
Luis Munoz Marin International Airport (SJU) (San Juan)	307,200	\$187.96	1,617	\$0.1162
Sacramento International Airport (SMF)	683,990	\$134.35	1,471	\$0.0913
John Wayne Airport (SNA) (Orange County)	193,090	\$211.53	1,489	\$0.1421
Tuscon International Airport (TUS)	10,550	\$387.47	1,473	\$0.2630

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APPENDIX

- A. Maui District Airport Operations Control Unit Aircraft Parking and Gates Assignment Policy, 1962**
- B. Airport-Airline Lease Agreement, July 31, 1992**
- C. Lease Extension Agreement, 1994**
- D. First Amended Lease Extension Agreement, January 1, 2008**

Appendix A

Aircraft Parking and Gate Assignment Policy

AIRCRAFT PARKING AND GATE ASSIGNMENT POLICY

Aircraft parking and gate assignments in all nonexclusive, State controlled areas at Kahului Airport are administered by the State of Hawaii, Department of Transportation, Airports Division through the Maui District Airport Operations Control Unit.

Assignment will be made in a manner which will permit the airport authority maximum flexibility in obtaining the highest and best utilization of available gate or aircraft storage or parking positions from both an operational and economic standpoint.

Preference on gate/parking are based on factors which will identify and establish priority distinction between competing operators which will enable parking assignments to be made in the best interest of the airport. Although a preferred priority ranking is established, conditions occurring at the time of gate assignment may require readjustment of the listed factors to enable more effective utilization of available parking/gate positions.

I. MAIN TERMINAL AREAS ASSIGNMENT FACTORS IN PREFERRED ORDER OF PRIORITY AS FOLLOWS:

A. Primary

Priority for assignment will include but no limited to the following factors:

1. Carrier signatory status.
2. Frequency of a carrier's operation or activity during the period in which assignment is sought.
3. Aircraft size and passenger load.
4. Carrier gate preference.
5. Operational sanctions.

B. Secondary

1. Requested side-by-side gate positioning.
2. Gate restrictions/limitations.

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3. Scheduled ground time.

- a. Carriers with ground times in excess of two (2) hours are subject to re-spot to provide use of the gate for passenger movement.
- b. Passenger movement shall have preference over storage or layover.

II. OTHER OPERATIONAL CRITERIA

- A. CARRIERS WILL IMMEDIATELY ADVISE AIRPORT OPERATIONS CONTROL IN THE EVENT OF A DELAY WHICH EXTENDS ANY SCHEDULED DEPARTURE TIMES. Notification may be made directly by calling Airport Operations Control at 872-3880 (PAX 880) or by calling Security Dispatch at 872-3875 (PAX 875). Airport Operation Control shall endeavor to accommodate short-term gate delays that will not affect follow-on use as determined by priority factors. FAILURE TO NOTIFY AIRPORT OPERATIONS OF DELAYS WILL RESULT IN OPERATIONAL SANCTIONS AGAINST THE OFFENDING CARRIER.
 1. IN THE EVENT A DEPARTURE DELAY OCCURS WHICH WILL AFFECT FOLLOW ON ACTIVITY, THE CARRIER EXPERIENCING OR CAUSING THE DELAY WILL BE RELOCATED TO ALLOW SCHEDULED OPERATIONAL USE OF THE GATE.
 2. In the event that a carrier is temporarily delayed due to a short-term problem, the carrier may be subject to make the space available for a planned follow-on arrival. DELAYED DEPARTURES SHALL NOT MAINTAIN POSSESSION OF GATE POSITIONS AT THE EXPENSE OF FOLLOW-ON USERS.
- B. CARRIERS SHOULD NOT ANTICIPATE ACCESS/ENTRY INTO A GATE POSITION IN ADVANCE OF THEIR SCHEDULED ARRIVAL TIME. Advance entry into parking positions will only be made if such access does not interfere with normally scheduled activity. In the event early access is not possible, the early arriving carrier will be required to await entry into the assigned gate at the designated time or accept alternate parking arrangements. Alternate arrangements will be made only if such parking will not interfere with later scheduled use of

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the alternate gate position.

- C. Gate assignment exemption may be granted to accommodate protocol flights, or special events, but shall be subject to prior approval by airport management. Placement will be effected to minimize to the greatest degree possible disruption of scheduling.
- D. CARRIERS WILL IMMEDIATELY ADVISE AIRPORT OPERATIONS CONTROL OF KNOWN OR ANTICIPATED DELAYS AND INCLUDE ACCURATE STATUS UPDATES WHICH WILL ENABLE SCHEDULE PLANNING. Effort will be made to accommodate carriers affected by delays, however, only in a manner which will minimize or avoid disruption to another carriers operations.
- E. Aircraft major maintenance and/or repair activities are not permitted in gate areas. Only turnaround servicing and minor maintenance which is approved by the duty AOC will be permitted. All other aircraft activity will require re-spotting of aircraft.

Note: Airport run-up must be coordinated with duty AOC.

III. OPERATING SANCTIONS

- A. Operators which repeatedly fail to adhere to scheduled gate use times or repeatedly affect or interfere with the planned and scheduled use of gates or parking positions by other operators, will be subject to written notification by airport management regarding the problem condition. Three (3) or more notifications occurring within any 60 day period shall result in the carrier being temporarily removed from the use of their desired gate parking positions for a period of 30 days. In the event that continuing difficulties are experienced, the offending operator shall be subject to permanent operational considerations.
- B. OPERATORS WHICH REPEATEDLY FAIL TO NOTIFY AIRPORT OPERATIONS OF DELAYS WHICH MAY AFFECT SCHEDULE PLANNING FOR GATE/PARKING ASSIGNMENT WILL BE SUBJECT TO WRITTEN NOTIFICATION AND SANCTION AS DESCRIBED IN SECTION IIIA OF THESE GUIDELINES.

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NOTE: THE AIRPORT AUTHORITY SHALL EXERCISE FINAL DETERMINATION WITH RESPECT TO ALL GATE ASSIGNMENTS OF PARKING. WHILE EFFORT WILL BE MADE TO ACCOMMODATE INDIVIDUAL OPERATOR PREFERENCES, EMPHASIS WILL BE PLACED ON CRITERIA ESTABLISHED UNDER THIS SECTION IN A MANNER WHICH WILL BE IN THE BEST INTEREST OF THE AIRPORT.

IV. EAST RAMP GENERAL AVIATION AREAS:

Priority for assignments will include, but not be limited to, the following:

- A. Security and/or safety considerations.
- B. Operators desiring to engage in parking or storage of aircraft which is compatible with the designated use for such areas shall be favored over non-conforming users.
- C. Aircraft size, type, and passenger load status.
- D. Operator signatory status.
- E. Operator preference.
- F. Operational sanctions.
- G. Livestock shipment:

Livestock shipments shall be assigned to the North Ramp (HAZMAT Area) Parking Positions.

- 1. Carriers shall be required to provide any necessary sanitation control measures resulting from the transfer of livestock or other animal shipments.
- 2. All quarantine and animal importation laws, rules, regulations, and procedures shall be observed to include State Agriculture inspection requirements.
- 3. Carriers shall be responsible for providing security and control of animals to prevent their release onto public and operational areas of the airport.

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H. Hazardous Cargo:

1. All carriers shall provide prior notification to airport management of intention to deliver, store, or transfer hazardous material by providing a copy of the shipping document or certificate which identifies the type, shipping name, quantity, classification, DOT hazardous material identification number and any special handling instructions.
2. Aircraft consigned with hazardous material and explosives in quantities deemed in appropriate or hazardous to adjacent operation with passenger activity shall be assigned to isolated gate/parking positions.

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Appendix B

1962 Airport-Airline Lease Agreement

Original

Lease No. A 62-19

AIRPORT-AIRLINE LEASE

HONOLULU INTERNATIONAL AIRPORT

Department of Transportation
State of Hawaii
Airports Division

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AIRPORT LEASE

THIS INDENTURE OF LEASE made and entered into this 21st day of May, 1962, by and between the DEPARTMENT OF TRANSPORTATION OF THE STATE OF HAWAII, hereinafter called the "LESSOR", and UNITED AIR LINES, INC., a corporation organized and existing under the laws of the State of Delaware, and having a place of business and postal address at 173 S. Queen Street, Honolulu, Hawaii, and hereinafter called the "LESSEE",

WITNESSETH THAT:

UAL Contract No. <u>13392</u>

WHEREAS, the Lessor, pursuant to Chapters 15, 16, and 17 of the Revised Laws of Hawaii 1955, as amended, and Section 14A-25, 1960 Supplement thereto, is vested with certain control of and jurisdiction over the operation of airports within the State of Hawaii (hereinafter called the "State"), and more particularly that airport located on Oahu, Hawaii, known as the Honolulu International Airport and hereinafter called the "Airport"; and

WHEREAS, the boundaries of said Airport existing as of the date hereof are shown in red on the plan entitled "Exhibit A" attached hereto and hereby made a part hereof, such boundaries and Airport area being the result of certain agreements with agencies, branches, and/or subdivisions of the government of the United States of America (hereinafter collectively referred to as the "Government"), and certain acquisition from private owners, and pursuant to law; and

WHEREAS, the Lessor is contemplating the improvement of existing facilities at said Airport including the construction of new air terminal buildings (hereinafter collectively called the

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"Terminal Building"); and

WHEREAS, the Lessee is engaged in the transportation of persons, property, cargo and/or mail by air (hereinafter collectively referred to as "Air Transportation") at, to, and/or from the said Airport; and

WHEREAS, the Lessee desires to lease certain premises, facilities, and rights in connection with and on the Airport, both now in existence and to be constructed or available in the future, and the Lessor is willing to lease the same to the Lessee upon the terms and conditions hereinafter set forth,

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, and other valuable considerations, the Lessor does hereby grant, demise, and let unto the Lessee, and the Lessee does hire and take from the Lessor, certain real property and facilities and rights in connection with and upon the Airport as follows, to wit:

ARTICLE I - PREMISES

The Lessor, for the term, at the rentals, fees and charges, and upon the terms and conditions hereinafter more particularly set forth, does hereby demise, let, and grant unto the Lessee the right to occupy and use the following three (3) categories of Airport premises and facilities: Airport Area, Terminal Building and Base Facilities Area.

ARTICLE II - AIRPORT AREA

A. Definition and Use. The non-exclusive use, in common with others authorized so to do, of the said Airport and appurtenances thereto, together with all facilities, equipment,

improvements, and services which are or may hereafter be provided at or in connection with the Airport from time to time, including without limiting the generality hereof, the landing field and any extensions thereof or additions thereto, roadways, runways, aprons, taxiways, sewage and water facilities, flood lights, landing lights, beacons, control towers, signals, radio aids, and other conveniences for flying, landings and takeoffs, of aircraft of the Lessee, which use without limiting the generality hereof, shall include:

1. The right to engage in Air Transportation;
2. The right to land, take off, fly, taxi, tow, load, and unload aircraft operated by the Lessee;
3. The right to maintain, condition, and service aircraft or other equipment of or operated by the Lessee; provided that such right shall not be construed as authorizing other than such repair, ramp maintenance, conditioning, provisioning and servicing as is thereat permitted by Lessor's rules and regulations, nor to authorize the conduct of a separate business by the Lessee but shall permit the Lessee to perform such limited activities as an incident to its conduct of Air Transportation upon the common use facilities;
4. The right to load, unload, receive, and deliver items of Air Transportation transported or to be transported on aircraft operated by the Lessee; provided that the occasional use of the premises for items of Air Transportation transported or to be transported on aircraft of operators other than Lessee shall not be deemed to be prohibited by this subsection.

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B. Term. The non-exclusive use of the Airport Area denoted above shall be for a term of twenty (20) years and four (4) months, commencing with the 1st day of April, 1962, and ending upon the 31st day of July, 1982, unless sooner terminated, and subject to the conditions, as hereinafter provided.

If and in the event the Lessee shall exercise its right and option to extend and further extend the basic term denoted in Article IV.B hereof in the manner therein described, the Lessee likewise shall have the same right and option to so extend and further extend the basic term denoted in this Article II.B; provided, however, that the Lessee's use of the Airport Area for the basic term (or portion thereof) above denoted, or any extension thereof, shall be subject to the following conditions:

At any time not less than six (6) months prior to the expiration of the sixth (6th), ¹⁹⁶⁸ tenth (10th), ¹⁹⁷⁸ or fifteenth (15th) ¹⁹⁸⁸ year of said basic term, and of the twentieth (20th) ¹⁹⁸⁸ and twenty-fifth (25th) ¹⁹⁸⁷ year (in the event the Lessee exercises the options denoted above), the parties upon prior written notice and request of either of the parties hereto shall, together with all other lessees at the Airport then having leases similar to this Lease, renegotiate in good faith the Airport Use Charge provided for pursuant to Article II.C of this Lease and Exhibit One attached hereto. It is mutually agreed that any such notice or request shall be served at the same time not only upon the party hereto being so notified or requested but also upon all other lessees at the Airport then having leases similar to this Lease.

If and in the event the parties above mentioned mutually agree in writing upon a method by which said Airport Use Charge shall be determined during the next immediately succeeding four (4) or five (5) year period, as the case may be,

in accordance with or in substitution for the method of computation therefor described in Exhibit One, said agreed method, upon execution by the parties hereto and all other lessees then having leases similar to this Lease, shall take effect upon the beginning of the period in question. However, if and in the event the parties hereto and all other lessees at the Airport then having leases similar to this Lease fail to so agree after such renegotiation on a method of computing said Airport Use Charge (or upon any other alternate schedule of rents, fees, or charges) for the Lessee's continued use of the Airport Area, the continued use of the Airport Area by the Lessee and all other lessees having leases similar to this Lease for the said period shall be subject to such rates and/or charges therefor established by or pursuant to and in accordance with any and all laws, rules and regulations of the State and the Government, or any agency thereof.

Nothing in this Lease shall be construed to prohibit or limit the State from levying or collecting an Aviation Fuel Tax.

C. Fees and Charges. Lessee shall pay to Lessor for use of the Airport Area set forth in Article II.A hereof, an Airport Use Charge for each revenue landing of Lessee's aircraft at the Airport in accordance with the terms and provisions of Exhibit One attached hereto and hereby made a part hereof.

D. Maintenance and Repair by Lessor. The Lessor, subject to the provisions of Article XVII and Section E of Article II hereof, shall keep and maintain those facilities at the Airport provided by the Lessor which are for the use of the Lessee in common with others in accordance with applicable standards established by the Government for that class of airports, and though performance of such duty be ordinary or

extraordinary, structural or otherwise, and without limiting the generality of the foregoing, the Lessor shall:

1. Make or otherwise accomplish any and all repairs and maintain in good condition any and all utility service lines located on the Airport and used by the Lessee in common with others and all storm sewers and lighting facilities for the operation of service roads located outside of premises leased exclusively to Lessee and other tenants of the Lessor.

2. Make or otherwise accomplish any and all repairs and replacements necessary to remedy any defects in service roads, runways, ramps, and taxiways located on the Airport and available for use in common by the Lessee and others.

It is understood and agreed, however, that such maintenance and repair by the Lessor shall not constitute either a bar, waiver, or release of any right or claim of right on the part of the Lessor to recover damages against anyone including any lessee, licensee, permittee, or any other persons responsible for damage to the Airport property, real or personal.

It is further understood and agreed that without thereby obviating or lessening the duty of the Lessor to maintain as set forth hereinabove, nothing herein contained shall prescribe, nor be construed to prescribe, the particular manner by which loose foreign material or objects are removed by the Lessor from the ramps, taxiways, and runways of the Airport.

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E. Federal Facilities - Duty of Lessor. If and in the event funds for the provision, maintenance, and operation of the Control Tower, Instrument Landing System, and/or Ground Control Approach or other air navigation aids or other Airport facilities (including, but without limitation, emergency protection) required or permitted by the Government and needed or desired by Lessee for Lessee's operation at the Airport, which are now, or may be hereafter furnished by the said Government, are discontinued or made otherwise nonavailable by the Government, the Lessor shall, subject to the availability of funds therefor, furnish and provide such like facilities as are, in the discretion of the Lessor, reasonable and/or necessary, and provide a reasonable continuity of the provision, maintenance, and operation thereof.

ARTICLE III - TERMINAL BUILDING

A. Definition and Use.

1. The exclusive right to occupy and use 14,342 square feet of floor or ground space in or adjacent to the Terminal Building as denoted on Exhibits B-1, 2, and 3, attached hereto and hereby made a part hereof, for any of the following purposes:
 - (a) The right to establish and maintain business and operations offices in connection with Lessee's conduct of Air Transportation.
 - (b) The right to handle, ticket, bill and manifest passengers, baggage, cargo, property and mail thereupon or thereat, including the right to provide other customer services and/or conveniences with

respect thereto.

- (c) The right to arrange for or confirm sales by telephone, telegraph, cable or mail of tickets for passenger transportation either upon its own aircraft or the aircraft of others if and for so long as Lessee has leased counter space in any of the Airport's passenger terminal buildings.
 - (d) The right to provide rest and recreational facilities and for administrative offices for employees and employee organizations for the exclusive use of Lessee's employees to the extent not inconsistent with Lessor's rules and regulations, or any provision of this Lease.
 - (e) The right to conduct any other operation or activity which is reasonably necessary or incidental to the conduct by Lessee of Air Transportation, and to which the Lessor in writing shall approve; provided, however, that such approval shall not be unreasonably withheld.
2. The non-exclusive right to occupy and use by the Lessee, its employees, passengers, guests, patrons, and invitees, in common with others, all public space and facilities in said Terminal Building (substantially as designated on Exhibits B-1, 2, and 3, and Exhibit B-4, subject to the lessee rights of the Government with respect to the space shown on Exhibit B-4), and all

additional public space and facilities which may hereafter be made available therein and in any additions thereto, including, without limiting the generality thereof, the lobby, passenger lounges, waiting rooms, hallways, rest rooms, rooms for flight personnel and other public and passenger conveniences.

B. Term.

1. Ticketing and Baggage Handling. The exclusive use of the area outlined in green on Exhibits B-1 & 2 shall respectively be for a term of ten (10) years and four (4) months, commencing with the 1st day of April, 1962, and ending upon the 31st day of July, 1972, unless sooner terminated as provided herein; and thereafter the Lessor agrees to lease for an additional like term to the Lessee (upon like terms and conditions as herein contained but subject to the provisions of Section C.2 of this Article) the said premises shown on Exhibits B-1 & 2, or such other Terminal Building premises as the Lessor shall determine after negotiations with all airline-lessees of their space requirements in the applicable Ticket Lobby Building and after due consideration of such space requirements by the Lessor; provided, however, that if and in the event the Lessor shall decline to let unto the Lessee for such additional term all or any portion of the premises shown on Exhibits B-1 & 2 the

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Lessee shall be compensated for the amortized value (as shown on the books of the Lessee) of the leasehold improvements of the Lessee which are located thereupon at the expiration of the Exhibits B-1 & 2 basic term, in such manner as the Lessor and Lessee shall mutually agree upon, and in the event the parties fail to mutually agree thereupon, the matter shall be referred to arbitration pursuant to Article VII hereof.

If and in the event the Lessor agrees to Lease hereunder all or any portion of the said Exhibits B-1 & 2 premises to the Lessee at the expiration of the original ten (10) year term therefor, said additional term shall be for a period of ten (10) years subject to the provisions of Article III.C.2 hereof and subject also at the expiration of said additional period to the same reallocation rights of the parties as are effective upon the expiration of the initial ten (10) year period, and thereafter (subject to said reallocation rights and rental readjustment provisions) the Lessee shall have the right and option to further extend hereunder the term for said Exhibits B-1 & 2 premises for such further additional term as complies with, and is subject to, the effective termination date of this Lease with respect to Exhibit C premises and pursuant to the

provisions of Article IV.B.2 hereof.

2. Other Operations. The exclusive use of the area outlined in brown on Exhibit B- 1 and the non-exclusive use in common with other lessees of the Lessor engaged in Air Transportation of the area outlined in red on Exhibits B-2 & 3 shall be respectively for a term of ten (10) years and four (4) months commencing with the 1st day of April, 1962, and ending upon the 31st day of July, 1972, unless sooner terminated as provided herein, and subject to the provisions of Section C.2 of this Article. The Lessee shall have the right and option to extend the term of this Lease with respect thereto for an additional ten (10) year term upon like terms and conditions as herein contained, and thereafter for such further additional term as complies with, and is subject to, the effective termination date of this Lease with respect to Exhibit C premises and pursuant to the provisions of Article IV.B.2 hereof; provided, however, that the Lessee shall give the Lessor written notice of the exercise of any such right and option at least ninety (90) days prior to the expiration of the initial or preceding term, and subject also to the provisions of Section C.2 of this Article.

B-2 Baggage Claim Area
B-3 Holding Room

C. Fees and Charges.

1. Amount. For the right to occupy the area denoted in Article III.A.1 above and further described in Article III.B above, the Lessee agrees to pay to the Lessor in advance on or before the first day of each calendar month, commencing as provided in Article III.G, the monthly sum of \$ 3,897.71, together with such additional monthly payment accruing under subparagraph C.1(h) of this Article, based upon the following:

- (a) For the use of 1,098 ' square feet for Passenger Check-in (Main Floor) as shown in red on Exhibit B-1, a monthly rental of \$ 274.50, based upon \$3.00 per square foot per annum.
- (b) For the use of 283 ' square feet for Ticketing as shown in orange on Exhibit B-1, and for the use of 98 square feet for Ticketing as shown in orange on Exhibit B-2, a monthly rental of \$ 158.75, based upon \$5.00 per square foot per annum.
- (c) For the use of 880 ' square feet for Offices (Main Floor) as shown in brown on Exhibit B-1, a monthly rental of \$ 348.33, based upon \$4.75 per square foot per annum.
- (d) For the use of 3,787 ' square feet for

Baggage Handling as shown in blue on Exhibit B-1, a monthly rental of \$ 946.75, based upon \$3.00 per square foot per annum.

- (e) For the use of 4,380 square feet for Offices (Ground Floor) crosshatched in pink on Exhibits B-1 and/or 2, a monthly rental of \$ 1,460.00, based upon \$4.00 per square foot per annum.
- (f) For the use of 1,761 square feet for Ramp Offices crosshatched in yellow on Exhibit B-1, a monthly rental of \$366.88, based upon \$2.50 per square foot per annum.
- (g) For the use of 2,055 square feet for Ramp Equipment crosshatched in purple on Exhibit B-1 and/or 2, a monthly rental of \$342.50, based upon \$2.00 per square foot per annum.
- (h) For the non-exclusive use in common with other Air Transportation lessees of 9,280 square feet for Baggage Claim shown in green on Exhibit B-2, and of 16,497 square feet for Holding Rooms, as shown in green on Exhibit B-3, the Lessee's monthly pro rata share of \$5,370.25, based upon \$2.50 per square foot per annum.

2. Readjustment. The fees and charges set forth in Article III.C.1 above shall be subject to readjustment at the expiration of five (5) years from and after the commencement of the terms either set forth in Article III.B above or extended pursuant thereto, and at the expiration of each five (5) year period thereafter, in accordance with the provisions of Article VI hereof. If and in the event the parties hereto shall fail to mutually agree upon such fees and charges, the matter shall be determined by arbitration in accordance with the provisions of Article VII hereof.

D. Maintenance and Repair by Lessee. Lessee agrees that it will suffer no strip or waste of the Article III.A.1 premises denoted on Exhibits B-1, 2, and 3, and will keep and maintain said premises in good order, condition, and repair (save and except such as relate to Terminal Building structural deficiencies only which shall be the responsibility of the Lessor), and that upon termination of this Lease for any reason, Lessee will surrender and deliver to Lessor possession of the premises in like good condition and repair, reasonable wear and tear thereof and damage thereto or destruction thereof caused by the elements, fire, or damages proximately caused by the sole negligence of Lessor, its officers, agents, or employees, or acts of God, excepted. Lessee further agrees to provide at its expense janitor service for the demised premises denoted on

Exhibit B and to maintain the same in a clean and orderly condition throughout the term hereof.

