

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), except that no opinion is expressed as to the status of interest on any 2013 Series A Bond or 2013 Series C Bond for any period that such 2013 Series A Bond or 2013 Series C Bond is held by a “substantial user” of the respective facilities financed or refinanced by the 2013 Series A Bonds or the 2013 Series C Bonds, or by a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel is of the further opinion that interest on the 2013 Series A Bonds and 2013 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that interest on the 2013 Series A Bonds and 2013 Series B Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel also observes that interest on the 2013 Series C Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that the 2013 Bonds are exempt, as to principal and interest, from taxation by any state or territory of the United States or any political subdivision thereof, or by the District of Columbia. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds. See “TAX MATTERS” herein.

**A.B. WON PAT
INTERNATIONAL AIRPORT AUTHORITY, GUAM**

\$14,620,000
General Revenue Bonds
2013 Series A (Non-AMT)

\$33,675,000
General Revenue Bonds
2013 Series B (Non-AMT)

\$199,040,000
General Revenue Bonds
2013 Series C (AMT)

Dated: Date of Delivery

Due: As shown on the inside cover page

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms not defined on this cover page are defined inside.

The A.B. Won Pat International Airport Authority, Guam (the “Authority”) is issuing the A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series A (the “2013 Series A Bonds”), 2013 Series B (the “2013 Series B Bonds”) and 2013 Series C (the “2013 Series C Bonds”) and together with the 2013 Series A Bonds and the 2013 Series B Bonds, the “2013 Bonds”) for the purposes of: (i) refunding all or a portion of the Authority’s outstanding 2003 Bonds (as defined herein); (ii) financing additions, extensions and improvements to the Airport; (iii) funding the 2013 Bond Reserve Account; and (iv) paying expenses incurred in connection with the issuance of the 2013 Bonds.

The issuance, sale and delivery of the 2013 Bonds have been approved by the Board of Directors of the Authority. The issuance, terms and conditions of the 2013 Bonds have been approved by the Legislature of Guam. The sale of the 2013 Bonds has been approved by the Board of Directors of the Guam Economic Development Authority. The 2013 Bonds are authorized to be issued pursuant to Chapter 1 of Title 12 of the Guam Code Annotated, as amended (the “Act”), and pursuant to an indenture, dated as of September 1, 2003 (the “General Indenture”), by and between the Authority and Bank of Guam (the “Trustee”) and U.S. Bank National Association (the “Co-Trustee”), as amended and supplemented, including by a supplemental indenture, to be dated as of September 1, 2013 (the “2013 Supplemental Indenture”), by and among the Authority, the Trustee and the Co-Trustee. The General Indenture, as so amended and supplemented, including by the 2013 Supplemental Indenture, is referred to herein as the “Indenture.”

The 2013 Bonds mature on the dates and in the amounts and will bear interest at the rates per annum listed on the inside front cover page. Interest on the 2013 Bonds will be payable on April 1 and October 1 of each year, commencing April 1, 2014. The 2013 Bonds are subject to redemption prior to maturity as described herein.

The scheduled payment of principal and interest when due on the 2013 Series B Bonds maturing on October 1, 2033 and on October 1, 2043 and the 2013 Series C Bonds maturing on October 1, 2034 and bearing interest at a rate of 6.00% per annum and maturing on October 1, 2043 and bearing interest at a rate of 6.125% per annum (collectively, the “Insured 2013 Bonds”) will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2013 Bonds by ASSURED GUARANTY MUNICIPAL CORP.



The 2013 Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues (as defined in the Indenture and more particularly described herein) consisting primarily of all gross income and revenue received by the Authority from the ownership or operation of the Airport, including all rents, fees and charges received by the Authority for the use of the Airport, all Payment Agreement Receipts, all proceeds of insurance or grants covering business interruption loss (and related losses and expenses) relating to the Airport, all investment income available for such purpose (except from the Construction Accounts, the Capital Improvement Fund or the Rebate Fund), and certain proceeds of passenger facility charges, but not including amounts received from certain other insurance proceeds, and certain other amounts, all as more fully described herein, subject to the provisions of the Indenture permitting the application of Revenues for or to the purposes (including payment of Operation and Maintenance Expenses) and on the terms and conditions set forth therein. Neither the Government of Guam (the “Government”) nor any political subdivision thereof is obligated to pay the principal of, Redemption Price, if applicable, or interest on the 2013 Bonds, except from such Revenues, and none of the Authority, the Government or any political subdivision thereof has pledged its faith or credit to the payment of the principal of, Redemption Price, if applicable, or interest on the 2013 Bonds.

The 2013 Bonds are being issued as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”), New York, New York. Individual purchases and sales of the 2013 Bonds may be made in book-entry form only, in denominations of \$5,000 and integral multiples thereof. Purchasers will not receive physical delivery of 2013 Bonds purchased by them. So long as the 2013 Bonds are held by DTC, payments of the principal of, premium, if any, and interest on the 2013 Bonds will be payable to DTC, which in turn will remit such principal, premium, if any, and interest to the DTC participants for subsequent disbursement to the beneficial owners of the 2013 Bonds.

The 2013 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Calvo Fisher & Jacob LLP, Hagåtña, Guam, and for the Underwriters by their counsel, Hawkins, Delafield & Wood LLP, Portland, Oregon. It is expected that the 2013 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about September 12, 2013.

Citigroup

Wells Fargo Securities

MATURITY SCHEDULE

A.B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM

**\$14,620,000
General Revenue Bonds
2013 Series A (Non-AMT)**

<u>Maturity Date</u> <u>October 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]	<u>Maturity Date</u> <u>October 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]
2014	\$1,160,000	3.00%	1.45%	40064RCL1	2019	\$1,480,000	5.00%	3.90%	40064RCR8
2015	1,235,000	4.00	1.85	40064RCM9	2020	1,555,000	5.00	4.15	40064RCS6
2016	1,285,000	5.00	2.35	40064RCN7	2021	1,630,000	5.00	4.40	40064RCT4
2017	1,345,000	5.00	2.85	40064RCP2	2022	1,710,000	5.00	4.65	40064RCU1
2018	1,415,000	5.00	3.35	40064RCQ0	2023	1,805,000	5.00	4.90	40064RCV9

**\$33,675,000
General Revenue Bonds
2013 Series B (Non-AMT)**

\$9,250,000 Serial Bonds

<u>Maturity Date</u> <u>October 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]
2014	\$1,670,000	3.00%	1.45%	40064RCW7
2015	1,770,000	4.00	1.85	40064RCX5
2016	1,840,000	5.00	2.35	40064RCY3
2017	1,935,000	5.00	2.85	40064RCZ0
2018	2,035,000	5.00	3.35	40064RDA4

\$24,425,000 Term Bonds

\$9,810,000 5.00% 2013 Series B Term Bonds due October 1, 2023, Priced to Yield 4.90%, CUSIP No. 40064RDD8[†]
 \$5,360,000 5.50% 2013 Series B Term Bonds due October 1, 2033*, Priced to Yield 5.57%, CUSIP No. 40064RDB2[†]
 \$9,255,000 5.75% 2013 Series B Term Bonds due October 1, 2043*, Priced to Yield 5.75%, CUSIP No. 40064RDC0[†]

**\$199,040,000
General Revenue Bonds
2013 Series C (AMT)**

\$38,950,000 Serial Bonds

<u>Maturity Date</u> <u>October 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]
2014	\$7,015,000	3.00%	2.00%	40064RDE6
2015	7,460,000	4.00	2.35	40064RDF3
2016	7,765,000	5.00	2.85	40064RDG1
2017	8,150,000	5.00	3.35	40064RDH9
2018	8,560,000	5.00	4.00	40064RDJ5

\$160,090,000 Term Bonds

\$30,320,000 5.00% 2013 Series C Term Bonds due October 1, 2021, Priced to Yield 4.95%, CUSIP No. 40064RDL0[†]
 \$21,405,000 6.00% 2013 Series C Term Bonds due October 1, 2023, Priced to Yield 4.95%**, CUSIP No. 40064RDM8[†]
 \$23,625,000 6.25% 2013 Series C Term Bonds due October 1, 2034, Priced to Yield 6.290%, CUSIP No. 40064RDN6[†]
 \$20,000,000 6.00% 2013 Series C Term Bonds due October 1, 2034*, Priced to Yield 6.05%, CUSIP No. 40064RDP1[†]
 \$25,000,000 6.125% 2013 Series C Term Bonds due October 1, 2043*, Priced to Yield 6.23%, CUSIP No. 40064RDQ9[†]
 \$39,740,000 6.375% 2013 Series C Term Bonds due October 1, 2043, Priced to Yield 6.48%, CUSIP No. 40064RDK2[†]

[†] Copyright 2013, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with either the Authority or GEDA and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity or maturities are subject to change after the issuance of the 2013 Bonds. None of the Authority, GEDA or the Underwriters takes responsibility for the accuracy of the CUSIP numbers, and no representation is made as to their correctness on the applicable 2013 Bond certificates or in this Official Statement.

* Insured 2013 Bond.

** Priced to a call date of August 1, 2018.

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The information set forth in this Official Statement has been furnished by the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion stated herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions stated herein or in the affairs of the Authority since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Assured Guaranty Municipal Corp. (“AGM” or the “2013 Bond Insurer”) makes no representation regarding the 2013 Bonds or the advisability of investing in the 2013 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “THE 2013 BOND INSURER” and in APPENDIX I – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

As described herein, AGM is insuring a portion of the 2013 Bonds. The information about AGM was provided by AGM. None of the Authority or the Underwriters makes any representation as to the accuracy or completeness of this information.

This Official Statement is not to be construed as a contract with the purchasers of the 2013 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT ARE NOT INTENDED TO REFLECT HISTORICAL FACTS BUT ARE ESTIMATES AND “FORWARD-LOOKING STATEMENTS.” NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE EXPECTATIONS OR FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS “ESTIMATE,” “PROJECT,” “FORECAST,” “ANTICIPATE,” “EXPECT,” “ASSUME,” “INTEND,” “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINION, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO SUCH FORWARD-LOOKING STATEMENTS OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED DO OR DO NOT OCCUR.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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(Non-AMT)

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General Revenue Bonds
2013 Series B
(Non-AMT)

\$199,040,000
General Revenue Bonds
2013 Series C
(AMT)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the appendices hereto (collectively, the “Official Statement”), is to provide information concerning the issuance by the A.B. Won Pat International Airport Authority, Guam (the “Authority”) of the \$14,620,000 A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series A (the “2013 Series A Bonds”), the \$33,675,000 A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series B (the “2013 Series B Bonds”), the \$199,040,000 A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series C (the “2013 Series C Bonds” and together with the 2013 Series A Bonds and the 2013 Series B Bonds, the “2013 Bonds”).

This Introduction is not a summary of this Official Statement, but is only a brief description of, and is qualified by, more complete and detailed information contained in this Official Statement. The Introduction should not be relied upon to provide all of the information necessary to make an informed decision about purchasing the 2013 Bonds. A full review should be made of the entire Official Statement. The offering of 2013 Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used herein that are not otherwise defined shall have the meanings set forth in APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” or in APPENDIX B – “SUMMARY OF THE FORM OF AIRLINE OPERATING AGREEMENT.”

The Authority

The Authority is organized and exists under Chapter 1 of Title 12 of the Guam Code Annotated, as amended (the “Act”), and is a public corporation and an autonomous instrumentality of the Government of Guam (the “Government”) with authority to construct, operate and maintain airports for civil aviation purposes on Guam, including the Antonio B. Won Pat Guam International Air Terminal and related facilities (collectively, the “Airport”). See “THE AUTHORITY.”

The Airport

The Airport is centrally located in Guam’s business district on an 1,800 acre parcel of land and has 768,000 square feet of terminal space along with hangars, maintenance facilities, warehouse space, storage facilities, office space and expansive ground space. The Airport is the only commercial air carrier airport serving Guam and is the principal air carrier airport serving the surrounding Micronesian islands. The Airport is classified as a small, air traffic hub by the Federal Aviation Administration (the “FAA”).

According to the FAA, 1,477,926 enplaned passengers were processed through the Airport in calendar year 2012, making the Airport the 71st busiest primary airport within the FAA system. According to data published by U.S. Department of Commerce Office of Travel and Tourism Industries, for calendar year 2012, the Airport was the 8th busiest port of entry to the United States for non-U.S. resident arrivals (excluding arrivals from Canada and Mexico). See “THE AIRPORT.”

The 2013 Bonds

The 2013 Bonds are being issued pursuant to the Act and pursuant to an indenture, dated as of September 1, 2003 (the “General Indenture”), by and between the Authority and the Bank of Guam (the “Trustee”) and U.S. Bank National Association (the “Co-Trustee”), as amended and supplemented, including by a supplemental indenture, to be dated as of September 1, 2013 (the “2013 Supplemental Indenture”), by and among the Authority, the Trustee and the Co-Trustee. The General Indenture, as so amended and supplemented, including by the 2013 Supplemental Indenture, is referred to herein as the “Indenture.” The issuance, sale and delivery of the 2013 Bonds have been approved by the Board of Directors of the Authority. The sale of the 2013 Bonds has been approved by the Board of Directors of the Guam Economic Development Authority (“GEDA”). The issuance, terms and conditions of the 2013 Bonds have been approved by the Legislature of Guam. See “PLAN OF FINANCE” and “THE 2013 BONDS.”

The Authority is issuing the 2013 Bonds (i) to refund all of the Authority’s outstanding A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2003 Series A, 2003 Series B and 2003 Series C (collectively, the “2003 Bonds”); (ii) to finance additions, extensions and improvements to the Airport; (iii) to fund the 2013 Bond Reserve Account; and (iv) to pay costs incurred in connection with the issuance of the 2013 Bonds. The portions of the 2013 Bonds allocable to the refunding of the 2003 Bonds are sometimes referred to herein as the “2013 Refunding Bonds.” The issuance of the 2013 Bonds is subject to market conditions. If in the opinion of Authority management, sufficient debt service savings may not be achieved, some or all of the 2013 Bonds may not be offered or sold. See “PLAN OF FINANCE.”

Security and Sources of Payment for the Bonds

The 2013 Bonds are secured by a pledge of and a lien on Revenues (as defined herein), subject only to the prior payment of Operating and Maintenance Expenses, on a parity with any Bonds previously issued and outstanding under the Indenture and any additional Bonds or obligations that may be issued on a parity therewith under the Indenture (as further defined herein, “Additional Bonds”). As of June 30, 2013, \$145,415,000 aggregate principal amount of 2003 Bonds were outstanding. The outstanding 2003 Bonds, together with the 2013 Bonds and any Additional Bonds that may be issued in the future, are referred to in this Official Statement as the “Bonds.”

The Bonds, including the 2013 Bonds, are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues under the Indenture. The Bonds are secured by a lien upon and pledge of Revenues to be received by the Authority, the Trustee or the Depository, and the Indenture prohibits the issuance of any other prior lien bonds and any parity debt except parity debt issued or incurred in accordance with the Indenture. Neither the payment of the principal of the 2013 Bonds, nor any interest thereon, is a debt, liability or obligation of the Government.

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Investment Considerations

There are important investment considerations and risks associated with the purchase of the 2013 Bonds. See “CERTAIN INVESTMENT CONSIDERATIONS” for a discussion of some of these considerations and risks. Any one or more of the considerations and risks discussed, and others, could lead to a decrease in the market value and/or the liquidity of the 2013 Bonds. Potential purchasers of the 2013 Bonds are advised to review this Official Statement carefully.

Report of the Airport Consultant

In connection with the issuance of the 2013 Bonds, the Authority has retained LeighFisher (the “Airport Consultant”) to prepare the Report of the Airport Consultant, dated August 14, 2013 (the “Report of the Airport Consultant”), included as APPENDIX D to this Official Statement. The Report of the Airport Consultant includes, among other things, a description of existing facilities at the Airport; a discussion of the economic basis for passenger demand at the Airport; a discussion of key factors that may affect future air traffic activity at the Airport; a review of historical air traffic activity at the Airport; the forecast for air traffic activity at the Airport through Fiscal Year 2019 and a description of the assumptions on which such forecasts were based; a description of the 2013

Projects; and forecasts of debt service, debt service coverage, expenses and revenues through Fiscal Year 2019 and a description of the assumptions upon which such forecasts were based. No assurance can be given that the forecasts and expectations discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which the forecasts and conclusions are based will be realized. There may be differences between the forecasts and actual results, and such differences may be material. The financial projections in the Report of the Airport Consultant are based upon certain information and assumptions that were provided or reviewed with and agreed to by the Authority. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the forecasts set forth in the Report of the Airport Consultant. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety. The Report of the Airport Consultant has not been revised subsequent to its date of publication (August 14, 2013) to reflect the final terms of the 2013 Bonds. See “REPORT OF THE AIRPORT CONSULTANT” below and APPENDIX D.

Continuing Disclosure

The Authority will covenant for the benefit of the holders and beneficial owners of the 2013 Bonds to provide annually certain financial information and operating data and to provide notice of certain enumerated events to assist the Underwriters in complying with the Securities and Exchange Commission’s Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” below and the form of Continuing Disclosure Agreement attached hereto as APPENDIX H.

Amendment of the General Indenture

The 2013 Supplemental Indenture includes amendments to certain provisions of the General Indenture, as described under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Amendment of the General Indenture,” “—Bond Reserve Fund” and “—Additional Bonds.” Purchasers of the 2013 Bonds will be deemed to have consented to such amendments to the General Indentures. These amendments will become effective upon the delivery of the 2013 Bonds and the concurrent defeasance of all of the outstanding 2003 Bonds. For a complete description of these amendments, see APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the 2013 Supplemental Indenture—Amendments to the General Indenture.”

Miscellaneous

Brief descriptions of the 2013 Bonds, the Authority and Guam and summaries of the Indenture, the form of Airline Operating Agreement and certain other documents are included in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to such documents and to any other documents, statutes, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, report or other instrument. Copies of such documents are available for inspection at the Administration Office of the A.B. Won Pat International Airport Authority, Guam, A.B. Won Pat Terminal, 355 Chalan Pasaheru, Route 10A, 3rd Floor, Tamuning, Guam 96931, during normal business hours, Monday through Friday, excluding holidays.

The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made with respect hereto shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Airport since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the 2013 Bonds.

PLAN OF FINANCE

Authorization

The 2013 Bonds are authorized to be issued pursuant to the Act, and are being issued pursuant to the Indenture. The issuance, sale and delivery of the 2013 Bonds have been approved by the Board of Directors of the Authority. The issuance, terms and conditions of the 2013 Bonds have been approved by the Legislature of Guam. The sale of the 2013 Bonds has been approved by the Board of Directors of GEDA.

Refunding Plan

The 2013 Refunding Bonds are being issued by the Authority (i) to refund all of the Authority's outstanding 2003 Bonds, as shown in the table below and (ii) to pay costs incurred in connection with the issuance of the 2013 Refunding Bonds. The issuance of the 2013 Bonds is subject to market conditions. If in the opinion of Authority management, sufficient debt service savings may not be achieved, some or all of the 2013 Bonds may not be offered or sold.

