Questions & Answers (Q&A) Listing

Q: Please give me dates (if available) of audits we have performed or audited results we have received from both concessionaires the past 5 years. So we only receive the concessions' independent auditor's reports on an annual basis verifying sales?

A: We have not performed an audit of concessions. There have been internal audits of our contract compliance methods and internal controls, but not of the concessionaires. We do routinely receive annual independent auditor's reports of the concessionaire's gross sales and use these to true up the end of the year percent rent versus MAG.

Q: Please calculate the amounts of the first year MAG (assuming we meet EP projections)

A: Food & Beverage (F&B) Star Package 1st Year - $145 x 18,848sf = $2,732,960 (or $0.52 per enplanement assuming 5,261,000 enplanements)
F&B RFP Package 1st Year - $145 x 9,923sf = $1,438,835 ($0.27 per enplanement)

Hudson Retail 1st Year - $165 x 7,059sf = $1,164,735 (or $0.22 per enplanement) (also assumes the East Side News & Gifts space, on the RFP Option Space)
Retail RFP Package 1st Year - $165 x 5,069sf = $836,385 ($0.16 per) (assumes Option space in the throat of 1,200sf and the lobby space of 437sf)

Q: Last week, several council members asked what has been the practice regarding the acquisition of Food/Bev and Retail contracts at DFW. Specifically, are all contracts put out for a RFP? Have any been negotiated? How was the Papadeux's contract handled?

A: Accordingly to DFW staff, DFW Airport has approximately 224 concession locations that consist of 213 leased in-line locations and 11 permitted kiosk locations. These locations have been acquired in two different ways: request for proposal and direct negotiation. Their Concession Policy provides guidance as to how the selection of concession opportunities is to be handled.

The 11 kiosk locations are on annual permits and are all a result of direct negotiation.

Of the 213 total active in-line locations, 200 locations, or 94%, were acquired through a request for proposal or tenant assignment. The remaining 13 locations (including the Pappas operation), or 6%, were acquired through direct negotiation. Ten of the 13 locations were three-year leases per Section 2.2 of the DFW Airport Concession Policy.

In 2007, the Concessions Department developed a Strategic Plan to increase revenue by focusing on consumer-preferred concepts using vacant, concessionable space and by refurbishing existing locations. The strategy included:

- Soliciting new locations through an RFP process
- Directly negotiating with existing concessionaires that had “option years,” and
- Directly negotiating with brands that were strongly preferred by our passengers based on in terminal surveys, customer segmentation via a third-party provider (Buxton) and industry research.

Pappadeaux was a concept that resonated with our passengers, and at the time, the Airport did not have a seafood restaurant. Also, the Concession Policy mission statement directs the Department to enrich the experience of our passengers by offering the highest quality products and services through a mix of local, regional and national concepts.

After presenting to the Board those brands that had strong consumer preference, one of our concessionaires contacted the Pappas organization and invited them to visit the Airport. Upon making a site visit, Pappas representatives expressed interest in operating at the Airport, and selected a location that at the time had not been considered usable space.

Because this was a consumer-preferred brand, this concept was considered a “sole source” direct negotiation under the Policy. The Airport entered into a direct negotiation for three locations: two Pappadeaux locations that would be constructed within abandoned, lower-level train stations, and one concourse-level location for Pappasito’s. Due to the nature of the build-out cost and the risks of going below the concourse level, the Airport packaged a concourse-level location and reduced the rent on the train station locations to minimize the financial risk. The two train station locations received package rent at 21% lower than the average location within that same category. The rent for the concourse-level location, Pappasito’s, was set above the category average.

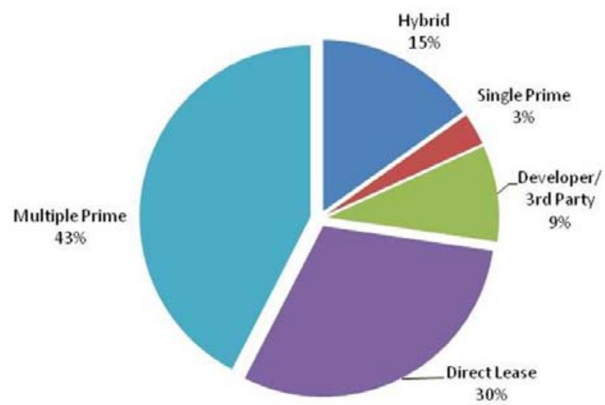
Q: The average term of airport leases for concessions. I am wondering why the finish out in retail stores can be amortized in a 5 year lease but not an airport concession finish out.

A: The majority of airport concession leases are longer than five years. Recent RFPs at LAX and SFO each offered 10-year terms for a variety of concessions. Last year, a survey by Airports Council International-North America (ACI-NA) showed that 52% of 67 responding airports had retail leases between six and ten years and another 12% had retail leases in excess of 10 years. A comparable survey of food and beverage leases will be conducted this year by ACI-NA. However, in Unison's experience, food and beverage leases are usually longer than retail leases -- typically eight to 10 years -- in order to allow adequate time for amortization of the initial capital investment.

Note that the typical investment in airport concessions is much higher than comparable off-airport locations: $300 to $350 per sq. ft. for retail concessions and $350 and up for food & beverage concessions. In addition to higher capital costs, airport concessions also face higher than usual operating costs due to long hours, delivery restrictions, security considerations and airport insurance rates. The combination of higher capital and lower operating margins leads to longer lease terms in order for concessionaires to earn appropriate profits.

Q: Whether all airports use a master concessionaire rather than directly leasing to individual stores. It seems that we greatly limit ourselves by using master concessionaires instead of managing it ourselves.

A: There are several approaches to the leasing structure an airport can use for the management of its concession program. These include prime concessionaire; multiple large packages; and individual leases. In addition, the management structure has several options: airport management (such as Love Field today) or contracting to a third-party manager or developer. The rationale for any one of these approaches depends on a number of factors that are unique to an airport such as size of the airport (in terms of passenger traffic), terminal configuration and number of concessions locations.



Medium hub airports use all approaches. As seen on the attached table, the multiple prime structure – managed by the airport – is most prevalent among airports similar to Love Field.

Q: How have other airports worked out the transition from one location to another when leases expire during construction?

A: Tenants with leases expiring during or shortly before a construction program (either for a new terminal or major renovation) are typically extended through the construction period to the opening of the new facility. Lease extensions result from two reasons: first, it is generally infeasible for a new tenant to move into a short-term situation due to inability to amortize any capital investment that may be required – even though a new tenant in a short-term situation usually will not completely redevelop existing facilities, the tenant will need to invest funds in start-up costs, furnishings and equipment, and re-branding of facilities. The potential cash flows are also frequently disrupted due to construction and wide swings in passenger traffic caused by realignment of terminal facilities.

From the perspective of the incumbent, an extension in a short-term situation is generally attractive. The extension requires minimal, if any, new investment, the original investment is completely amortized under accounting rules, and, usually, any debt related to the original investment has been paid off. Consequently, a short-term extension provides unplanned continued cash flow to the incumbent although, as with a new tenant, it is subject to disruption due to construction and changes in passenger traffic.

Q: Information on the backgrounds of the top management team at Love Field.

A: Please see file "Staff Bios"

Q: I would like to know the process by which the original contracts were awarded.

A: RFP in 1994.

Q: Was there ever a separate Love Field Board?

A: No.

Q: Could I get a copy of the consultant's recommendations for the Love Field concessions?

A: To avoid compromising the RFP process by releasing competition-sensitive information, we recommend this be presented only in Executive Session.