E. Construction by the Lessee. Except with the prior approval of the Lessor, which approval shall not be unreasonably withheld, the Lessee shall not erect any structures, nor make any improvements or do any other construction work on the premises, or alter, modify, or make additions, improvements or substantial repairs to or replacement of, any structure now existing or built at any time during the letting, or install any fixtures (other than trade fixtures, removable without injury to the freehold), having a value of \$500 or more; and in the event any construction, improvement, alteration, modification, addition, repair or replacement is made without such approval, the Lessee shall remove the same upon notice from the Lessor so to do. If and in the event the Lessee fails or neglects to comply with such notice, the Lessor may effect such removal or change, and the Lessee hereby agrees to pay the cost thereof to the Lessor upon demand.

F. Title to Improvements. The Lessee shall retain title during the lease term to any and all leasehold improvements constructed and installed by it at its own expense upon the premises denoted on Exhibit B; provided, however, that upon the termination of this Lease pursuant to paragraph B of this Article or for any other reason whatsoever, title to such improvements shall vest in the Lessor, subject, however, to the right of the Lessee contained in Article XIII hereof.

For the purposes hereof, the term "leasehold improvements" shall mean and include any installation of walls, partitions, doors and windows, any electrical wiring panels, conduits,

service connections, receptacles or lighting fixtures attached to walls, partitions, ceilings or floors; all interior finish to floors, walls, doors, windows, or ceiling; all floor treatments or coverings (other than carpeting) that is affixed to floors; all plumbing (including but without limitation, water and drainage pipes, garbage or sanitary disposal lines, and sinks, lavatories, commodes and garbage disposal systems); all air treatment or ventilating distribution systems (including but without limitation, pipes, ducts, venti-hoods, and air handling units); all refrigerator rooms or vaults including refrigeration or ventilating equipment included with the same; and any vertical lift or elevator equipment and installation.

For the purposes hereof, the term "personal property" shall mean and include any and all fixtures (other than lighting fixtures hereinabove described), furniture, furnishings, carpeting, draperies purchased and/or installed by the Lessee and any other items not defined as leasehold improvements above.

G. Vacating Old Terminal Building Facilities. Upon the certification in writing by the Architect or the Consulting Engineer, approved by the Lessor, that the demised premises are completed and ready for occupancy by the Lessee, the like facilities at the old terminal building shall be vacated by the Lessee without further notice on or before one hundred twenty (120) days from and after the receipt of such certification by the Lessee.

The rental obligations of the Lessee denoted in Section C of this Article shall commence upon either the expiration of the above one hundred and twenty (120) day period, or upon that date upon which the Lessee commences Air Transportation operations in any portion of the new Terminal Building, whichever is the earlier event.

ARTICLE IV - BASE FACILITIES AREA

es. 2-1-67
A. Definition and Use. The exclusive right to occupy and use 305,000 square feet of ground space at the Airport as shown as parcel 1 on Exhibit C, attached hereto and hereby made a part hereof, and more particularly described thereupon, for the following purposes:

1. The right to engage in activities relating to the ticketing, billing, manifesting, handling, and loading and unloading items of Air Transportation; provided, however, that such shall not be conducted so as to constitute use of the premises as a substitute for normal passenger terminal building operations;
2. The right to repair, maintain, condition, service, park, or store aircraft (and component parts thereof), aircraft equipment, or mobile and other equipment owned or operated by the Lessee in connection with its conduct of Air Transportation;
3. The right to maintain, repair, service, and store personal property (including, but not limited to, repair parts, supplies, and the like) owned and/or operated by the Lessee; provided, however, that such right shall not be construed as authorizing the conduct of a separate business by the Lessee, but shall permit the Lessee to perform such functions as an incident to its conduct of Air Transportation;
4. The right to park, or permit the parking of,

automobiles operated by the Lessee, its officers, employees and business guests (exclusive of passengers);

5. The right to test aircraft (and component parts thereof), and other equipment including flight and training equipment, owned and/or operated by the Lessee;
6. The right to establish and maintain business and operations offices in connection with the operations of Lessee, and rest and recreational facilities and administrative offices for employees and employee organizations;
7. The right to utilize Lessee's employees or those of Lessee's subsidiary to prepare and package in-flight food and/or beverages to be consumed on aircraft operated by Lessee;
8. The right to conduct any other operation or activity which is reasonably necessary or incidental to the conduct by Lessee of Air Transportation, and to which the Lessor in writing shall approve; provided, however, that such approval shall not be unreasonably withheld.

B. Term. The exclusive use of the areas described in Article IV.A above shall be for a term of twenty (20) years and four (4) months commencing with the 1st day of April, 1962, and ending upon the 31st day of July, 1982, unless sooner terminated as provided in Article IV.D.2 and otherwise herein. The Lessee shall have the right and option to extend said basic term for a succeeding five

(5) year period and a final five (5) year period thereafter upon the following conditions:

1. That the Lessee give the Lessor written notice of the exercise of said right and option at least one hundred eighty (180) days prior to August 1, 1982, or August 1, 1987, whichever is applicable.
2. That the Lessor at the end of the first extension of the basic term (twenty-fifth (25th) year), does not need the Article IV.A premises for the immediate construction of new, or extensions of then existing, terminal buildings. If and in the event the said premises are then so needed by the Lessor, the Lessor shall give the Lessee written notice thereof no less than one hundred eighty (180) days prior to the expiration of the first extension of the Lease term, and this Lease as to said Article IV.A premises shall terminate upon expiration of such first extension, and the title to leasehold improvements constructed at or installed upon the premises by the Lessee shall, at such expiration revert to the Lessor; and in such event the Lessor shall not be liable to the Lessee for the payment of any compensation or damages for such improvements or for the termination of the letting of the premises with respect thereto.

It is understood and agreed by and between the parties hereto that, subject to the availability

of public funds therefor, the parties may at any time negotiate, at the instance of either party, a purchase of any or all the Lessee's leasehold improvements located on or at Exhibit C premises by the Lessor, and a rental arrangement for the Lessee's use thereof for the balance of the Lease term and any extension thereof.

3. If and in the event of the extension or further extension of the Lease term as hereinabove provided, this Lease and the terms and conditions thereof shall in all respects be deemed to be extended for and govern such extension of the said basic term; provided, however, that the rental, fees, and charges payable during such extended period shall be determined pursuant to Paragraph C of this Article.

✓ *Amended*
C. Fees and Charges. For the exclusive use of the Base Facilities Area shown on Exhibit C, the Lessee hereby agrees to pay to the Lessor in advance on or before the first day of each calendar month commencing thirty (30) days from and after the date of written notice by the Lessor to the Lessee that the Exhibit C premises are available for commencement of construction thereat by Lessee, the sum of ^{FORTY NINE} TWO THOUSAND THIRTY THREE DOLLARS AND _{\$ 049.33} THIRTY THREE CENTS (\$ 2,033.33), based upon eight cents (\$.08) per square foot per annum; provided, however, that said fees and charges shall be subject to readjustment at the expiration of twenty (20) years and four (4) months and twenty-five (25) years and four (4) months, respectively, from and after the commencement of the basic term set forth in Article IV.B hereof,

in accordance with the provisions of Articles VI and VII hereof.

D. Construction or Improvement.

1. In General. The Lessee shall have the right at its own cost and expense to prepare the ground surface of the demised premises (except that the Lessor shall at its cost and expense remove existing surface structures) and to construct, erect, and install buildings, structures, and other improvements (hereinafter collectively referred to as "Base Facilities") thereupon for the purposes denoted in Article IV.A above.

No such construction, erection, or installation of Base Facilities, nor improvements, alterations or additions thereto, shall be undertaken without the prior written consent of the Lessor. The plans and specifications together with a detailed plot plan and layout therefor shall be prepared by the Lessee and submitted to the Lessor, and upon completion of such work a complete set of "as built" drawings or plans shall be furnished to the Lessor. The Lessor shall not unreasonably withhold its consent to such plans and specifications (and either consent to or disapprove the same within a reasonable time), but such shall not be approved or consented to if such either:

- (a) will be structurally unsound or unsafe or hazardous, or
- (b) will not comply with the Lessor's requirements for harmony of external architecture of similar improvements on the Airport, or

- (c) will not provide sufficient clearances for taxiways and aprons, or
- (d) are designed for use for purposes other than those permitted under Article IV.A above, or
- (e) will not comply or will be inconsistent with the terms and conditions herein, or
- (f) will not be in harmony with overall Airport grading or utility plans.

If Lessor disapproves of the plot plan or layout or any of said plans and specifications, it shall give notice to Lessee in writing stating the reasons for its disapproval. The Lessee shall thereupon prepare and submit such new submissions as shall reasonably satisfy the Lessor's prior objections.

Lessee shall upon notice from Lessor promptly remove or repair any and all structures not authorized by this Lease or which may, by reason of use, reasonable wear, or negligence of the Lessee, be unsound, unsafe or hazardous, and in case of Lessee's failure to remove or repair the same, Lessor may remove or repair such structures without liability to Lessee or others for damages, and Lessee shall pay the cost of such removal or repair as additional rent.

2. Minimum Investment. If and in the event the Lessee does not invest a minimum of \$300,000 in the construction and installation of Base

Facilities, upon the premises denoted in Exhibit , by or before 1, 19 , the Lessor may at any time thereafter give notice to the Lessee that this Lease will terminate with respect to the Exhibit premises only, at the expiration of one hundred and eighty (180) days from and after such notice, and the Lease shall so terminate with respect to said Exhibit C premises unless within said notice period the Lessee satisfies the Lessor that leasehold improvements of no less than said value will be constructed and/or installed by the Lessee upon a definite schedule or program of construction or installation.

E. Title to Base Facilities. The Lessee shall retain title to the Base Facilities constructed and installed by it at its own expense upon the demised premises; provided, however, that upon the termination of this Lease pursuant to paragraph B of this Article or any other reason whatsoever, the title to the whole of the same shall vest in the Lessor free and clear of any and all encumbrances; subject, however, to the rights of the Lessee pursuant to the provisions of Articles IV.B.2 and XIII hereof. Lessee shall, if requested by Lessor, deliver to the Lessor a bill of sale or other appropriate document of title evidencing the vesting of title in the Lessor as hereinabove provided in this paragraph.

F. Maintenance and Repair by Lessee.

1. The Lessee shall at all times keep the premises clean, and in an orderly condition and appearance, together with all fixtures, equipment and personal property of the Lessee

located in or on the demised premises.

2. The Lessee shall suffer no strip or waste of the premises, and (except as otherwise provided in Article XIX) shall repair, replace, rebuild and paint all or any part of the premises which may be damaged or destroyed by the acts or omissions of the Lessee or by those of its officers, employees or of other persons on or at the premises with the consent of the Lessee.
3. Subject to the provisions of Article XIII, with respect to all parts of the premises, including, but without limitation thereto, such of the following as are or may be during the term of the letting located in or on the premises: fences, the exterior and interior of the building walls, the exterior and interior and operating mechanisms of and attachments to windows and skylights, screens, roofs, foundations, steel work, columns, doors, partitions, floors, ceilings, inside and outside paved and unpaved areas, glass of every kind, and the utility, mechanical, electrical and other systems, the Lessee shall take the same good care of the premises that would be taken by a reasonably prudent owner who desired to keep and maintain the same so that at the expiration or termination of the term and at all times during the letting, the same will be in as good condition as at the commencement

thereof (or in the case of any improvements during the term, as at the time of the installation or construction thereof), except as otherwise provided in Article XIX and except for reasonable wear and tear which does not adversely affect the structural integrity of the Base Facilities or adversely affect the efficient or the proper utilization of any part of the premises.

4. Repairs made by Lessee shall be in quality and class not inferior to the original material and workmanship; and the Lessee shall pay promptly the cost and expense of such repairs and maintenance.
5. The Lessee shall at its own cost and expense provide and maintain all obstruction lights and similar devices, fire protection and safety equipment, and all other equipment of every kind and nature required by any law, rule, order, ordinance, resolution or regulation.

ARTICLE V - PAYMENT OF FEES AND CHARGES

A. In General. No rentals, fees, or other charges, than those expressly provided for in this Lease, shall be charged to or collected from the Lessee by the Lessor, for the use of the demised premises or for the exercise by the Lessee of any rights hereunder with respect thereto and the Airport.

B. General Payment. All payments of money required to be made by the Lessee to the Lessor hereunder shall be made when due in legal tender of the United States of America at Lessor's

office at said Airport, or at such other place as the Lessor may designate in writing.

C. Termination of Lease. The termination of this Lease by lapse of time or otherwise shall not relieve the Lessee of its obligation to pay any rental, fees, or other charges accrued during a period in which this Lease is in effect but which are unpaid at the time of any such termination.

D. Periods Less Than Month. If and in the event that the commencement or termination of any term or rental period with respect to any of the particular premises, facilities and rights as herein provided falls on any date other than the first or last day of a calendar month, the applicable rentals, fees, and other charges for that month shall be paid for said month pro rata in the same proportion the number of days the Lease is in effect bears to thirty (30) days.

E. Credits. There shall be credited against the rentals, fees and other charges required to be paid by Lessee to Lessor for any month during the term of this Lease an amount equal to Aviation Fuel Taxes as defined in Paragraph 7.08 of Article VII of Exhibit One, attached hereto, paid during such month. The amount of the credit provided for in the preceding sentence shall be applied first to the Airport Use Charge required to be paid by Lessee to Lessor pursuant to Article II.C hereof, before being applied to any other amount required to be paid by Lessee to Lessor under this Lease. No credit shall be allowed the Lessee unless there shall be submitted a claim therefor in writing to the Lessor, accompanied by a statement certifying (1) to the amount of fuel taxes collected or paid, (2) that the amount of such taxes has been paid over to the State Director of Taxation, and (3) that such taxes have not been paid either

under protest pursuant to Section 34-24, Revised Laws of Hawaii 1955, as amended, or pending determination of an appeal from the assessment of said taxes by a court or other tribunal of competent jurisdiction. In case the taxes have been paid under protest or under appeal, credit shall be allowed only in the event the final decision of the cause is in favor of the State, and the amount of the credit may then, at the option of the Lessee, be taken either as a credit hereunder or as a refund.

ARTICLE VI - READJUSTMENT OF FEES AND CHARGES

The rentals, fees, and charges herein provided for in Articles III.C.2, IV.C, and X.H hereof shall be subject to periodic readjustment, it being the intention hereof that at least one hundred and twenty (120) days prior to the expiration of the basic term (or any extension thereof) denoted in Article IV.B and of any five (5) year period denoted in Article III.C.2, the parties hereto shall in good faith mutually re-examine and negotiate the rentals, fees, and charges to be paid by the Lessee in the next succeeding rental period, or extension of basic term, as the case may be, in the light of the then existing conditions (the conditions being: (a) the operating cost of the Airport facility; (b) the going rentals, fees and charges for comparable facilities in the business community in Honolulu, the area surrounding the Airport, and other airports elsewhere in the United States of the same class as the Airport; (c) the then prices, charges, and costs of labor and materiel in the State; and (d) the relationship that the wholesale commodity price indices representative of all commodities for the ninetieth (90th) day prior to the date upon which the then term shall expire, bears to that for the date of this Lease, as computed by

the United States Department of Labor or other successor federal agency or department of the Government), and that said rentals, fees and charges shall be adjusted accordingly.

If and in the event of the additional occurrence of the contingencies denoted in Articles II.E and/or XVII, the parties hereto shall as soon as is practicable after the establishment by the Lessor as provided in said Articles of any new fee or charge to be paid by the Lessee, in good faith mutually examine and negotiate the amount thereof to be paid by the Lessee in the light of the conditions and subject to the provisions in this Article and above contained.

Should the parties hereto fail to mutually agree upon any of the rentals, fees and charges denoted in this Article VI, then the matter shall be determined under Article VII.

ARTICLE VII - ARBITRATION

If and in the event the parties fail to reach mutual agreement as a result of the negotiation provided for in Article VI hereof on or before the sixtieth (60th) day prior to commencement of such rental period or extension of basic term (or after sixty (60) calendar days after commencement of negotiation upon the rentals, fees, and charges denoted in Articles II.E and/or X.H hereof, all in the manner prescribed in Article VI hereof), the matter shall be referred to arbitration in the manner herein-after prescribed.

The Lessor shall name and appoint one person familiar with general airport business (or land rentals, as the case may be) in the State to serve as arbitrator, and the Lessee shall do likewise. The two so named and appointed shall select and appoint a third such qualified person. If and in the event of

the failure or refusal of any such person to so serve when and after named and appointed by the parties hereto, the respective party so naming and appointing such person shall name and appoint his successor. If and in the event of the failure or refusal of either the parties hereto to name and appoint its arbitrator or the two arbitrators so named and appointed to select a third, or if and in the event of the failure or refusal of the third arbitrator to so serve after being selected by the other two, such third arbitrator in any such case shall be named and appointed by the Administrative Judge of the First Circuit Court of the State. The arbitrators shall then determine the rentals, fees, or other charges to be paid, and the decision and finding of the majority of the said arbitrators shall be final, binding, and conclusive upon the parties hereto. Each party shall pay the fees of the arbitrator appointed by it, and the fees of the third arbitrator and all other costs of the arbitration shall be borne equally by the parties hereto.

The Lessee shall pay to the Lessor such rentals, fees and charges as may be mutually agreed upon by the parties after negotiation, or that which is decided by arbitration, as the case may be. If and in the event of arbitration and the finding and decision of the arbitrators is not forthcoming or rendered prior to the commencement of the rental period in question (or the effective date of any other fee or charge herein referred to), the Lessee shall continue to pay to the Lessor the rental in effect for and during the preceding rental period (with respect to Articles III.C, IV.C, and X.H) or as prescribed by the Lessor (with respect to Article II.E). If and in the event the rental, fee, or charge determined by the arbitrators is less than that for either such rental period or as prescribed by the Lessor, the

Lessor shall reimburse or credit the Lessee to the extent of any overpayment by the Lessee; and in the event such rental, fee, or charge is greater than that for either such rental period or as prescribed by the Lessor, the Lessee shall pay to and reimburse the Lessor to the extent of any underpayment.

ARTICLE VIII - OPERATIONS RECORDS

For the purposes of the payment by the Lessee to the Lessor of the operation fee denoted in Article X.H, the Lessee shall submit to the Lessor on or before the twentieth (20th) day of each and every calendar month commencing with the second (2nd) month after the effective date of the rental obligations of the Lessee hereunder, an accurate written statement of the amount of the gross receipts received by the Lessee from the operations denoted in Article X.H hereof, for the next preceding month. Such statement shall be in such form as the Lessor may require and shall be signed by Lessee's authorized representative and certified by him as to the correctness thereof.

ARTICLE IX - UTILITY SERVICE

A. Terminal Building. The Lessor shall, directly or by arrangement with appropriate utility companies or suppliers, supply the Lessee with electrical current in such quantities, voltages, and phases as the Lessee shall reasonably require, and install upon the premises denoted in Exhibit B any and all conduits, cables, and wiring (but not lighting fixtures, light bulbs, or similar items) necessary or desirable for the Lessor to so supply or furnish said utility services to the Lessee. No charge will be required of the Lessee for such electrical quantities and installation as are required for lighting, and such other

operation or items of operation of Lessee requiring electricity for which the Lessor in advance shall agree to provide electricity without charge; provided, however, that if and in the event the Lessee shall require electrical quantities, and/or installations for other than lighting, for which the Lessor shall decline to provide electricity without additional charge, the Lessee shall pay to the Lessor when requested so to do for such utility services at a rate not to exceed that rate which the Lessee would have had to pay if it took this same quantity direct from such utility companies or suppliers, and/or for the cost of installation therefor.

B. Base Facilities Area. Lessor at its expense, shall bring or cause to be brought such public utility services of water, electricity, sewage and telephone as the Lessee shall require, up to that point upon the property line of the demised premises leased hereunder in Article IV hereof as the Lessor shall determine, and the Lessor shall be responsible for all necessary excavation, construction, materials and operation, and maintenance of and for all mains, pipes, conduits, cables, wiring, sewers, and other equipment required to so provide such services in a manner adequate to supply Lessee's needs therefor, and Lessee shall have the right and duty to make connection thereto and therewith. Without limiting the generality of the foregoing, the Lessor in providing water facilities shall at its expense, provide pipes, mains, and other equipment adequate in size and quality to supply water in sufficient quantity and of sufficient pressure for such sprinkler systems as have or may from time to time be installed in any or all of such buildings, structures, and improvements constructed or installed by the Lessee upon the demised premises.

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The Lessee shall pay directly to the utility company or supplier for such utility services.

C. Liability. No failure, delay or interruption in any utility service or services, whether such are supplied by the Lessor or others, shall relieve or be construed to relieve the Lessee of any of its obligations hereunder or shall be or construed to be an eviction of the Lessee, or shall constitute grounds for any diminution or abatement of the rentals, fees and charges provided for herein, or grounds for any claim by the Lessee against the Lessor for damages, consequential or otherwise.

In any event where damage to any utilities service lines is caused by the Lessee, its employee, contractors, suppliers, agents or invitees, the Lessee shall be responsible for the cost of repairs.

ARTICLE X - GENERAL RIGHTS OF LESSEE

The Lessee shall have the right with respect to the premises demised herein to do or perform any of the following things upon the terms and conditions hereinafter set forth:

A. Communications, Equipment and Rights-of-Way.

Lessee shall have the right to install, maintain and operate such aviation radio, communications, meteorological and aerial navigation equipment and facilities as may be necessary or convenient in its opinion for its operation subject to the prior written consent (which consent shall not be unreasonably withheld) of Lessor as to the location, manner of installation and type thereof. Such equipment and facilities may be located without additional charge or fee in or on any of the space leased to Lessee for its exclusive use, or, upon payment of the applicable rent for such area, at such other locations on the Airport, if any, as

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may be requested by the Lessee and consented to by the Lessor.

In the event that the Lessor has constructed, or hereafter voluntarily and not at the request of Lessee constructs upon the demised premises or elsewhere at the Airport, conduits or ducts for use in common by aircraft operators (including Lessee) for the installation of wires, cables, pneumatic tubes or similar communication connections, Lessee may use such conduits or ducts for the purpose for which they are provided, if and to the extent that space therein is available, and subject to rules and regulations promulgated by Lessor, without payment of any rental, charge or fee for the use of such conduits or ducts, provided that Lessee shall pay the cost of pulling or installing its wires, cables, pneumatic tubes or similar communications connections through such conduits or ducts, and the cost of installing brackets or any incidental equipment or facilities not provided by Lessor, and any other cost in connection with the aforesaid installations, and provided, further, that Lessee shall be responsible for any damage to the ducts or conduits or to facilities installed therein caused by its acts or omissions or those of its officers, employees or contractors.

Lessee shall also have the right to use rights-of-way at locations hereafter designated in writing by Lessor and with the prior written consent of Lessor either for the exclusive use of Lessee or for use in common with others, for conduits, ducts, pipes, wires, cables, or similar installations, and facilities (including, but not limited to, equipment and facilities related or incidental to communications, controls, teletypes, telephones, interphone and pneumatic tubes) between the places where such equipment and facilities have been installed in the demised premises and the place where such equipment and facilities have

been installed in space leased to Lessee for its exclusive use elsewhere at the Airport. The Lessee shall pay a reasonable annual rental for such easements or rights-of-way when and if requested so to do by the Lessor in accordance with the Lessor's published schedule of rates and charges for such use then in effect.