2003 Bond Refunding Candidates

2003 Bonds (Series)	Refunded Maturity (October 1)	Principal Amount Refunded	Redemption Date	Redemption Price (% of Principal)	CUSIP Number
2003 Series A	2013	\$ 1,220,000	At maturity	100.00%	40064RAJ8
	2014	1,270,000	October 1, 2013	100.00%	40064RAK5
	2015	1,340,000	October 1, 2013	100.00%	40064RAL3
	2016	1,410,000	October 1, 2013	100.00%	40064RAM1
	2017	1,480,000	October 1, 2013	100.00%	40064RAN9
	2018	1,560,000	October 1, 2013	100.00%	40064RAP4
	2019	1,640,000	October 1, 2013	100.00%	40064RAQ2
	2020	1,725,000	October 1, 2013	100.00%	40064RAR0
	2021	1,815,000	October 1, 2013	100.00%	40064RAS8
	2022	1,910,000	October 1, 2013	100.00%	40064RAT6
	2023	2,015,000	October 1, 2013	100.00%	40064RAU3
2003 Series B	2013	\$ 1,720,000	At maturity	100.00%	40064RBC2
	2014	1,805,000	October 1, 2013	100.00%	40064RBD0
	2015	1,900,000	October 1, 2013	100.00%	40064RBE8
	2016	2,000,000	October 1, 2013	100.00%	40064RBF5
	2017	2,105,000	October 1, 2013	100.00%	40064RBG3
	2018	2,220,000	October 1, 2013	100.00%	40064RBH1
	2019	2,335,000	October 1, 2013	100.00%	40064RBJ7
	2020	2,455,000	October 1, 2013	100.00%	40064RBK4
	2021	2,585,000	October 1, 2013	100.00%	40064RBL2
	2022	2,720,000	October 1, 2013	100.00%	40064RBM0
	2023	2,865,000	October 1, 2013	100.00%	40064RBN8
2003 Series C	2013	\$ 7,090,000	At maturity	100.00%	40064RBY4
	2014	7,435,000	October 1, 2013	100.00%	40064RBZ1
	2015	7,825,000	October 1, 2013	100.00%	40064RCA5
	2016	8,225,000	October 1, 2013	100.00%	40064RCB3
	2017	8,680,000	October 1, 2013	100.00%	40064RCC1
	2018	9,215,000	October 1, 2013	100.00%	40064RCD9
	2019	9,710,000	October 1, 2013	100.00%	40064RCE7
	2020	10,305,000	October 1, 2013	100.00%	40064RCF4
	2021	10,940,000	October 1, 2013	100.00%	40064RCG2
	2022	11,600,000	October 1, 2013	100.00%	40064RCH0
	2023	12,295,000	October 1, 2013	100.00%	40064RCJ6

A portion of the proceeds of the 2013 Refunding Bonds, together with other available funds of the Authority, are to be deposited in an escrow fund (the "Escrow Fund") to be created and established by the Co-Trustee, in its capacity as Paying Agent for the 2003 Bonds and as escrow agent (the "Escrow Agent"), pursuant to an escrow agreement (the "Escrow Agreement"). The amounts so deposited in the Escrow Fund will either be held as cash, uninvested, in an amount sufficient, or be used to purchase certain securities (the "Escrow Securities") in accordance with the requirements of the indenture for the 2003 Bonds (the "2003 Indenture"), the principal of and interest on which (together with any initial cash deposit), will be sufficient, to pay when due the scheduled principal and redemption price of the 2003 Bonds and interest thereon to become due on or prior to October 1, 2013 (the "Redemption Date"). Upon such deposit in the Escrow Fund in accordance with the provisions of the Escrow Agreement and satisfaction of certain other conditions, all liability of the Authority in respect of the 2003 Bonds will

cease, determine and be completely discharged and the owners thereof shall thereafter be entitled only to payment out of the Escrow Fund.

The mathematical accuracy of certain computations relating to the adequacy of the cash and/or Escrow Securities and the interest thereon together with other available moneys to pay the scheduled principal, redemption price and interest on the 2003 Bonds on and prior to the Redemption Date thereof will be verified at the time of delivery of the 2013 Refunding Bonds by Causey Demgen & Moore P.C. See “VERIFICATION OF ESCROW.”

Financing of the 2013 Projects

The 2013 Series B Bonds and the 2013 Series C Bonds are being issued by the Authority, in part, (i) to finance a portion of the costs of certain additions, extensions and improvements to the Airport (collectively, the “2013 Projects”); (ii) to fund the 2013 Bond Reserve Account (as defined herein); and (iii) to pay costs incurred in connection with the issuance of the 2013 Bonds.

The 2013 Projects consist of (i) improvements to the passenger terminal to construct a new sterile international arrivals corridor leading from the loading bridges to the federal inspection area, (ii) construction of a new Aircraft Rescue and Fire Fighting facility; (iii) provision of a new cargo only apron adjacent to the integrated air cargo facility and extension of the fuel hydrant system to the new cargo only apron, (iv) improvements to the Airport’s fuel system to enhance the fire suppression system and fuel connections; (v) construction of an in-line baggage screening system and baggage handling system; (vi) expansion of the parking facilities at the Airport; (vii) improvements to the inter-island passenger facilities at the Airport to construct a separate passenger processing facility for domestic interisland operations; (viii) improvements to TSA security screening check points; (ix) replacement of the flight information displays at the Airport; (x) replacement of, and installation of additional, terminal seating; (xi) improvements to common use check-in facilities; (xii) continuation and completion of seismic upgrades for the passenger terminal and east concourse; (xiii) replacement of five passenger loading bridges and installation of 34 power and pre-conditioned air point of use units; (xiv) improvements to the security system, including installation of a biometric security access control system and other upgrades; (xv) additional improvements to and expansion of the passenger terminal area, including flooring replacement, enclosure of arrival tunnels to increase commercial space in the passenger terminal area expansion of curbside canopies to extend protection from weather; (xvi) improvements to the Authority’s information technology systems and financial management systems; (xvii) installation of landscaping medians in connection with the expansion of Route 10A; and (xviii) replacement of aging elevators, escalators and moving walkways. See “AIRPORT PLANNING—Capital Improvement Plan” for a more detailed discussion of the 2013 Projects.

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2013 Bonds, together with other available funds, are expected to be applied as follows:

	2013 Series A	2013 Series B	2013 Series C
Sources:			
Principal Amount of 2013 Bonds	\$14,620,000	\$33,675,000	\$199,040,000
Net Original Issue Premium/(Discount)	679,845	590,625	1,620,691
Funds Released from 2003 Bond Reserve Account	2,174,089	2,998,219	12,891,643
Funds Released from Debt Service Fund	1,667,206	2,313,988	9,690,778
Total Sources	\$19,141,140	\$39,577,832	\$223,243,112
Uses:			
Escrow Fund	\$17,832,206	\$23,303,988	\$107,920,778
Construction Fund	--	13,000,000	96,710,000
2013 Bond Reserve Account	1,122,667	2,585,896	15,284,239
Costs of Issuance **	186,267	687,949	3,328,095
Total Uses	\$19,141,140	\$39,577,832	\$223,243,112

** Includes Underwriters' discount, Trustee, Co-Trustee and Escrow Agent fees, legal fees and expenses, rating agency fees, printing costs, verification agent fees, bond insurance premiums and other miscellaneous costs of issuance.

THE 2013 BONDS

General

When issued, the 2013 Bonds will be dated their date of delivery and will bear interest at the rates per annum and will mature, subject to prior redemption, on the dates and in the principal amounts set forth on the inside front cover page of this Official Statement. Interest on the 2013 Bonds will be payable on April 1 and October 1 of each year, commencing April 1, 2014 (each, an "Interest Payment Date"). Interest will accrue on the 2013 Bonds on the basis of a 360-day year comprised of twelve 30-day months. Each 2013 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, except that (1) 2013 Bonds authenticated during the period from the Record Date immediately preceding an Interest Payment Date to such Interest Payment Date, inclusive, will bear interest from such Interest Payment Date, and (2) 2013 Bonds registered on or prior to the Record Date for the first Interest Payment Date for the 2013 Bonds will bear interest from their date; provided, however, that if interest on the 2013 Bonds then Outstanding shall be in default at the time of authentication of any 2013 Bond, such 2013 Bond will bear interest from the date to which interest has previously been paid or made available for payment on the 2013 Bonds then Outstanding.

The 2013 Bonds will be issued in denominations of \$5,000 and integral multiples thereof and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2013 Bonds. Individual purchases may be made only in book-entry form, and purchasers will not receive certificates representing their interest in the 2013 Bonds purchases. Except as described below under "TAX MATTERS," so long as Cede & Co. is the registered owner of the 2013 Bonds, as nominee of DTC, references herein to "Bondholders" or to "registered owners" of the 2013 Bonds mean Cede & Co. and not the Beneficial Owners of the 2013 Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom a DTC participant acquires an interest in the 2013 Bonds.

So long as DTC, or its nominee Cede & Co. (or such other nominee as an authorized officer of DTC may request) is the registered owner of the 2013 Bonds, payments of the principal of, premium, if any, and interest on the 2013 Bonds are to be made directly to DTC, which, in turn, is to remit such amounts to the Direct and Indirect Participants (as defined here) for subsequent distribution to the Beneficial Owners. See APPENDIX G—"DTC AND ITS BOOK-ENTRY SYSTEM."

Redemption of the 2013 Bonds

Extraordinary Optional Redemption. The Indenture provides that the Authority shall have the right, on any date, to redeem the 2013 Bonds, as a whole, or in part by lot within a maturity, so that the reduction in Annual Debt Service for the 2013 Bonds for each Bond Year after such redemption date shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the Airport or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the Airport, under the circumstances and upon the conditions and terms set forth in the Indenture, at the principal amount thereof to be redeemed plus interest accrued thereon to the date fixed for redemption, without premium.

Optional Redemption. The 2013 Bonds maturing on or after October 1, 2024 are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after October 1, 2023, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a Redemption Price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption. The 2013 Series C Bonds maturing on October 1, 2023 are subject to redemption prior to their stated maturities, at the option of the Authority, from any source of available moneys, on any date on or after August 1, 2018, as a whole, or in part by such maturities or portions of maturities as shall be determined by the Authority (or by lot within a maturity in the absence of such a determination), at a Redemption Price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption.

The 2013 Series B Bonds maturing on October 1, 2023 (the “Series B 2023 Term Bonds”) are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series B 2023 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series B 2023 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series B 2023 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series B 2023 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

Mandatory Sinking Account Payments for Series B 2023 Term Bonds

<u>Year</u>	<u>Amount</u>
2019	\$ 135,000
2020	2,245,000
2021	2,355,000
2022	2,475,000
2023**	2,600,000

**(final maturity)

The 2013 Series B Bonds maturing on October 1, 2033 (the “Series B 2033 Term Bonds”) are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series B 2033 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series B 2033 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series B 2033 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series B 2033 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

Mandatory Sinking Account Payments for
Series B 2033 Term Bonds

<u>Year</u>	<u>Amount</u>
2024	\$415,000
2025	440,000
2026	460,000
2027	490,000
2028	515,000
2029	545,000
2030	575,000
2031	605,000
2032	640,000
2033**	675,000

**(final maturity)

The 2013 Series B Bonds maturing on October 1, 2043 (the “Series B 2043 Term Bonds”) are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series B 2043 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series B 2043 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series B 2043 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series B 2043 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

Mandatory Sinking Account Payments for
Series B 2043 Term Bonds

<u>Year</u>	<u>Amount</u>
2034	\$ 710,000
2035	750,000
2036	795,000
2037	840,000
2038	890,000
2039	940,000
2040	995,000
2041	1,050,000
2042	1,110,000
2043**	1,175,000

**(final maturity)

The 2013 Series C Bonds maturing on October 1, 2021 (the “Series C 2021 Term Bonds”) are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series C 2021 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series C 2021 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series C 2021 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series C 2021 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

Mandatory Sinking Account Payments for
Series C 2021 Term Bonds

<u>Year</u>	<u>Amount</u>
2019	\$10,990,000
2020	9,430,000
2021**	9,900,000

**(final maturity)

The 2013 Series C Bonds maturing on October 1, 2023 (the “Series C 2023 Term Bonds”) are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series C 2023 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series C 2023 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series C 2023 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series C 2023 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

Mandatory Sinking Account Payments for
Series C 2023 Term Bonds

<u>Year</u>	<u>Amount</u>
2022	\$10,395,000
2023**	11,010,000

**(final maturity)

The 2013 Series C Bonds maturing on October 1, 2034 and bearing interest at a rate of 6.25% per annum (the “Series C 6.25% 2034 Term Bonds”) are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series C 6.25% 2034 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series C 6.25% 2034 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series C 6.25% 2034 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series C 6.25% 2034 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

Mandatory Sinking Account Payments for
Series C 6.25% 2034 Term Bonds

<u>Year</u>	<u>Amount</u>
2024	\$1,560,000
2025	1,655,000
2026	1,760,000
2027	1,870,000
2028	1,985,000
2029	2,105,000
2030	2,240,000
2031	2,380,000
2032	2,525,000
2033	2,690,000
2034**	2,855,000

**(final maturity)

The 2013 Series C Bonds maturing on October 1, 2034 and bearing interest at a rate of 6.00% per annum (the “Series C 2034 6.00% Term Bonds”) are subject to redemption prior to their stated maturity in part, by lot, from

Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series C 6.00% 2034 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series C 6.00% 2034 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series C 6.00% 2034 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series C 6.00% 2034 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

<u>Mandatory Sinking Account Payments for</u>	
<u>Series C 6.00% 2034 Term Bonds</u>	
<u>Year</u>	<u>Amount</u>
2024	\$1,335,000
2025	1,415,000
2026	1,500,000
2027	1,590,000
2028	1,685,000
2029	1,790,000
2030	1,895,000
2031	2,010,000
2032	2,130,000
2033	2,255,000
2034**	2,395,000

** (final maturity)

The 2013 Series C Bonds maturing on October 1, 2043 and bearing interest at a rate of 6.375% per annum (the "Series C 6.375% 2043 Term Bonds") are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Such Series C 6.375% 2043 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series C 6.375% 2043 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series C 6.375% 2043 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series C 6.375% 2043 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

<u>Mandatory Sinking Account Payments for</u>	
<u>Series C 6.375% 2043 Term Bonds</u>	
<u>Year</u>	<u>Amount</u>
2035	\$3,405,000
2036	3,625,000
2037	3,850,000
2038	4,100,000
2039	4,360,000
2040	4,635,000
2041	4,935,000
2042	5,250,000
2043**	5,580,000

** (final maturity)

The 2013 Series C Bonds maturing on October 1, 2043 and bearing interest at a rate of 6.125% per annum (the "Series C 2043 Term Bonds") are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity, upon payment of the principal amount thereof

and accrued interest thereon to the date fixed for redemption, without premium. Such Series C 6.125% 2043 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Series C 6.125% 2043 Term Bonds, in the amounts (after giving effect to the credits for the principal amount of such Series C 6.125% 2043 Term Bonds purchased by the Trustee with funds from the Debt Service Fund and for the principal amount of Series C 6.125% 2043 Term Bonds deposited by the Authority with the Trustee during the 12-month period preceding the applicable payment date) and on October 1 in the years set forth below:

<u>Mandatory Sinking Account Payments for</u>	
<u>Series C 6.125% 2043 Term Bonds</u>	
<u>Year</u>	<u>Amount</u>
2035	\$2,165,000
2036	2,295,000
2037	2,440,000
2038	2,585,000
2039	2,745,000
2040	2,915,000
2041	3,090,000
2042	3,280,000
2043**	3,485,000

** (final maturity)

Selection of 2013 Bonds for Redemption. If less than all of the 2013 Bonds of any series and maturity are to be redeemed at any one time, the 2013 Bonds or portions thereof to be redeemed shall be selected by the Authority or, in the absence of such a selection by the Authority, by the applicable Registrar by lot in such manner that the Registrar may determine.

Notice of Redemption. Notice of redemption (except as otherwise provided in the Indenture) shall be given, not less than thirty (30) nor more than sixty (60) days before the date fixed for redemption, by first class mail to each of the registered owners of the 2013 Bonds designated for redemption at their addresses appearing on the Bond registration books of the applicable Registrar on the date the 2013 Bonds to be redeemed are selected. Each notice of redemption shall state the redemption date, the place or places of redemption, the Series and maturities to be redeemed, and, if less than all of any such maturity, the numbers of the 2013 Bonds of such maturity to be redeemed and, in the case of 2013 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and shall also state that on said date there will become due and payable on each of said 2013 Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such 2013 Bonds be then surrendered, with a written instrument of transfer duly executed by the registered owner thereof or by such registered owner's attorney duly authorized in writing. No defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of such 2013 Bonds. Each notice of redemption shall also state the CUSIP number, date of issue and interest rate on each 2013 Bond, or portion thereof, to be redeemed, and shall include the redemption agent name and address; provided, however, that failure to include any of such information in any redemption notice, or any inaccuracy in any such information, shall not affect the sufficiency of the proceedings for redemption of any 2013 Bonds.

The Authority may, at its option, prior to the date fixed for redemption in any notice of redemption, rescind and cancel such notice of redemption.

Defeasance

Pursuant to the General Indenture, upon the deposit with the Trustee, in trust, at or before maturity of the Bonds, of money or Federal Securities in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice, then all liability of the Authority in respect of

such Bonds will cease, determine and be completely discharged and the Owners thereof will thereafter be entitled only to payment out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture relating to payment of Bonds after the discharge of Indenture. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Defeasance.”

Trustee, Co-Trustee, Registrar and Paying Agent

The Bank of Guam has been appointed to act as the Trustee for the Bonds, including the 2013 Bonds, and U.S. Bank National Association has been appointed to act as Co-Trustee, registrar (the “Registrar”) and paying agent (the “Paying Agent”) for the Bonds, including the 2013 Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Revenues

The Bonds are limited obligations of the Authority and are payable solely from, and secured solely by a lien on and pledge of, the Revenues. Pursuant to the Indenture, the Authority has pledged all of the Revenues, subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Indenture, to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of Credit Agreement Payments and Parity Payment Agreement Payments in accordance with their terms. The Indenture provides that such pledge constitutes a first lien on and security interest in the Revenues and will attach, be perfected and be valid and binding from and after delivery of the first Series of Bonds issued under the General Indenture, without any physical delivery of such Revenues or further act.

As defined in the Indenture, the “Revenues” include all gross income and revenue received by the Authority from the ownership or operation of the Airport, including all rents, fees and charges received by the Authority for the use of the Airport, all Payment Agreement Receipts, all proceeds of insurance or grants covering business interruption loss (and related losses and expenses) relating to the Airport, and all investment income which is available for the purposes for which Revenues are used under the Indenture (other than investment income from the Construction Accounts, the Capital Improvement Fund or the Rebate Fund), but do not include: (1) amounts received as insurance proceeds (except as described above) or from the sale, transfer or other disposition of, or upon the taking by or under the threat of eminent domain of, all or any part of the Airport (which moneys shall be received and disposed of pursuant to the Indenture); (2) proceeds from any securities issued by the Authority or proceeds from loans obtained by the Authority; (3) amounts derived from any Special Facility and which are pledged or assigned as security for the payment of indebtedness incurred to finance such Special Facility; (4) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Authority; (5) amounts received by the Authority as gifts or as grants (except as described above), whether restricted or unrestricted; and (6) other amounts (except as described above), the use of which is restricted by the donor or grantor.

In addition, the Indenture provides that the proceeds of any Passenger Facility Charge (“PFC”) are to be treated as Revenues for the purposes of the Indenture, including the pledge of Revenues in the Indenture, but are required to be used under the Indenture only to the extent and for the purposes that such proceeds are permitted to be used by federal law or regulation. See “CERTAIN FUNDING SOURCES—Passenger Facility Charges.”

The Authority has covenanted in the Indenture that, so long as any Bonds are outstanding, the Authority will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues prior to or on a parity with the Bonds, other than the Bonds, any Parity Agreement Payments and any Credit Agreement Payments.

The ability of the Authority to pay principal of and interest on the Bonds will depend upon the receipt by the Authority of sufficient Revenues. If Revenues and amounts available in the funds and accounts under the Indenture are insufficient to pay the principal of and interest on the 2013 Bonds, no other source of repayment exists. The Authority has no taxing power.

Flow of Funds

The Indenture requires the Authority to deposit all Revenues upon receipt in the General Revenue Bond Revenue Fund (the "Revenue Fund"), and provides that upon such receipt, such Revenues immediately become subject to the lien and pledge of the Indenture. Pursuant to the Indenture, on or before the fifth day of each calendar month, the Depositary is required to transfer from the Revenue Fund (to the Trustee as necessary) for deposit into the following funds and accounts in the following order of priority, the following amounts (including the making up of any deficiencies in any such fund or account resulting from lack of Revenues sufficient to make any earlier required deposit):

(A) into the Operation and Maintenance Fund, an amount equal to the amount of Operation and Maintenance Expenses budgeted by the Authority to be paid from Revenues during the next succeeding calendar month;

(B) into the Debt Service Fund, the amount necessary to increase the amount in the Debt Service Fund to the aggregate amount for all Outstanding Bonds of all unpaid interest, principal and Mandatory Sinking Account Payments and for all Outstanding Parity Payment Agreements, if any, of all Parity Payment Agreement Payments with respect thereto and for all Outstanding Credit Agreements, if any, of all Credit Agreement Reimbursement Payments due and payable to the extent not otherwise included in such amount, as described in (1) through (5) below (after taking into account amounts transferred and to be transferred from any Construction Account to pay Capitalized Interest and any amounts to be transferred to the Debt Service Fund from the Revenue Fund representing payments required to be paid by a Qualified Counterparty on or prior to an Interest Payment Date pursuant to an Outstanding Payment Agreement related to any Bonds):

(1) for current interest Bonds, an amount equal to the amount of interest payable on any Interest Payment Date in substantially equal monthly amounts over the applicable Interest Accrual Periods for the Bonds ending on the Interest Payment Date or, in the case of Variable Rate Bonds, an amount equal to 110% of the amount of interest accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month);

(2) for Bonds bearing interest on a deferred compounded basis, the amount of interest payable on any Interest Payment Date in substantially equal monthly amounts over the period during which such interest accrues;

(3) the amount of the principal of each Bond in equal monthly amounts over the Principal Payment Period for such Bond ending on the maturity date for such Bond;

(4) the amount of each Mandatory Sinking Account Payment for Bonds in equal monthly amounts over the Principal Payment Period for such Bonds ending on the date such Mandatory Sinking Account Payment is due;

(5) the amount of any Parity Payment Agreement Payment payable on any Payment Agreement Payment Date (a) in the case of such payments calculated based on a fixed rate, in equal monthly installments over the Payment Agreement Payment Accrual Period for such Payment Agreement Payment ending on such Payment Agreement Payment Date and (b) in the case of such payments calculated based on a variable rate, in monthly installments equal to 110% of the amount of such obligation accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month; and

(6) to the extent not otherwise included, the amount of any Credit Agreement Reimbursement Payment due and payable;

(C) into the Bond Reserve Fund (and into each Bond Reserve Account), the amount, if any, needed to increase the amount in each Bond Reserve Account to its Bond Reserve Account Requirement as of the date of such transfer (see "—Bond Reserve Fund" below for a discussion of the circumstances under which the Authority is permitted under the Indenture to make a monthly deposit to a Bond Reserve Account that is less than the amount necessary to increase the amount therein to the Bond Reserve Account Requirement);

(D) into the Subordinate Securities Fund (and any accounts therein), the amount, if any, needed to increase the amount in such Fund and each such account to its requirement (including any requirements for reasonable debt service reserves and requirements related to Payment Agreements that constitute Subordinate Securities);

(E) into the Operation and Maintenance Reserve Fund, the amount, if any, needed to increase the amount in the Operation and Maintenance Reserve Fund to an amount equal to one-fourth (1/4) of the total Operation and Maintenance Expenses budgeted by the Authority for the then-current Fiscal Year;

(F) into the Renewal and Replacement Fund, the amount, if any, needed to increase the amount in the Renewal and Replacement Fund to an amount equal to the greater of \$1,000,000 or such amount as may be established by Request of the Authority; and

(G) into the Capital Improvement Fund, the balance remaining in the Revenue Fund after the deposits described above have been made.

The Interest Accrual Periods and Principal Payment Periods for a Series of Bonds are established in the Supplemental Indenture providing for the issuance of such Series of Bonds. As set forth in the 2003 Supplemental Indenture, the Principal Payment Period for the 2003 Bonds is the 12 calendar months next preceding a principal payment date, and the Interest Accrual Period for the 2003 Bonds is six calendar months, in each case beginning on the next preceding Interest Payment Date. The Authority expects to establish the same Principal Payment Period and Interest Accrual Period for the 2013 Bonds in the 2013 Supplemental Indenture. The Authority may in the future establish different Principal Payment Periods and Interest Accrual Periods for Additional Bonds.

The Indenture provides that, in the event that the amount in any Fund or Account is insufficient for the purposes for which such Fund or Account was established, the Trustee, the Co-Trustee or the Depositary, or the Depositary upon the direction of the Trustee, is required to transfer to such Fund or Account the amount of such deficiency by withdrawing said amount from subordinate Funds and Accounts in reverse order of the priority described above and prior to any other claims upon such Funds and Accounts, subject only to the limitation that amounts in each Bond Reserve Account are only be used as provided in the Indenture.

Pursuant to the Airline Operating Agreements, Revenues deposited to the Capital Improvement Fund are to be deposited into the following accounts in the following amounts and order of priority:

(A) into the PFC Capital Account, an amount equal to the net PFC proceeds in excess of that amount used to fund debt service on Bonds, the proceeds of which were used to finance PFC projects, plus interest on PFC funds; and

(B) into the Capital Improvement Account, all remaining amounts, such amounts to be deposited (1) to the Other Available Moneys Coverage Subaccount in an amount equal to the lesser of (a) 50% of the deposit to the Capital Improvement Account or (b) debt service coverage for such Fiscal Year, such amount to be carried forward and applied in the succeeding Fiscal Year in accordance with provisions of the Indenture described in (A) through (G) above and as a basis for determining credits to the rates and fees established pursuant to the Airline Operating Agreement; and (2) to the Capital Improvements Subaccount, all remaining amounts in the Capital Improvement Account.

See “AGREEMENTS FOR USE OF AIRPORT FACILITIES—Airline Operating Agreements,” APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” and APPENDIX B – “SUMMARY OF THE FORM OF AIRLINE OPERATING AGREEMENT” for definitions of the capitalized terms used above and descriptions of certain of the Funds and Accounts referenced above.

Rate Covenant

The Authority has covenanted in the Indenture to at all times fix, prescribe and collect rents, fees and charges in connection with the services and facilities furnished by the Airport which will be sufficient to yield (i) Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required to be made pursuant to the provisions of the Indenture described above under “—Flow of Funds” in categories (A) through (F)

for such Fiscal Year and (ii) the sum of Net Revenues plus Other Available Moneys during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year (collectively, the “Rate Covenant”).

The Indenture provides that if at the end of a Fiscal Year, (i) the sum of Net Revenues plus Other Available Moneys for such Fiscal Year were less than 1.25 times Aggregate Annual Debt Service for such Fiscal Year, or (ii) Revenues were less than the aggregate amount of all required transfers described above under “—Flow of Funds” in categories (A) through (F) for such Fiscal Year, the Authority is required to promptly employ an Airport Consultant to make recommendations as to a revision of rates, fees and charges or the methods of operation of the Airport, and promptly upon its receipt of such recommendations, to revise such rates, fees and charges or methods of operation and to take such other actions as will be in conformity with such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider, if any. The Indenture provides that if the Authority complies in all material respects with the reasonable recommendations of the Airport Consultant, or makes a good faith determination that such recommendations are not in the best interests of the Authority, the Authority will be deemed to have complied with the Rate Covenant for such Fiscal Year; provided, that Net Revenues are in no event less than Aggregate Annual Debt Service for such Fiscal Year.

“Net Revenues” is defined in the Indenture to mean, for any particular period, all of the Revenues (other than Payment Agreement Receipts) received during such period less all Operation and Maintenance Expenses of the Airport incurred during such period.

“Other Available Moneys” is defined in the Indenture to mean for any Fiscal Year the amount designated by the Authority of unencumbered moneys on deposit in the Capital Improvement Fund at the end of the prior Fiscal Year, but in no event will such amount exceed 25% of the Aggregate Annual Debt Service for such Fiscal Year.

See APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions” and “—Summary of Certain Provisions of the General Indenture—Rate Covenant.”

For a discussion of an additional rate covenant relating to the Energy Efficiency Loan mentioned below, see “—Subordinate Obligations.”

Bond Reserve Fund

The Indenture establishes the Bond Reserve Fund to secure the payment of principal and interest on the Bonds and provides for a separate Bond Reserve Account to be created within the Bond Reserve Fund for each Series of Bonds. All amounts in each Bond Reserve Account are to be used and withdrawn by the Trustee solely for the purpose of paying debt service on the Series of Bonds (including Payment Agreement Payments to the extent provided in any Supplemental Indenture) for which such Bond Reserve Account was established in the event of a deficiency in the Debt Service Fund, in the manner and to the extent set forth in the Indenture. So long as the Authority is not in default under the Indenture, any amount in any Bond Reserve Account in excess of its Bond Reserve Account Requirement is to be transferred to the Revenue Fund.

“Bond Reserve Account Requirement” with respect to a Series of Bonds is defined currently in the Indenture to mean, as of any particular date of calculation, an amount equal to the amount calculated for such date as specified by the Supplemental Indenture providing for the issuance of such Series of Bonds, but not less than the least as of such date for such Series of (i) Maximum Annual Debt Service on all such Bonds, (ii) 125% of average Annual Debt Service on all such Bonds, or (iii) 10% of the original principal amount of such Series.

The Authority has included in the 2013 Supplemental Indenture amendments to certain provisions of the General Indenture to provide increased flexibility to the Authority when issuing a Series of Additional Bonds, including the ability to establish no Bond Reserve Account or Bond Reserve Account Requirement for a Series of Bonds, to establish a common reserve for multiple Series of Additional Bonds or to designate one or more Series of Additional Bonds as “2013 Bond Reserve Account Bonds” to be secured by the 2013 Bond Reserve Account. Upon the effectiveness of these amendments, “Bond Reserve Account Requirement” will be defined in the Indenture to mean with respect to a Series of Bonds (other than Bonds designated as “2013 Bond Reserve Account Bonds,” as

described below), as of any particular date of calculation, an amount equal to the amount calculated for such date as specified by the Supplemental Indenture providing for the issuance of such Series of Bonds.

See “—Amendment of the General Indenture” and APPENDIX E - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the 2013 Supplemental General Indenture—Amendments to the General Indenture” for a complete description of the description of the amendments relating to the Bond Reserve Fund and establishing Bond Reserve Account Requirements.

Pursuant to the Indenture, the Authority has established within the Bond Reserve Fund the 2013 Bond Reserve Account to secure the payment of the 2013 Bonds and any Additional Bonds designated as “2013 Bond Reserve Account Bonds.” The Bond Reserve Account Requirement for the 2013 Bonds and any 2013 Bond Reserve Account Bonds (the “2013 Bond Reserve Account Requirement”) is defined in the Indenture to mean an amount equal to the lesser of (i) Maximum Annual Debt Service on all Outstanding 2013 Bond Reserve Account Bonds, (ii) one hundred and twenty-five percent (125%) of average Annual Debt Service on all Outstanding 2013 Bond Reserve Account Bonds or (iii) the Bond Reserve Account Requirement for the 2013 Bond Reserve Account Bonds in effect immediately prior to the issuance of the most recently issued Series of 2013 Bond Reserve Account Bonds, plus the Tax Maximum calculated with respect to such Series of 2013 Bond Reserve Account Bonds. For the avoidance of doubt, when calculating the Bond Reserve Account Requirement to apply immediately following the issuance of an additional Series of 2013 Bond Reserve Account Bonds, the amount described in clause (iii) above is to be calculated using the Bond Reserve Account Requirement for the 2013 Bond Reserve Account Bonds in effect immediately prior to such issuance, plus the Tax Maximum calculated with respect to such additional Series of 2013 Bond Reserve Account Bonds.

As defined in the Indenture, “Tax Maximum” means, for any Series of Bonds, the lesser of: (i) maximum annual principal and interest required to be paid in any Fiscal Year on such Series; (ii) one hundred and twenty-five percent (125%) of average principal and interest required to be paid on such Series during all Fiscal Years in which such Series will be Outstanding; and (iii) ten percent of the principal amount of such Series (or ten percent of the issue price of the Series if the issue of Bonds of which the Series are a part is sold with more than a *de minimis* amount (2%) of original issue premium or discount).

At the time of delivery of the 2013 Bonds, the 2013 Bond Reserve Account Requirement is \$18,992,802.05, which amount is equal to one hundred and twenty-five percent (125%) of average Annual Debt Service on the 2013 Bonds. The Authority expects to fund the 2013 Bond Reserve Account with proceeds of the 2013 Bonds.

The Bond Reserve Account for a Series of Additional Bonds is to be funded on the date of issuances of such Additional Bonds at the applicable Bond Reserve Account Requirement. The Indenture provides, however, that if the amount of the Bond Reserve Account Requirement for such Series of Additional Bonds is in excess of the amount that may be deposited in the Bond Reserve Fund from the proceeds of such Additional Bonds consistent with Section 148 of the Code (or any applicable successor or similar provision), the Supplemental Indenture providing for the issuance of such Additional Bonds may provide that the amount needed in excess of the amount of proceeds available for such purpose be made up from Revenues deposited in scheduled monthly amounts over the period from the date of issuance of such Additional Bonds through the Interest Payment Date for such Additional Bonds next succeeding the projected Date of Beneficial Occupancy of any Project financed by such Additional Bonds.

If and to the extent provided by a Supplemental Indenture authorizing the issuance of a Series of Bonds, the Bond Reserve Account Requirement for such Series may be wholly or partially satisfied by a Credit Facility. Notwithstanding anything to the contrary contained in the Indenture, such Supplemental Indenture may also provide that if a drawing or other claim on such Credit Facility is honored, amounts available for deposit pursuant to the provisions of the Indenture relating to allocation of Revenues to the Bond Reserve Fund, in the applicable Bond Reserve Account will be applied by the Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing or other claim.

See APPENDIX E - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Funds and Accounts—Bond Reserve Accounts.”

The amounts on deposit in the Bond Reserve Account securing the 2003 Bonds (the “2003 Bond Reserve Account”) are currently invested pursuant to an Investment Agreement, dated as October 30, 2003 (the “Investment Agreement”), by and among Natixis Funding Corp., formerly known as CDC Funding Corp. (the “Provider”), the Co-Trustee, as the successor in interest to the Bank of Hawaii, and the Authority. Pursuant to the Investment Agreement, the Co-Trustee is required to invest the amounts on deposit in the 2003 Bond Reserve Account with the Provider, and the Provider is required to pay to the Co-Trustee earnings on such amounts at a rate of 4.96% per annum, calculated on the basis of a 360-day year comprised of twelve 30-day months. The Investment Agreement is scheduled to terminate on the business day immediately prior to October 1, 2023, unless earlier terminated in accordance with its provisions.

The Investment Agreement provides that in the event of a redemption, defeasance or refunding of the 2003 Bonds in accordance with the Indenture, the Authority may invest amounts deposited in the Bond Reserve Account for such refunding bonds pursuant to the Investment Agreement if certain conditions are satisfied. In connection with the refunding of the 2003 Bonds and the issuance of the 2013 Refunding Bonds, the Authority will deposit approximately \$18,063,951.46 to be released from the 2003 Bond Reserve Account to the Escrow Fund to be applied to the payment at maturity or the redemption of the 2003 Bonds and expects to satisfy the conditions set forth in the Investment Agreement necessary to invest \$9,549,194, the portion of the 2013 Bond Reserve Account Requirement allocable to the 2013 Refunding Bonds, pursuant to the Investment Agreement. In connection with the refunding of the 2003 Bonds and the partial termination of the Investment Agreement, it is expected that the Provider will be required to pay a termination fee, the net proceeds of which will be deposited to the Revenue Fund.

The payment obligations of the Provider under the Investment Agreement are guaranteed by the Guarantee, dated as of July 1, 2001 (the “Guarantee”), issued by CDC Finance-CDC IXIS (the “Guarantor”). The Investment Agreement provides that if the ratings of the long-term, senior unsecured debt obligations of the Guarantor are suspended, withdrawn or rated below “AA-” by S&P or below “Aa3” by Moody’s (in either case, a “Ratings Event”), the Provider is required to provide notice of such Ratings Event to the Co-Trustee and, at the direction of the Co-Trustee on behalf of the Authority, to take one of the following actions: (i) post collateral in accordance with the requirements of the Investment Agreement; (ii) deliver a replacement guaranty satisfying the requirements of the Investment Agreement (a “Replacement Guaranty”) of a replacement guarantor satisfying the requirements of the Investment Agreement (a “Replacement Guarantor”) satisfactory to the Co-Trustee and the Authority whose long-term, senior unsecured debt obligations or claims paying ability are rated no less than “AA-” by S&P and “Aa3” by Moody’s (the “Minimum Ratings Requirement”); or (iii) transfer the Investment Agreement and the Provider’s rights and obligations thereunder to an entity reasonably satisfactory to the Co-Trustee and the Authority who (or whose guarantor) satisfies the Minimum Ratings Requirements. If the Provider fails to take such action within the required time, and if the Ratings Event is continuing, the Co-Trustee, if so directed by the Authority, is to direct the Provider to repay the entire principal balance of the investment then on deposit, together with all unpaid earnings thereon. The Investment Agreement provides further that if the ratings of the long-term, senior unsecured debt obligations of the Guarantor are suspended, withdrawn or rated below “A-” by S&P or below “A3” by Moody’s (in either case, a “Special Ratings Event”), the Provider is required to provide notice of such Special Ratings Event to the Co-Trustee and, at the direction the Co-Trustee on behalf of the Authority, to repay the entire principal balance of the investment then on deposit, together with all unpaid earnings thereon, terminating the Investment Agreement.