B. Right of Ingress and Egress.

1. The Lessee, its employees, customers, guests, contractors, suppliers of material, furnishers of services, and/or invitees, in common with others shall have the non-exclusive right of ingress to and egress from any and all premises demised herein and such other portions of the Airport area to or from which said persons shall reasonably require ingress or egress, in such manner and at such locations as the Lessor may from time to time designate; provided, however, that the aforementioned right of ingress and egress as it applies to the suppliers of aviation fuel, aircraft propellant, or other volatile or inflammable materials, shall be subject to the prior written permission given by the Lessor to any such supplier. Lessor agrees that it will not arbitrarily withhold said permission, and in no event will said permission be withheld by Lessor for the purpose of discrimination against the Lessee or its suppliers or to compel Lessee to deal with selected suppliers. The Lessor further agrees that no charge will be made for such permits

from Lessee's suppliers of aviation fuel or propellants at the Airport (except a service charge not to exceed \$100 per annum per supplier to defray Lessor's administrative cost of safety inspection of transportation and fueling equipment thereof).

Irrespective of the time of occupancy denoted in Article III.E hereof, the right of ingress and egress herein granted to the Lessee shall at all times include the right to enter such portions of the Airport area under construction by the Lessor for the purpose of undertaking the construction or activities of the Lessee permitted hereunder; provided, however, that such ingress and egress is coordinated with the Lessor's construction superintendent in charge of such construction.

2. The use of any Airport roadways shall be subject to the rules and regulations of the Lessor which are now in effect or which may hereafter be promulgated for the safe and efficient operation of the Airport. The Lessor may, at any time, temporarily or permanently, close or consent to or request the closing of, any such roadway and any other area at the Airport presently or hereafter used as such, so long as a reasonable alternative means of ingress and egress as provided above remains available to the Lessee. Except as hereinbefore provided to the contrary, the Lessee hereby releases and discharges the

Lessor, its successors and assigns, of and from any and all claims, demands or causes of action which the Lessee may now or at any time hereafter have against any of the foregoing, arising or alleged to arise out of the closing of any street, roadway, or other area, whether within or outside the Airport.

C. Architects, Contractors and Builders. The Lessee shall have the right to employ such architects, contractors or builders as the Lessee shall deem necessary or desirable in connection with the authorized construction, installation, alteration, modification, repair and/or maintenance of any building, structure, or improvement upon any of the premises demised herein; provided, however, that any or such architects, contractors or builders shall be licensed or otherwise competent in their respective professions or trades.

D. Signs. The Lessee shall have the right to install and operate upon the premises denoted in Exhibits B and C and at Lessee's expense, advertising signs representing its business, which signs shall be substantially uniform in size, type and location with those of other companies engaged in Air Transportation at the Airport, and the number, general type, size, design and locations of such signs to be subject to the prior approval of the Lessor, which approval shall not be unreasonably withheld.

Upon the expiration or the sooner termination of this Lease, the Lessee, if requested by the Lessor, shall remove, obliterate, or paint out any and all advertising, signs, posters and similar devices placed by the Lessee on the premises. In the event of the failure on the part of the Lessee so to remove,

obliterate or paint out each and every sign or piece of advertising so requested by the Lessor, the Lessor may perform such necessary work and the Lessee shall pay the cost thereof upon demand to the Lessor.

E. Training of Personnel. The Lessee shall have the right to train personnel in the employ or to be employed by the Lessee or any other company engaged in scheduled Air Transportation, subject to the rules and regulations of the appropriate governmental agency as may have jurisdiction thereof; provided, that such right shall not be construed as authorizing the conduct of a separate business by Lessee, but shall permit Lessee to perform such functions as incident to its conduct of Air Transportation and, provided further, that the Lessee shall not train persons employed or to be employed by other than the Lessee if such training is in competition with any concessionaire, lessee, permitter or licensor of Lessor at the Airport the nature of whose business is a flying school.

F. Dispensing Petroleum Products. The Lessee shall have the right to store and service by Lessee or others, aircraft and other equipment owned or operated by Lessee with aviation fuel propellants or other petroleum products, and to operate and maintain for such purpose any mobile dispensing equipment, and/or with the prior approval of the Lessor such installed dispensing equipment therefor; provided, however, that any and all such storage and dispensing equipment shall at all times be operated by the Lessee or others in conformity with applicable industrial standards and all governmental rules relating to the safe construction and operation of said equipment, and that such equipment be maintained by the Lessee or others at all times in good operating condition and state of repair.

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G. Food and Beverage.

1. In-Flight. With respect to the right granted the Lessee under Article IV.A.7, the Lessee shall also have:
 - (a) The right to serve food and beverages to the passengers and crew of the Lessee in such aircraft of or operated by the Lessee as may be temporarily grounded or delayed due to weather or mechanical conditions, or to serve in-flight food and beverages to such passengers and crew in the Lessee's exclusive space denoted on Exhibits B or C when such in-flight meals were originally prepared and intended to be served aloft.
 - (b) The right to sell, dispense, or otherwise provide food and non-alcoholic beverages to such officers and employees of the Lessee as are employed in the Lessee's flight kitchen when such food and beverages are consumed upon such flight kitchen premises.
2. Vending Machine. The right to sell, dispense, or otherwise provide food, confections, tobacco products, and non-alcoholic beverages to the officers and employees of the Lessee on the premises denoted on Exhibit C by means of vending machines.
3. Employees Cafeteria. The right to sell, dispense, or otherwise provide the items denoted

in paragraph G.2 above by means of an employees' cafeteria-type installation with respect to its officers and employees only and upon the premises denoted in Exhibit C, subject to the provisions of Article IV.D.

H. Right to Perform for Others. The Lessee shall have the right to do and perform any of the rights described in and/or authorized pursuant to Article II.A, Article III.A.1, Article IV.A, and Article X.E and F hereof, and with respect to personnel, aircraft, and aircraft parts, supplies, and services of the Lessee, for or with respect to any other person or business at the Airport, whether engaged in Air Transportation or not; provided, however, that if and in the event the Lessee shall so do or perform at the Airport, either: (1) in-flight catering for or with respect to other than the Lessee or the subsidiary thereof, or (2) any of the other rights permitted the Lessee in the Articles above denoted for hire and for and with respect to other than either the Lessee, the Lessee's subsidiary, or any other scheduled certificated air carrier who has at the time working arrangements with the Lessee to so do or perform any of such rights permitted the Lessee hereunder, the Lessee shall pay to the Lessor five per cent (5%) of the gross receipts paid to the Lessee for such performance of such in-flight or other rights. The amount of said percentage shall be subject to renegotiation at and coincidental with the times denoted in Article IV.C, and in the manner prescribed in Article VI, hereof.

Said fee shall be paid to the Lessor on or before the last day of any calendar month following that month in which the same are received. For the purposes hereof, the term "gross receipts" shall be deemed to mean and include all moneys other

than the above mentioned percentage if separately billed by the Lessee (or if the consideration for such items or services be other than money, the monetary fair market value thereof) paid or payable to the Lessee from the operations subject to the fee and derived from either:

1. the sale, delivery, or performance by the Lessee of items, products, or services at the Airport regardless of the time and place the orders therefor were received or,
2. regardless of the time and place of the sale, delivery, or performance of the same if the orders therefor were received at the Airport; provided, however, that taxes separately stated to and paid by the Lessee's customer and directly payable to the taxing authority shall be excluded from and deemed not to be within said gross receipts.

Nothing in this subsection shall authorize, nor be construed to authorize, the Lessee to thereby conduct a separate business nor to perform such rights as other than incidental to the Lessee's conduct of Air Transportation.

ARTICLE XI - TAXES-LIENS

A. Taxes and Assessments. The Lessee shall pay in full any and all taxes and assessments including, but not limited to, such as may be levied or assessed upon the demised premises leased herein exclusively to Lessee, and its pro rata share of any such taxes, charges and assessments levied and assessed upon premises in and/or adjacent to the terminal buildings the use and occupancy of which the Lessee is herein granted in common

with other lessees of the Lessor engaged in Air Transportation upon an exclusive basis, before the delinquent date thereof; and, subject to the provisions of Article XX.A.6 hereof, to save the Lessor and the demised premises harmless from any claims or liens in connection with such taxes, charges, and assessments.

B. Liens Prohibited. The Lessee shall not commit or suffer any act or neglect whereby the demised premises, including improvements of the Lessee thereupon or therein, or the estate of the Lessee in the same, at any time during the term of this Lease shall become subject to any attachment, lien, charge or encumbrance whatsoever, and shall indemnify and hold harmless the Lessor against all liens, charges and encumbrances and all expenses resulting therefrom, including reasonable attorneys' fees, it being expressly understood that the Lessee shall have no authority, express or implied, to create any lien, charge or encumbrance upon the demised premises, or any portion thereto, except as pursuant to Article XXVIII hereof.

ARTICLE XII - PROHIBITED ACTS

A. Vending Products and Services. Unless otherwise expressly permitted to do so, and except as hereinafter provided and as provided pursuant to the provisions of Article IV.A.7 and Article X.G hereof, the Lessee shall not install, maintain, or operate, or permit the installation, maintenance or operation, on the premises denoted on Exhibit B, of any vending machine or device designed to dispense or sell food, beverages, tobacco, tobacco products or merchandise of any kind, whether or not included in the above categories, or of any restaurant, cafeteria, kitchen, stand or other establishment of any type for the preparation, dispensing or sale of food, beverages, tobacco, tobacco

products or merchandise of any kind, whether or not included in the above categories, or of any equipment or device, for the furnishing of service of any kind, to the public including, but without limitation, telephone pay-stations.

B. Nuisance. The Lessee shall commit no actionable nuisance upon the premises demised herein, and shall not do or permit to be done anything which may result in the creation or commission or maintenance of any such nuisance on said premises.

ARTICLE XIII - SURRENDER OF PREMISES

The Lessee shall yield and deliver peaceably to the Lessor possession of any and all premises demised herein together with all leasehold improvements (as defined in Article III.F hereof) thereupon on the date of the cessation of the letting, whether such cessation be by termination, expiration or otherwise, promptly and in the same condition as at the commencement of the letting, or as of the date of construction or installation, reasonable wear arising from use of the premises to the extent permitted elsewhere in this Lease excepted, and except for matters which are the obligation of the Lessor under this Lease and except for damage or destruction by fire or other casualty which the Lessee is not obligated to repair or replace pursuant to any provision of this Lease.

Unless required by the Lessee for the performance of its obligations hereunder, the Lessee shall have the right at any time during the letting to remove, and on or before the expiration or earlier termination of the letting shall remove any and all non-capital improvements, including its equipment, trade fixtures, and other personal property (as defined in Article III.F hereof), from the premises in such a manner as to

cause no damage to the premises, and in the event of any such damage, Lessee agrees at its own cost and expense, to repair the same.

If and in the event the Lessee fails or neglects to remove all or any portion of its equipment, personal property and/or trade fixtures within ninety (90) days from and after the expiration or termination of this Lease, the Lessor, at its sole option, may either remove and/or dispose of the same and charge the cost of such removal and/or disposal to the Lessee, which cost the Lessee hereby agrees to pay, or consider the same to be abandoned and take title thereto in the name of the State.

ARTICLE XIV - RIGHTS OF ENTRY RESERVED

The Lessor, by its officers, employees, agents, representatives and contractors shall have the right at all reasonable times to enter upon the premises denoted in Exhibits B and C for the purpose of inspecting the same, for observing the performance by the Lessee of its obligation under this Lease, and to service or post or keep posted thereon notices provided by any law or rules or regulations of the State which the Lessor deems to be for the protection of the Lessor and/or the demised premises, and for the doing of any act or thing which the Lessor may be obligated or have the right to do under this Lease or otherwise.

Without limiting the generality of the foregoing, the Lessor, by its officers, employees, agents, representatives, and contractors, and furnishers of utilities and other services, shall have the right, for its own benefit, for the benefit of the Lessee, or for the benefit of others than the Lessee at the Airport, to maintain existing and future utility, mechanical,

electrical, and other systems and to enter upon said premises at all reasonable times to make such repairs, replacements or alterations as may, in the opinion of the Lessor, be necessary or desirable and, from time to time, to construct or install over, in or under the premises new systems or parts thereof, and to use the premises for access to other parts of the Airport not otherwise conveniently accessible.

Nothing in this Article shall or shall be construed to impose upon the Lessor any obligations so to construct or maintain or to make repairs, replacements, alterations or additions, or shall create any liability for any failure so to do. The Lessee is and shall be in exclusive possession of the said demised premises and the Lessor shall not in any event be liable for any injury or damage to the premises nor to any property of the Lessee or of any other persons located in or thereupon, other than such injury or damage occasioned by the acts of the Lessor, its employees, or agents, which shall be repaired or remedied by the Lessor at its expense.

At any time and from time to time during ordinary business hours within the three (3) months next preceding the expiration of this Lease, the Lessor, by its agents, and employees, whether or not accompanied by prospective lessees, occupiers or users of the premises, shall have the right to enter thereupon for the purpose of exhibiting and viewing all parts of the same.

Nothing herein contained shall permit nor shall be construed to permit the Lessor to exercise any right of access or entry for any of the purposes denoted in this Article except at reasonable times and in such a manner as to not unreasonably interfere with or hinder the use, occupancy and enjoyment of the said demised premises by the Lessee.

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ARTICLE XV - COMPLIANCE WITH LAWS

Lessee agrees that it will not use the demised premises or the Airport, or any part thereof, or permit the same to be used by any of its sublessees, tenants, officers, agents or employees for any illegal purpose; and that it will at all times during the term of this Lease comply with all applicable ordinances, laws, rules and regulations of the City, County, State and of the Government, and of any political division or subdivision or agency, authority or commission thereof, which may have jurisdiction to pass laws or ordinances or make and enforce rules or regulations with respect to the demised premises or the Airport.

Lessee shall also take out and keep current all licenses and permits (whether municipal, state or federal) required for the conduct of its business at the Airport and to pay promptly when due all fees therefor.

ARTICLE XVI - RULES AND REGULATIONS

Lessee shall observe and obey all rules and regulations which may from time to time during the term hereof be reasonably prescribed by Lessor for conduct and operations at or on the Airport; provided that the same are not inconsistent with the rights herein granted and do not conflict with the rules of any federal agency having jurisdiction thereover or the procedures prescribed or approved from time to time by the Government's Federal Aviation Agency or the Civil Aeronautics Board for landing and taking off of Lessee's aircraft at the Airport. Lessee acknowledges that it is familiar with the rules and regulations of Lessor presently in effect at said Airport, copy of which is attached hereto, marked "Exhibit D" and by this

reference hereby made a part hereof.

The Lessor shall give the Lessee notice of any and all changes to Lessor's rules and regulations at least fifteen (15) days prior to the effective date of such change or changes, and Lessor shall furnish to the Lessee copies thereof.

ARTICLE XVII - EMERGENCY PROTECTION

Subject to the provisions of Article II.E hereof, the Lessor does not hold itself out as providing or furnishing fire fighting, crash, or other emergency equipment or service for or to the demised premises or to aircraft owned or operated by the Lessee, whether such aircraft are located on the demised premises or any other place, including, but not limited to, the Airport or runways or taxiways situated on lands contiguous to the Airport.

ARTICLE XVIII - LIABILITY

Except as hereinafter provided, the use of the Airport and the demised premises by Lessee, its agents, employees and guests shall be at their risk. Lessor shall not be liable for, and Lessee agrees to indemnify and hold Lessor harmless from, all claims, costs, and liabilities for injury to or the death of any person or damage to any property arising out of or in any way connected with the use or occupancy of the Airport or the demised premises by Lessee, its agents, employees and guests, except any such claims, costs, and liabilities which occur due to the wilful misconduct or sole negligence of Lessor, its officers, employees and agents. Lessee does hereby release Lessor from all claims, costs, and liabilities, that may arise during the term from damage to or destruction of Lessee's property (such property shall be deemed to include, but not be

limited to, aircraft owned or operated by Lessee) caused by fire; except such claims, costs, and liabilities which occur due to the wilful misconduct or sole negligence of Lessor, its officers, employees, and agents. As used in this Article, the term "its guests" shall be deemed to include, in addition to Lessee's guests, Lessee's passengers, invitees and licensees.

ARTICLE XIX - INSURANCE

A. Property Insurance.

1. Lessor. The Lessor shall, at its own expense, keep in force insurance upon buildings and improvements of the Lessor during any of the terms herein granted, which are of a character customarily insured and which are at any time located upon the demised premises denoted on Exhibit B or upon the Airport area.

The obligation of the Lessor to so insure shall be deemed to be met if, and to the extent that, the Lessor elects to establish, and does so establish, a special fund or funds for the purpose of self-insurance.

Such insurance, whether by fund or policy, shall be in an amount not less than ninety per cent (90%) of insurable value of such buildings and improvements and cover such hazards as are insured against by fire and extended coverage insurance of the character customarily in force at the time in the State upon buildings and improvements of a similar character, and such other hazards as would be normally insured

against in similar circumstances by a reasonably prudent owner of such buildings and improvements.

If and in the event of the total or partial destruction of the Exhibit B premises so as to render the same unusable for the purposes for which the same were designed and constructed, the Lessor shall apply any insurance proceeds accruing and payable by reason thereof, first to such revenue indebtedness as may then remain outstanding, and then the balance of such proceeds, if any, to the reconstruction or repair of such premises. If and in the event of such destruction, the Lessee shall have the right to terminate this Lease, or, in the alternative, to invoke the provisions of Article XXIII hereof.

If and in the event such premises denoted on Exhibit B are structurally damaged, but not to such extent to render them unusable for the purposes for which they were designed or constructed, the Lessor shall repair the same as promptly as practicable. If and in the event the premises denoted on Exhibit B are rendered untenable by the Lessee by reason of such structural damage, the rental obligations of the Lessee hereunder shall cease and abate either in toto or proportionately as and in the manner the parties shall mutually agree (and if the parties fail to mutually agree thereupon,

the matter shall be determined by arbitration pursuant to Article VII hereof), effective as of the date of such damage, until the said premises are again tenantable by the Lessee.

2. Lessee. The Lessee shall, at its own expense, keep in force insurance upon buildings and improvements which are at any time located or constructed or installed by the Lessee upon the demised premises denoted in Exhibit C. Such insurance shall be in an amount not less than ninety per cent (90%) of the insurable value of such buildings and improvements, and shall cover such hazards as are insured against by fire and extended coverage insurance of the character customarily in force at the time in the State upon buildings and improvements of similar character, and such other hazards as would be normally insured against in similar circumstances by a reasonably prudent owner of such buildings and improvements.

When requested by the Lessor, the Lessee shall also, at its own expense, insure (or furnish a surety bond with respect to) any and all construction, alteration, or repair of \$500 or more of improvements of the Lessee at or upon the premises denoted in Exhibit C, against mechanic's and/or materialman's liens arising from such work. Such insurance or bond shall remain in force for the period of such construction, alteration, or repair and thereafter

until ninety (90) days from and after the date of completion (within the meaning of the laws of the State) thereof.

3. Damage to or Destruction of Premises.

(a) Removal of Debris. If the premises denoted on Exhibit C, or any part thereof, shall be damaged by fire, the elements, the public enemy or other casualty, the Lessee shall promptly remove all debris resulting from such damage from the said premises, and to the extent, if any, that the removal of debris under such circumstances is covered by insurance, the proceeds thereof shall be made available to the Lessee for such purpose.

(b) Minor Damage. If the premises denoted on Exhibit C, or any part thereof, shall be damaged by fire, the elements, the public enemy or other casualty but not rendered untenable or unusable for a period of ninety (90) days the said premises shall be repaired with due diligence in accordance with the plans and specifications for the said premises as they existed prior to such damage by and at the expense of the Lessee and if such damage is covered by insurance, the proceeds thereof shall be made available to the Lessee for that purpose.

(c) Major Damage to or Destruction of the Premises. If the demised premises denoted

on Exhibit C, or any part thereof, shall be destroyed or so damaged by fire, the elements, the public enemy or other casualty as to be untenable or unusable for ninety (90) days, or if within ninety (90) days after such damage or destruction the Lessee notifies the Lessor in writing that in its opinion said premises will be untenable or unusable for ninety (90) days, the rental obligations of the Lessee in any such event shall abate from and after the date of such damage or destruction and until either the substantial completion of any repair or reconstruction thereof or the termination of the Lease provided for under Article XIX.A.3(c)(3) hereof, and:

- (1) The Lessor may at its option make the necessary repairs or replacements in accordance (in so far as is practicable) with the plans and specifications for said premises as they existed prior to such damage or destruction, provided, that the Lessor notifies the Lessee of its election so to do within one hundred twenty (120) days after the occurrence of such damage or destruction, or within thirty (30) days after receipt of notice from the Lessee as

the case may be. If the Lessor elects to make such repairs or replacements, it shall do so with reasonable dispatch, and if such destruction or damage was covered by insurance, the proceeds thereof shall be retained by the Lessor.

- (2) In the event that the Lessor does not elect to make said repairs and replacements as provided in subparagraph (1) of this subdivision (c), the Lessee may at its election make such repairs and replacements, provided, that it notifies the Lessor of its election so to do within one hundred fifty (150) days (but not less than one hundred twenty (120) days) from the date of such destruction or damage or within sixty (60) days (but not less than thirty (30) days) after receipt of notice by the Lessor, as the case may be. If the Lessee elects to make such repairs and replacements, it shall do so with reasonable dispatch and without cost to the Lessor, except that if such destruction or damage was covered by insurance, the proceeds thereof shall be made available to the Lessee for that purpose.

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- (3) In the event the damage or destruction is not capable of being repaired within one hundred and fifty (150) days after the date thereof, either because of insufficiency of such insurance proceeds or otherwise, or in the event the original improvement so damaged or destroyed is or soon will be obsolete, or in the event such damage or destruction occurs within such time as to cause reconstruction impracticable by reason of the proximity of the expiration date of the Lease, upon the mutual agreement of the Lessor and the Lessee thereto the parties shall cause such building or improvements to be demolished to the ground level and the debris removed using any insurance proceeds for such purposes. The Lease as to such demised premise shall in such event terminate upon the expiration of 150 days from and after the date of such damage or destruction.
- (4) Any balance of such insurance proceeds remaining after such repair and demolition and removal, and after any lender's loss obligations have been met, shall be divided between the Lessor and the Lessee as their

respective interest may then appear.

B. Liability Insurance. The Lessee shall carry airport liability and property damage insurance with limits of not less than \$250,000 for one person, and \$1,000,000 for one accident, and \$6,000,000 property damage, and provide a certificate of insurance to the Lessor certifying that such coverage is in force and that the Lessor will be notified at least thirty (30) days before cancellation of or material change in said policy.

The Lessee shall file a certificate of insurance with the Lessor certifying that the Lessee has in force aircraft public liability, passenger liability, and property damage for the operation of aircraft owned or operated by or for Lessee in amounts not less than \$250,000 for one person, \$1,000,000 one accident for public liability, \$1,000,000 passenger liability, and \$6,000,000 property damage.

C. Form and Evidence of Insurance. All such insurance policies or certificates required by this Article shall be issued by an insurance or surety company or companies of sound and adequate financial responsibility.

The Lessee shall deposit with the Lessor a copy of such property insurance policy or policies or a certificate of such insurance coverage. In the alternative, and in lieu of the insurance in this Article required of the Lessee, the Lessee shall provide the Lessor with satisfactory evidence of equal insurance protection by an adequate self-insurance program. The Lessor shall make available to the Lessee the insurance information denoted in A above upon request by the Lessee.

All such insurance of the Lessee shall name the Lessor as a co-insured, contain a waiver of subrogation endorsement in favor of the Lessor (or in favor of the Lessee, if insurance of

the Lessor), and provide that the Lessor shall be notified at least thirty (30) days prior to any termination, cancellation, or material change in such insurance coverage.

D. Deductible Clause. Any of the indemnity or casualty insurance coverage provided for in this Article may include provision for a deductible amount of \$5,000 per loss or such higher deductible amount as may be agreed upon by the Lessor and the Lessee.