At the time the Investment Agreement was executed, the Guarantee was expected to terminate on or about January 23, 2017 (the “Guarantee Termination Date”), and the parties acknowledged and agreed in the Investment Agreement that the Provider would provide a Replacement Guarantee meeting the requirements of the Investment Agreement no later than 60 days prior to the Guarantee Termination Date. If the Provider fails to take such action by the Guarantee Termination Date, the Authority may direct to the Co-Trustee to terminate the Investment Agreement in accordance with its terms prior to the stated expiration date.

Additional Bonds

The General Indenture permits the Authority to issue Additional Bonds secured on a parity with the Bonds, including the 2013 Bonds, upon the satisfaction of the requirements set forth in the Indenture, including, among other things, the delivery to the Trustee of the following certificates:

(A) a certificate of the Authority (i) setting forth for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the original issuance of

such Series of Additional Bonds, the Revenues, Other Available Moneys, Net Revenues, uses of Revenues and Aggregate Annual Debt Service for such Fiscal Year or 12-month period, and (ii) demonstrating that for such Fiscal Year or 12-month period (I) Revenues at least equaled all transfers required to be made pursuant to the provisions of the Indenture described above under “—Flow of Funds” in categories (A) through (F), and (II) the sum of Net Revenues plus Other Available Moneys equaled at least 1.25 times Aggregate Annual Debt Service;

(B) a certificate of a Consulting Engineer setting forth (i) the projected Date of Beneficial Occupancy for the Project or Projects for which such Series of Additional Bonds is being issued and for any other uncompleted Projects, and (ii) an estimate of the cost of construction of such Projects;

(C) a written report of an Airport Consultant setting forth for each Fiscal Year from the then current Fiscal Year through the later of (I) the first Fiscal Year commencing at least five years after the date of original issuance of such Series of Additional Bonds, or (II) the first Fiscal Year commencing at least three years after the Date of Beneficial Occupancy projected by the Consulting Engineer, estimates of Revenues, Operation and Maintenance Expenses, Other Available Moneys and Net Revenues; and

(D) a certificate of the Authority (i) setting forth (a) the estimates of Revenues, Operation and Maintenance Expenses, Other Available Moneys and Net Revenues, as set forth in the written report of an Airport Consultant described in subparagraph (C) above, for each of the Fiscal Years covered by such report, and (b) the Aggregate Annual Debt Service and Capitalized Interest for each of such Fiscal Years, including Annual Debt Service and Capitalized Interest on all future Series of Bonds, if any, which such certificate of the Authority estimates (based on the estimate of the Consulting Engineer of the cost of construction of such Projects) are required to complete payment of the cost of construction of such Projects, and (ii) demonstrating that for each of such Fiscal Years (a) Revenues are projected to be at least equal to all transfers required to be made pursuant to the provisions of the Indenture described above under “—Allocation of Revenues” in categories (A) through (F), and (b) Net Revenues plus Other Available Moneys are projected to be at least equal to 1.25 times Aggregate Annual Debt Service.

The General Indenture also provides that a Series of Additional Bonds may be issued for the sole purpose of depositing in a Construction Account the amounts necessary to complete any one or more Projects without filing with the Trustee the certificate and report described in subparagraphs (C) and (D) if such certificate and report were filed in connection with the issuance of the prior Series of Additional Bonds for each of such Projects and if the principal amount of such Bonds to be issued for completion purposes does not exceed ten percent (10%) of the principal amount of Bonds previously issued for and allocable to such Projects.

In lieu of the certificates and reports described in subparagraphs (B), (C) and (D) above, the Authority may deliver to the Trustee a Certificate of the Authority to the effect that for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the original issuance of such Series of Additional Bonds, Net Revenues plus Other Available Moneys for such Fiscal Year or 12-month period equaled at least 1.25 times the Maximum Annual Debt Service on all Bonds then Outstanding plus the Series of Bonds being issued.

In addition, the General Indenture provides that if and to the extent a Series of Additional Bonds is being issued for the purpose of refunding outstanding Bonds, the Authority is required to file with the Trustee either (i) a certificate of an Independent Certified Public Accountant that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such refunding, or (ii) the certificates and reports described in subparagraphs (A), (B) (if any one or more of the Projects for which the Bonds being refunded is not then completed), (C) and (D) above; provided that in lieu of the certificates and reports described in subparagraphs (B), (C) and (D), the Authority may deliver to the Trustee the certificate described in the immediately preceding paragraph.

See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Issuance of Additional Series of Bonds; Additional Parity Payment Agreements; Other Payment Agreements.”

The Authority has included in the 2013 Supplemental Indenture amendments to certain provisions of the General Indenture, including amending the requirements for the issuance of Additional Bonds to require that the

certificate described in (B) above be provided by the Authority rather than a Consulting Engineer and to permit the issuance of a Series of Additional Bonds designated as “initial Bonds” in the Supplemental Indenture providing for the issuance of such Bonds without delivering the certificates described above if, not later than the date of issuance and delivery of such Additional Bonds, the Authority delivers a certificate to the Trustee stating that (i) on and as of such date, such Bonds are the only Bonds Outstanding under the Indenture, and (ii) no Parity Payment Agreements are then in effect. The 2013 Supplemental Indenture further so designates the 2013 Bonds as “initial Bonds,” and the Authority expects to deliver the required certificate to the Trustee on and as of the date of issuance of the 2013 Bonds.

See “—Amendment of the General Indenture” and APPENDIX E - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the 2013 Supplemental Indenture—Amendments to the General Indenture” for a complete description of the description of the amendments relating to the requirements for the issuance of Additional Bonds.

Parity Payment Agreements

The Authority is permitted under the General Indenture to enter into one or more Parity Payment Agreements, the Authority payment of which are secured by a lien upon and pledge of Revenues equal to and on a parity with the lien and pledge securing the Bonds, provided the Authority complies with certain provisions of the Indenture. The Authority is not a party to any Parity Payment Agreements, nor does the Authority have any plan to enter into any Parity Payment Agreements.

APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Issuance of Additional Series of Bonds; Additional Parity Payment Agreements; Other Payment Agreements.”

Subordinate Obligations

The Indenture does not prevent the Authority from issuing or incurring any additional indebtedness with a lien or charge on Revenues that is junior and subordinate to the lien and charge of the Bonds.

Pursuant to a Loan Agreement, dated June 27, 2012 (the “Loan Agreement”), First Hawaiian Bank (the “Bank”) loaned the Authority \$11,900,000 (the “Energy Efficiency Loan”) to finance certain energy efficiency upgrades to the terminal building undertaken by the Authority pursuant to an Amended Performance Contract, dated May 9, 2012 (the “Energy Performance Contract”), between the Authority, Johnson Controls, Inc. (“JCI”) and the Guam Power Authority. Under the Energy Performance Contract, the Airport is guaranteed minimum annual energy savings for 10 years. The repayment of 90% of the principal amount of the Energy Efficiency Loan is guaranteed by the United States Department of Agriculture pursuant to USDA Community Facilities Direct and Guaranteed Loan Program. The Authority’s obligation to repay the Energy Efficiency Loan is evidenced by a Promissory Note, dated as of June 27, 2012 (the “Note”), bearing interest at the rate of 3.75% per annum and matures on July 27, 2017. In the event the Authority defaults in the payment of the Note or in the performance of any of its obligations under the Loan Agreement or the Note, or the Authority or any other party defaults in their respective obligations under any of the related security documents, the Bank would have the option to declare the unpaid principal amount of the Energy Efficiency Loan, together with any accrued and unpaid interest and charges, immediately due and payable.

The Authority has covenanted in the Loan Agreement with the Bank to maintain a minimum annual debt service ratio such that the sum of Net Revenues plus Other Available Moneys during each Fiscal Year equals at least 1.25 times the total amount of required money in such Fiscal Year to make payments on the principal of and interest on the Energy Efficiency Loan and on the principal of and interest on all of the Authority’s bonds, including the Bonds. The Loan Agreement, however, does not provide for engagement of an Airport Consultant in the event the Airport does not generate Net Revenues sufficient to satisfy the minimum annual debt service ratio.

The Authority intends to refinance the Energy Efficiency Loan by extending the term so that the repayment schedule over time more closely matches the minimum annual energy savings expected to be achieved under the Energy Performance Contract.

Special Facility Bonds

The Authority is permitted under the Indenture to enter into contracts, leases, subleases or other agreements pursuant to which the Authority agrees to construct a “Special Facility” on land constituting part of the Airport or agrees to acquire or construct a Special Facility on land not then constituting part of the Airport, or to acquire and remodel, renovate or rehabilitate a building, structure or other facility (including the site thereof) for a Special Facility, to issue Special Facility Bonds to finance such Special Facilities and to lease such Special Facility, subject to certain conditions set forth in the Indenture. Under certain circumstances, the rentals and other income generated from such Special Facilities may not constitute Revenues under the Indenture and may not be available to pay debt service on the Bonds, including the 2013 Bonds. The Authority does not have any Special Facility Bonds outstanding, nor does it have any current plans to issue Special Facility Bonds. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Certain Covenants—Special Facility Bonds and Special Facility Leases.”

Other Covenants

The Authority has made certain other covenants in the Indenture with respect to the Airport. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Certain Covenants.”

Events of Default and Remedies; No Acceleration

The Indenture specifies a number of Events of Default and related remedies. The remedies granted to the Trustee and the Bondowners under the Indenture do not include any right to accelerate the payment of the Bonds, including the 2013 Bonds. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including proceedings to enforce the rights of the Bondowners. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Events of Default and Remedies of Bondowners” for descriptions of the Events of Default and remedies under the Indenture.

Depositaries for Funds and Accounts

The Co-Trustee has been appointed to act as Depositary for the Debt Service Fund and the Bond Reserve Fund and for any accounts and subaccounts therein. The Trustee has been appointed as Depositary for the Revenue Fund, the Operation and Maintenance Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, the Capital Improvement Fund and the Rebate Fund and for any accounts and subaccounts therein. The Authority may enter into a Supplemental Indenture from time to time to provide for a different or additional Depositary for any fund or account established under the Indenture. See APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—The Fiduciaries.”

Investments of Moneys in Funds and Accounts

Subject to the requirements and restrictions set forth in the Indenture, moneys in the Revenue Fund, the Operation and Maintenance Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Capital Improvement Fund may be invested in any investment designated by the Authority, and moneys in the Construction Accounts, the Rebate Fund, the Debt Service Fund and the Bond Reserve Accounts are required to be invested solely in Investment Securities to maximize investment income (with proper regard for the preservation of principal) as requested by the Authority; provided, however, moneys in the Revenue Fund and in the Bond Reserve Fund are required to be invested in Investment Securities having at least an investment grade rating from the Rating Agency or Rating Agencies designated under the Indenture and rating the Bonds. All investments are to pay interest and mature not later than the dates on which it is estimated that such moneys will be required by the Trustee, the Co-Trustee, the applicable Depositary or the Authority.

All interest and other profit derived from investments of amounts in the Construction Accounts, the Capital Improvement Fund and the Rebate Fund are to be retained in such Funds and Accounts, all interest and other profit

derived from investments of amounts in the Bond Reserve Accounts are to be applied as described above under “—Bond Reserve Fund,” and all interest and other profit derived from investments of amounts held in any other Funds and Accounts are to be deposited to the Revenue Fund when received.

See APPENDIX E - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the General Indenture—Investment of Moneys in Funds.”

Amendment of the General Indenture

The 2013 Supplemental Indenture includes amendments to certain provisions of the General Indenture. The amendments to the General Indenture are intended to provide flexibility to the Authority when issuing a Series of Additional Bonds, including the ability to establish no Bond Reserve Account or Bond Reserve Account Requirement for a Series of Bonds, to establish a common reserve for multiple Series of Additional Bonds or to designate one or more Series of Additional Bonds as “2013 Bond Reserve Account Bonds” to be secured by the 2013 Bond Reserve Account, and to modernize certain requirements for the issuance of Additional Bonds. These amendments will become effective upon the delivery of the 2013 Bonds and the concurrent defeasance of all of the outstanding 2003 Bonds. Purchasers of the 2013 Bonds will be deemed to have consented to such amendments to the General Indenture.

See “—Bond Reserve Fund” and “—Additional Bonds” and APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the 2013 Supplemental Indenture—Amendments to the General Indenture” for complete descriptions of the proposed amendments to the General Indenture.

Rights of the 2013 Bond Insurer

Concurrently with the issuance of the 2013 Bonds, Assured Guaranty Municipal Corp. (“AGM” or the “2013 Bond Insurer”) will issue its municipal bond insurance policy guaranteeing the payment of the scheduled principal and interest on Insured 2013 Bonds mentioned below. The Indenture provides that, subject to the satisfaction of certain conditions, that the 2013 Bond Insurer will be deemed to be the sole holder of the Insured 2013 Bonds for purposes of exercising any voting or consent rights or of directing certain actions under the Indenture. See “THE 2013 BOND INSURER” and APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Summary of Certain Provisions of the 2013 Supplemental Indenture—The 2013 Bond Insurer Provisions.”

THE 2013 BOND INSURER

Bond Insurance Policy

Concurrently with the issuance of the 2013 Bonds, Assured Guaranty Municipal Corp. (“AGM” or the “2013 Bond Insurer”) will issue its Municipal Bond Insurance Policy (the “2013 Bond Insurance Policy”) for the 2013 Series B Bonds maturing on October 1, 2033 and on October 1, 2043 and the 2013 Series C Bonds maturing on October 1, 2034 and bearing interest at a rate of 6.00% per annum and maturing on October 1, 2043 and bearing interest at a rate of 6.125% per annum (collectively, the “Insured 2013 Bonds”). The 2013 Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Insured 2013 Bonds when due as set forth in the form of the 2013 Bond Insurance Policy included as APPENDIX I to this Official Statement.

The 2013 Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On June 12, 2013, S&P published a report in which it affirmed AGM's "AA-" (stable outlook) financial strength rating. AGM can give no assurance as to any further ratings action that S&P may take.

On January 17, 2013, Moody's issued a press release stating that it had downgraded AGM's insurance financial strength rating to "A2" (stable outlook) from "Aa3". AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Capitalization of AGM. At June 30, 2013, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,453,294,934 and its total net unearned premium reserve was approximately \$1,944,533,294, in each case, in accordance with statutory accounting principles.

For additional information relating to the capitalization of AGM, please see the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on July 22, 2013 (excluding the portion thereof "furnished" under Item 7.01 of such Form).

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (filed by AGL with the SEC on March 1, 2013);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (filed by AGL with the SEC on May 10, 2013); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 (filed by AGL with the SEC on August 9, 2013).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Insured 2013 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York

10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "THE 2013 BOND INSURER – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters. AGM or one of its affiliates may purchase a portion of the Insured 2013 Bonds or any uninsured 2013 Bonds offered under this Official Statement and such purchases may constitute a significant proportion of the 2013 Bonds offered. AGM or such affiliate may hold such Insured 2013 Bonds or uninsured 2013 Bonds for investment or may sell or otherwise dispose of such Insured 2013 Bonds or uninsured 2013 Bonds at any time or from time to time.

AGM makes no representation regarding the 2013 Bonds or the advisability of investing in the 2013 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "THE 2013 BOND INSURER" and APPENDIX I – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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DEBT SERVICE SCHEDULE

Table 1 sets forth the debt service schedule for the 2013 Bonds. Scheduled debt service for the outstanding 2003 Bonds to be refunded with proceeds of the 2013 Bonds has been excluded.

Table 1
A.B. Won Pat International Airport, Guam
Annual Debt Service

Calendar Year	2013 Series A Bonds		2013 Series B Bonds		2013 Series C Bonds		Total Debt Service ⁽¹⁾
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$1,160,000	\$732,154	\$1,670,000	\$1,820,108	\$7,015,000	\$11,869,161	\$24,266,424
2015	1,235,000	660,650	1,770,000	1,678,763	7,460,000	11,063,688	23,868,100
2016	1,285,000	611,250	1,840,000	1,607,963	7,765,000	10,765,288	23,874,500
2017	1,345,000	547,000	1,935,000	1,515,963	8,150,000	10,377,038	23,870,000
2018	1,415,000	479,750	2,035,000	1,419,213	8,560,000	9,969,538	23,878,500
2019	1,480,000	409,000	135,000	1,317,463	10,990,000	9,541,538	23,873,000
2020	1,555,000	335,000	2,245,000	1,310,713	9,430,000	8,992,038	23,867,750
2021	1,630,000	257,250	2,355,000	1,198,463	9,900,000	8,520,538	23,861,250
2022	1,710,000	175,750	2,475,000	1,080,713	10,395,000	8,025,538	23,862,000
2023	1,805,000	90,250	2,600,000	956,963	11,010,000	7,401,838	23,864,050
2024			415,000	826,963	2,895,000	6,741,238	10,878,200
2025			440,000	804,138	3,070,000	6,563,638	10,877,775
2026			460,000	779,938	3,260,000	6,375,300	10,875,238
2027			490,000	754,638	3,460,000	6,175,300	10,879,938
2028			515,000	727,688	3,670,000	5,963,025	10,875,713
2029			545,000	699,363	3,895,000	5,737,863	10,877,225
2030			575,000	669,388	4,135,000	5,498,900	10,878,288
2031			605,000	637,763	4,390,000	5,245,200	10,877,963
2032			640,000	604,488	4,655,000	4,975,850	10,875,338
2033			675,000	569,288	4,945,000	4,690,238	10,879,525
2034			710,000	532,163	5,250,000	4,386,813	10,878,975
2035			750,000	491,338	5,570,000	4,064,675	10,876,013
2036			795,000	448,213	5,920,000	3,715,000	10,878,213
2037			840,000	402,500	6,290,000	3,343,338	10,875,838
2038			890,000	354,200	6,685,000	2,948,450	10,877,650
2039			940,000	303,025	7,105,000	2,528,744	10,876,769
2040			995,000	248,975	7,550,000	2,082,663	10,876,638
2041			1,050,000	191,763	8,025,000	1,608,638	10,875,400
2042			1,110,000	131,388	8,530,000	1,104,769	10,876,156
2043			1,175,000	67,563	9,065,000	569,181	10,876,744
Totals⁽¹⁾	<u>\$14,620,000</u>	<u>\$4,298,054</u>	<u>\$33,675,000</u>	<u>\$24,151,096</u>	<u>\$199,040,000</u>	<u>\$180,845,018</u>	<u>\$456,629,168</u>

⁽¹⁾ Totals may not add due to rounding.

THE AUTHORITY

General

The Authority is organized and exists under Chapter 1 of Title 12 of the Guam Code Annotated and is a public corporation and an autonomous instrumentality of the Government of Guam with authority to construct, operate and maintain airports for civil aviation purposes on Guam. The Authority owns and operates the Airport and is the Airport Operator licensed by the FAA.

Termination of Joint Use Agreement and Transfer of the Naval Air Station (“NAS”), Agaña

On July 19, 1974, the Authority was granted use of the airfield under a Joint Use Agreement (the “JUA”) with the U.S. Navy. The JUA granted the Authority use of the runways and other airfield areas for commercial aircraft activities. In addition, the JUA conveyed 68 acres of federal property that allowed for large scale improvement of Guam’s only commercial airport and entitled the Authority to receive grants and funds for airport improvements from the FAA and other federal agencies. After the NAS was disestablished, the Authority assumed full responsibility for the airfield on March 31, 1995 and was certified by the FAA on April 1, 1995.

In September 2000, the Authority received the deed to 1,417 acres on the former NAS, sometimes referred to as Tiyan, through the Public Benefit Transfer (“PBT”) conveyance from the Federal Government, which effectively terminated the JUA and transferred all ownership, responsibilities and liabilities of the identified parcels of land to the Authority. Included in this area are the former enlisted housing units located on the northern side of the Tiyan, and properties located on the southern side which are primarily aviation related structures such as hangars, machine shops, maintenance facilities, warehouses and storage areas. These areas were deemed necessary for “further airport development” and identified for Airport use due to its land use compatibility.

See “THE AIRPORT—Airport Facilities,” “AIRPORT ENVIRONMENTAL MATTERS—Groundwater Remediation at the Former NAS” and APPENDIX C – “AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR’S REPORT,” Note 4 and Note 10.

Governance

Except as otherwise provided in the Act, all powers vested in the Authority are exercised by its Board of Directors (the “Board”). The Board consists of seven members nominated and appointed by the Governor of Guam, subject to confirmation by the Guam Legislature. Each Director serves for a term of three years from the expiration of the term for which such Director’s predecessor was appointed and until a successor is appointed and qualified, or, in the case of a newly created position on the Board, for a term of three years from the date of the initial appointment and until a successor is appointed and qualified. Four members constitute a quorum, and the Board meets publicly at least once a month.

The Board elects a chairman and vice chairman from among its members. The Chairman and Vice Chairman are, respectively, Francisco G. Santos and Jesus Q. Torres.

The Board establishes the policies of the Authority and appoints the Executive Manager and Deputy Executive Manager.

Airport Management

The Executive Manager, assisted by the Deputy Executive Manager, is responsible for the day-to-day management and operation of the Airport. The managers of the various Airport divisions, including Administration, Accounting, Operations, Aircraft Rescue and Firefighting, Airport Police, Properties and Facilities, and Engineering, are directed by the Executive Manager in the management and operation of the Authority.

The Executive Manager and Deputy Executive Manager are, respectively, Charles H. Ada II and Pedro Roy Martinez. The Acting Comptroller, who is also appointed by the Board of Directors, is Carlos Bordallo.

Below are brief biographies of key management personnel at the Authority:

Charles H. Ada II, Executive Manager -- The Board of Directors appointed Mr. Ada as Executive Manager on February 20, 2012. Mr. Ada has over 20 years of experience in emergency management, national preparedness, emergency response and public safety. Prior to his appointment as Executive Manager, Mr. Ada served as Administrator of the Guam Homeland Security and Office of Civil Defense. During his tenure there, he was intimately involved not only in the execution of on- and off- Airport emergency response exercises, but also in responses to real life situations, including the crash of KAL 801, the Micronesian Aviation Cessna ocean landing, and overall emergency management of the many Category I Typhoons that suspended Airport operations and forced the grounding of aircraft and/or alternate destination landing and parking of aircraft at neighbor islands during hazardous weather conditions on Guam. Mr. Ada is a member of the Federal Emergency Management Administration (FEMA) Region IX Advisory Council, sits on the FEMA National Preparedness Task Force, and is on the top advisory board for the Government of Guam and sits as Cabinet member under the Administration of Governor Edward J.B. Calvo. Mr. Ada has completed the full range of FEMA's Professional Development Series with the Emergency Management Institute and holds instructor certifications in a myriad of security, emergency planning, first responder and operational readiness courses.

Pedro Roy Martinez, Deputy Executive Manager -- The Board of Directors appointed Mr. Martinez as Deputy Executive Manager on January 12, 2011. Mr. Martinez has over 30 years of managerial experience, focusing on finance, budget, strategic marketing, sales, and customer relations. As Deputy Executive Manager, Mr. Martinez assists the Executive Manager in overseeing all phases of the Airport's programs, including planning, organizing, directing, and coordinating the work of the Airport to ensure safe, efficient, legal, and profitable Airport operations. Mr. Martinez also serves as the Airport interface with the Executive branch of the Government of Guam, and sits as a Cabinet member under Governor Edward J.B. Calvo's administration. Prior to becoming the Deputy Executive Manager, he served in many capacities at the University of Guam, including as the Director of Alumni Relations, Acting Vice President of University and Community Engagement and Director of Development/Alumni Affairs Office. Mr. Martinez also has over 20 years' experience in private business experience in the family-owned retail, wholesale, manufacturing and rental company, Pedro's Inc. In July 2012, Mr. Martinez was appointed 1st Vice Chair of the ACI Asia-Pacific Small Airports Network (SAN). Mr. Martinez currently sits on the board of directors of Coast360 Federal Credit Union and has held various leadership positions on that board since 2003. Mr. Martinez also has held leadership and board positions at the Guam Telephone Authority, various parochial institutions, parish councils, and religious affiliate organizations. Mr. Martinez served in the United States Air Force and is a retired Master Sergeant with the United States Army Reserve. He earned a Master of Public Administration (MPA) degree and Bachelor of Business Administration (BBA) in Management degree from the University of Guam.

Labor and Employee Relations

As of June 30, 2013, the Authority has approximately 264 employees. The Authority's employees are not represented by labor unions. The Authority's management believes that relations with its employees are positive.

THE AIRPORT

General

The Airport is centrally located in Guam's business district on 1,800 acres of land, approximately two miles northwest of downtown Hagåtña and one mile southwest of Guam's principal tourism area of Tumon. The Airport is the only commercial air carrier airport serving Guam and is the principal air carrier airport serving the surrounding Micronesian islands. The Airport is classified as a small, air traffic hub by the FAA.

According to the FAA, 1,477,926 enplaned passengers were processed through the Airport in calendar year 2012, making the Airport the 71st busiest primary airport within the FAA system. According to data published by U.S. Department of Commerce Office of Travel and Tourism Industries, for calendar year 2012, the Airport was the 8th busiest port of entry to the United States for non-U.S. resident arrivals (excluding arrivals from Canada and Mexico).

The Airport serves primarily origin-destination passengers. In Fiscal Year 2012, an estimated 89.4% of the passengers enplaned at the Airport were visitors returning to their local country of origin or local residents traveling

abroad; and the remaining 10.6% used the Airport to connect between flights or as a stopover on a continuing flight. As indicated in the Report of the Airport Consultant, approximately 90% of the originating passengers are visitors to Guam, primarily tourists from Japan and Korea.

See “—Aviation Activity” and APPENDIX D - “REPORT OF THE AIRPORT CONSULTANT.”

Airport Facilities

The original passenger terminal building opened on January 19, 1982 with a design capacity of 750,000 enplaned passengers. In 1998, the Authority completed a \$241 million expansion in which the passenger terminal building was renovated and expanded from its original 226,000 square feet of airline, concession, public, and other space to the existing facility of 767,553 square feet. The passenger terminal building now includes 76 ticket counter positions, 48 immigration and 42 customs inspection stations, and enough capacity to process 5,000 international passengers per hour. The existing terminal has both ticketing and baggage claim/arrivals areas at ground level. The ticket counters, airline offices, and the baggage makeup area are in the western portion of the building. The eastern portion consists of baggage breakdown and baggage claim areas, customs inspection, and an arrivals lobby. The second floor of the terminal consists of a well-wishers lobby, food services and lounge areas, security inspection, departure lounge, duty free store, and U.S. Immigration and Public Health processing facilities and offices.

The Airport has 21 aircraft parking positions, all of which have an in-ground hydrant fueling pit linking it to the Airport’s fueling system and the aircraft fuel storage facility located on the Authority’s property. Of these 21 apron positions, 18 are adjacent to the passenger terminal building and three are located to the west of the passenger terminal building and in front of the Kunkle Air Cargo Building mentioned below. The apron positions adjacent to the passenger terminal building are accessed by 18 common use terminal gates, 17 of which are served by passenger loading bridges and one of which is used as a “Bus Gate” for aircraft requiring the use of hard stands for passenger loading. Of these gates, 12 are sized for B747-200 series aircraft and six are sized for B757 series aircraft. Of the remote stands used for the current air cargo apron positions, two can accommodate B747-200 series aircraft and one can accommodate B757 sized aircraft.

The airfield consists of two sets of parallel east-west runways, associated taxiways and navigational aids. The Airport’s primary runway, Runway 6L/24R, has been extended from 10,000 feet to 12,000 feet, which will allow the Airport to accommodate departures and arrivals of long-haul flights between the U.S. mainland and Guam, pending completion of updates to the Airport’s landing instrument systems. The Airport’s secondary runway, Runway 6R/24L, is 10,014 feet long. In connection with the extension of Runway 6L/24R, the FAA is requiring that portions of the main road, known as Central Avenue, which connects the Airport access road to Route 8 and the main road running through Airport property, be relocated to accommodate the extension of the federally mandated safety zone. The Authority is working with the FAA, the Federal Highway Administration, the Guam Department of Public Works and other governmental agencies and stakeholders on the construction of an alternate access road, the Tiyan Parkway.

The facilities at the Airport also include the Kunkle Air Cargo Building and the Yellow Cargo Building, both of which are located immediately to the west of the passenger terminal building. The Kunkle Air Cargo Building, originally constructed in 1976, has deteriorated over time as a result of age and previous storm damage. It is vacant currently and is slated for demolition in March 2014. Although the Yellow Cargo Building is still in use, it too is aging and is slated for demolition in the future, pending finalization of development plans.

The Authority has also developed the Tiyan Business Park and the Airport Industrial Park to provide additional service from the Airport and to generate additional Revenue. The Tiyan Business Park is located to the west of the passenger terminal on a section of property bounded by the security fencing along the Airport Operations Area and East Sunset Boulevard on property on the former NAS deeded to the Authority pursuant to the PBT. See “THE AUTHORITY—Termination of Joint Use Agreement and Transfer of the Naval Air Station (“NAS”), Agana.” The Tiyan Business Park was developed by the Airport primarily through public-private partnerships with PacAir Properties, LLC (“PacAir Properties”), DHL Corporation (“DHL”), Triple B Freight Forwarders (“Triple B”) and CTSI Logistics Guam (“CTSI”). The Tiyan Business Park includes the PAC Air Integrated Cargo Terminal, the DHL Cargo Terminal, the Triple B Freight Forwarding Building and the CTSI Freight Forwarding Terminal mentioned below. The PacAir Integrated Cargo Terminal has direct access to the Airport Operations Area and is the access point to the Airport Operations Area for air cargo operators and for Guam customs inspections, although there are currently no adjoining aircraft aprons or aircraft cargo stands. The 2013 Projects, however,

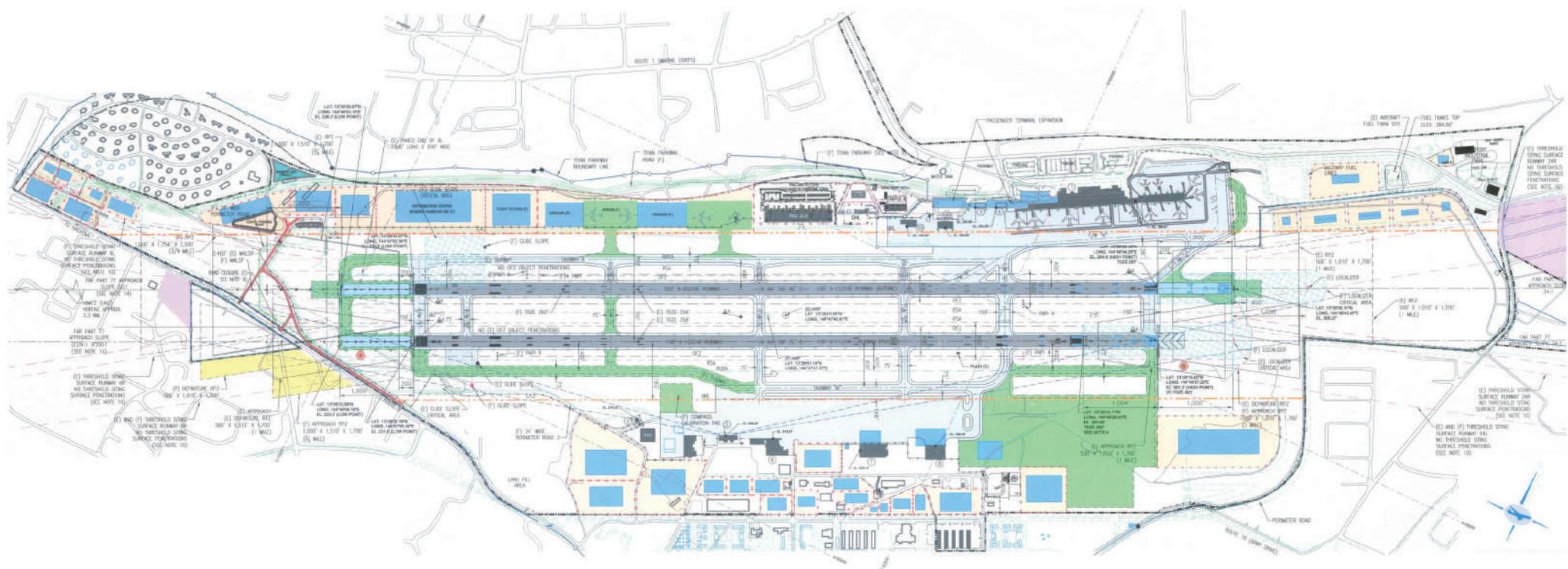
include relocation of air cargo only aircraft aprons adjacent to the PAC Air Integrated Cargo Terminal. The PacAir Integrated Cargo Terminal (comprised of approximately 130,000 square feet of warehouse space and approximately 30,000 square feet of office space and covering approximately 400,000 square feet of land area) is only partially occupied. The DHL Cargo Terminal is used solely by DHL for express services. The Triple B Freight Forwarding Building (comprised of approximately 17,500 square feet for cargo handling and approximately 4,500 square feet of office space and covering approximately 33,000 square feet of land area) is currently used only for handling sea freight, although it may in the future be used for air cargo. The CTSI Freight Forwarding Terminal (comprised of approximately 27,000 square feet) is used primarily by CTSI for distribution of its own products. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES—Other Leases and Agreements—Tiyon Business Park.”

The Airport Industrial Park is located to the east of the passenger terminal on approximately 24 acres of Authority property. The Authority originally developed the Airport Industrial Park in the mid-1980s with subdivided lots with service roads and utility access in preparation for future development. Although the Airport Industrial Park is located on property owned by the Authority, not all of the businesses operating in the Airport Industrial Park are directly related to Airport operations. The Airport Industrial Park currently has four tenants operating pursuant to various ground leases, including a gas station and convenience store, a heavy equipment retailer, a restaurant (still under development) and a cargo warehouse facility. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES—Other Leases and Agreements—Airport Industrial Park.”

The fuel farm for the Airport fuel system and the new water reservoir for the Airport water system are also located in the Airport Industrial Park.

Other facilities at the Airport include aircraft hangars, warehouse and storage areas, a commuter terminal, which has been converted in part to airline and aviation-services related offices, and other facilities used as administrative buildings. The commuter terminal is used primarily by Aviation Services, LTD., dba Freedom Air, for inter-island/commuter operations. The Authority also owns significant land outside the terminal and cargo buildings available for further development or disposition.

Ground access to the Airport is provided by Route 10-A (the “Airport Access Road”) from both Route 1, also known as Marine Corps Drive, and Route 16, also known as Army Drive. The Airport Access Road connects directly to a terminal loop roadway system consisting of an upper level roadway providing access to the upper level departures curbside located adjacent to the ticketing lobby and a lower level roadway providing access to the lower level arrivals curbside located on the baggage claim level, as well as to the entrances of the public and employee parking lots and the tour bus, limousine, taxi and rental car parking and ready/return areas. The lower level terminal parking area, located across from the passenger terminal building on the lower arrivals level and directly accessible from the passenger terminal through an arcade below the frontal road, has 310 public parking spaces and 508 employee parking spaces. The parking area to the east of the passenger terminal building is comprised primarily of parking for tour buses and rental car parking and ready/return areas. The parking area to the west of the passenger terminal facility is comprised primarily of employee parking (278 spaces) and parking for special reserve and tenants (73 spaces). The public parking and commercial parking lots adjacent to the passenger terminal facility are operated and managed on behalf of the Authority by Pac Air, Ltd. pursuant to a concession agreement. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES—Non-Passenger Terminal Building Concessions and Revenue Arrangements—Parking.” In addition to the parking facilities located adjacent to the passenger terminal building, there is additional employee, airport tenant, passenger and commercial vehicle parking adjacent to the commuter terminal building and in the cargo area.



Air Carriers Serving the Airport

As of July 31, 2013, 11 passenger airlines provide service at the Airport, including two major U.S. airlines, seven foreign flag air carriers and two regional/community airlines that provide interisland service. In addition, the Airport is served by other charter flights, including military charter flights, operated by various airline carriers. Table 2 below sets forth the air carriers serving the Airport as of July 31, 2013. See “AIRLINE INDUSTRY INFORMATION.”

**Table 2
Air Carriers Serving A.B. Won Pat International Airport, Guam**

<u>U.S.-Flag Airlines</u>	<u>Foreign-Flag Airlines</u>	<u>Regional/ Commuter Airlines</u>
Delta Air Lines ⁽¹⁾	China Airlines ⁽¹⁾	Freedom Air
United Airlines ⁽¹⁾	Japan Airlines ⁽¹⁾	Cape Air ⁽¹⁾
	Korean Air ⁽¹⁾	
	Philippine Airlines ⁽¹⁾	
	Jeju Air ⁽¹⁾	
	JINAIR ⁽¹⁾	
	Eva Air ⁽¹⁾	

⁽¹⁾ Signatory Airline. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES—Airline Operating Agreements.”
Source: A.B. Won Pat International Airport Authority, Guam; Authority records.

Aviation Activity

Historical Passenger Activity

Table 3 on the following page presents originating and transit passengers at the Airport from Fiscal Year 2003 through Fiscal Year 2012. Originating passengers are either Guam residents traveling abroad or visitors to Guam returning to their country of origin. Transit passengers are passengers transferring from one flight to another in Guam or arriving in and departing from Guam on the same journey. Since Fiscal Year 2003, total enplaned passengers at the Airport have increased at an average annual rate of 3.34%.

Originating Passengers. Total originating passengers increased from 959,910 in Fiscal Year 2003 to 1,407,163 in Fiscal Year 2012, at an average annual rate of 4.66%. The majority of the increase in originating passengers is attributable to the increasing number of tourists, primarily from Japan, China, Korea and Taiwan.

Transit Passengers. The total number of transit passengers processed annually through the Airport decreased from 220,688 in Fiscal Year 2003 to 167,328 in Fiscal Year 2012 at an average annual rate of (-2.4)%, primarily as a result of reductions in transit activity by United Airlines, the principal hub airline at the Airport, including reduced flight activity to Saipan and other nearby islands that historically generated transit passenger activity.

See APPENDIX D - “REPORT OF THE AIRPORT CONSULTANT.”