ARTICLE XX - TERMINATION BY LESSOR

A. Termination Events. If and in the event any one or more of the following events shall occur, that is to say:

1. The Lessee shall become insolvent, or shall take the benefit of any present or future insolvency statute, or shall make a general assignment for the benefit of creditors, or file a voluntary petition in bankruptcy or a petition or answer seeking an arrangement or 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 all or substantially all of its property; or
2. By order or decree of a court the Lessee shall be adjudged bankrupt or an order shall be made approving a petition filed by any of its creditors or, if the Lessee is a corporation, by any of the stockholders of the Lessee, seeking its reorganization or the readjustment of its

- indebtedness under the federal bankruptcy laws or under any law or statute of the United States or of any State thereof; provided that if any such judgment or order is stayed or vacated within sixty (60) days after the entry thereof, any notice of cancellation shall be and become null, void and of no effect; or
3. The Lessee, if a partnership, and the said partnership shall be dissolved as the result of any act or omission of its partners or any of them, or by operation of law or the order or decree of any court having jurisdiction, or for any other reason whatsoever; or
 4. By or pursuant to, or under authority of, any legislative act, resolution or rule, or any order or decree of any court or governmental board, agency or officer, a receiver, trustee or liquidator shall take possession of all or substantially all of the property of the Lessee, and such possession or control shall continue in effect for a period of thirty (30) days; or
 5. The Lessee shall voluntarily abandon, desert or vacate the premises or discontinue its flight operations at the Airport or at the demised premises; or
 6. Any lien shall be filed against the demised premises because of any act or omission of the Lessee and shall not be discharged or contested by the Lessee in good faith by proper legal proceedings within thirty (30) days; or

7. The Lessee shall fail duly and punctually to pay the rental, or to make any other payment required hereunder within the time set forth in subparagraph 8 hereof; or

8. The Lessee shall fail to keep, perform and observe each and every other promise, covenant and agreement set forth in this Lease, on its part to be kept, performed or observed, within thirty (30) days after its receipt of written notice of default thereunder from the Lessor (except where fulfillment of its obligation requires activity over a period of time, and the Lessee shall have commenced in good faith to perform whatever may be required for fulfillment within thirty (30) days after receipt of such notice and continues such performance without interruption except for causes beyond its control);

then upon the occurrence of any such event or at any time thereafter during the continuance thereof, the Lessor may by fifteen (15) days written notice terminate the letting and the Lessee's rights hereunder, such termination to be effective upon the date specified in such notice. Such right of termination and the exercise thereof shall be and operate as a conditional limitation.

B. If any of the events enumerated in Section A hereof shall occur prior to the commencement of the letting, the Lessee shall not be entitled to enter into possession of the demised premises, and the Lessor, upon the occurrence of any such event, or at any time thereafter, during the continuance thereof, by twenty-four (24) hours' notice, may cancel the interest of the

Lessee under this Lease, such cancellation to be effective upon the date specified in such notice.

C. Right of Re-entry. The Lessor shall, as an additional remedy upon the giving of notice of termination as provided in Section A hereof have the right to re-enter the premises and every part thereof upon the effective date of termination without further notice of any kind, and may regain and resume possession either with or without the institution of summary or any other legal proceedings or otherwise. Such re-entry, or regaining or resumption of possession, however, shall not in any manner affect, alter or diminish any of the obligations of the Lessee under this Lease, and shall in no event constitute an acceptance of surrender.

ARTICLE XXI - WAIVER

No acceptance by the Lessor of rentals, fees, charges or other payments in whole or in part for any period or periods after a default of any of the terms, covenants, and conditions hereof to be performed, kept, or observed by the Lessee shall be deemed a waiver of any right on the part of the Lessor to terminate the letting.

A waiver by Lessor of any default of Lessee, or by Lessee of any default of Lessor, in the performance of any of the covenants, terms or conditions of this Lease shall not be deemed or considered to be a waiver of any other matter, and it is mutually covenanted and agreed that the various rights, powers, privileges, options and remedies of Lessor and Lessee herein respectively contained shall be construed to be cumulative, and no one of them shall be deemed to be exclusive of the other, or exclusive of any rights, powers, privileges, options or remedies provided by law.

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ARTICLE XXII - TERMINATION BY LESSEE

If and in the event any one or more of the following events shall occur, the Lessee may terminate this Lease in its entirety either prior to or subsequent to the commencement of the term hereby granted, to wit:

1. The failure or refusal of the Government's Civil Aeronautics Board, the Federal Aviation Agency, or of any other governmental agency (foreign or domestic) having jurisdiction over the operations of the Lessee, to grant or permit Lessee, for a period of ninety (90) days, the right to regularly operate into and from said Airport; provided, however, that such failure or refusal is not due to any fault of Lessee; or
2. The inability of the Lessee to use the demised premises and facilities, the use or occupancy of which is granted herein, continuing for a period longer than ninety (90) days due to any order, rule, or regulation of any appropriate governmental agency having jurisdiction over the operations of Lessee, by reason of the condition, maintenance, or inadequacy of said Airport, or of any aid or facility maintained, or provided or required to be maintained or provided, by Lessor thereat; or
3. The breach by Lessor of, or its failure to perform, any of the covenants or agreements herein contained, and either the failure of Lessor to remedy such breach for a period of ninety (90) days after receipt of a written notice of the existence of such breach, or, if fulfillment of the Lessor's obligation requires activity over a period of time,

the failure of Lessor within said ninety (90) day period in good faith to commence that activity required and to continue the same thereafter except for causes beyond its control.

4. The inability of Lessee to use said premises and facilities continuing for a longer period than ninety (90) days by reason of acts by the public enemy during the existence of a state of war declared or undeclared.
5. As contemplated by Article XXV hereof or otherwise, the assumption by the Government or any authorized agency thereof, of the operation, control, or use of the Airport and facilities, or any substantial portion or portions thereof, in such a manner as substantially to restrict the Lessee, for a period of at least ninety (90) days, from engaging in Air Transportation at or from said Airport.

ARTICLE XXIII - SUSPENSION OR ABATEMENT

Upon the occurrence and/or maturity of any of the termination events contained in Articles XIX, XX, and/or XXII hereof, the party entitled to terminate this Lease by reason thereof shall have the right in lieu of termination and upon prompt written notice to the other party, to either a suspension of this Lease or in the alternative, to a just abatement of such portion of the rental obligations of the Lessee thereunder as may be mutually agreed upon by and between the Lessor and the Lessee (and if the parties fail to mutually agree thereupon, the matter shall be determined by arbitration pursuant to Article VII hereof), such suspension or abatement to be effective from

the time of the receipt of such notice until there is a cessation of the occurrence or activity giving rise to the initial right to terminate this Lease.

ARTICLE XXIV - CONDEMNATION

If and in the event the whole or any of the premises demised hereunder shall be taken pursuant to the power of eminent domain, or if and in the event any partial taking of the same shall render the premises, or the remainder of the same, demised to the Lessee, unusable for the uses permitted the Lessee hereunder, this Lease shall terminate as of the date possession shall be taken by the condemner and any prepaid but unearned rental shall be repaid to the Lessee. If only a part of the demised premises shall be condemned without rendering the remainder thereof reasonably unusable, the Lease shall terminate as to the part taken, and the rental for the remainder shall be reduced pro rata, as of the date of possession. All compensation and damages payable by reason of the condemnation of the demised premises shall be payable to the Lessor, without any apportionment to the Lessee, but the Lessee shall have the right to claim and receive from the condemning authority (but not from the Lessor) a pro rata portion of any compensation and damages payable for any improvements constructed by the Lessee upon the premises denoted on Exhibit C, the Lessee's portion to be determined by the ratio the unexpired term of this Lease bears to the total term. The Lessee shall also have the right to claim and receive from the condemning authority the amount of any expense incurred by the Lessee in repairing any damage to its improvements constructed upon or in the premises demised pursuant to Article IV hereof.

ARTICLE XXV - SUBORDINATION OF LEASE

A. Joint-Use. This lease shall be subordinate in all respects to the provisions of any existing or future leases between the Lessor and the Government or any agency thereof relative to aircraft operating areas at the Airport, the execution of which has been or may be required as a condition precedent to the expenditure of federal funds for the development of the Airport. In the event of any inconsistency between this Lease and any such existing or future lease between the Lessor and the Government or any agency thereof, this Lease or the particular terms and conditions affected thereby shall be mutually suspended or terminated without the Lessor being liable for damages.

This Lease shall be subordinate in all respects to the provisions of any existing or future Joint-Use Agreement between the Lessor and the United States Navy and the United States Air Force. In the event of any inconsistency between this Lease and any existing or future Joint-Use Agreement, this Lease or the particular terms and conditions affected thereby shall be mutually suspended or terminated without the Lessor being liable for damages.

B. National Emergency. During the time of war whether declared by Congress or not, or national emergency, the Lessor shall have the right to enter into any agreement with the Government for any military use of part or all of the landing area, the publicly owned air navigation facilities, and all other areas and facilities of the Airport including the main terminal building. If any such agreement is executed, the provisions of this instrument, in so far as they are inconsistent with the provisions of the agreement with the Government, shall be mutually suspended or terminated without the Lessor being liable for

damages.

C. Rights of Lessee. Nothing in this Article contained shall detract from or limit, nor be construed to detract from or limit, the rights of the Lessee as either set forth in Articles XXII and XXIV hereof, or to seek damages or compensation from other than the Lessor in the event of the execution of any such agreement described above the terms of which are or may be inconsistent with the rights of the Lessee under this Lease.

ARTICLE XXVI - PERFORMANCE BOND

Prior to this Lease becoming effective, Lessee shall deliver to Lessor a faithful performance bond in the sum of TEN THOUSAND DOLLARS (\$10,000.00) executed by a surety company which meets with the written approval of the Director of Transportation and in form approved by the Attorney General of the State, under which said surety company guarantees to Lessor full and complete performance of all of the terms, conditions and covenants herein to be performed on the part of Lessee. Said bond, which may be renewed annually, shall be maintained by Lessee at its cost and expense throughout the existence of this Lease.

ARTICLE XXVII - LITIGATION

If and in the event either the Lessor or the Lessee shall be made a party to any litigation instituted by a third party arising out of the use and occupancy of the premises demised herein (other than condemnation or like proceeding) each of the parties hereto will bear its own costs of such litigation or participation therein, including attorneys' fees. If and in the event either of the parties hereto shall make a claim or

demand against the other, by the institution of legal proceedings or otherwise, to enforce the covenants and agreements of this Lease, the party against whom judgment is rendered upon such claim or demand shall pay all costs of such claim and demand, including reasonable attorneys' fees; provided, however, that if and in the event said claim or demand is settled by compromise or similar agreement, such costs of the respective parties with respect thereto shall be determined by and included in the terms of said compromise or settlement.

Each party shall give prompt notice to the other of any claim or suit instituted against it that may affect the other party.

ARTICLE XXVIII - ASSIGNMENT AND SUB-LETTING

The Lessee shall not at any time sell, convey, transfer, mortgage, pledge, or assign this Lease, either in whole or in part, nor any of its rights, title, interest or privilege hereunder, nor sublet the demised premises or any part thereof, without the prior written consent of the Lessor first had and obtained; provided, however, that such consent shall not be unreasonably withheld.

Nothing herein contained shall prevent Lessee's exercise and performance of rights and obligations hereunder by or through its duly appointed agent or contractor.

ARTICLE XXIX - SUCCESSORS AND ASSIGNS

Each and all of the expressions, phrases, terms, conditions, provisions, stipulation, promises, covenants, agreements, requirements and obligations of this Lease shall, whenever applicable, extend to and bind and inure to the benefit

of the Lessor and the Lessee, and the legal representatives, successors and assigns of either and both of them.

The term "Lessor" as used herein shall mean and include the Department of Transportation of the State of Hawaii or any governmental department, agency, commission or other subdivision thereof as may succeed to the rights, duties, and powers now imposed thereupon and/or exercised thereby.

ARTICLE XXX - NOTICES

Wherever in this Lease it is required that the Lessee send notice to the Lessor or apply for the prior approval, consent, or permission thereof, such notice or application shall be sufficient if sent to the Lessor's Chief, Airports Division, or such person as may succeed to the duties and powers now imposed thereupon and/or exercised thereby; and such Chief or successor person shall notify the Lessee of such approval, consent, or permission as may be applied for and approved, and such notice as the Lessor may be required to give to the Lessee.

Notice or applications to Lessor provided for herein shall be sufficient if sent by registered mail, postpaid, addressed to Lessor, and directed to the attention of the Lessor's Chief, Airports Division, or successor person at Honolulu International Airport, Honolulu 17, Hawaii; and notices to Lessee shall be sufficient if sent by registered mail, postpaid, addressed to Lessee at 173 South Queen Street, Honolulu 13, Hawaii; or to such other respective addresses as the parties may designate in writing from time to time.

ARTICLE XXXI - INTERPRETATION

The language in all parts of this Lease shall in all

cases be construed simply according to its fair meaning and not strictly for or against Lessor or Lessee. This Lease shall be construed and performance thereof shall be determined according to the laws of the State.

ARTICLE XXXII - PARAMOUNT AGREEMENT

This Lease supersedes any and all other agreements entered into by the parties hereto prior to the execution of this Lease covering the subject matter hereof.

ARTICLE XXXIII - AMENDMENTS

This Lease shall not be varied in its terms by any oral agreement or representation, or otherwise than by an instrument in writing of subsequent date hereto executed by both parties by their respective officers or other persons duly authorized.

ARTICLE XXXIV - APPROACH PROTECTION

The Lessor reserves the right to take such action as may be necessary to protect the aerial approaches of the Airport against obstruction, in accordance with governmental standards or requirements, together with the right to prevent the Lessee, or any other person, from erecting, or permitting to be erected, any building or other structure on the Airport which would conflict with such standards or requirements.

ARTICLE XXXV - INVALID PROVISION-SEVERABILITY

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

covenant or condition herein contained, provided that such invalidity does not materially prejudice either the Lessor or the Lessee in their respective rights and obligations contained in the valid terms, covenants or conditions hereof.

ARTICLE XXXVI - SECTION HEADINGS

The sectional headings throughout this instrument are for the convenience of the Lessor and Lessee and are not intended nor shall be used to construe the intent of this Lease or any part thereof, or to modify, amplify, or aid in the interpretation or construction of any of the provisions thereof.

ARTICLE XXXVII - NON-LIABILITY OF INDIVIDUALS

Neither the Director nor Commissioners of the Department of Transportation, nor of any such governmental agency of the State as may succeed to the duties, powers or functions of such Commission or Director, nor any of them, nor any agent, officer, or employee thereof, shall be charged personally by the Lessee with any liability, or be held liable to the Lessee under any term or provision of this Lease, or because of its execution or attempted execution, or because of any breach, or attempted or alleged breach, thereof.

ARTICLE XXXVIII - COVENANT NOT TO GRANT MORE FAVORABLE TERMS

The Lessor covenants and agrees that between the date of the execution of this Lease by both parties and December 31, 1963, the Lessor will not enter into any lease or other written contract with any other person or firm engaged in Air Transportation and with respect to the Airport which contains more favorable terms than are contained in, and relative to the

subject matter of, Articles II, III, and/or IV of this Lease, unless such terms are concurrently and automatically made available to the Lessee; provided, however, that on and after January 1, 1964, and for the balance of the Lease term and any extension thereof, the Lessor covenants and agrees with respect to rates and charges only that the Lessor will not enter into any lease or other written contract with any other person or firm engaged in Air Transportation relative to the provisions of Articles II.C, III.C, and IV.C, and/or VI, unless such terms are concurrently and automatically made available to the Lessee.

XXXIX - SEAWARD RUNWAY

In the event Lessor undertakes construction of a seaward runway at the Airport for the purpose of diverting aircraft take-off or landing operations from populated areas adjacent to the Airport, Lessor shall exercise its best efforts to secure and obtain, to fullest extent possible, Government participation in the financing of any such project. Lessee shall cooperate with Lessor to the fullest extent possible in securing such participation.

o ARTICLE XL - EFFECTIVE DATE OF LEASE

This Lease shall take effect upon the amendment by the First State Legislature, Budget Session of 1962, of Section 123-3(a)(2) of the Revised Laws of Hawaii 1955, as amended by Act 217 of the Session Laws of Hawaii 1957, to read as follows:

"(2) For each gallon of gasoline or other aviation fuel sold for use in or used for airplanes, one cent."

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IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed by those officers in whom authority so to do is vested by law on the day and year first above written.

DEPARTMENT OF TRANSPORTATION
OF THE STATE OF HAWAII

By

Its Director

Lessor

UNITED AIR LINES, INC.

DEPT.	INITIAL
PROPERTY	<i>[Signature]</i>
LAW	<i>[Signature]</i>
INS	<i>[Signature]</i>

By

Its D. C. MEENAN
VICE PRESIDENT-FACILITIES AND PROPERTY

By

Its

Lessee

APPROVED AS TO FORM:

[Signature]
Attorney General, State of Hawaii

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EXHIBIT ONE

AIRPORT USE CHARGE

Article I - Computation of Airport Use Charge

1.01. The Airport Use Charge for the period commencing May 21, 1962, shall be \$1.40 per 1,000 pounds Approved Maximum Landing Weight, to remain in effect through June 30, 1963. Beginning with the next succeeding fiscal year commencing July 1, 1963, and for each fiscal year thereafter during the term set forth in Article II.B, the Lessor's Director of Transportation or his successor shall determine and establish the Airport Use Charge in the following manner:

(1) The Airport Use Charge Requirements for each fiscal year shall be calculated taking into account: (a) the sufficiency of the Airport Use Charge for the previous fiscal year, and (b) such portions of the maintenance and operation budget and the capital improvements program (for the Lessor's Airports Division approved by the Legislature of the State) as may be applicable to the computation of Airport Use Charges hereunder for the fiscal year for which the Airport Use Charge is being calculated. The Airport Use Charge Requirements for each fiscal year shall be deemed to be an amount equal to the excess of the estimated Airport Expenses for the fiscal year for which the Airport Use Charge is being calculated, over the estimated Airport Revenues for such fiscal year.

(2) For the fiscal year for which the

Airport Use Charge is being calculated, the Lessor shall prepare and furnish to Lessee an estimate of the total amount of pounds to be landed at the Airport during said period by Lessee, and by each of the other lessees having leases similar to this Lease. On or before March 1, 1963, and on or before March 1 of each succeeding year thereafter, the Lessee shall furnish the Lessor with an estimate of the Lessee's total amount of pounds to be landed at the Airport for the fiscal year for which said Airport Use Charge is being calculated.

(3) The Airport Use Charge shall be an amount (computed to the nearest one-tenth (1/10) of a cent) for each 1,000 pounds of Approved Maximum Landing Weight of Lessee's aircraft used in revenue landings at the Airport which is equal to the quotient obtained by dividing the Airport Use Charge Requirements for the fiscal year by the estimated number of thousands of pounds of the aggregate Approved Maximum Landing Weight of all aircraft operated by Lessee and all other lessees having leases similar to this Lease during the said fiscal year.

(4) The Airport Use Charge so determined by the Lessor's Director in accordance with the above shall be submitted to the Legislature for its approval with respect to the Legislature's capital improvements program for the Airport used in the computation of such Airport Use Charge. Upon either approval thereof by the Legislature by concurrent resolution, or upon its adjournment sine die without such approval, the

Airport Use Charge so determined by the Lessor's Director shall be the Airport Use Charge payable by the Lessee for the said fiscal year.

Article II - Inter-Island Airport Use Charge

2.01. For any lessee engaged in Air Transportation solely between airports within the State and notwithstanding the provisions of Article I and Paragraph 3.01 of Article III hereof, the Airport Use Charge therefor shall be equal to nine per cent (9%) of the Airport Use Charge established pursuant to Article I hereof, but in no event shall exceed fifteen cents (\$.15) per 1,000 pounds of Approved Maximum Landing Weight.

Article III - Airport Use Charge Deficiency/Excess

3.01. If in any fiscal year actual Airport Expenses exceed actual Airport Revenues (including Airport Use Charges paid by Lessee and all other lessees having leases similar to this Lease) for such fiscal year, the Lessee shall pay to the Lessor its pro rata share of such deficiency which shall be determined by taking for such fiscal year the ratio of the aggregate number of pounds of Approved Maximum Landing Weight for Revenue Landings of aircraft of Lessee at the Airport, to the aggregate number of pounds of Approved Maximum Landing Weight for revenue landings of aircraft at the Airport for all lessees having leases similar to this Lease.

3.02. If in any fiscal year actual Airport Revenues (including Airport Use Charges paid by Lessee and other lessees having leases similar to this Lease) exceed actual Airport Expenses for such fiscal year, such excess shall be carried over and considered an item of "Airport Revenues" within the meaning of Paragraph 7.06 hereof for the next succeeding fiscal year.

Article IV - Payments

4.01. Lessor shall, within fifteen (15) days following the end of each calendar month, furnish to Lessee a statement setting forth the aggregate amount of the Airport Use Charge payable by Lessee for the Revenue Landings of Lessee's aircraft during that month, and such amount (less any applicable credit referred to in Article V.E of this Lease) shall become due and payable by Lessee to Lessor on the fifteenth (15) day of the calendar month next succeeding that month in which said Airport Use Charge is billed to the Lessee by the Lessor.

4.02. As soon as practicable at the end of each fiscal year but not later than September 30, Lessor shall furnish to Lessee a statement setting forth the amount, if any, of the Airport Use Charge deficiency payable by Lessee under Article III of this Exhibit One, and such amount shall become due and payable by Lessee to Lessor on the last day of the calendar month next succeeding that month in which said deficiency is billed to the Lessee by the Lessor.

4.03. Any amount payable hereunder which shall not have been paid when due shall bear interest at seven (7) per cent per annum, which interest shall be paid by the Lessee in addition to such amount.

4.04. The payment by Lessee of amounts billed under Paragraphs 4.01, 4.02, or 4.03 of this Article IV shall be subject to an audit for a period of nine (9) months after the end of the then current fiscal year and on the basis thereof either party may within such period institute a claim for payment by Lessee of any deficiencies or credits to Lessee of any overpayments disclosed by said audit, as the case may be.

Article V - Books, Records and Accounts

5.01. Lessor shall keep and maintain such books, records, and accounts as may be necessary or appropriate in accordance with generally accepted accounting principles and practices of the State government for the purpose of determining all capital expenditures, expenses, and revenues properly allocable to Lessor's Airport Properties for each fiscal year. All items affecting the computation of the Airport Use Charge or the Airport Use Charge deficiency shall be recorded by Lessor in accordance with sound governmental accounting principles and practices.

5.02. Within six (6) months after the end of each fiscal year, Lessor shall deliver to Lessee an annual accountant's report, prepared in accordance with sound accounting principles and practices of the State government and certified to by independent certified public accountants of recognized standing, which shall cover the operation of Lessor's Airport Properties for the preceding fiscal year. The accountant's report shall disclose among other things, a statement of Approved Maximum Landing Weight of all aircraft operated at the Airport by Lessee and all other lessees having leases similar to this Lease. The Airport Use Charge and Airport Use Charge deficiency payments by the Lessee and all other lessees having leases similar to this Lease shall also be disclosed separately, and in the aggregate, together with the basis for the computation of such charges.

5.03. Lessee shall furnish to Lessor on request all data bearing upon the determination of Airport Use Charges or any Airport Use Charge deficiency payable hereunder. Upon reasonable notice and during normal business hours Lessee shall permit Lessor's authorized representative to examine Lessee's

books and records with respect thereto.

Article VI - Covenants by Lessor and Lessee

6.01. Lessor covenants and agrees with Lessee as follows:

(1) During periods in which any Bonds are outstanding, to operate Lessor's Airport Properties strictly in accordance with the terms and conditions, covenants and agreements of such Bonds, and the laws and regulations authorizing the same.

(2) To operate Lessor's Airport Properties in a prudent and efficient manner.

(3) To operate the Airport in a manner so as to produce from concessionaires and other tenants revenues of a nature and amount which would be produced by a reasonably prudent operator of an airport.