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Table 3
Historical Enplaned Passengers
A.B. Won Pat International Airport, Guam
Fiscal Years 2003 - 2012

Fiscal Year⁽¹⁾	Originating Passengers	Transit Passengers	Total Enplaned Passengers	Originating Passengers as Percentage of Total Enplaned Passengers	Transit Passenger as a Percentage of Total Enplaned Passengers	Annual Percentage Increase/ (Decrease) in Originating Passengers	Annual Percentage Increase/ (Decrease) in Transit Passengers	Annual Percentage Increase/ (Decrease) in Total Enplaned Passengers
2003	959,910	220,688	1,180,598	81.3%	18.7%	--	--	--
2004	1,253,113	200,251	1,453,364	86.2%	13.8%	30.5%	(9.3)%	23.1%
2005	1,303,975	199,329	1,503,304	86.7%	13.3%	4.1%	(0.5)%	3.4%
2006	1,337,630	189,301	1,526,931	87.6%	12.4%	2.6%	(5.0)%	1.6%
2007	1,308,607	182,581	1,491,188	87.8%	12.2%	(2.2)%	(3.6)%	(2.3)%
2008	1,254,134	189,041	1,443,175	86.9%	13.1%	(4.2)%	3.5%	(3.2)%
2009	1,158,752	146,457	1,305,209	88.8%	11.2%	(7.6)%	(22.5)%	(9.6)%
2010	1,286,486	183,399	1,469,916	87.5%	12.5%	11.0%	25.2%	12.6%
2011	1,264,243	175,181	1,439,424	87.8%	12.2%	(1.7)%	(4.5)%	(2.1)%
2012	1,407,163	167,328	1,574,491	89.4%	10.6%	11.3%	(4.5)%	9.4%
2003-2012 Average	1,253,401	185,356	1,438,760	87.0%	13.0%	--	--	--
October 2011- February 2012	572,125	62,872	634,997	--	--	--	--	--
October 2012- February 2013	625,970	79,803	705,773	88.7%	11.3%	--	--	--

⁽¹⁾For Fiscal Years ended September 30.

Source: A.B. Won Pat International Airport Authority, Guam, Airport records.

Key Visitor Markets. According to the Guam Visitors Bureau, tourism generates approximately 50% of Guam’s Gross Island Product and supports approximately 33% of all jobs on Guam. Table 4 below presents the annual number of visitors to Guam for Fiscal Years 2003 through 2012. Generally, visitors have comprised approximately 90% of Guam’s originating enplaned passengers in recent years. In Fiscal Year 2012, approximately 98% of all visitors to Guam arrived through the Airport. The number of annual visitors to Guam increased from 856,931 in Fiscal Year 2003 to 1,270,161 in Fiscal Year 2012, an average annual increase of 4.82%. Visitor arrivals were generally flat from Fiscal Year 2005 to Fiscal Year 2007. Arrivals for Fiscal Year 2008 declined due to the global recession. Arrivals for Fiscal Year 2009 declined due to a spike in diagnoses of the H1N1 virus in Japan in early 2009. Visitor arrivals increased approximately 11.2% from Fiscal Year 2009 to Fiscal Year 2010. Arrivals for Fiscal Year 2011 declined following the natural disasters in Japan in March 2011; however, the overall effect was mitigated by increased arrivals from South Korea and Taiwan. Arrivals for Fiscal Year 2012 increased approximately 10.7% as a result of a recovery of passenger decreases in 2012 and as a result in growth in other passenger markets. For the first eight months of Fiscal Year 2013, total arrivals to Guam were 884,170 (according to preliminary numbers, as of June 5, 2013), as compared to 818,913 for the same period in Fiscal Year 2012. See Table A-7 in APPENDIX A and APPENDIX D - “REPORT OF THE AIRPORT CONSULTANT.”

Table 4
Annual Visitors to Guam
Fiscal Years 2003-2012

<u>Fiscal Year</u>	<u>Visitor Arrivals</u>	<u>Percent Increase (Decrease)</u>
2003	856,931	--
2004	1,156,199	34.9%
2005	1,210,147	4.7
2006	1,217,111	0.6
2007	1,223,290	0.5
2008	1,179,246	(3.7)
2009	1,053,248	(10.7)
2010	1,170,857	11.2
2011	1,147,134	(2.0)
2012	1,270,161	10.7

Source: Guam Visitors Bureau.

Tables 5 and 6 below present the visitors to Guam by country of origin for Fiscal Years 2009 through 2012 and the percentage change in annual visitors to Guam by country of origin for Fiscal Years 2010 through 2012. See Tables A-9 and A-10 in Appendix A for similar information for additional Fiscal Years. Although Guam receives visitors from several countries, Guam’s top four visitor markets have consistently included Japan, Korea, U.S./Hawaii and Taiwan. In Fiscal Year 2012, Japan accounted for 71.5% of visitors to Guam, and South Korea, U.S./Hawaii and Taiwan accounted for 13.0%, 5.1% and 3.9%, respectively, of visitors to Guam. The Guam Visitors Bureau is continuing its efforts to further diversify Guam’s visitor base.

Because a large number of Guam tourists originate from Japan, trends in Guam’s tourist industry are closely linked to Japanese travel patterns. Key drivers that have affected Japanese tourism include: the impacts of the economic recessions and recoveries experienced by both the Japanese and global economies; the increased popularity among Japanese tourists of other tourist locations; the impact of the financial difficulties experienced by the Japanese airline industry; the impact of natural disasters, such as the earthquake and tsunami in Japan in March 2011; and concerns regarding aviation security, terrorism and world health concerns. Total visitor arrivals from Japan for Fiscal Year 2011 decreased approximately 7.3% compared to Fiscal Year 2010. Arrivals from Japan increased in Fiscal Year 2012, increasing 10.2% over Fiscal Year 2011 and 2.2% over Fiscal Year 2010.

In November 2009, the United States updated its policies relating to the visa waiver program available for travel to Guam for tourism or business. The current program allows visitors holding passports from Australia, Brunei, Hong Kong, Japan, Malaysia, Nauru, New Zealand, Papua New Guinea, Republic of Korea, Singapore, Taiwan and the United Kingdom to visit Guam and/or CNMI without a visa for a period of up to 45 days. The U.S.

Department of Homeland Security granted parole authority for Russia commencing on January 15, 2012, allowing visa waivers for Russian visitors to Guam. Visitor arrivals from Russia by civilian air numbered 2,930 in Fiscal Year 2012 as compared to 528 for Fiscal Year 2011.

The Government of Guam and Guam Visitors Bureau continue to work to expand the visa waiver program to visitors to Guam from mainland China. The Government of Guam has requested that a decision on China be issued in 2013.

Table 5
Fiscal Year Visitor Arrivals by Country
Fiscal Years 2009-2012

	<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>	
	<u>Arrivals</u>	<u>Percent of Total</u>						
Japan	817,628	77.6%	887,986	75.8%	823,645	71.8%	907,765	71.5%
South Korea	83,803	8.0%	120,065	10.3%	145,081	12.6%	165,143	13.0%
Taiwan	22,191	2.1%	29,420	2.5%	40,709	3.5%	49,851	3.9%
U.S.								
Mainland/Hawaii	54,386	5.2%	60,651	5.2%	59,636	5.2%	64,766	5.1%
CNMI	17,786	1.7%	18,369	1.6%	17,932	1.6%	17,272	1.4%
Micronesia ⁽¹⁾	13,894	1.3%	14,176	1.2%	14,933	1.3%	14,884	1.2%
Philippines	11,386	1.1%	12,016	1.0%	10,748	0.9%	10,240	0.8%
Australia	2,440	0.2%	2,896	0.2%	3,660	0.3%	4,071	0.3%
Canada	672	0.1%	672	0.1%	703	0.1%	773	0.1%
Europe	1,581	0.2%	1,589	0.1%	1,511	0.1%	1,566	0.1%
Hong Kong	2,802	0.3%	5,640	0.5%	8,519	0.7%	8,396	0.7%
Thailand	290	0.0%	327	0.0%	498	0.0%	383	0.0%
China, P.R.C.	2922	0.3%	4,669	0.4%	6,179	0.5%	9,040	0.7%
Vietnam	36	0.0%	80	0.0%	105	0.0%	113	0.0%
Russia	356	0.0%	385	0.0%	528	0.0%	2,931	0.2%
Others/Unknown	3,621	0.3%	3,887	0.3%	4,036	0.4%	4,441	0.3%
Total Air⁽²⁾	1,035,794	98.3%	1,162,828	99.3%	1,138,423	99.2%	1,261,635	99.3%
Total Sea⁽³⁾	17,454	1.7%	8,029	0.7%	8,711	0.8%	8,526	0.7%
Total Air & Sea	1,053,248	100.0%	1,170,857	100.0%	1,147,134	100.0%	1,270,161	100.0%

⁽¹⁾ Includes Palau, Federated States of Micronesia and the Republic of the Marshall Islands.

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Years 2009 through 2012, military vessel arrivals were not available.

Source: *Guam Visitors Bureau*.

Table 6
Percentage Change in Annual Visitors to Guam by Country
Fiscal Years 2009-2012

	2009	2010	% Change from 2009	2011	% Change from 2010	2012	% Change from 2011
Japan	817,628	887,986	8.6%	823,645	(7.3)%	907,765	10.2%
South Korea	83,803	120,065	43.3%	145,081	20.8%	165,143	13.8%
Taiwan	22,191	29,420	32.6%	40,709	38.4%	49,851	22.5%
U.S. Mainland/Hawaii	54,386	60,651	11.5%	59,636	(1.7)%	64,766	8.6%
CNMI	17,786	18,369	3.3%	17,932	(2.4)%	17,272	(3.7)%
Micronesia ⁽¹⁾	13,894	14,176	2.0%	14,933	5.3%	14,884	(0.3)%
Philippines	11,386	12,016	5.5%	10,748	(10.6)%	10,240	(4.7)%
Australia	2,440	2,896	18.7%	3,660	26.4%	4,071	11.2%
Canada	672	672	0.0%	703	4.6%	773	10.0%
Europe	1,581	1,589	0.5%	1,511	4.9%	1,566	3.6%
Hong Kong	2,802	5,640	101.3%	8,519	51.1%	8,396	(1.4)%
Thailand	290	327	12.8%	498	52.3%	383	(23.1)%
China, P.R.C.	2,922	4,669	59.8%	6,179	32.3%	9,040	46.3%
Vietnam	36	80	122.2%	105	31.3%	113	7.6%
Russia	356	385	8.2%	528	37.1%	2,931	455.1%
Other/Unknown	3,621	3,887	7.4%	4,036	3.8%	4,441	10.0%
Total Air⁽²⁾	1,035,794	1,162,828	12.3%	1,138,423	(2.1)%	1,261,635	10.8%
Total Sea⁽³⁾	17,454	8,029	(54.0)%	8,711	8.5%	8,526	(2.1)%
Total Air & Sea	1,053,248	1,170,857	11.2%	1,147,134	(2.0)%	1,270,161	10.7%

⁽¹⁾ Includes Palau, Federated States of Micronesia and the Republic of the Marshall Islands.

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Years 2009 through 2012, military vessel arrivals were not available.

Source: *Guam Visitors Bureau*.

Air Carrier Market Share

Table 7 below presents airline market shares of total enplaned passengers at the Airport in Fiscal Years 2002 and 2012. Although there has been an increase in the number of airlines providing regular passenger service at the Airport since 2002, United Airlines, Inc. (“United Airlines”), a wholly owned subsidiary of United Continental Holdings Inc. and the successor to Continental Micronesia, remains the dominant carrier, accounting for an estimated 49.1% of the total enplaned passengers at the Airport in Fiscal Year 2012. The Airport serves as a hub in United Airlines’ global route network. United Airlines’ Guam hub is designed to serve (1) regional origin-destination passengers on short-haul flights to and from Guam, (2) origin-destination passengers on long-haul flights, primarily tourists visiting Guam, and (3) transit passengers on connecting or through flights.

Although airline service at the Airport is still provided principally by major flag carriers such as United Airlines, low-cost carriers, including Jin Air and Jeju Air, have recently introduced service at the Airport.

Table 7
Airline Market Shares of Enplaned Passengers
A.B. Won Pat International Airport, Guam
Fiscal Years 2002 and 2012

Airline	FY 2002	FY 2012
United Airlines/Continental Micronesia ^{(1), (2)}	50.4%	49.1%
Japan Airlines	20.5	5.1
All Nippon Airways	8.3	--
Delta/Northwest Airlines ⁽³⁾	7.8	19.2
Korean Air	6.0	12.8
Jin Air	--	3.9
Asiana Airlines	3.7	--
Others ⁽⁴⁾	1.2	9.4
Total	100.0%	100.0%

⁽¹⁾ United Airlines and Continental Airlines merged in October 2011 and began operating as a single airline under the United Airlines brand in March 2012.

⁽²⁾ In Fiscal Year 2012, includes flights operated by regional affiliates, including all flights operated by Cape Air.

⁽³⁾ In 2008, Delta acquired Northwest Airlines. In January 2010, the operations of Delta and Northwest were merged into a single entity operating under the Delta brand.

⁽⁴⁾ For Fiscal Year 2002, included Air Nauru, China Airlines and Philippine Airlines. For Fiscal Year 2012, included Cape Air, Eva Air, China Airlines and Philippine Airlines and other airlines.

Source: A.B. Won Pat International Airport Authority, Guam, Authority records.

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Scheduled Airline Service

Air service at the Airport can be broken down into three types of service: (1) interisland service among the western Pacific islands (including the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, Palau and the Federated States of Micronesia); (2) domestic service to the United States; and (3) medium- and long-haul international service, primarily in the Pacific Rim.

Table 8 below sets forth certain information relating to the top 20 origin-destination passenger markets for the Airport for Fiscal Year 2012 and the number of average daily scheduled nonstop departing seats to the Airport's top 18 origin-destination markets as of May 2013.

Table 8
Top 20 Origin-Destination Passenger Markets and Airline Service
A.B. Won Pat International Airport, Guam
Fiscal Year 2012⁽¹⁾

Rank	Origin-Destination Market	Air Miles From Guam	Percent of Originating Airline Passengers	Average Scheduled Daily Nonstop Departing Seats
1	Tokyo	1,550	37.9%	1,601
2	Osaka	1,580	14.3	775
3	Seoul	2,000	12.9	583
4	Nagoya	1,550	7.9	454
5	Manila	1,600	4.9	301
6	Honolulu	3,800	3.0	273
7	Taipei	1,730	2.4	185
8	Saipan	130	2.3	236
9	Fukuoka	1,650	1.8	133
10	Hong Kong	2,120	1.1	43
11	Koror	810	1.0	128
12	Sapporo	2,030	0.9	49
13	Okinawa	1,420	0.8	56
14	Sendai	1,710	0.6	37
15	Hiroshima	1,620	0.5	36
16	Truk, Caroline Islands	630	0.5	89
17	Okayama	1,620	0.4	34
18	Niigata	1,720	0.4	34
19	Los Angeles	6,090	0.4	-
20	Pohnpei, Caroline Islands	1,020	0.3	-
	Subtotal		94.3%	5,047
	Other cities		5.7%	-
	Total		100.0%	5,047

⁽¹⁾ Information is for Fiscal Year 2012, except that information relating to average scheduled daily nonstop departing seats is as of May 2013.

Source: Report of the Airport Consultant, Table 13.

As shown in Table 9, as of May 2013, the scheduled airlines at the Airport provided service to 33 destinations in Asia, Australia and the United States. United Airlines is the largest air carrier serving the Airport and provides service to 15 of these destinations.

Table 9
Scheduled Average Daily Departures
A.B. Won Pat International Airport, Guam
May 2013

Destinations	Average Daily Departures
Medium- and Long-haul	
Tokyo	7
Osaka	4
Nagoya	3
Seoul	3
Manila	3
Fukuoka	1
Taipei	1
Other ⁽¹⁾	2
Subtotal	23
Honolulu	1
Interisland	
Saipan	5
Rota	2
Other interisland ⁽²⁾	2
Subtotal	9
Total	33

Source: Report of the Airport Consultant, Table 10.

⁽¹⁾Includes less than daily departures to Busan, Cairns, Hiroshima, Hong Kong, Niigata, Okayama, Sapporo and Sendai.

⁽²⁾ Includes less than daily departures to Koror, Truk and Yap.

Note: Totals may not add as a result of rounding.

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Table 10 below sets forth the number of scheduled departing seats from the Airport by airline and destination for Fiscal Year 2012.

Table 10
A.B. Won Pat International Airport, Guam
Scheduled Departing Seats by Airline and Destination
Fiscal Year 2012

	Scheduled Departing Seats	Percentage of Total
United Airlines ⁽¹⁾		
Tokyo (Narita)	279,980	13.8%
Osaka (Kansai)	104,537	5.1
Nagoya (Centrair)	103,217	5.1
Honolulu	100,740	5.0
Saipan	84,134	4.1
Manila	71,365	3.5
Fukuoka	48,948	2.4
Koror	46,435	2.3
Other	167,507	8.2
Total	1,006,863	49.5%
Delta Air Lines		
Tokyo (Narita)	226,626	11.1%
Osaka (Kansai)	91,260	4.5
Nagoya (Centrair)	67,140	3.3
Total	385,026	18.9%
Korean Air		
Seoul (Incheon)	133,710	6.6%
Osaka (Kansai)	88,650	4.4
Other	13,920	0.7
Total	236,280	11.6%
Jeju Air		
Seoul (Incheon)	105,462	5.2%
Japan Airlines		
Tokyo (Narita)	86,505	4.3%
China Airlines		
Taipei	33,184	1.6%
Philippine Airlines		
Manila	77,704	3.8%
Eva Airways		
Taipei	26,436	1.3%
Jin Air		
Seoul (Incheon)	68,409	3.4%
Other airlines	8,857	0.4%
Total	2,034,726	100.0%
Principal Destinations		
Tokyo (Narita)	593,111	29.1%
Seoul (Incheon)	307,581	15.1
Osaka (Kansai)	284,447	14.0
Nagoya (Centrair)	170,357	8.4
Manila	149,069	7.3
Honolulu	100,740	5.0
Saipan	84,134	4.1
Taipei	59,620	2.9
Other	285,667	14.0
	2,034,726	100.0%

⁽¹⁾ United Airlines also provides service using regional commuter affiliate airlines such as Cape Air.
Source: Report of the Airport Consultant, Table 11.