(4) (a) To require all of the following airline users of the Airport to enter into leases similar to this Lease:

Aloha Airlines, Inc.
British Overseas Airways Corporation
Canadian Pacific Air Lines, Ltd.
Hawaiian Airlines, Inc.
Japan Air Lines
Northwest Airlines, Inc.
Pan American World Airways, Inc.
Qantas Empire Airways, Ltd.
Transports Aeriens Intercontinentaux
United Air Lines, Inc.

(b) To use its best efforts to enter into leases similar to this Lease with all of the following airline users (other than those named above) as a condition to continued commercial use of the Airport: (i) scheduled air carriers holding certificates of public convenience and necessity issued by

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the Civil Aeronautics Board; (ii) foreign air carriers holding foreign air carrier permits issued by the said Civil Aeronautics Board; (iii) air carriers authorized to engage in intra-State Air Transportation by the Public Utilities Commission (or any successor thereto) of the State; and (iv) supplemental and contract air carriers who make continued commercial use of the Airport.

(5) To establish and maintain a schedule of rates and charges for Air Transportation users of the Airport other than those listed below whereby the airport use charge therefor shall be equal at least to the Airport Use Charge then in effect as computed pursuant to Article I hereof.

(a) Air Transportation users of the Airport described in Article VI, Paragraph 6.01 (4) hereof, having leases similar to this Lease;

(b) Air Transportation users of the Airport described in Article II hereof;

(c) Intra-island helicopter users;

(d) Air taxi users.

(6) To establish and maintain a schedule of appropriate rates and charges, as determined by Lessor, for all aircraft users of the Airport other than those listed below:

(a) Air Transportation users (other than intra-island helicopter and air taxi users) described in Article VI, Paragraph 6.01 (4) hereof;

(b) Air Transportation users of the Airport described in Article II hereof, having leases

similar to this Lease.

6.02. Lessee covenants and agrees with Lessor that subject to such orders, rules, and regulations as may be promulgated from time to time by the Federal government or any agency thereof, it will, during each fiscal year, use the Airport Properties in connection with its operations to and from the State.

Article VII - Definitions

7.01. "Bonds" shall mean (1) the principal amount of Airport Revenue Bonds issued pursuant to Joint Resolution 32, Session Laws of Hawaii 1957, and Bond Resolutions Nos. 59-03 and 59-04, dated March 31, 1959, of the Hawaii Aeronautics Commission; (2) the principal amount of General Obligation Bonds of the State for airport construction authorized prior to the effective date of this agreement and identified as follows:

	<u>Series</u>	<u>Issued</u>	<u>Principal Amount</u>
(a)	Series B	12/ 1/50	\$ 300,000
(b)	Series A	4/15/52	294,000
(c)	Series A	9/15/53	448,150
(d)	Series B	10/15/56	43,000
(e)	Series A	5/15/57	664,050
(f)	Series B	11/15/57	3,586,000
(g)	Series A	3/15/59	313,845

(3) the principal amount of any other general obligation bonds to the total estimated extent of \$1,650,000 at the Airport for the: (a) widening of taxiways and aprons in front of any terminal complex and overseas area; (b) additional taxiways in inter-island and fixed base areas, and service roads, and (c) permanent fire station; and (4) the principal amount of any

other airport revenue or general obligation bonds issued subsequent to the effective date of this agreement, to cover the construction of facilities on or in connection with the Airport provided that such construction and the amount thereof is reasonably and necessarily required in the prudent operation of the Airport.

7.02. "Fiscal year" means the fiscal year of Lessor commencing July 1 and ending June 30.

7.03. "Approved Maximum Landing Weight" of any aircraft shall mean the maximum landing weight approved by the Federal Aviation Agency for landing such aircraft at the Airport.

7.04. "Revenue Landing" shall mean any aircraft of Lessee landing at the Airport and transporting revenue passengers and/or cargo for hire, but shall not include any landing of Lessee's aircraft after takeoff from the Airport without making a stop at another airport because of weather, mechanical, operational, or other emergency or precautionary reasons.

7.05. "Lessor's Airport Properties" shall mean all of the property (real and personal) and related facilities located in the State under the management and control of the Airports Division of the Lessor from time to time. "Airport" shall mean Honolulu International Airport.

7.06. "Airport Revenues" for any fiscal year for the purpose of the computation of the Airport Use Charge shall mean all rents, fees, and other charges received during any fiscal year by Lessor which, as of the date of this Lease, are being deposited in the Airport Revenue Fund pursuant to Chapter 15-10, Revised Laws of Hawaii 1955, plus Aviation Fuel Taxes paid by users of the Airport other than the Lessee and all other lessees having leases similar to this Lease, less, however, (1) Airport

Use Charges or Airport Use Charge deficiencies paid by Lessee and all other lessees having leases similar to this Lease during such fiscal year; (2) all revenues derived from Lessor's Aviation Properties other than at the Airport; (3) any funds paid or payable to the Lessor under a Net Rental Lease. "Net Rental Lease" shall mean all or such portion of the term of a lease of any structural facility (other than the Terminal Building), constructed or installed at the Airport at the Lessor's initial cost and expense, during which the total amount of rents and other charges (excluding rental for the land upon which such facility is placed) payable by the lessee thereunder constitute reimbursement to the Lessor of only the costs incurred by the Lessor in the construction or installation of such structural facility. "Net Rental Lease" shall not include any contract, lease, license or other arrangement, nor the rents or revenues derived therefrom, from concessionaires of every character and description whatsoever, including but not limited to, banks, hotels, automobile parking, ground transportation, insurance, restaurant, food, beverage, newsstand, and merchandise concessions.

7.07. "Airport Expenses" for any fiscal year shall mean all expenses incurred by the Lessor in the administration, operation, and maintenance of the Airport only, in accordance with this Lease, which are properly allocable to such year, subject to the specific requirements hereinafter set forth. Such expenses shall include, but without limitation, the following expenses incurred by the Lessor for and in connection with the Airport:

- (1) Direct labor and salaries, including such fringe benefits as provisions for holiday and

vacation pay, workmen's compensation, pension benefits, hospital insurance, and such other benefits as are or may be included therein from time to time.

(2) Services by contract.

(3) Services by independent accountants, auditors, consultants, attorneys and engineers.

(4) Casualty and uninsured losses.

(5) Security and emergency protection.

(6) Materials, supplies, equipment and other expenses.

(7) Utilities.

(8) Insurance, including but without limitation, public liability insurance, burglary insurance and fidelity bonds of employees; and property damage and fire insurance on the terminal buildings, fire stations and the like.

(9) The Lessor's Airports Division's pro rata share of the general administration cost of the Department of Transportation, including but without limitation, automatic data processing expense and other expenses in improving Lessor's accounting procedures.

(10) Administrative expense of Lessor pursuant to provisions of Section 132-16, Revised Laws of Hawaii 1955.

(11) Immediate write-off in lieu of depreciation on depreciable assets, and amortization in respect of engineering costs deferred now or hereafter acquired with Lessor's funds, in accordance with State accounting practices and principles;

provided, however, that no more than \$100,000 in any fiscal year shall be so treated by this practice. (Interest and amortization charges for capital improvements in existence upon the effective date of this Lease and fully paid for shall not be included as items of Airport Expense.)

(12) Accounts receivable not collected within sixty (60) days from due date.

(13) Service of indebtedness (other than indebtedness incurred in connection with Net Rental Leases) incurred in connection with Bonds, including the payment of principal and interest and the funding of required reserve and redemption accounts.

(14) Sums necessary to establish, replace or replenish any other reserve funds mutually agreed upon by Lessor and Lessee.

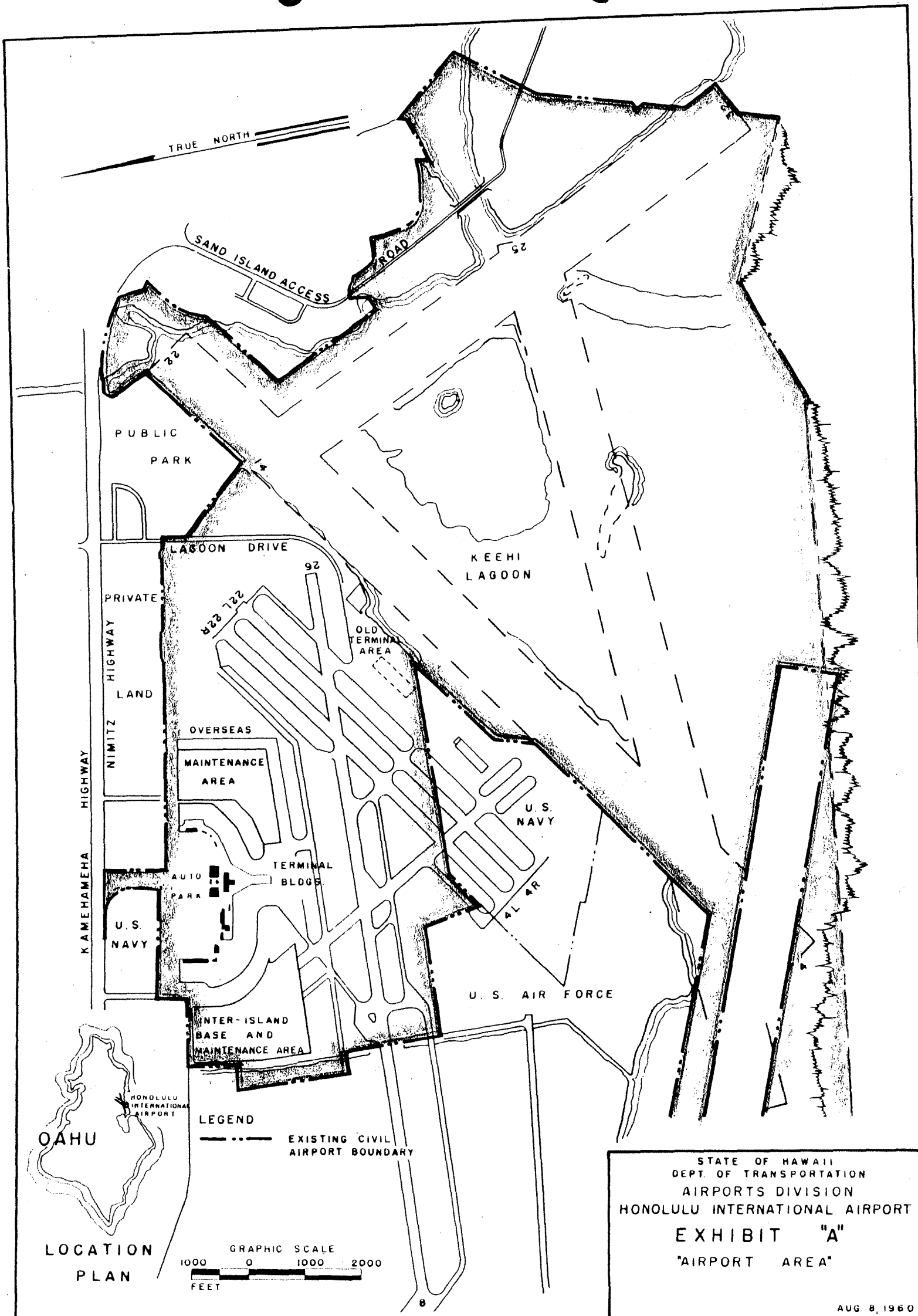
"Airport Expenses" shall include the sum of \$570,000 each fiscal year for maintenance and operation and capital improvements for Airport Properties for other than the Airport.

"Airport Expenses" shall also include expenditures for any of Lessor's Airport Properties for capital improvements as enacted by the State payable out of general fund appropriation or out of the Lessor's special fund established pursuant to Section 15-10, Revised Laws of Hawaii 1955, to consist of not more than \$150,000 for the fiscal year commencing July 1, 1962, and \$150,000 for each fiscal year thereafter.

"Airport Expenses" shall not include any costs incurred by Lessor under or in connection with any Net Rental Lease.

7.08. "Aviation Fuel Taxes" shall mean aviation fuel

taxes levied by the State on the sale to Lessee or the use by Lessee of Aviation fuels, including the aviation fuel tax levied by the State pursuant to Chapter 123, Revised Laws of Hawaii 1955, as amended.



STATE OF HAWAII
DEPT. OF TRANSPORTATION
AIRPORTS DIVISION
HONOLULU INTERNATIONAL AIRPORT
EXHIBIT "A"
"AIRPORT AREA"

AUG. 8, 1960

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A I R C R A F T

P A R K I N G

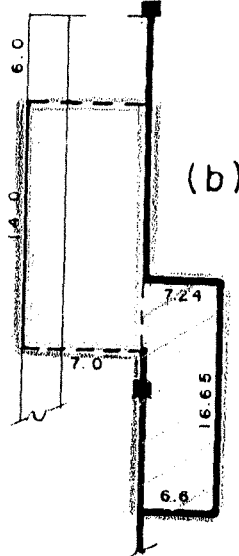
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CLAIM COUNTER
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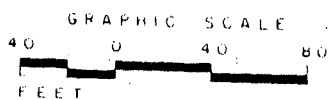
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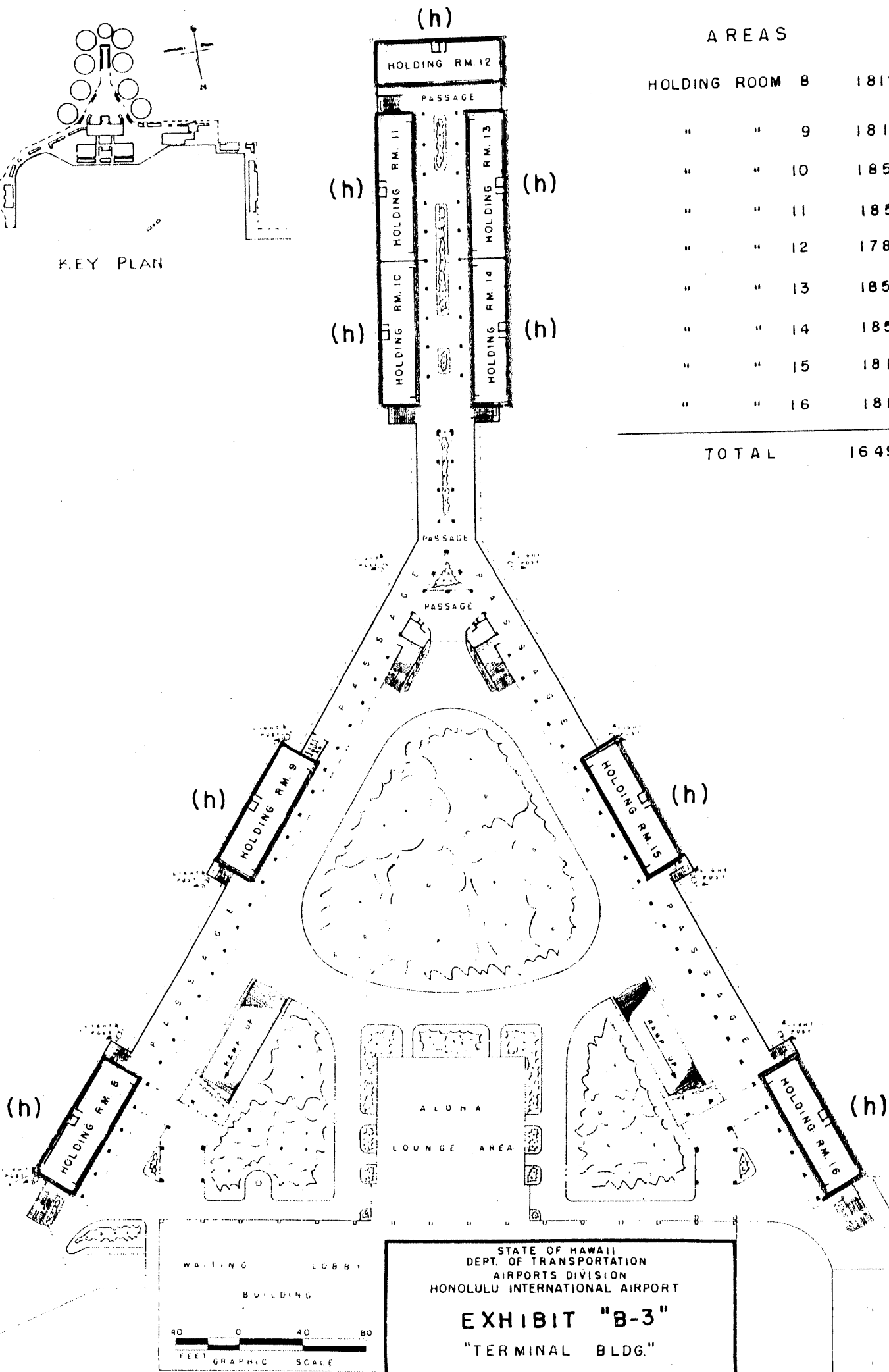
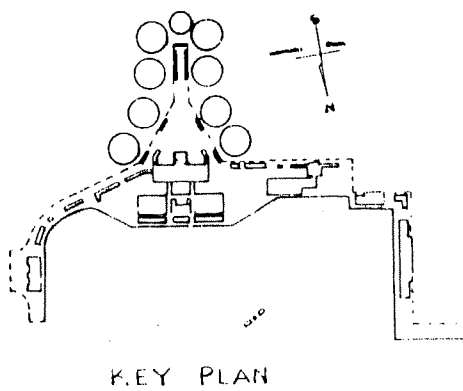


KEY PLAN



STATE OF HAWAII
DEPT. OF TRANSPORTATION
AIRPORTS DIVISION
HONOLULU INTERNATIONAL AIRPORT
EXHIBIT "B-2"
"TERMINAL BLDG"
DOMESTIC BLDG. &
BAGGAGE CLAIM BLDGS. NO. 1 & NO. 2
MAR. 27, 1962

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AREAS			
HOLDING ROOM	8		1819 SQ. FT.
"	9		1819 " "
"	10		1858 " "
"	11		1858 " "
"	12		1789 " "
"	13		1858 " "
"	14		1858 " "
"	15		1819 " "
"	16		1819 " "
TOTAL			16 497 SQ. FT.

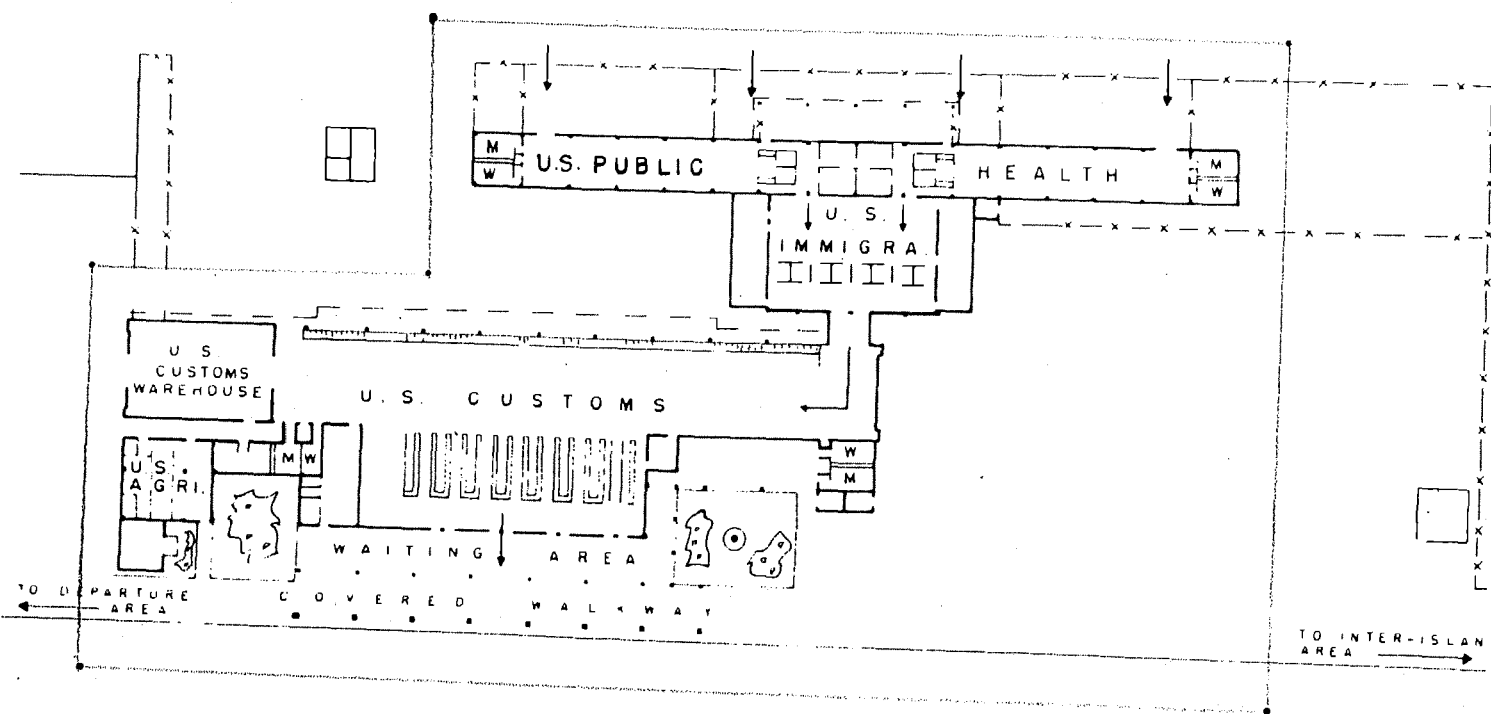
STATE OF HAWAII
DEPT. OF TRANSPORTATION
AIRPORTS DIVISION
HONOLULU INTERNATIONAL AIRPORT

EXHIBIT "B-3"
"TERMINAL BLDG."