A number of service changes have occurred at or been announced for the Airport. United Airlines added service to and from Okinawa, Japan, and added two additional weekly flights between Guam and Sendai, Japan beginning in October 2012. Eva Airlines, which conducts service between Guam and Taiwan, operated thirteen charter flights from May to October 2012 in addition to its regularly scheduled twice-weekly flights to Taipei. China Airlines completed eleven charter flights between Guam and Taiwan through June 2012. Jeju Airlines has been granted approval from the U.S. Department of Transportation to operate weekly flights between Guam and Busan, South Korea and commenced service at the Airport in late September 2012. In addition, Korean Airlines is expected to begin service from Busan, South Korea, and Cebu Pacific, a low-cost Philippine air carrier, has received conditional approval from U.S. Department of Transportation to begin service from Manila. Both Jin Air and Jeju Air have advised of double daily service starting in late October 2013

The U.S. and Japan executed an “open skies” accord in October 2010, providing airlines from both countries with more freedom to set their flight routes and decide the number of passengers and cargo flights. Japan also recently liberalized regulations on foreign carriers that fly to its airports, opening the Japanese market to new low-cost carriers. Airlift capacity and frequency from Japan increased by 12% in total seats before the October 2010 forced bankruptcy announcement of Japan Airlines, which subsequently led to the carrier’s suspension of Osaka service, a reduction of Tokyo flights, and down-gauging of their daily service to a smaller aircraft. United Airlines’ resumption of Guam-Osaka-Guam service and additional flights by Delta Airlines all contributed to the increase in Japan’s seat inventory. In addition, Star Flyer, a hybrid Japanese airline, commenced charter service from Kitakyushi, Japan in August 2013.

Russian carrier Vladivostok Air recently announced that it will begin charter service from Vladivostok in eastern Russia in October 2013, continuing through March 2014.

Airline Departures and Gross Takeoff Weight

Table 11 presents passenger airline aircraft departures and gross takeoff weight (“GTOW”) at the Airport from Fiscal Year 2003 through Fiscal Year 2012. The data include commercial airline operations but do not include military and general aviation operations. Total passenger airline aircraft departures increased at an average annual rate of 5.76% from Fiscal Year 2003 to Fiscal Year 2012. Total GTOW increased from 3,008,476 thousand-pound units in Fiscal Year 2003 to 3,296,664 thousand pound units in Fiscal Year 2012, but declined on a per-departure basis over the same period.

Table 11
Historical Passenger Airline Aircraft Departures and Gross Takeoff Weight
Guam International Air Terminal
Fiscal Year 2003 - Fiscal Year 2012

Fiscal Year ⁽¹⁾	Annual Departures ⁽²⁾	Daily Average Departures	Gross Takeoff Weight (1,000-pound units)	Gross Takeoff Weight per Aircraft Departure (1,000-pound units)
2003	15,467	42	3,008,476	194.5
2004	16,788	46	3,242,520	193.1
2005	17,051	47	3,108,572	182.3
2006	18,117	50	3,310,750	182.7
2007	18,750	51	3,465,658	184.8
2008	19,650	54	3,322,467	169.1
2009	20,138	55	3,017,815	149.9
2010	22,213	61	3,169,573	142.7
2011	23,015	63	2,787,086	122.0
2012	24,375	67	3,296,664	135.2

⁽¹⁾ For Fiscal Years ended September 30.

⁽²⁾ Aircraft departures are assumed to equal one half the reported passenger airline aircraft operations.

Source: A.B. Won Pat International Airport Authority, Guam, Airport records.

Air Cargo

Although the Airport does have air cargo facilities, the number of air cargo only operations does not directly impact the Airport's revenues. The Airport receives revenues from air cargo solely from ground leases, space leases and Airport Business Permits with various operators. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES."

CERTAIN FUNDING SOURCES

Passenger Facility Charges

Under the Federal Aviation Safety and Capacity Expansion Act of 1990, as amended and recodified, and together with the regulations promulgated thereunder (collectively, the "PFC Act"), the FAA may authorize a public agency that controls an airport to impose a PFC of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50 (the current maximum level) for each air carrier passenger (subject to certain exceptions) enplaned at an airport controlled by such public agency. The Obama Administration's proposed 2014 budget includes a proposal to increase the maximum PFC level to \$8.50; however, currently there is no pending legislation approving such an increase. PFC revenues are to be used to finance airport projects approved by the FAA, including debt service and other financing costs on bonds or other obligations issued to finance such specific projects. The eligibility of such projects is subject to certain restrictions, including limitation on the authorized uses. Eligible airport-related projects approved by the FAA are referred to herein as "Approved PFC Projects." The authority to collect a PFC expires once collections reach a maximum amount prescribed by the FAA. The maximum collection amount may be unilaterally increased by up to 25% by the public agency charging the PFC or otherwise increased upon approval of the FAA.

Under the PFC Act, all passenger air carriers serving an airport for which the FAA has authorized the collection of a PFC must collect such PFC at the time they sell an airline ticket to a passenger to be enplaned at the airport. The air carriers collecting a PFC on behalf of a public agency must remit the proceeds of the PFC to the public agency on a monthly basis, less any interest accrued on the investment of the proceeds of the PFC revenues they collect and \$0.11 of each PFC collected as administrative compensation. The PFC revenues received by the Authority are net of this administrative charge. In the event of an airline bankruptcy, it is unclear whether the Authority would be afforded the status of a secured creditor with regard to PFC revenues collected or accrued with respect to that airline. See "CERTAIN INVESTMENT CONSIDERATIONS—Effect of Airline Bankruptcies."

In November 1992, the Authority received approval from the FAA to impose a PFC in the amount of \$3.00 per enplaned passenger and to begin collection in February 1993. The approved use of PFC revenues was for (i) funding of various Approved PFC Projects on a "pay-as-you-go" basis and (2) payment of the eligible portion of principal and interest on bonds issued to finance the 1993 terminal renovation and expansion project (the "1993 Bonds"). As of Fiscal Year 1997, the Authority had completed the "pay-as-you-go" Approved PFC Projects. In July 2002, the Authority submitted an amendment to the original PFC application to the FAA requesting to extend the PFC collection period to 2025 and to increase the PFC charge to \$4.50 per enplaned passenger. The FAA subsequently approved the Authority's request, and the increase was implemented on November 1, 2002 and to remain in effect through March 1, 2025. The Authority has authorization to collect up to \$257,802,097 in PFC revenues to pay the principal and interest on bonds issued to finance or refinance the terminal renovation and expansion project. As of June 30, 2013, the Authority had collected \$98,652,869 in PFCs.

As discussed above under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Revenues," the Indenture provides that PFC revenues are treated as Revenues for the purposes of the Indenture, but are to be used only to the extent and for the purposes that such PFC revenues are permitted to be used by federal law or regulation. The Authority currently uses PFC revenues to help pay debt service on the 2003 Bonds issued to refund the 1993 Bonds. In Fiscal Year 2012, the Authority recorded \$6,096,248 of PFC revenues to the payment of debt service on the outstanding 2003 Bonds. The 2013 Refunding Bonds are being issued, in part, to refund the 2003 Bonds, and the Authority expects to apply PFC revenues to help pay annual debt service on the 2013 Refunding Bonds. The Authority currently does not intend to seek FAA approval to apply PFC revenues to the payment of debt service on the 2013 Bonds that do not constitute 2013 Refunding Bonds.

The actual amount of PFC revenues received in each Fiscal Year may vary depending on the number of qualifying passenger enplanements at the Airport. See "CERTAIN INVESTMENT CONSIDERATIONS" for a

discussion of a number of factors that may impact the number of passenger enplanements at the Airport and the Authority's receipt of PFC revenues.

Federal Funding

The Authority funds a significant portion of the costs of capital projects at the Airport and certain other programs at the Airport with grant and other funds received from various federal agencies pursuant to various programs, some of which are described below. Over the last ten Fiscal Years, the Authority has received grant or other funding from the FAA, the Transportation Security Administration ("TSA"), the Environmental Protection Agency ("EPA"), the Federal Emergency Management Agency ("FEMA") and the U.S. Department of the Interior – Office of Insular Affairs ("DOI/OIA") and the U.S. Economic Development Authority ("EDA"). Table 12 below sets forth the amounts of federal grants and other funds received by the Authority from such federal agencies during Fiscal Years 2003 through 2012.

Airport Improvement Program Grants. The Authority receives federal grants from the FAA each year. The Airport and Airway Improvement Act of 1982, as amended, created the Airport Improvement Program (the "AIP"). The AIP is administered by the FAA and funded by the Airport and Airway Trust Fund, which is financed by federal aviation user taxes. Under the AIP, the FAA awards grant moneys to airports around the country for capital improvement projects. Grants are available to airport operators in the form of "entitlement" funds and "discretionary" funds. Entitlement funds are apportioned annually based upon the number of enplaned passengers and the aggregate landed weight of all-cargo aircraft; discretionary funds are available at the discretion of the FAA based upon a national priority system. Before federal approval of any AIP grants can be given, eligible airports must provide written assurances that they will comply with a variety of statutorily specified conditions. The Authority is subject to periodic compliance reviews by the FAA to verify the Authority's compliance with applicable federal laws, FAA grant assurances and FAA policies. Generally, federal grants are paid to the Authority on a reimbursement basis when the grant agreement is approved and after eligible expenditures are made. The Authority expects to fund a portion of the costs of the 2013 Projects with AIP grants.

TSA Funds. The Authority has previously received funds from TSA through the National Explosive Detection Canine Team Program ("NEDCT Program"), which provides for funding for training canine units; the Law Enforcement Officers Reimbursement Agreement Program, which provides funding for training law enforcement officers to support passenger screening activities at airport checkpoints; and Other Transaction Agreements ("OTA") providing for the funding of design and development associated with certain capital projects. OTAs are not considered procurement contracts, grants or cooperative Agreements.

The Authority and TSA have entered into an OTA pursuant to which the TSA has agreed to provide approximately \$450,000 to the Authority to fund a portion of the costs associated with the relocating and consolidating the existing baggage screening systems and constructing an in-line baggage screening system and baggage handling system. See "AIRPORT PLANNING—Capital Improvement Plan."

The Authority intends to continue seeking federal funding for its capital improvements, when appropriate, and expects to fund approximately \$31,020,000 of the costs of the 2013 Projects with federal grant or other federal funds. In the event the Authority does not receive such federal grants or other federal funds in the expected amounts, the Authority would need to identify alternative sources of funding for such projects, including the issuance of Additional Bonds. See "AIRPORT PLANNING—Capital Improvement Plan" and "CERTAIN INVESTOR CONSIDERATIONS—2013 Projects; Delays and Cost Increases; Availability of Funds."

Table 12
A.B. Won Pat International Airport, Guam
Federal Grant and Other Funding
Fiscal Years 2003 through 2012

<u>Fiscal Year</u>	<u>Federal Agency</u>	<u>Type of Funding</u>	<u>Grant Amount</u>
2003	FAA	AIP Grant	\$23,270,182
2004	FAA	AIP Grant	\$ 9,453,767
2005	FAA	AIP Grant	\$ 10,182,209
	EDA	EDA Grant	1,250,000
	FEMA	Hazard Mitigation Grant Program ⁽¹⁾	5,850,000
	TSA	NEDCT Program	1,323,000
			<u>\$18,605,209</u>
2006	FAA	AIP Grant	\$ 9,957,107
	EPA	EPA Grant	600,000
	TSA	Other Transaction Agreement	2,329,000
			<u>\$12,886,107</u>
2007	FAA	AIP Grant	\$15,592,028
	TSA	LEO Reimbursement Agreement Program	555,245
	TSA	Other Transaction Agreement	613,838
			<u>\$16,761,111</u>
2008	FAA	AIP Grant	\$28,215,970
	EDA	EDA Grant	1,200,000
			<u>\$29,415,970</u>
2009	FAA	AIP Grant	\$22,496,826
	DOI/OIA	Grant	300,000
			<u>\$22,796,826</u>
2010	FAA	AIP Grant	\$18,025,000
	TSA	NEDCT Program	553,500
			<u>\$18,578,000</u>
2011	FAA	AIP Grant	\$ 5,680,479
2012	FAA	AIP Grant	\$ 7,441,024
		Total Federal Funding FY 2003-2012	<u>\$164,889,175</u>

⁽¹⁾ Hazard Mitigation Grant Program provides grants to states and local governments to implement long-term hazard mitigation measures after a major disaster declaration.

Source: A.B. Won Pat International Airport Authority, Guam, Airport records.

AGREEMENTS FOR USE OF AIRPORT FACILITIES

The Authority has entered into, and receives payments under, different agreements with various airlines and other parties, including operating and lease agreements relating to landing fees, other fees and the leasing of space in the terminal building; other leases regarding cargo and other facilities; and concession agreements and other arrangements relating to the sale of goods and services at the Airport.

Airline Operating Agreements

Below is a brief summary of certain provisions of the Airline Operating Agreements. For a more detailed summary of the Airline Operating Agreements, see APPENDIX B – “SUMMARY OF THE FORM OF AIRLINE OPERATING AGREEMENT.”

General

The Authority has entered into separate, substantially similar Signatory Airline Operating Agreements and Terminal Building Leases (the “Airline Operating Agreements”) with 10 passenger air carriers serving the Airport (the “Signatory Airlines”). The Airline Operating Agreements set forth the terms of use of and the Authority’s rate-setting mechanisms for the airfield and terminal facilities. Unless earlier terminated in accordance with their terms, nine of the Airline Operating Agreements expire on September 30, 2016. The Airline Operating Agreement with Cape Air expires on September 30, 2013; however, the Authority is currently in discussions with Cape Air regarding extending the Airline Operating Agreement, including adjustment to the method of calculating certain fees, and expects that Cape Air will continue operating at the Airport under the current terms of the Airline Operating Agreement until the Airline Operating Agreement is extended.

Under the Airline Operating Agreements, each Signatory Airline has the exclusive right to use its “Exclusive Use Space” for ticket counters, ticket, baggage and cargo services and operational support areas and offices. Each Signatory Airline also has the nonexclusive right to use the “Joint Airline Use Space,” which includes, among other things, the baggage claim areas and passenger hold rooms, and the “Conditional Airline Use Space,” consisting of certain ticket counter positions, which the Authority may reassign to one or more other Signatory Airlines under certain conditions. The Airline Operating Agreements also provide that gates are assigned to the Signatory Airlines on a quarterly basis, with priority assignment based on recent activity at the Airport, and the Authority has the right to re-assign gates and other facilities to other Signatory Airlines. Under certain circumstances, including failure to pay any amounts due under the Airline Operating Agreement or failure to provide regularly scheduled service to and from the Airport for a period of 60 consecutive days, the Authority may terminate an Airline Operating Agreement if it provides 30 days’ advance written notice to the Signatory Airline and during such period the Signatory Airline has not cured (or has not commenced and is not diligently pursuing curing) the cause for such termination. In certain limited circumstances, a Signatory Airline may terminate an Airline Operating Agreement by providing the Authority with 60 days’ advance written notice.

Rates and Charges

Pursuant to the Airline Operating Agreements, the Signatory Airlines are required to pay on a monthly basis landing fees, terminal building rentals, loading bridge use fees, apron use fees, enplanement fees, arrival fees and immigration inspection fees. For purposes of accounting for Airport revenues and expenses and calculating and adjusting rates and charges, the Airport is divided into five cost centers (the “Airport Cost Centers”): the Airfield Area, the Apron Area, the Terminal Area, the Terminal Building and the Other Buildings and Areas. As provided in the Airline Operating Agreements, the terminal rental rates, the loading bridge use fees, apron use fees, enplanement fees, arrival fees and immigration inspection fees are calculated based on a compensatory rate-setting methodology, and the landing fees at the Airport are calculated based on a residual rate-setting methodology.

A Signatory Airline’s terminal building rent is determined by multiplying (x) the total square footage of its Exclusive Use Space and its allocable portion of the Joint Airline Use Space by (y) the Terminal Building rental rate, which is calculated by dividing the Net Terminal Building Requirement by the total Usable Space. The loading bridge fee is determined by dividing (x) the Loading Bridge Use Fee requirement by (y) the estimated number of loading bridge uses by the Signatory Airline for the succeeding Fiscal Year, and the apron use fee is determined by dividing (a) the Apron Area requirement by (b) the estimated total takeoff weight for all Signatory Airline aircraft arrivals for the succeeding Fiscal Year.

Generally, in determining the Net Terminal Building Requirement, the Loading Bridge Use Fee requirement and the Apron Requirement, the Authority takes into account the total direct and indirect estimated Operating and Maintenance Expenses allocated to the applicable Airport Cost Centers, an amount equal to 1.25 times the pro rata portion of annual debt service on the Authority's outstanding Bonds allocated to the applicable Airport Cost Centers or such other amount required by the Indenture, the pro rata portion of the annual requirement of any subordinate security or other loans allocated to the applicable Airport Cost Centers, the pro rata portion of the estimated amount, if any, for other deposits required by the Indenture or the Airline Operating Agreement allocated to the applicable Airport Cost Centers, the total amount or pro rata portion of the annual amortization allocated to the applicable Airport Cost Centers of any capital improvements placed in service prior to the Fiscal Year for which rates and charges are being determined, the estimated amount of any assessment, judgment or charge (net of insurance proceeds) to become payable by the Authority relating directly to the Airport or its operation and allocated to the applicable Airport Cost Centers, any estimated deficit or credit for the operation of the applicable area during the then-current Fiscal Year or any adjustment carried forward from a previous Fiscal Year, and, with respect to the Net Terminal Building Requirement, a credit equal to the allocated portion of the balance in the Other Available Moneys Coverage Subaccount.

The enplanement fee, arrival fee and immigration fee are based on the annual average Terminal Building rental rate, the square footage of the departure facilities, the arrival facilities and the immigration inspection facilities, respectively, and the estimated numbers of Signatory Airline enplaned passengers, arriving passengers and international deplaned passengers, respectively.

Pursuant to the Airline Operating Agreements, the Landing Fee rate is determined by dividing (x) the Landing Fee requirement by (y) the composite estimate of the total maximum gross certificated takeoff weight of all Signatory Airline aircraft arrivals for the succeeding Fiscal Year. In determining the Landing Fee requirement for the next succeeding Fiscal Year, the Authority takes into account the Authority's total direct and indirect estimated Operation and Maintenance Expenses, an amount equal to 1.25 times the annual debt service on the Authority's outstanding Bonds or such other amount required by the Indenture, the estimated amounts of the annual requirement of any subordinate security or other loans pertaining to the Airport and for other deposits, if any, required by the Indenture or the Airline Operating Agreements, the annual amortization allocated to the Terminal Building, Apron Area, Airfield Area and loading bridges of the total amount of any capital improvements placed in service prior to such Fiscal Year, the estimated amount of any assessment, judgment or charge (net of insurance proceeds) to become payable by the Authority relating directly to the Airport or its operation and any overpayment or underpayment estimated for operation of the Airport during the then-current Fiscal Year or any adjustment carried forward from a previous Fiscal Year, less estimated revenue to be derived by the Authority from Airport concessions, rents, fees, and charges from other than Signatory Airlines, service fees (excluding PFCs and FAA grants-in-aid) and use fees, estimated unrestricted investment income in the succeeding Fiscal Year from all funds and accounts except the Construction Fund and the Capital Improvement Fund, the estimated total Terminal Building rents, arrival fees, immigration inspection fees, loading bridge use fees and apron fees to be paid by the Signatory Airlines, and a credit equal to the balance in the Other Available Moneys Coverage Subaccount.

For a description of the methods for determining the Net Terminal Building Requirement, the Loading Bridge Use Fee requirement and the Apron Requirement and the Landing Fee Requirement, see APPENDIX B—“SUMMARY OF THE FORM OF AIRLINE OPERATING AGREEMENT—Rates and Charges.”