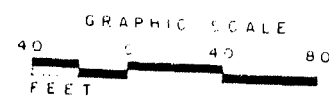
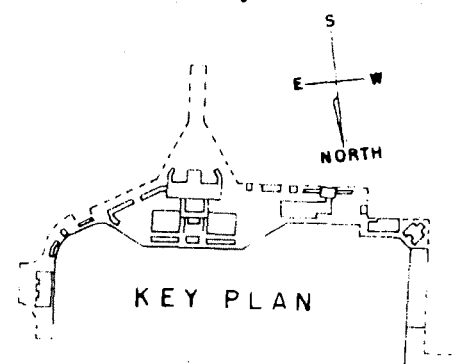
ELEVATED CONCOURSE & HOLDING ROOMS
MAR. 27, 1962

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F I E L D S I D E



S T R E E T S I D E



STATE OF HAWAII
DEPT. OF TRANSPORTATION
AIRPORTS DIVISION
HONOLULU INTERNATIONAL AIRPORT
EXHIBIT "B-4"
"TERMINAL BLDG"
FOREIGN ARRIVALS

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PARCEL 1

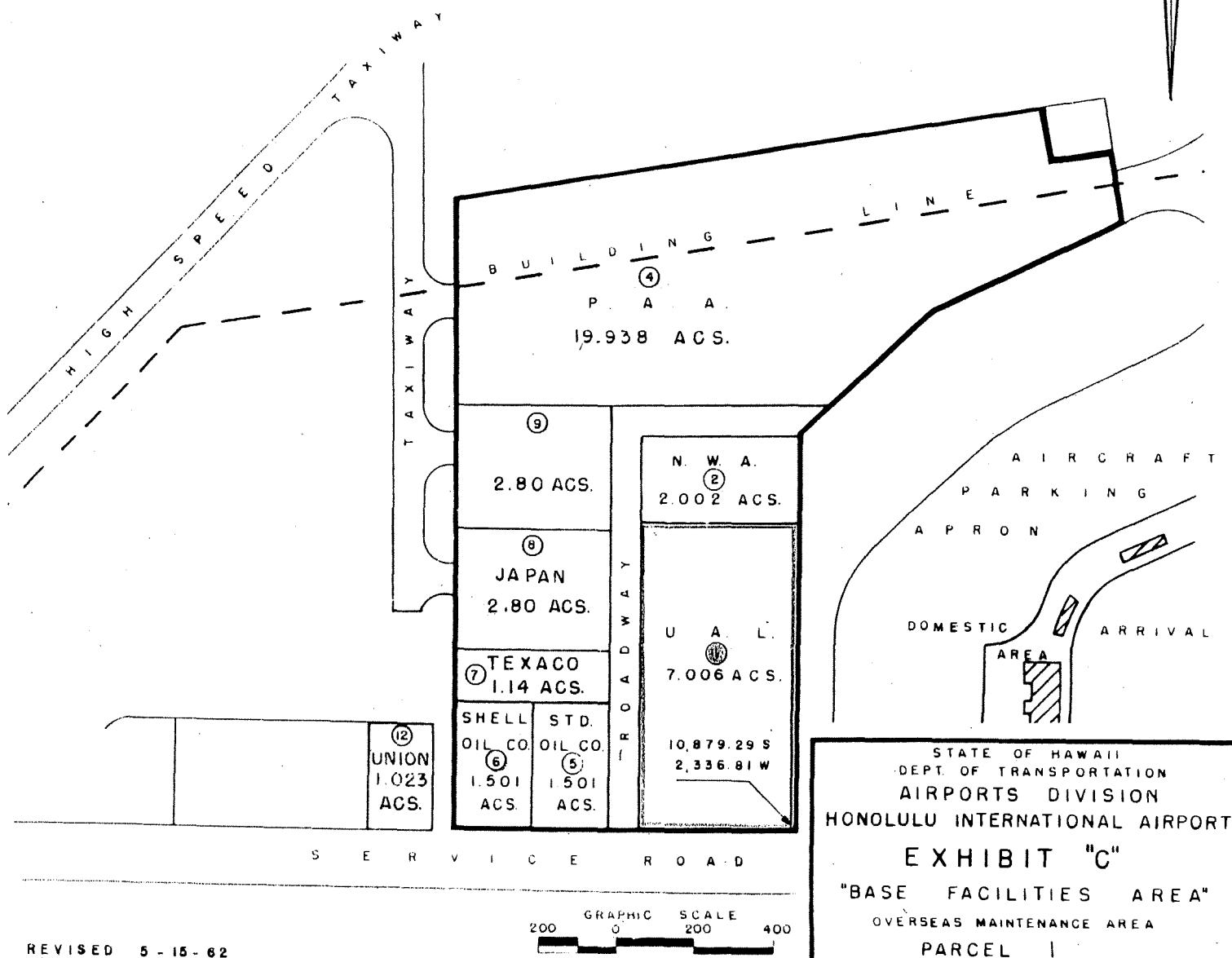
Being a portion of Honolulu International Airport bearing Tax Map Key: H-1-09-par. 1, being also portions of Part 1 of Governor's Executive Order No. 1878 dated January 28, 1959 and Governor's Executive Order No. 1016 dated April 12, 1949, the same being also portions of Land Court Application 1074 and R. P. 7858 L.C.Aw. 7715 Apana 2 to Lot Kanehameha

Land situated at Moanalua, Honolulu, Oahu, Hawaii

Beginning at the Northwest corner of this piece of land, the true azimuths and distances from the Southwest corner of Lot 844, Map 180, Land Court Application 1074 on the following traverse being (a) 279° 04' 11.13 feet, and (b) 9° 04' 150.00 feet, and the coordinates of said point of beginning referred to Government Survey Triangulation Station "Salt Lake" being 10,879.29 feet South and 2,336.81 feet West, thence running by azimuths measured clockwise from true South:

- | | |
|-------------|---|
| 1. 279° 04' | 400.00 feet; |
| 2. 9° 04' | 769.00 feet; |
| 3. 99° 04' | 400.00 feet; |
| 4. 189° 04' | 769.00 feet to the point of beginning
and containing an area of 305,200
square feet or 7.006 Acres. |

TRUE NORTH
SCALE 1"=400'



REVISED 5-15-62

GRAPHIC SCALE
200 0 200 400

STATE OF HAWAII
DEPT. OF TRANSPORTATION
AIRPORTS DIVISION
HONOLULU INTERNATIONAL AIRPORT
EXHIBIT "C"
"BASE FACILITIES AREA"
OVERSEAS MAINTENANCE AREA
PARCEL 1

AUG. 8, 1960

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Appendix C

1994 Lease Extension Agreement

LEASE EXTENSION AGREEMENT

THIS LEASE EXTENSION AGREEMENT (the Extension), entered into this ____ day of _____, 1994, but effective as of July 1, 1994, by and between the DEPARTMENT OF TRANSPORTATION, STATE OF HAWAII, hereinafter called the "LESSOR" and 1~, hereinafter called "LESSEE".

WITNESSETH THAT:

WHEREAS, the LESSOR and LESSEE entered into that certain indenture of lease designated as Lease No. 2~ and dated 3~, which Lease, as amended and extended from time to time, is hereinafter referred to as the "Airport-Airline Lease"; and

WHEREAS, the LESSOR and LESSEE wish to extend the term of the Airport-Airline Lease and to amend certain provisions thereof, including the rates and charges payable by LESSEE under the Airport-Airline Lease.

NOW THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, and other valuable consideration, LESSOR and LESSEE hereby agree as follows:

1. The term of the Airport-Airline Lease shall be extended through June 30, 1997.

2. Effective as of July 1, 1994, the terms and conditions of the Airport-Airline Lease, including, but not limited to, the calculation of the rates and charges to be paid by LESSEE, shall be amended as set forth in Exhibit 1 attached hereto and incorporated herein.

3. Effective as of July 1, 1994, the billing and payment procedures shall be as set forth in Exhibit 2 attached hereto and incorporated herein.

4. The rates and charges in effect as of July 1, 1994 payable under the Extension are set forth in Exhibit 3, attached hereto and incorporated herein, subject to adjustment pursuant to Exhibit 1 Section F(8).

5. The Extension is not to be construed as precedent for any future rate making methodology or structure, nor is the Extension intended to limit the rights of the LESSOR or LESSEE in any way, including, without limitation, the rights of the LESSOR and the LESSEE to payments and/or credits pursuant to the terms of the Airport-Airline Lease.

6. The Extension will be automatically extended on a quarterly basis unless either party provides sixty (60) days written notice to the other party of termination.

7. Except as set forth herein, the terms and conditions of the Airport-Airline Lease as heretofore amended shall remain in full force and effect. In case of any conflict between the terms and conditions of the Airport-Airline Lease and the terms of the Extension, the terms of the Extension shall control.

8. The Extension may be executed in several counterparts, all or any of which shall be regarded as the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused the Extension to be executed on the day and year first above written.

DEPARTMENT OF TRANSPORTATION,
STATE OF HAWAII

Director of Transportation

LESSEE

Title: _____

Exhibit 1 to the Extension

A. DEFINITIONS

1. **"Airfield Activity Center"** shall mean the airfield areas of all airports in the Airport System, including, but not limited to, the runways, taxiways, aprons, aircraft parking areas, security fencing, secure service roadways, aircraft rescue and crash fire stations, and related areas and facilities.
2. **"Airport"** shall mean the Honolulu International Airport.
3. **"Airports System"** shall mean the State-wide system of airports including all airports, air navigation facilities, and other related facilities and properties (real, personal, or mixed), and any rights or interests in airports, air navigation facilities, and other related facilities and related properties, now or hereafter belonging to or controlled by the State or under the administration, jurisdiction, control, and management of the State, and all equipment, improvements, extensions, or betterment thereto hereafter constructed or acquired.
4. **"Airports System Costs"** for any State Fiscal Year shall mean all reasonable expenses incurred by Lessor in the administration, operation and maintenance of the Airports System. Airports System Costs shall include maintenance and operating expenses (including payments to the Office of Hawaiian Affairs, the State surcharge, and the Department of Transportation administrative allocation), debt service and coverage on airports system revenue bonds, debt service on reimbursable general obligation bonds, debt service and coverage on any subordinate bonds including requirements under SWAPS, letters of credit and other credit enhancing instruments, annual requirements for purchases of equipment and motor vehicles, and replenishment or increase of the Airports System Major Maintenance, Renewal and Replacement Account and the operation and maintenance reserve account pursuant to Section E(1)(c).
5. **"Airports System Revenues"** for any State Fiscal Year for the purpose of the computation of the ASSC means all rents, fees, operating interest income, and all other income received during such State Fiscal Year by the Lessor from the operation of the Airports System which are required to be deposited in the Airport

Revenue Fund pursuant to Section 261-5, Hawaii Revised Statutes, as amended, excluding, however, (i) ASSC or ASSC adjustments pursuant to Section F(8) during such State Fiscal Year; (ii) grants-in-aid or similar payments received from public agencies provided that (a) the uses of such moneys are restricted to specified purposes, or (b) such grants or payments constitute a reimbursement to Lessor for expenditures or transfers previously made from the Airport Revenue Fund; (iii) any funds paid or payable to the Lessor under a net rental lease; (iv) (a) interest derived from moneys received under item (ii) and (iii) above; (b) interest received from funds earmarked for the capital improvement program; (c) interest received on unspent bond moneys, and (d) interest received on funds earmarked for transfer for purposes of debt reduction pursuant to Section G; (v) aviation fuel taxes, and (vi) duty free revenues pursuant to Section D(1). All such excluded funds will be applied for any lawful Airports System purposes. Revenues received from passenger facility charges, if and when assessed, will not be included in the calculation of ASSCs, but will remain in the Airport Revenue Fund and used for the capital improvement program or to redeem outstanding airport revenue bonds.

6. **"ASSC"** shall mean the Airports System Support Charge imposed by the Lessor per one thousand (1,000) pounds of Approved Maximum Landed Weight to recover residual costs of the Airports System.
7. **"Approved Maximum Landed Weight"** shall mean the maximum weight in thousand-pound units at which each aircraft operated by a Signatory Airline is authorized by the Federal Aviation Administration for landing as recited in the flight manual governing that aircraft. If an aircraft is registered in a foreign country and has not been certified by the Federal Aviation Administration the approved maximum landed weight shall be the maximum landed weight authorized by the foreign country.
8. **"Deplaning International Passenger"** shall mean any passenger, excluding any member of a flight crew, who deplaned from an international flight and used the international arrivals area of the Airport.
9. **"Landing"** shall mean any landing at any airport in the Airports System with revenue passengers and/or cargo for hire, but shall not include landings resulting from weather, mechanical, operations, emergency or precautionary conditions.

10. **"Revenue Passenger Landing"** shall mean any Landing at any airport in the Airports System with revenue passengers, but shall not include Landings resulting from weather, mechanical, operations, emergency or precautionary conditions.
11. **"Signatory Airlines"** shall mean Lessee or any airline engaged in the transportation of persons, property, cargo, and/or mail by air, at, to and/or from or through the Airports System having a lease substantially similar to the Airport-Airline Lease and the Extension.
12. **"Total Landed Weight"** shall mean, for any State Fiscal Year, the sum of the following weights, expressed in one thousand (1,000) pound units:
 - (a) The sum obtained by adding the Approved Maximum Landed Weight for each aircraft for each overseas Landing at an airport in the Airports System; and
 - (b) That percentage, pursuant to Section F(5) of the sum obtained by adding the Approved Maximum Landed Weight for each aircraft for each interisland Landing such aircraft makes at an airport in the Airports System.

B. THE CAPITAL IMPROVEMENT PROGRAM

1. The project elements and estimated cost of the agreed upon capital improvement program for State Fiscal Years 1995 through 1997 is set forth in Attachment A.
2. The Lessor does not forecast any additions to the State Fiscal Year 1995 through 1997 capital improvement program during the term of the Extension. Should the Lessor need to expend any funds for construction during the Extension on any additional capital improvement not listed in Attachment A, or if the project budget for any capital improvement listed on Attachment A increases by more than ten percent (10%) prior to the award of a construction contract, such capital improvement (Additional Capital Improvement) funding will be subject to the Signatory Airline review process pursuant to Section B(5) below.

If, after a contract for construction has been executed for any capital improvement listed in Attachment A, the Lessor, as part of its ongoing project management reporting process, forecasts expenditures necessary to

complete any such capital project in excess of 110% of the amount shown on Attachment A, the Lessor will:

- a. Notify the Signatory Airlines within thirty (30) days of such determination;
- b. Use its best efforts to mitigate such overruns including design modifications and/or project scope reductions; and
- c. If necessary, reallocate the estimated costs shown on Attachment A (including contingency, planning, and design allowance) such that the overall estimated cost of \$316.1 million for the State Fiscal Year 1995-1997 capital improvement program is not exceeded.

If the Lessor forecasts that the estimated cost of \$316.1 million will be insufficient to complete the projects shown in Attachment A, the Lessor will eliminate projects not yet under contract for construction from Attachment A, as necessary, to maintain the total estimated cost of \$316.1 million. Such eliminated projects may be treated as Additional Capital Improvements subject to the review process pursuant to Section B(5).

3. The estimated expenditures for the capital improvement program set forth in Attachment A -- measured in terms of total amount expended for design, construction, and program management contracts, but excluding financing costs -- is approximately \$316.1 million.
4. The Lessor shall provide quarterly reports to the Signatory Airlines regarding the status of design and construction, the schedule and the actual or estimated cost for the capital improvement program. At the request of the Signatory Airlines, the Lessor will meet with the Signatory Airlines to discuss any element of the capital improvement program.
5. The Lessor shall institute the following process for Signatory Airline review of Additional Capital Improvements.
 - a. If the Lessor decides to undertake an Additional Capital Improvement (excluding all expenditures either from the Major Maintenance, Renewal and Replacement Account or for equipment and motor vehicles), the capital and/or operations and maintenance costs of which are to be funded by the inclusion of the purchase price, the construction cost, coverage on bonds, lease payments, or

operations and maintenance expenses in the rents or fees of the Signatory Airlines during any subsequent State Fiscal Year or Years during the term of the Extension, the Lessor shall submit a report containing such Additional Capital Improvement(s) to each of the Signatory Airlines. A report may be submitted by the Lessor at least ninety (90) days before the expiration of the then-current State Fiscal Year, but not more than quarterly, and shall include the following:

- (1) A description of the Additional Capital Improvement together with cost estimates and any available preliminary drawings.
- (2) A statement of the need for the Additional Capital Improvement.
- (3) An estimate of the operation and maintenance expenses associated with the completed Additional Capital Improvement.
- (4) The allocation of the cost thereof to the Airfield Activity Center.
- (5) The Lessor's financing plan for the Additional Capital Improvement.

b. Within a reasonable time, but no sooner than thirty (30) days and no later than sixty (60) days after distribution of a report, the Signatory Airlines shall meet with the Lessor to discuss any Additional Capital Improvement and its financing plan. The Lessor will provide the Signatory Airlines reasonable notice of the date, time, and place of the meeting. The Additional Capital Improvement and its financing plan shall be deemed accepted unless within sixty (60) days after distribution of the report, concurrence is specifically withheld in writing by at least fifty percent (50%) of the Signatory Airlines representing at least fifty percent (50%) of the total landing fees and ASSCs actually paid in the previous State Fiscal Year.

c. If the Additional Capital Improvement is not accepted within sixty (60) days after distribution of a report, the Lessor shall have the option to convene a second meeting of the Signatory Airlines within one hundred and twenty (120) days after distribution of a report. At the second meeting, the Lessor shall respond to questions raised during the first meeting and shall ask for

reconsideration of the Additional Capital Improvement and its financing plan. Upon reconsideration, the Additional Capital Improvement shall be deemed accepted unless within thirty (30) days after such meeting, concurrence is specifically withheld in writing by at least fifty percent (50%) of the Signatory Airlines representing at least fifty per cent (50%) of the total landing fees and ASSCs actually paid in the previous State Fiscal Year. Any Additional Capital Improvement and related financing plan not accepted by the Signatory Airlines under this Section B(5) shall be deferred until the State Fiscal Year following the State Fiscal Year for which the Additional Capital Improvement was proposed, and thereafter shall require no further review by the Signatory Airlines.

- d. Even if concurrence is withheld on any Additional Capital Improvement, the Lessor may include the cost of such Additional Capital Improvement in the succeeding State Fiscal Year calculation for the landing fees and ASSC of the Signatory Airlines, if the Lessor determines that such Additional Capital Improvement is necessary or prudent to:
- (1) Ensure compliance with a rule, regulation, or order of any federal, State, or other governmental agency (excluding Lessor) that has jurisdiction over the operation of the Airports System.
 - (2) Permit the continued operation and maintenance of the Airports System.
 - (3) Satisfy judgments against Lessor in its capacity as an airport sponsor rendered by a court of competent jurisdiction.
 - (4) Repair casualty damage to Airports System property or facilities. Upon making any such determination, Lessor shall notify the Signatory Airlines in writing.
- e. The capital improvement program, including contingencies and planning and design allowances, set forth in Attachment A, is exempt from the review procedures pursuant to this Section B(5), subject to the requirements of Section B(2).

C. FINANCING THE CAPITAL IMPROVEMENT PROGRAM

1. Sources of Funding - Capital Improvement Program.

The Lessor expects to finance the capital improvement program set forth in Attachment A from the following sources:

- a. Airports System funds existing as of the commencement of the term of the Extension;
- b. Cash flow generated from Airports System financial operations during the term of the Extension;
- c. Grants-in-aid under the FAA's Airports Improvement Program (AIP) or any successor airport grant program. The Lessor will use its best efforts to obtain the maximum amount of discretionary AIP grants-in-aid and any other grants which may be available for the capital improvement program;
- d. Investment income on available capital funds.

2. Airports System Revenue Bonds

- a. The Lessor does not intend to issue any additional general purpose Airports System revenue bonds during the term of the Extension other than refunding bonds (if appropriate).
- b. In the event the Lessor issues any additional general purpose Airports System revenue bonds, the Lessor will notify the Signatory Airlines in advance of the schedule of such issuance and provide information regarding the issuance to the Signatory Airlines, including but not limited to a preliminary official statement.

D. DUTY FREE REVENUES

Each State Fiscal Year, duty free revenues shall be applied as follows:

1. For the term of the Extension, duty free revenues actually received by the Lessor in a State Fiscal Year in excess of \$100 million shall be applied to fund the capital improvement program.
2. For the term of the Extension, duty free revenues actually received by the Lessor in a State Fiscal Year up to \$100 million shall be applied to reduce the ASSC.

3. In the event that duty free revenues in any State Fiscal Year during the term of the Extension are payable but not received due to the failure by the concessionaire to make such payment, including duty free revenues payable during the term of the Extension and received after the termination of the Extension, such duty free revenues shall be applied in any State Fiscal Year when actually received for the purposes and in the amounts provided in Section D(1) and D(2) as a credit towards the ASSC or other rates and charges if the ASSC is no longer in effect, payable by those signatory airlines who are signatory airlines at the time of receipt of such deferred duty free revenue. Lessor will take no action to defer any receipts due in any State Fiscal Year under the terms of the duty free contract for the purpose of decreasing Airports System Revenue for such State Fiscal Year. In the event that Lessor, in its sole discretion, determines that it is in the best interest of Lessor and Lessee to defer any receipts due in any State Fiscal Year under the terms of the duty free contract, Lessor will consult with the Signatory Airlines regarding such deferral. This Section D(3) shall survive the termination of the Extension.

E. APPLICATION OF EXISTING CASH BALANCES

1. Reserves

As of July 1, 1994, and at the beginning of each State Fiscal Year thereafter, the Lessor will reserve a sufficient amount of Airports System cash and investments (on hand as of the immediately preceding June 30) to provide for the following obligations:

- a. Operating fund encumbrances as of June 30;
- b. Capital improvement program commitments;
- c. The first three months of the budgeted operating expenses for the current State Fiscal Year;
- d. The first three months, or for any such period as required by State law, of the budgeted debt service on all outstanding bonds for the current State Fiscal Year, and
- e. Major Maintenance, Renewal, and Replacement Account of \$15 million.

F. RATES AND CHARGES

1. Terminal Rents - Exclusive Use Premises. The terminal rental rates per square foot per year for exclusive use premises (ticket counters, offices, baggage make-up areas, operations space, VIP lounges, etc.) will be fixed for the term of the Extension as set forth in Exhibit 3. The air conditioning charge will not be fixed for the term of the Extension and may be revised using a cost recovery calculation by the Director from time to time.
2. Joint Use Premises Charges. The joint use premises charge shall be determined based on the terminal rental rates set forth in Exhibit 3, and recovered based on Revenue Passenger Landings as follows:
 - (a) The joint use premises charge for the overseas terminal at the Airport shall apply to holdroom, baggage claim, baggage tug drive, and joint use baggage makeup areas and shall be calculated as the quotient derived by dividing the product obtained by multiplying the applicable terminal rental rate for each type of joint use area in the overseas terminal and the total number of square feet of respective joint use area in the overseas terminal by the estimated Revenue Passenger Landings applicable to the overseas terminal.
 - (b) The joint use premises charge for the interisland terminal at the Airport shall apply to holdroom, baggage claim, baggage tug drive, and joint use baggage makeup areas and shall be calculated as the quotient derived by dividing the product obtained by multiplying the applicable terminal rental rate for each type of joint use area in the interisland terminal and the total number of square feet of respective joint use area in the interisland terminal by the estimated Revenue Passenger Landings applicable to the interisland terminal.
 - (c) Beginning in State Fiscal Year 1997, a joint use premises charge shall also apply to the baggage claim, baggage tug drive, and joint use baggage makeup areas at Kahului Airport, Keahole-Kona International Airport, Lihue Airport, and Hilo Airport, and shall be calculated as the quotient (rounded to the nearest cent) derived by dividing the product obtained by multiplying the applicable terminal rental rates for each type of joint use area in the airports listed in this paragraph and the total number of square feet of respective

joint use area in such airports by the estimated Revenue Passenger Landings applicable to such airports. Although not covered by the terms of the Extension, it is the Lessor's intent to apply a joint use premises charge to all joint use premises at all the Neighbor Island airports in State Fiscal Year 1998.

3. Landing Fees. The landing fee rate shall be calculated for all of the airports in the Airports System to recover the percentage of Airports System Costs (as defined in Section A(4) above) allocable to the Airfield Activity Centers of the Airports System and shall be calculated as the quotient derived by dividing the total of such allocated costs by the Total Landed Weight. Lessee making an overseas Landing at an airport in the Airports System shall pay one hundred percent (100%) of the landing fee rate per thousand (1,000) pound unit of Approved Maximum Landed Weight. Lessee making an interisland Landing at an airport in the Airports System shall pay thirty two percent (32%) in State Fiscal Year 1995, thirty four percent (34%) in State Fiscal Year 1996, and thirty six (36%) percent in State Fiscal Year 1997, of the landing fee rate per thousand (1,000) pound unit of Approved Maximum Landed Weight. The percentages of total Airports System Costs for each airport to be allocated to the Airfield Activity Center are set forth in Attachment B.
4. Airports System Support Charges. The ASSC shall be calculated to recover all the remaining residual Airports System Costs (as defined in Section A(4) above) in excess of Airports System Revenue (as defined in Section A(5) above), after allowing credit for the debt reduction program set forth in Section G, and shall be calculated as the quotient derived by dividing such residual costs by Total Landed Weight. Lessee making an overseas Landing at an airport in the Airports System shall pay one hundred percent (100%) of the ASSC per thousand (1,000) pound unit of Approved Maximum Landed Weight. Lessee making an interisland Landing at an airport in the Airports System shall pay thirty two percent (32%) in State Fiscal Year 1995, thirty four percent (34%) in State Fiscal Year 1996, and thirty six (36%) percent in State Fiscal Year 1997, of the ASSC per thousand (1,000) pound unit of Approved Maximum Landed Weight.

5. Interisland Rates. Landing fee rate and ASSC to be charged to all Signatory Airlines for interisland flights shall be determined as a percentage of the landing fee rate and ASSC, as follows:

FY 1995	32%
FY 1996	34%
FY 1997	36%

6. International Arrivals Building Charge. International arrivals building charge (IAB Charge) shall be calculated as the product obtained by multiplying the applicable terminal rental rate for the international arrivals area of the Airport by the total number of applicable square feet of usable space in that area divided by the number of Deplaning International Passengers.
7. Aviation Fuel Tax Credit. Upon submission by Lessee of a claim in writing within six (6) months after the date of payment of any aviation fuel taxes, there shall be credited against the amount of landing fees owed pursuant to Section F(3) by Lessee for a particular month, the amount of aviation fuel taxes collected from Lessee during the same month; provided that, if aviation fuel is purchased by Lessee from a retail dealer there shall be credited against amounts of landing fees owed pursuant to Section F(3) by Lessee for a particular month an amount equal to the number of gallons purchased from the retail dealer times the applicable aviation fuel tax per gallon as prescribed in Chapter 243, Hawaii Revised Statutes.
8. Review and Adjustment. Review and adjustments to the rates and charges set forth in this Section F, excluding terminal rental rates set forth in Exhibit 3, may occur at any time as the Lessor may reasonably determine in light of either actual past experience or forecast events which would have an effect on the adequacy of the then established rates and charges. The Lessor shall prepare a final year-end reconciliation, in accordance with generally accepted accounting principles, for each State Fiscal Year covering the operation of the Airports System. Such reconciliation shall contain a calculation based on actual data, in accordance with the provisions contained herein, the rates and charges described in this Section F (collectively, Rates and Charges) chargeable to each Signatory Airline for the preceding State Fiscal Year. If Rates and Charges actually paid by Signatory Airlines were greater than the amounts chargeable to Signatory Airlines, the Signatory Airlines shall receive credits in the amounts of such

overpayment against the current State Fiscal Year's total ASSC requirement. If Rates and Charges paid by Lessee were less than the amounts chargeable to Lessee, the Lessee shall pay to the Lessor the amount of any such deficiency along with its next payment of landing fees and ASSC. The provisions of this Section F(8) shall survive the termination of the Extension. In the event a credit is due to Signatory Airlines after the termination of the Extension and the ASSC is no longer in effect, such credits shall be applied to other rates and charges payable by the Signatory Airlines.

9. The rates set forth in Section F(3) and F(4) supersede and replace in their entirety the Airport Use Charge payable under the Airport-Airline Lease.
10. In the event that amounts payable by Lessee under the Airport-Airline Lease and the Extension are not received by the Lessor within sixty (60) days after the date of any invoice, the Lessor may determine that the Lessee is in default of the Airport-Airline Lease and the Extension and, if such default is not cured within 30 days after Lessee's receipt of written notice of default from Lessor, may exercise its rights under the Airport-Airline Lease.

G. DEBT REDUCTION PROGRAM

The Lessor will apply available monies to the reduction of debt service in the amount of \$34.0 million in State Fiscal Year 1995, \$27.0 million in State Fiscal Year 1996, and \$21.0 million in State Fiscal Year 1997.

The effect of the application of such monies will be to reduce the debt service requirement and the corresponding coverage in calculating the Revenues as defined in and required under the Certificate of the Director providing for the issuance of State of Hawaii Airports System revenue bonds dated as of May 1, 1969.

H. REVIEW MEETINGS

The Lessor will conduct at least four (4) quarterly meetings each State Fiscal Year with the Signatory Airlines. The schedule and presentation format for the actual and forecast financial results for the Airports System and review of the capital improvement program will be established by mutual agreement between the Airports System administrator and the chairman of the Airlines Committee of Hawaii.

I. REPORTING REQUIREMENTS

Lessee shall submit an airline activity report monthly to the Lessor stating the following aviation activity statistics for each airport in the Airports System within fifteen (15) days following the end of each month in which the aviation activity occurs:

1. Number of Landings;
2. Number of Revenue Passenger Landings;
3. Number of cargo Landings;
4. Approved Maximum Landed Weight of the aircraft involved in each Landing;
5. Enplaned and deplaned domestic passengers;
6. Enplaned and Deplaned International Passengers;
7. Any other information necessary for the calculation of Rates and Charges; and
8. All other reasonable information requested by the director.

In the event Lessee does not submit such activity report as required in this Section, Lessor may estimate Lessee's activities for the purposes anticipated by the Extension.

J. FINANCIAL PROJECTION

A summary of projected financial results for the Airports System based on the terms of the Extension is set forth in Attachment C.

The Lessor and the Lessee agree that the total airline requirement for each State Fiscal Year are forecast to be as shown on Attachment C. It is the Lessor's intent that these total airline requirements will not be exceeded without prior consultation with the Signatory Airlines pursuant to Section H herein. In the event that the airline requirement in any State Fiscal Year is forecast to be materially different from the levels shown on Attachment C, the Lessor will review both current and proposed capital budgets and operating and maintenance expense budgets with the Signatory Airlines to determine what steps might be taken to reduce the airline requirement for any given State Fiscal Year to the levels shown on Attachment C. Such steps specifically exclude any additional contributions by the Lessor pursuant to Section G herein.

While the Lessor believes the assumptions utilized in the preparation of Attachment C are reasonable, it cannot and does not represent that all assumptions will materialize. In the event any of the assumptions utilized in preparing Attachment C should be different than those reflected in Attachment C, the amount of the airline requirement will vary from that reflected. Any such difference will affect that portion of the amount of the airline requirement to be derived from the residual segment of rates and charges (the ASSC). For example, a decrease in operating expense or an increase in concession fees, duty free revenue, or operating interest income will have the effect of decreasing the airline requirement. Correspondingly, an increase in operating costs or a decrease in concession fees, duty free revenue, or operating interest income will have the effect of increasing the airline requirement.

K. Neighbor Island Lease Extensions.

Lessor and all Signatory Airlines with leases for space at neighbor island airports shall execute necessary documents to extend such leases through State Fiscal Year 1997 on the same terms and conditions as are currently in effect, including exclusive use rental rates, except that beginning in State Fiscal Year 1997, a joint use premises charge shall apply, pursuant to Section F(2)(c).

Attachment A to Exhibit 1 of the Extension

The Capital Improvement Program
State Fiscal Year 1995 - 1997

<u>Airport</u>	<u>Project number</u>	<u>Project title</u>	<u>Cost (\$M)</u>
STWD	VARIOUS	ONGOING PROJECTS AS OF 6/30/94	\$93.4
KEAHOLE	AH2043-12	ROAD N, NORTH UTILITIES	1.5
LIHUE	AK1041-14	IMPROV AIRPORT SIGNS	0.9
LIHUE	AK1047-11	NEW ARFF	4.3
STWD	AS1031-13	AIRFIELD SIGNS ITO, MKK, LNY	1.8
UPOLU	AH4021-12	REHAB AIRFIELD LITE CABLES	0.6
KAHULUI	AM1055-02	RELOCATION OF VORTAC	0.9
HIA	AO1095-16/20	SECURITY SYSTEM PH III/IIB	1.0
BARPT	AO5011-01	BARPT MP AND NOISE STUDY	0.5
STWD	AS1011-09	SASP UPDATE	0.2
HIA	AS1031-12	INSTALL T/W AND R/W SIGNS PH II	2.0
STWD	AS1080-10	ARCH BARRIER REMOVAL	5.0
HIA	AO1037-25	IAB MODIFICATIONS	21.5
HIA	AO1182-XX	RW 8L IMPROVEMENTS	18.0
KAHULUI	AM1022-11	STRENGTHENING R/W 2 - 20 & T/W	8.0
KAHULUI	AM1022-12	EXTENSION TO R/W 2 - 20	32.4
KEAHOLE	AH2042-23/24	TERMINAL IMPROV PH I & II	22.4
LIHUE	AK1046-22	APRON & T-HANGAR	4.9
HIA	AO1123-19	MAKAI PIER PH II	21.7
HIA	AO1123-20	IIT TENANT IMPROV	2.0
HIA	AS1040-20	LOADING BRIDGES (IIT)	1.6
HIA	AO1033-17	UFAS	2.1
HIA	AO1098-11	EMERGENCY POWER SYS	7.4
HIA	AO1098-16	ELECT DISTR SYS PH IV	10.2
HIA	AO1096-12	FIRE ALARM PH II	1.4
HIA	AO1093-13	ENERGY MONITORING CONT SYS III	1.5
HIA	AO1141-03	NON-POTABLE WATER II	1.3
HIA	AO1091-12	TELECOMMUNICATION SYS II	0.2
HIA	AO1144-13	IMPROVEMENTS TO ARFF STATION 2	3.0
KAHULUI	AM1033-15	ARFF TRAINING FAC	2.9
KAHULUI	AM1045-15	FUEL STORAGE SITE DEV	0.6
KAHULUI	AM1033-12	EAST RAMP SEWER SYS	2.3
HIA	AO1097-14	FIDS PH III	1.2
HIA	AO1039-XX	ITB SITE PREP - VEH PARKING	2.0
HIA	AO1095-19	SECURITY SYS VIDEO MONITORS	0.4
HIA	AOXXXX-XX	INTERIM INTRA TERMINAL TRANSP	5.0
		CONTINGENCY, PLANNING/DESIGN ALLOW	30.0
			\$316.1

Attachment B to Exhibit 1 of the Extension

Operation and Maintenance Expenses
Allocation Percentages to the
Airports System Airfield Activity Centers

<u>Airport</u>	<u>Allocation percentage</u>
Honolulu International Airport	17.5%
Kahului Airport	35.0%
Keahole-Kona International Airport	45.0%
Lihue Airport	35.0%
Hilo International Airport	32.0%
Other Airports	25.0%

Attachment C to Exhibit 1 of the Extension

Summary of Projected Financial Results
State Fiscal Year 1995 - 1997
(in thousands)

	<u>1995</u>	<u>1996</u>	<u>1997</u>
Airports System Requirement			
Operating expenses	\$136,572	\$145,365	\$152,935
Bond Debt Service and Coverage			
General obligation bonds	3,423	3,294	609
Airports System Revenue Bonds	128,916	128,823	128,732
Less: Effect of debt reduction program	(34,000)	(27,000)	(21,000)
Coverage requirement	33,221	35,638	37,706
Equipment and motor vehicle purchases	2,500	2,625	2,756
Major Maintenance, Renewal and Replacement Account	4,000	4,200	4,410
OHA payment	<u>8,175</u>	<u>8,310</u>	<u>8,699</u>
Total requirement	\$282,806	\$301,255	\$314,848
Credits			
Other operating revenue	\$72,513	\$77,479	\$82,730
Airline Terminal Rentals	31,448	31,448	32,433
Landing Fee revenue - signatory	49,680	50,242	51,803
Landing Fee revenue - nonsignatory	840	840	840
International Arrivals Building charges	8,821	8,821	8,821
Interest income - operating funds	11,607	11,734	11,843
Duty free revenue credit	<u>100,000</u>	<u>100,116</u>	<u>99,188</u>
Total credits	\$274,909	\$280,679	\$287,659
ASSC requirement	\$7,897	\$20,576	\$27,189
Total Airline Requirement	\$98,686	\$111,926	\$121,086

Exhibit 2 to the Extension

Billing and Collection Procedures

- A. Terminal Rentals. Terminal rentals will be self-invoiced by Lessee in advance. Payment is due the 15th of the month contemporaneously with activity based payments.
- B. Landing Fees, Joint Use Premises Charges, IAB Charges, and ASSC. Landing fees, joint use premises charges, IAB charges, and ASSC will be paid contemporaneously with airline activity reports required pursuant to Exhibit 1 Section I.

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Landing Fee Rate

(per thousand pound unit of landed weight)

Overseas carriers	\$2.589
Interisland carriers	\$0.829

International Arrivals Building Charge

(per deplaning int'l passenger) \$2.909

Joint Use Premises Charges

(per revenue passenger landing)

Honolulu Overseas Terminal	\$397.690
Honolulu Interisland Terminal	\$60.326

Airports System Support Charge Rate

(per thousand pound unit of landed weight)

Overseas carriers	\$0.412
Interisland carriers	\$0.132

* - Excludes charges not covered by the Extension but included in the Airport-Airline Lease (e.g. ground rents and air conditioning charges)

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Rental of Passenger Terminal Building

Honolulu International Airport

Overseas Terminal, Administration, Overseas Departure
Buildings, and Interisland Terminal Building 310

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office (finished)	\$40.00
Office (loft)	32.00
Ticket counter (finished)	60.00
VIP lounge (finished)	50.00
VIP lounge (loft)	40.00
Service counter-lost & found office (finished)	40.00
Service counter-lost & found office (loft)	32.00
Holding rooms - joint-use (finished)	50.00
Concessionaire - sales (loft)	100.00
Concessionaire - restaurant (loft)	100.00
Concessionaire - service (loft)	35.00
Concessionaire storage (loft)	12.00
Portions of terminal floor	32.00
Baggage make-up and breakdown	10.00
Baggage claim - joint-use (finished)	50.00
Baggage storage cage (finished)	20.00
Remnant storage	5.00
Passenger check-in (finished)	60.00
Ramp office (finished)	40.00
Ramp office (loft)	32.00

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Diamond Head Extension

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Curbside check-in (finished)	\$60.00
Counter check-in (finished)	60.00
Baggage make-up and breakdown	10.00
Service counter-lost & found office (finished)	40.00
Service counter-lost & found office (loft)	32.00

Interisland Terminal Building 314

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office - ground floor (finished)	\$32.00
Office - second floor (finished)	28.80
Ticket counter (finished)	48.00
Holding room (finished)	40.00
Concessionaire - sales (loft)	80.00
Concessionaire - restaurant (loft)	80.00
Terminal floor space	25.60
Baggage make-up and breakdown	8.00
Baggage claim (finished)	40.00
VIP lounge (finished)	40.00

Interisland Terminal Building 304

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office - ground floor (finished)	\$36.00
Office - second floor (finished)	32.40
Ticket counter (finished)	54.00
Holding room (finished)	45.00

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Concessionaire - sales (loft)	90.00
Concessionaire - restaurant (loft)	90.00
Terminal floor space	28.80
Baggage make-up and breakdown	9.00
Baggage claim (finished)	45.00
VIP lounge (finished)	45.00

Ramp Area

<u>Type of space</u>	<u>Rate per sq ft per annum</u>	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$7.38	\$6.68
Open equipment parking	5.71	5.01

Automobile Parking Stalls

	<u>Monthly rate/stal</u>
Preferred - paved	\$100.00
Covered	100.00
Uncovered - paved	65.00
Uncovered - unpaved	40.00

Kahului Airport

Terminal Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office - ground floor (finished)	\$27.00
Office - ground floor (loft)	22.00
Office - second floor (finished)	24.00
Office - second floor (loft)	19.00
Holding room (finished)	24.00
Ticket counter (finished)	30.00
Passenger check-in (finished)	30.00

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Ground transportation booth (finished)	30.00
Taxi dispatcher space	30.00
Concessionaire	24.00
Concessionaire - restaurant	24.00
Baggage make-up and breakdown	9.00
Baggage claim (finished)	9.00
Baggage storage - lost & found office	15.00
State's racks	9.00
Ramp office (finished)	15.00
Ramp office (loft)	7.50
Concessionaire storage (loft)	9.00
Terminal floor space	30.00
VIP lounge (finished)	24.00
VIP lounge (loft)	19.00
Concessionaire - service	24.00
Ramp equipment storage (finished)	9.00
Ramp equipment storage (loft)	6.00
Belt/cart corridor	4.80

Air Taxi Building

<u>Type of space</u>	Rate per sq ft <u>per annum</u>
Office (finished)	\$24.00
Ticket counter (finished)	24.00
Baggage make-up and breakdown	9.00

Ramp Area

<u>Type of space</u>	Rate per sq ft per annum	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$3.60	\$3.00
Open equipment parking	2.15	1.80

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Automobile Parking Stalls

Monthly rate/stal

Covered	\$75.00
Uncovered	70.00

Hilo International Airport

Terminal Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office - ground floor (finished)	\$16.20
Office - ground floor (loft)	11.20
Office - second floor (finished)	15.00
Office - second floor (loft)	10.00
Passenger check-in (finished)	24.00
Ticket counter (finished)	24.00
Holding room (finished)	16.20
Ground transportation booth (finished)	24.00
Concessionaire - sales (loft)	25.80
Concessionaire - restaurant (loft)	25.80
Terminal floor space	25.80
Baggage make-up and breakdown	6.00
Baggage claim (finished)	6.00
Ramp office	10.20
Group tour baggage area	6.00
Baggage storage cage	10.20
VIP lounge (finished)	16.20
VIP lounge (loft)	11.20
Storage - second floor	15.00
Remnant storage - ground floor	6.00

Exhibit 3 to the Extension

Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994

Air Taxi Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office (finished)	\$12.00
Ticket counter (finished)	16.20
Baggage claim	6.00
Baggage make-up and breakdown	6.00

Ramp Area

<u>Type of space</u>	<u>Rate per sq ft per annum</u>	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$3.60	\$3.00
Open equipment parking	2.00	1.80

Automobile Parking Stalls

	<u>Monthly rate/stal</u>
Covered	\$75.00
Uncovered	70.00

Keahole-Kona International Airport

Terminal Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office - ground floor (finished)	\$27.00
Office - ground floor (loft)	22.00
Passenger check-in (finished)	24.00
Holding room (finished)	15.00
Ticket counter (finished)	30.00
Ground transportation booth (finished)	30.00

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Gate house	21.00
Concessionaire - sales (finished)	30.00
Concessionaire - restaurant (finished)	30.00
Baggage make-up and breakdown	9.60
Baggage claim	9.60
Concessionaire storage	9.60
Conveyor tunnel	6.00
Group tour baggage	6.00
Terminal floor space	30.00
VIP lounge (finished)	30.00
VIP lounge (loft)	25.00
Greeter service counter	24.00
Baggage lost & found office	24.00

Air Taxi Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office (finished)	\$24.00
Ticket counter (finished)	27.00

Ramp Area

<u>Type of space</u>	<u>Rate per sq ft per annum</u>	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$3.60	\$3.00
Open equipment parking	2.15	1.80

Automobile Parking Stalls

	<u>Monthly rate/stal</u>
Covered	\$75.00
Uncovered	70.00

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Lihue Airport

Terminal Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office - ground floor (finished)	\$18.90
Office - ground floor (loft)	13.90
Office - second floor (finished)	16.80
Office - second floor (loft)	11.80
Ticket counter (finished)	25.20
Passenger check-in (finished)	25.20
Ground transportation booth (finished)	18.90
Holding room (finished)	16.80
Concessionaire - sales (loft)	25.20
Concessionaire - restaurant (loft)	18.90
Terminal floor space	25.20
Baggage make-up and breakdown	6.30
Baggage claim	6.30
Group tour baggage	6.30
Concessionaire storage	6.30
Ramp office	14.70
VIP lounge (finished)	16.80
VIP lounge (loft)	11.80
Service counter	18.90
Baggage storage cage	6.30
Baggage lost & found office	16.80

Air Taxi Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office (finished)	\$10.50
Ticket counter (finished)	16.80

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Ramp Area

<u>Type of space</u>	<u>Rate per sq ft per annum</u>	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$2.88	\$2.16
Open equipment parking	1.80	1.68

Automobile Parking Stalls

	<u>Monthly rate/stall</u>
Covered	\$75.00
Uncovered	70.00

Kapalua-West Maui Airport

Terminal Building

<u>Type of space</u>	<u>Rate per sq ft per annum</u>
Office - ground floor (finished)	\$30.00
Office - second floor (finished)	24.00
Office - second floor (loft)	18.00
Ticket counter	30.00
Holdroom	24.00
Terminal floor space	30.00
Baggage make-up and breakdown	9.00
Baggage claim	9.00
Concession (restaurant)	24.00
Concession (sales)	24.00
Storage	24.00
Ramp office	18.00

Exhibit 3 to the Extension

Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994

Ramp Area

<u>Type of space</u>	Rate per sq ft per annum	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$3.00	\$2.00
Open equipment parking	1.65	1.50

Lanai Airport

Terminal Building 302

<u>Type of space</u>	Rate per sq ft <u>per annum</u>
Office - ground floor (finished)	\$7.80
Office - ground floor (loft)	10.80
Ticket counter	10.80
Holdroom	10.80
Terminal floor space	10.80
Baggage make-up and breakdown	3.60
Baggage claim	7.20
Concession (loft)	7.80
Concession (finished)	10.80
Storage	7.80

Terminal Building 301

<u>Type of space</u>	Rate per sq ft <u>per annum</u>
Office - ground floor (finished)	\$10.50
Ticket counter	10.50
Baggage make-up and breakdown	3.50
Baggage claim	3.50
Concession (loft)	10.50

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Ramp Area

<u>Type of space</u>	Rate per sq ft per annum	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$2.50	\$1.75
Open equipment parking	1.80	1.25

Automobile Parking Stalls

	<u>Monthly rate/stal</u>
Covered	\$12.00
Uncovered	9.00

Waimea-Kohala Airport

Terminal Building

<u>Type of space</u>	Rate per sq ft <u>per annum</u>
Office (finished)	\$9.00
Ticket counter (finished)	9.00
Baggage make-up breakdown (finished)	3.00
Baggage claim (finished)	3.00
Concessionaire (loft)	9.00
Ground transportation booth	9.00

Ramp Area

<u>Type of space</u>	Rate per sq ft per annum	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$2.50	\$1.75
Open equipment parking	1.80	1.25

Exhibit 3 to the Extension

**Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994**

Automobile Parking Stalls

Monthly rate/stal

Covered	\$15.00
Uncovered	10.00

Molokai Airport

Terminal Building

<u>Type of space</u>	<u>Rate per sq ft</u> <u>per annum</u>
Office (finished)	\$14.40
Ticket counter (finished)	14.40
Baggage make-up breakdown (finished)	5.00
Baggage claim (finished)	5.00
Holding room and airport lounge	13.20
Concessionaire (loft)	14.40
Ground transportation booth	14.40

Ramp Area

<u>Type of space</u>	<u>Rate per sq ft per annum</u>	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$3.60	\$3.00
Open equipment parking	2.15	1.85

Automobile Parking Stalls

Monthly rate/stal

Covered	\$20.00
Uncovered	15.00

Exhibit 3 to the Extension

Airports System Signatory Airline Rates and Charges
Established by the Extension (*)
Effective July 1, 1994

Hana Airport

Terminal Building

<u>Type of space</u>	<u>Rate per sq ft</u> <u>per annum</u>
Office (finished)	\$9.00
Ticket counter (finished)	9.00
Baggage make-up breakdown (finished)	3.00
Baggage claim (finished)	3.00
Concessionaire (loft)	9.60
Ground transportation booth	9.60

Ramp Area

<u>Type of space</u>	<u>Rate per sq ft per annum</u>	
	<u>Paved</u>	<u>Unpaved</u>
Covered equipment parking	\$2.50	\$1.75
Open equipment parking	1.80	1.25

Automobile Parking Stalls

	<u>Monthly rate/stal</u>
Covered	\$12.00
Uncovered	9.00

Appendix D

2007 First Amended Lease Extension Agreement

FIRST AMENDED LEASE EXTENSION AGREEMENT

This FIRST AMENDED LEASE EXTENSION AGREEMENT (the Extension), entered into this 24th day of January, 2008, but effective as of January 1, 2008, by and between the DEPARTMENT OF TRANSPORTATION, STATE OF HAWAII (the State) and AIR CANADA (the Airline).

WITNESSETH THAT:

WHEREAS, the State and the Airline entered into separate lease agreements, which Lease, as amended and extended from time to time, is hereinafter referred to as the "Airport-Airline Lease"; and

WHEREAS, the State and the Airline amended and extended the Airport-Airline Lease by Lease Extension Agreement, effective July 1, 1994 which remains in effect today; and

WHEREAS, the State and the Airline wish to further extend the term of the Airport-Airline Lease, as amended, and to amend certain provisions thereof, including the rates and charges payable by the Airline under the Airport-Airline Lease; and

WHEREAS, the State and the Airline have developed jointly a capital improvement program to modernize Honolulu International Airport and make significant capital improvements to airports throughout the Airports System.

NOW THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, and other valuable consideration, the State and the Airline hereby agree as follows:

1. The Extension shall become effective on January 1, 2008, provided a majority of airlines currently signatory to the Airport-Airline Lease convey support of this Amendment either by executing the Amendment or providing a supporting letter by October 26, 2007.
2. Provided the Extension becomes effective pursuant to (1) above, the State shall terminate the Airport-Airline Lease for any current Signatory Airlines that do not execute the Amendment or provide a supporting letter by October 26, 2007. Such Signatory Airlines will no longer be deemed signatory to an Airport-Airline Lease and will be assessed non-signatory rates.

3. The Extension can be amended in the future if the State and a majority of the Signatory Airlines at such time agree and execute any such amendment.

4. Effective as of January 1, 2008, the terms and conditions of the Airport-Airline Lease, as previously amended by the Lease Extension Agreement, including, but not limited to, the calculation of rates and charges to be paid by the Airline, shall be amended as set forth in Exhibit 1 attached hereto and incorporated herein.

5. The methodology for computing rates and charges in effect as of January 1, 2008 payable under this Extension are set forth in Exhibit 1, attached hereto and incorporated herein, subject to adjustment pursuant to Exhibit 1 Section F(8) of the Lease Extension Agreement. The rates and charges computed pursuant to Exhibit 1 of this Extension shall supersede any methodology for the determination of rates and charges previously implemented under the Lease Extension Agreement, and any other agreement therefor.

6. Paragraph 4 on Page 4 of Exhibit 1, attached to the Lease Extension Agreement dated July 1, 1994 is deleted in its entirety and replaced with the following:

4. The LESSOR shall provide quarterly reports to the Signatory Airlines regarding the status of design and construction, the schedule and the actual or estimated cost for the capital improvement program. At the request of a majority of the Signatory Airlines, the LESSOR will meet with the Signatory Airlines to discuss any element of the capital improvement program.

7. Paragraph H. REVIEW MEETINGS on Page 12 of Exhibit 1, attached to the Lease Extension Agreement dated July 1, 1994 is deleted in its entirety and replaced with the following:

H. REVIEW MEETINGS

The LESSOR will conduct at least one meeting each State Fiscal Year with the Signatory Airlines. The schedule and presentation format for the actual and forecast financial results for the Airports System and review of the capital improvement program will be established by LESSOR.

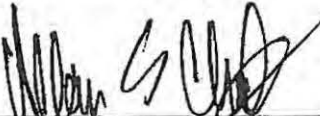
8. The Extension will be extended automatically on a quarterly basis unless either party provides sixty (60) days written notice of termination to the other party.

9. Except as set forth herein, the terms and conditions of the Airport-Airline Lease as heretofore amended shall remain in full force and effect. In case of any conflict between the terms and conditions of the Airport-Airline Lease, as previously amended, and the terms of this Extension, the terms of this Extension shall control.


10. This Extension may be executed in several counterparts, all or any of which shall be regarded as the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Extension to be executed on the day and year first above written.

APPROVED AS TO FORM:


Deputy Attorney General

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION


Its Director

AIR CANADA



Title:

Graeme Elliott
Director Corp. Real Estate
Directeur - Biens Immobiliers


APPROVED
as to Law
 15/10/07

Exhibit 1 to the First Amended Lease Extension Agreement

A. DEFINITIONS

- a. "Airfield Activity Center" shall mean the airfield areas of all airports in the Airport System, including, but not limited to, the runways, taxiways, aprons, aircraft parking areas, security fencing, secure service roadways, aircraft rescue and crash fire stations, and related areas and facilities.
- b. "Airport" shall mean the Honolulu International Airport.
- c. "Airports System" shall mean the Statewide system of airports including all airports, air navigation facilities, and other related facilities and properties (real, personal, or mixed), and any rights or interests in airports, air navigation facilities, and other related facilities and related properties, now or hereafter belonging to or controlled by the State or under the administration, jurisdiction, control, and management of the State, and all equipment, improvements, extensions, or betterment thereto hereafter constructed or acquired.
- d. "Airports System Costs" for any State Fiscal Year shall mean all expenses incurred by the State in administration, operation and maintenance of the Airports System. Airports System Costs shall include maintenance and operating expenses (including the State surcharge on gross receipts and Department of Transportation administrative expense allocations), debt service and coverage on airports system revenue bonds, debt service on reimbursable general obligation bonds, debt service and coverage on subordinate bonds including requirements under SWAPS, letters of credit and other credit enhancing instruments, annual requirements for purchases of equipment and motor vehicles, and replenishment or increase of the Airports System Major Maintenance and Renewal and Replacement Account and the operation and maintenance reserve account pursuant to Section C(1)(c).
- e. "Airports System Revenues" for any State Fiscal Year for the purpose of the computation of the ASSC means all rents, fees, operating interest income, and all other income received from the operation of the Airports System which are required to be deposited in the Airport Revenue Fund pursuant to Section 261-5, Hawaii Revised Statutes, as amended, excluding, however, (i) ASSC or ASSC adjustments pursuant to Section F(8) during such State Fiscal Year; (ii) grants-in-aid or similar payments received from public agencies provided that (a) the uses of such moneys are restricted to specified purposes, or (b) such grants or payments constitute a reimbursement to the State for expenditures or transfers previously made from the Airport Revenue Fund; (iii) any funds paid or payable to the State under a net rental lease; (iv) (a) interest derived from moneys received under item (ii) and (iii) above; (b) interest received from funds earmarked for the capital improvement program; (c) interest received on unspent bond moneys, and

- (d) interest received on funds earmarked for purposes of debt reduction pursuant to Section G; (v) aviation fuel taxes, and (vi) Passenger Facility Charge revenues. All such excluded funds will be applied for any lawful Airports System purposes.
- f. "ASSC" shall mean the Airports System Support Charge imposed by the State per one thousand (1,000) pounds of Approved Maximum Landed Weight to recover residual costs of the Airports System including coverage.
- g. "Approved Maximum Landed Weight" shall mean the maximum weight in one thousand (1,000) pound units at which each aircraft operated by a Signatory Airline is authorized by the Federal Aviation Administration for landing as recited in the flight manual governing that aircraft. If an aircraft is registered in a foreign country and has not been certified by the Federal Aviation Administration the Approved Maximum Landed Weight shall be the maximum landed weight authorized by that foreign country.
- h. "Deplaning International Passenger" shall mean any passenger, excluding any member of a flight crew, who deplaned from an international flight and used an international arrivals area of the Airports System.
- i. "Interisland Rate" shall be thirty-six (36) percent for Fiscal Year 2008. Thereafter the Interisland Rate shall increase by one (1) percentage point for each subsequent Fiscal Year until such time as it equals one-hundred (100) percent.
- j. "Landing" shall mean any landing at any airport in the Airports System with revenue passengers and/or cargo for hire, but shall not include landings resulting from weather, mechanical, operations, emergency, or precautionary conditions.
- k. "Leased Space" shall mean all Exclusive, Preferential and Joint Use terminal spaces for a terminal cost center leased, or included in rates and charges calculations. It shall not include vacant spaces, non-airline spaces, public spaces, or circulation spaces.
- l. "Passenger Facility Charge" shall mean federally approved Passenger Facility Charges or passenger facility fees, as authorized by 49 USC App. Section 1513 and regulated by 14 CFR Part 158, as such statute and regulation currently exist or as they may be amended.
- m. "Revenue Passenger Landing" shall mean any Landing at any airport in the Airports System with revenue passengers.
- n. "Signatory Airlines" shall mean the Airline or any airline engaged in the transportation of persons, property, cargo, and/or mail by air at, to and/or from or through the Airports System having a lease substantially similar to the Airport-Airline Lease and the Extension.

- o. "Signatory Airline Cost Requirement" shall mean the sum of all Signatory Airlines Terminal Rentals, Landing Fees, and ASSC for any Fiscal Year.
- p. "Terminal Concessions" shall mean all non-airline Revenues generated within the Terminal Cost Center specific to each airport in the Airports System, which includes, but may not be limited to, food and beverage, retail, duty free, and non-airline space rentals.
- q. "Terminal Cost Center" shall be specific to each airport in the Airports System and may mean Honolulu International Airport Terminal Cost Center, Kahului Airport Terminal Cost Center, Kona International Airport at Keahole Terminal Cost Center, Lihue Airport Terminal Cost Center, or Hilo International Airport Terminal Cost Center.
- r. "Terminal Rentals" shall mean all rentals received for use of Exclusive, Preferential and Joint Use facilities.
- s. "Total Joint Use Baggage System Enplaned Passengers" shall mean for any State Fiscal Year, for each Terminal Cost Center, except Honolulu International Airport Terminal Cost Center, the sum of the following:
 - (1) The total annual number of enplaned passengers using Joint Use baggage system areas departing on an overseas flight which will land at an airport outside the Airports System; and
 - (2) The product of the Interisland Rate and the total annual number of enplaned passengers using Joint Use baggage system spaces departing on an interisland flight which will land at another airport in the Airports System.
- t. "Total Joint Use Holdroom Enplaned Passengers" shall mean for any State Fiscal Year, for each Terminal Cost Center, except Honolulu International Airport Terminal Cost Center, the sum of the following:
 - (1) The total annual number of enplaned passengers using Joint Use holdrooms departing on an overseas flight which will land at an airport outside the Airports System; and
 - (2) The product of the Interisland Rate and the total annual number of enplaned passengers using Joint Use holdrooms departing on an interisland flight which will land at another airport in the Airports System.
- u. "Total Landed Weight" shall mean for any State Fiscal Year, the sum of the following weights expressed in one thousand (1,000) pound units:
 - (1) The sum obtained by adding the Approved Maximum Landed Weight for each aircraft for each overseas Landing at an airport in the Airports System; and

- (2) That percentage, pursuant to Section A(i) of the sum obtained by adding the Approved Maximum Landed Weight for each aircraft for each interisland Landing at an airport in the Airports System.

B. THE CAPITAL IMPROVEMENT PROGRAM

The project elements of the agreed upon capital improvement program are set forth in Attachments A and B. Additional capital projects shall be subject to the airline review process as set forth under Section B(5) of the Lease Extension Agreement.

C. FINANCING THE CAPITAL IMPROVEMENT PROGRAM

The State expects to finance the capital improvement program from the following sources:

1. Airports System funds existing as of the commencement of the term of the Extension;
2. Cash flow generated from Airports System financial operations during the term of the construction period of the capital improvement program;
3. Grants-in-aid under the Federal Aviation Administration's Airports Improvement Program (AIP) or any successor airport grant program. The State will use its best efforts to obtain the maximum amount of discretionary AIP grants-in-aid and any other grants which may be available for the capital improvement program;
4. Passenger Facility Charge revenues. The State will assess Passenger Facility Charges on all eligible overseas enplaning passengers at the highest level authorized by the Federal Aviation Administration (FAA). The State will not assess Passenger Facility Charges on any interisland enplaning passengers. The State will use its best efforts to obtain FAA approval to use as much as ninety (90) percent of annual Passenger Facility Charge revenue to pay debt service on airport revenue bonds. The remaining Passenger Facility Charge revenue will be used on a pay as you go basis to fund capital improvement projects;
5. Investment income on available capital funds;
6. Airports System revenue bonds.

D. EXISTING CASH BALANCES

1. At the beginning of each State Fiscal Year, the State will reserve a sufficient amount of Airport's System cash and investments (on hand as of the immediately preceding June 30) to provide for the following obligations:

- a. Operating fund encumbrances as of June 30;
 - b. Capital improvement program commitments;
 - c. Twenty-five (25) percent of budgeted annual operating and maintenance expenses for the current State Fiscal Year;
 - d. Major Maintenance, Renewal and Replacement account balance of \$15 million;
 - e. An amount sufficient to fund annual Debt Service Coverage equal to twenty-five (25) percent of annual debt service on Airport's System revenue bonds outstanding for the next Fiscal Year.
2. The State will use its best efforts to meet an annual Signatory Airline Cost Requirement of \$160 million. Should future reauthorizations of the AIP result in reduced or eliminated funding for Large-Hubs or should discretionary funding not be available to fund the capital improvement program as planned, the parties recognize that it may not be possible to meet a \$160 million annual goal. Notwithstanding the above, over the term of this Extension, the State may issue additional bonds for additional capital improvements which will be subject to the airline review process as set forth in Section B(5) of the Lease Extension Agreement.

E. FACILITY USE

Airports System holdrooms will be for joint use or preferential use. Preferential use of a holdroom means scheduling preference over similar operations by other airlines for the use of a holdroom. Any Signatory Airline that qualifies for preferential use of terminal facilities will be required to maintain activity at, or above the utilization threshold or the State may revoke the Signatory Airline's preferential use of terminal facilities.

The initial utilization threshold for holdrooms will be six (6) daily turns per holdroom. Any Signatory Airline that averages six (6) daily turns is eligible to lease a holdroom on a preferential basis. The number of holdrooms any Signatory Airline that qualifies for preferential use may lease preferentially will be determined by dividing the number of daily departures by six (6) and rounding down to the nearest integer.

F. RATES AND CHARGES

1. Aeronautical Cost Centers

The following cost centers will be used to set rates and charges so as to recover costs of specific Airports System facilities from those that directly use them:

- a. Honolulu International Airport Terminal Cost Center, which shall be comprised of all terminal facilities, except the Commuter Terminal at Honolulu International Airport, but including the Overseas Terminal and the Interisland Terminal;
- b. Kahului Airport Terminal Cost Center, which shall be comprised of all terminal facilities, except commuter terminal facilities at Kahului Airport;
- c. Kona International Airport at Keahole Terminal Cost Center, which shall be comprised of all terminal facilities, except commuter terminal facilities at Kona International Airport at Keahole;
- d. Lihue Airport Terminal Cost Center, which shall be comprised of all terminal facilities, except commuter terminal facilities at Lihue Airport;
- e. Hilo International Airport Terminal Cost Center, which shall be comprised of all terminal facilities, except commuter terminal facilities at Hilo International Airport;
- f. Airfield Cost Center, which shall be comprised of the airfields of every airport in the Airports System;
- g. ASSC Cost Center, which shall serve as the residual cost center to insure Airports System revenues are sufficient to recover Airports System Costs.

2. Terminal Rents

Terminal Rents to be effective January 1, 2008 and subsequently each July 1st shall be computed according to the methodology described in this Section.

a. Terminal Requirement

- a) Each terminal cost center from Section F (1) above shall have an independent calculation made to determine the Terminal Requirement.
- b) The Terminal Requirement shall be computed by summing the following elements:
 - (1) The total annual direct and indirect operating expenses allocated to the Terminal Cost Center;
 - (2) The total annual direct and indirect debt service expenses allocated to the Terminal Cost Center;
 - (3) The total annual Major Maintenance, Renewal and Replacement Account deposit allocated to the Terminal Cost Center;

- (4) The total annual O&M Reserve Account deposit allocated to the Terminal Cost Center.
- c) The Net Terminal Requirement shall be computed by subtracting the following elements from the Terminal Requirement:
- (1) Any deposit from the future debt service account allocated to the Terminal Cost Center;
 - (2) Annual PFC revenues allocated to pay direct and indirect debt service expenses allocated to the Terminal Cost Center;
 - (3) Annual Terminal concession revenues allocated to the Terminal Cost Center.

b. Terminal Rental Rate

The Terminal Rental Rate shall be computed by dividing the Net Terminal Requirement by Leased Space.

c. Terminal Rental Rate Adjustments

- a) The Terminal Rental Rate for Hilo International Airport will be reduced by 50% for the term of this Agreement as long as enplanements did not exceed 2.0 million in the prior calendar year. Should enplanements in any calendar year exceed 2.0 million, the Terminal Rental Rate reduction will not apply in the subsequent fiscal year.
- b) The Terminal Rental Rates for Kahului Airport, Kona International Airport at Keahole and Lihue Airport will be reduced by multiplying them by the following percentages:

Fiscal Year 2008	60%
Fiscal Year 2009	65%
Fiscal Year 2010	70%
Fiscal Year 2011	75%
Fiscal Year 2012	80%
Fiscal Year 2013	85%
Fiscal Year 2014	90%
Fiscal Year 2015	95%
Fiscal Year 2016 and beyond	100%

d. Joint Use Holdroom Charges

- a) The Joint Use Holdroom Requirement for each Terminal Cost Center shall be computed by calculating the product of the Terminal Rental Rate and the Joint Use square footage of holdrooms in the Terminal Cost Center.

- b) The Joint Use Holdroom Rate for the Honolulu International Airport Terminal Cost Center shall be computed by dividing the Joint Use Holdroom Requirement by the annual number of enplaning passengers using Joint Use holdrooms.
 - c) The Overseas Joint Use Holdroom Rate for all other Terminal Cost Centers shall be computed by dividing the Joint Use Holdroom Requirement by Total Joint Use Holdroom Enplaned Passengers. The Interisland Joint Use Holdroom Rate shall be the product of the Overseas Joint Use Holdroom Rate and the Interisland Rate for the Fiscal Year.
- e. Joint Use Baggage Systems Charges
 - a) The Joint Use Baggage Systems Requirement for each Terminal Cost Center shall be computed by calculating the product of the Terminal Rental Rate and the Joint Use square footage of joint use baggage systems in the Terminal Cost Center.
 - b) The Joint Use Baggage Systems Rate for the Honolulu International Airport Terminal Cost Center shall be computed by dividing the Joint Use Baggage Systems Requirement by the annual number of enplaning passengers using Joint Use baggage systems spaces.
 - c) The Overseas Joint Use Baggage Systems Rate for all other Terminal Cost Centers shall be computed by dividing the Joint Use Baggage Systems Requirement by Total Joint Use Baggage Systems Enplaned Passengers. The Interisland Joint Use Baggage Systems Rate shall be the product of the Overseas Joint Baggage Systems Rate and the Interisland Rate for the Fiscal Year.
- f. Common Use Ticketing Position Charges
 - a) The Common Use Ticketing Position Requirement for each Terminal Cost Center shall be computed by calculating the product of the Terminal Rental Rate and the Common Use Ticketing Position square footage in the Terminal Cost Center.
 - b) The Common Use Ticketing Position Rate shall be computed by dividing the Common Use Ticketing Position Requirement by the number of enplaned passengers using Common Use Ticketing Positions.
- g. International Arrivals Building Charges shall be calculated as the product of the applicable Terminal Rental Rate and the square footage of the international arrivals areas of the Airports System divided by Deplaning International Passengers.

3. Commuter Terminal Rental Rates

Commuter Terminal rental rates at all airports in the Airports System shall be determined by appraisal. Users of Commuter Terminals shall pay for all airline passenger and baggage handling areas and operational areas including ticketing facilities, offices, holdrooms and baggage claim.

4. Landing Fees

- a. The Landing Fee Rate shall be calculated as a blended rate for all of the airports in the Airports System. The Airfield Requirement shall be computed by summing the following elements:

- (1) The total annual direct and indirect operating expenses allocated to the Airfield Cost Center;
- (2) The total annual direct and indirect debt service expenses allocated to the Airfield Cost Center;
- (3) The total annual Major Maintenance, Renewal and Replacement Account deposit allocated to the Airfield Cost Center;
- (4) The total annual O&M Reserve Account deposit allocated to the Airfield Cost Center.

- b. The Net Airfield Requirement shall be computed by subtracting the following elements from the Airfield Requirement:

- (1) Annual PFC revenues allocated to pay direct and indirect debt service expenses allocated to the Airfield Cost Center;
- (2) Annual non-signatory Landing Fees.

c. Landing Fee Rate

The overseas Landing Fee Rate shall be computed by dividing the Net Airfield Requirement by Total Landed Weight. The interisland Landing Fee Rate shall be the product of the overseas Landing Fee Rate and the Interisland Rate for the Fiscal Year. Pursuant to Section A(i) of this Extension, the Interisland Rate shall be thirty-six (36) percent for Fiscal Year 2008, and shall increase by one (1) percentage point each subsequent fiscal year until such time as it equals one-hundred (100) percent.

5. Airports System Support Charges (ASSC)

- a. The ASSC Requirement shall be computed by summing the following elements:
 - (1) The total annual direct and indirect operating expenses;
 - (2) The total annual direct and indirect debt service expenses;
 - (3) The total annual Major Maintenance, Renewal and Replacement Account deposit;
 - (4) The total annual O&M Reserve Account deposit.
- b. The Net ASSC Requirement shall be computed by subtracting the following elements from the ASSC Requirement:
 - (1) Annual PFC revenues allocated to pay direct and indirect debt service expenses;
 - (2) Annual non-airline revenues;
 - (3) Annual interest earned on operating funds;
 - (4) Annual Terminal Rentals;
 - (5) Annual aeronautical rentals not included in Terminal Rentals;
 - (6) Annual Landing Fees.
- c. ASSC Rate

If the Net ASSC Requirement is negative, then Airports System Revenues are sufficient to recover Airports System Costs and the ASSC rate for both overseas and interisland activity shall be \$0.00. If the Net ASSC Requirement is positive, then the overseas ASSC Rate shall be computed by dividing the Net ASSC Requirement by Total Landed Weight. The interisland ASSC Rate shall be the product of the overseas Landing Fee Rate and the Interisland Rate for the Fiscal Year.

6. Common Use Passenger Processing Systems (CUPPS) Charges

CUPPS charges will be added to the joint use baggage system charges at each terminal as applicable. The Signatory Airlines using Joint Use baggage systems shall pay the CUPPS equipment operating and maintenance charges for Common Use baggage systems. The operating and maintenance contract for CUPPS may be assigned by the State to the Signatory Airlines. If this is the case, the

Signatory Airlines will reimburse the entity to which the contract is assigned by the State to ensure CUPPS operating and maintenance expenses are paid.

Additionally, the State may assign the operating and maintenance contracts for other airline systems, including but not limited to, loading bridges, pre-conditioned air, and baggage systems to the Signatory Airlines. Similarly, the Signatory Airlines will reimburse the entity to which the contract is assigned by the State to ensure such operating and maintenance expenses are paid.

G. NON-SIGNATORY AIRLINE RATES

All airlines that are not a party to this Airport-Airline Lease shall pay Airports System fees and charges as established by Hawaii Administrative Rules (HAR) Chapter 19-16.1. Further, the DOT will amend the methodology contained in HAR Chapter 19-16.1 to reflect that all non-signatory airline fees and charges will be 125% of Signatory Airline fees and charges.

First Amended Lease Extension Agreement

Honolulu International Airport Terminal Modernization Program

The following outlines the \$1.7 billion terminal modernization program planned for Honolulu International Airport. This list shall be reviewed from time to time and may be amended if necessary. Attachment B outlines the preliminary cost estimates that shall be reviewed from time to time and may be amended if necessary.

- Development of new Airline Ancillary Support Facilities at Elliot Street to include cargo facilities, maintenance facilities, flight kitchen facilities, administrative offices, and employee parking;
- Realignment of Taxi lanes G and L to enable unrestricted use by Group IV and Group V aircraft;
- Development of a new Mauka Concourse;
- Development of a new Commuter Airline Terminal;
- Development of a new Ewa Concourse;
- Development of a new Inter-Terminal/Concourse Passenger Connector and People Mover System to replace the existing Wiki Wiki bus system;
- Renovation/expansion of the existing Central Concourse;
- Development of a new Diamond Head Concourse;
- Development of a new Parking Structure and/or Ground Transportation Facility.

Other Capital Projects

Capital projects that have been previously reviewed and approved by the signatory airlines totaling approximately \$700 million.

*Attachment B to Exhibit 1 of the
First Amended Lease Extension Agreement*

HNL Modernization Program	\$1,735,143,000
New Mauka Concourse	139,566,000
Elliott Street Support Facilities	130,661,000
New Diamond Head Concourse (Phase I)	477,098,000
New Ewa Concourse (Phase I)	328,597,000
Concourse Connector and People Mover	523,805,000
Central Concourse Renovation	79,826,000
Parking/Ground Transportation Center	55,590,000
Other Capital Projects	712,169,000
TOTAL CAPITAL IMPROVEMENT PROGRAM	\$2,447,312,000