The Airline Operating Agreements provide that if the total Landing Fee requirement during any Fiscal Year is reasonably expected to vary by more than 10% from the projected Landing Fee requirement for such Fiscal Year, the Authority may, if deemed necessary by the Executive Manager after consultation with the Signatory Airlines, revise the Landing Fee rate, resulting in an adjusted Landing Fee effective as of April 1 of such Fiscal Year, by an amount equal to the difference between the projected and revised total Landing Fee requirement divided by the estimated total takeoff weight of all Signatory Airlines during the balance of the Fiscal Year. The Airline Operating Agreements provide further that if at any time during any Fiscal Year, Airport revenues are insufficient to pay when due all items set forth in the report provided to the Signatory Airlines by the Authority as part of the budgeting and rate-setting process, or to pay any reasonable obligation or expense or cost incidental or necessary to, or arising out of, the operation of the Airport, the Authority may, upon notice and consultation with the Signatory Airlines, adjust the landing fee rate, terminal building rents, loading bridge use fee, apron use fee, enplanement fee, arrival fee and immigration inspection fee to such amounts as are sufficient to assure the Authority that all such items, expenses and costs will be paid in full, solely from revenues of the Airport, provide, the Authority has used commercially

reasonable best efforts to reduce operating costs and budget for the then-current Fiscal Year before adjusting rents and fees.

Federal statutes and FAA regulations require that an airport maintain a rate structure that is as “self-sustaining” as possible. Various federal statutes also require that the rates and charges assessed by an airport operator for the use of its facilities by airlines and other aeronautical users be “reasonable” and not “unjustly discriminatory” and authorize the Secretary of Transportation to review rates and charges complaints brought by air carriers. No assurance can be given that the applicable statutory standards will remain the same or that FAA regulations or policies will not be modified or replaced in the future. The impact on the Authority of such a modification or replacement cannot be predicted. There is currently no dispute between the Authority and any of the airlines serving the Airport over existing rates and charges, but no assurance can be given that the air carriers serving the Airport will not challenge the Authority’s rate-setting methods in the future.

Capital Improvements

The Executive Manager is required under the Airline Operating Agreements to report to the Signatory Airlines on or before July 1 of each Fiscal Year the costs of any capital improvements to be programmed and included in the Annual Budget for the ensuing Fiscal Year and the debt service and/or amortization or lease payment schedule to be added to the rents and fees under the Airline Operating Agreement for those capital improvements and to meet with the Signatory Airlines to discuss the proposed capital improvements and the preferred means of financing such capital improvements. Any capital improvement not disapproved in writing within 30 days following such meeting (or the date the Authority provides any supporting documentation) by 60 percent of the Signatory Airlines in number who pay more than 60 percent of the rents and fees during the prior 12-month period (collectively, a “Majority-in-Interest” or “MII”) are deemed to be concurred with and may be implemented by the Authority at any time. If a Majority-in-Interest disapproves a capital improvement, the Executive Manager is required to meet again with the Signatory Airlines to respond to any questions from the initial meeting and to provide any additional requested information regarding the capital improvement. If such capital improvement is again disapproved by a Majority-in-Interest, the capital improvement is to be deferred to the following Fiscal Year. If the Authority decides to proceed with the capital improvement in the following Fiscal Year, no additional meetings or approvals are necessary, subject to the provisions of the Airline Operating Agreements relating to any capital improvement having a cost in excess of \$10,000,000. The Authority is permitted under the Airline Operating Agreements to implement any capital improvement and include the amortization, debt service (including coverage) or loan payments for such capital improvement in the Signatory Airline rents and fees if the Authority determines that such capital improvement is necessary or prudent to ensure compliance with a rule, regulation or order of any governmental agency having jurisdiction over operation of the Airport. The Authority may not proceed with any capital improvement having a cost in excess of \$10,000,000, however, if concurrence is specifically withheld by a Majority-in-Interest. The Authority reviewed the 2013 Projects with the Signatory Airlines prior to July 1, 2013. No Majority-in-Interest has disapproved of, or specifically withheld concurrence for, any of the 2013 Projects, and a Majority-in-Interest has affirmatively indicated to the Authority that they will not specifically withhold concurrence for those 2013 Projects having costs in excess of \$10,000,000.

Retirement of Outstanding Bonds

The Airline Operating Agreement provides that if, at the end of any Fiscal Year in which Bonds or other debt obligations payable from Revenue remain outstanding, the balance in the Capital Improvement Subaccount not programmed or encumbered pursuant to the provisions of the Airline Operating Agreement relating to capital improvements exceeds the greater of (a) \$20,000,000 or (b) the sum of annual deposits to the Capital Improvement Subaccount for the three most recent Fiscal Years for which data is available, then such excess is to be transferred as soon as possible to the Debt Service Fund and used to provide for (i) the early retirement of any such Bonds or (ii) the refinancing of any outstanding Bonds or other outstanding obligations at such time as the Authority determines market conditions are favorable for such purpose. If the Authority has not applied such funds for such purposes within two years of the date of transfer, the funds are to be transferred to the Other Available Moneys Coverage Subaccount.

Passenger Terminal Building Concessions and Revenue Arrangements

Duty Free Concession. From 2003 to July 20, 2013, DFS Guam L.P. (“DFS”) operated the specialty retail merchandise concession at the Airport under three agreements. DFS is still operating specialty retail stores pursuant

to one of these agreements, which terminates on September 22, 2014, and will continue to pay monthly rent in the amount of the greater of (1) a minimum annual guarantee amount of \$250,000 or (2) 22.5% of annual gross revenues. The DFS concession yielded \$7,346,397 in revenues for the Authority in Fiscal Year 2012.

In July 2012, the Authority initiated a competitive procurement process for this concession. Four proposals were submitted, each of which included proposed minimum annual guaranteed rent (ranging from \$13 million to \$15.25 million) and proposed percentage rent based on a percentage of gross revenues. On April 12, 2013, the Board approved the award of the concession to Lotte Duty Free Guam, L.L.C. (“Lotte”), and on May 18, 2013, the Authority and Lotte executed the Lotte Concession Agreement mentioned below.

The Lotte Concession Agreement. On July 21, 2013, Lotte took possession of the premises previously occupied by DFS under the two expired agreements and began operating its concession pursuant to the terms of a 10-year agreement with the Authority dated May 18, 2013 (the “Lotte Concession Agreement”). Lotte is expected to take possession of the premises occupied under the remaining DFS agreement on September 23, 2014, when the DFS agreement for such premises expires.

Under the Lotte Concession Agreement, Lotte agreed to make initial capital investments for improvements of approximately \$18.4 million and to make mid-term capital investments for refurbishment of its premises of approximately \$4.7 million. Lotte will maintain retail operations during its construction period and will be paying at least the minimum annual guaranteed rent. The Lotte Concession Agreement provides that Lotte is required to pay to the Authority monthly rent equal to:

(A) One-twelfth of an annual amount equal to the greater of:

(1) a minimum annual guarantee amount of \$15.4 million; or

(2) the sum of:

(a) 30.1% of Lotte’s on-site gross revenues for the main retail space and future retail space at the Airport, and

(b) 25.0% of the Lotte’s on-site gross revenues for the additional retail space;

and

(B) an amount equal to one percent (1%) of Lotte’s gross revenues from operations of either Lotte’s flagship Guam store or Lotte’s first non-Airport retail outlet on Guam (“Other Gross Revenues”), whichever opens first, provided that when Lotte opens its Guam flagship store, Other Gross Revenues shall apply to Lotte’s flagship store only and shall no longer apply to Lotte’s first non-Airport retail outlet.

Lotte commenced paying this rent on August 1, 2013, although the amount of the minimum annual guarantee rent being paid by Lotte in Fiscal Years 2013 and 2014 does not include approximately \$1 million of the minimum annual guarantee rent allocable to space not currently occupied by Lotte but expected to be occupied by Lotte before the end of Fiscal Year 2014, at which time the full \$15.4 minimum annual guarantee will apply. The Lotte Concession Agreement further requires Lotte to provide an irrevocable standby letter of credit in an amount equal to the 100% of the applicable minimum annual guarantee amount as a faithful performance guarantee, which was provided by Lotte on June 7, 2013.

Under certain circumstances, such as default, dissolution, insolvency, abandonment of the concession, discontinued passenger terminal operations, major destruction of the concession premises, and similar circumstances, the Authority or Lotte may terminate the Lotte Concession Agreement upon 30 days’ prior notice to the other party. The Lotte Concession Agreement also provides that the Authority may terminate in part the Lotte Concession Agreement if the Authority determines that the efficient or convenient operations of the Airport require the use of any portion of the premises subject to the Lotte Concession Agreement. In the event of such a termination for convenience, the Authority would be required to pay Lotte a termination payment and the minimum annual guarantee amount would be subject to adjustment.

Protests Regarding Award of the Duty Free Concession. The award of the Lotte Concession Agreement is the subject of four pending administrative protests.

The First DFS Protest. On April 23, 2013, DFS submitted a letter of protest (as subsequently supplemented, the “First DFS Protest”) to the Authority alleging, among other things, that (i) two members of the Board received gifts from Lotte (which the Authority has confirmed were subsequently returned) during a trip to Korea in September 2012 organized by the Guam Visitors Bureau after solicitation of the proposals but before the proposals were due, and (ii) the anonymous process used by the Board to select the most qualified proposer was not authorized by Guam procurement law. On May 17, 2013, the Authority issued a decision denying the First DFS Protest on the grounds that: (1) DFS lacked standing to bring a protest because DFS was ranked third among the four proposers and therefore would not be entitled to relief even if it prevailed, (2) DFS’s protest was time-barred, and (3) DFS failed to assert valid grounds for a protest because the Authority’s investigation revealed that DFS’s allegations were not supported by the facts, the Authority’s procedures were consistent with applicable laws, and DFS did not allege any impropriety or conflict of interest on the part of any person involved in the evaluation of the proposals which resulted in the unanimous selection of Lotte’s proposal as the most qualified proposal. In particular, the award to Lotte and the Lotte Concession Agreement itself both were approved unanimously by the members of the Authority’s Board that had not received and returned gifts from Lotte.

On May 30, 2013, DFS filed (1) an action in the Superior Court of Guam (as subsequently amended, the “DFS Action”) seeking judicial review of the Authority’s denial of the First DFS Protest and the award of the Lotte Concession Agreement, and seeking, among other relief, the invalidation of the Lotte Concession Agreement, the conduct of a new competitive proposal process by the Authority and the barring of Lotte from such competitive process, and (2) a notice of appeal with the Office of Public Accountability – Guam (the “OPA”) (the “OPA Appeal”) relating to the Authority’s denial of the First DFS Protest. On June 5, 2013, the OPA issued an order declining to act on the OPA Appeal pending resolution of the DFS Action. DFS filed a request with the Superior Court of Guam for a temporary restraining order (“TRO”) to preclude commencement of performance of the Lotte Concession Agreement. On July 19, 2013, the Superior Court of Guam dismissed the DFS Action without prejudice and without leave to amend on the grounds that DFS had failed to exhaust its administrative remedies before filing the DFS Action. The Superior Court has not yet entered its final judgment with respect to the DFS Action. Once the final judgment is entered, DFS will have 30 days to appeal. If DFS does not timely appeal the final judgment of the Superior Court, then proceedings on the OPA Appeal may commence after the Superior Court appeal period has run.

The Authority believes that the claims set forth in the First DFS Protest and re-alleged in the DFS Action are without merit, is vigorously contesting these claims, and expects to appeal any determinations adverse to it with respect to these claims.

The Additional Protests. On May 29, 2013, DFS submitted a second protest to the Authority (the “Second DFS Protest”) alleging that (1) in violation of Guam procurement law, Lotte was permitted to supplement its proposal with “additional items of value” that were either not included in the evaluation criteria or not timely and (2) these additional items of value were considered by the Authority in its selection of Lotte. On May 30, 2013, another proposer, James Richardson (Guam) LLC (“JR Duty Free”) submitted a protest to the Authority (the “JR Duty Free Protest”), largely based on the First DFS Protest and the Authority’s denial of such protest. On June 7, 2013, DFS submitted a third notice of protest to the Authority (the “Third DFS Protest” and together with the Second DFS Protest and the JR Duty Free Protest, the “Additional Protests”) alleging that the process used by the Authority to solicit proposals for the new specialty retail merchandise concession violated Guam law because the Authority had not adopted “criteria established for the operation of a concession.”

On July 2, 2013, DFS amended the DFS Action to incorporate claims based on the Additional Protests. As noted above, the DFS Action has been dismissed without prejudice and without leave to amend, but this decision remains subject to appeal. However, as required by Title 2, Division 4, Section 9101(i) of the Guam Administrative Rules and Regulations, the Authority has suspended its investigations of the Additional Protests pending final resolution of the DFS Action, and until such time as the DFS Action is fully and finally resolved in court, the Authority will be unable to complete its investigations with respect to the Additional Protests and is legally prohibited from commenting on their merits. While subject to completion of its investigation of the allegations made in the Additional Protests, in its review of the procurement process in connection with the First DFS Protest, the Authority determined that the procurement process was proper and in accordance with applicable law and that the Lotte Concession Agreement was validly awarded and constitutes a binding agreement.

Potential Impact of the Protests on the Airport. The Authority cannot predict with certainty the future scope, procedural path, timing of any resolution, or the eventual outcomes of the proceedings described above. DFS and JR Duty Free have indicated that they each will continue to pursue their administrative remedies before the OPA. Proceedings before the OPA generally last from three to twelve months, and decisions of the OPA are subject to appeal to the Superior Court of Guam. If the OPA finds that there were irregularities in the procurement process leading to the award of the concession to Lotte, the OPA could, among other remedies, cancel, terminate or revise the award or declare the award null and void and award the concession to the next highest ranked proposer (which is neither DFS nor JR Duty Free), subject to successful negotiations. The second-ranked proposer did not protest the award to Lotte. Alternatively, even if the OPA finds that there were irregularities in the procurement process, the OPA may ratify and affirm the award of the concession to Lotte as being in the best interests of the Territory of Guam. In the event the Lotte Concession Agreement is invalidated by a final and non-appealable administrative or judicial decision, the Authority would be required to conduct a new competitive procurement process for the concession, which it would expect to complete as expeditiously as possible.

Even if the concession is awarded to another bidder or the Authority is required to conduct a new competitive procurement process for the specialty retail merchandise concession at the Airport, the Authority expects, based upon its assumptions about projected future enplanements at the Airport, that it will continue to receive revenues from the concession at a level consistent with the range established by the four proposals submitted in response to the July 2012 procurement. Further, the Authority believes that concession revenues in that range would result in a reasonable range of rates for the Signatory Airlines under the Airline Operating Agreements. The Authority also does not expect there to be any material interruption in its receipt of income from the specialty retail concession during the resolution of the administrative protests or as a result of the outcome of the protests. However, these outcomes cannot be assured, and it is possible that actual concession revenues under such circumstances could differ, perhaps materially, from the Airport's current expectations.

See "APPENDIX D - "REPORT OF THE AIRPORT CONSULTANT" for information relating to the specialty retail merchandise concession and the related financial projections of the Airport Consultant.

Food and Beverage Concessions. The Authority has entered into food and beverage concession agreements with several concessionaires (the "Food and Beverage Concession Agreements") having various terms. Each Food and Beverage Concession Agreement provides that the Authority will receive an amount equal to the sum of (1) 15% of the concessionaire's annual gross revenues from the sale of food and non-alcoholic beverages, (2) 20% of the concessionaire's annual gross revenues from the sale of alcoholic beverages and (3) 22.5% of the concessionaire's annual gross revenues from the sale of merchandise and in-restaurant advertising (collectively, the "percentage rent"). In the event a concessionaire fails to pay when due the percentage rent, or if percentage rent is less than the minimum rent charged by the Authority to other tenants, the Authority may instead impose a minimum rent as charged by the Authority to other tenants as expressed in terms of square footage. Under the Food and Beverage Concession Agreements, each concessionaire is required to make periodic capital investments for improvements to the applicable premises. Each food and beverage concessionaire is required to provide a performance guaranty. The terms of the Food and Beverage Concession Agreements expire in December 2013. In Fiscal Year 2012, food and beverage concession revenues were \$902,317.

In-Flight Catering. Although the Authority has not entered into a long-term concession agreement for in-flight catering services, the Authority receives revenues for in-flight catering through an annual Airport Business Permit issued to LSG Lufthansa Services Guam, Inc ("LSG Lufthansa"), which expires in August 2013. Pursuant to the Permit, Lufthansa LSG is required to pay to the Authority an amount equal to five percent of its monthly gross revenues. In Fiscal Year 2012, the Authority received \$754,661 in revenues from its in-flight catering arrangement.

Other Passenger Terminal Building Concessions. The Authority has also entered into concession agreements to provide currency exchange services, newsstand services, retail sales of electronics and advertising services within the passenger terminal building. In 2008, the Authority and Lenlyn Ltd., dba Ice Currency Services USA ("ICE") entered into a money exchange concession agreement (the "ICE Concession Agreement"). The ICE Concession Agreement expired on March 31, 2013; however, ICE continues to operate the currency exchange concession on a month-to-month basis under the same terms as the ICE Concession Agreement. Either party may terminate ICE's continued operation at the Airport upon 30 days' prior notice. Under the ICE Concession Agreement, ICE is required to pay to the Authority annually the greater of (i) an amount equal to 5.58% of the gross turnover ("percentage rent") or (ii) the minimum annual guaranty amount equal to 85% of the total rent paid to the

Authority the previous year, provided that such amount shall never be less than \$180,000. In Fiscal Year 2012, the Authority received \$379,211 in revenues from the ICE Concession Agreement.

In 2002, the Authority and Interspace Airport Advertising (“Interspace”) entered into an airport advertising concession agreement (as subsequently amended, the “Advertising Concession Agreement”). The Advertising Concession Agreement expired on March 31, 2013; however, Interspace continues to operate the advertising concession on a month-to-month basis under the same terms as the Advertising Concession Agreement. Either party may terminate Interspace’s continued operation at the Airport upon 30 days’ prior notice. Under the Advertising Concession Agreement, Interspace is required to pay to the Authority annually minimum rent in amount equal to 45% of the gross revenue from new sales of static, backlit poster advertising and advertising space and specially-themed and artistic displays at the Airport, 40% of the gross revenues derived from the existing static, backlit poster advertising and advertising space at the Airport, 40% of the gross revenues derived from existing advertising related to specially-themed and artistic displays rived from new inventory installed at the Airport, 40% of gross revenue from existing inventory at the Airport, 40% of the gross revenues derived from the sale of video, motion, computer-operated and other high-technology or specialty display advertising at the Airport and 50% of the gross revenues derived from any display advertising equipment provided by the Airport at no cost to Interspace. In Fiscal Year 2012, the Authority received \$452,565 in revenues from the Advertising Concession Agreement.

In 2008, the Authority and Conti Co., dba Guam Audio Vision Center (“Conti”), entered into a retail merchandise concession agreement providing for the sale of electronics at the Airport (the “Electronics Concession Agreement”), which expires on November 17, 2013. Under the Electronics Concession Agreement, Conti is required to pay to the Authority annually the greater of (i) an amount equal to 15% of gross revenues (“percentage rent”) or (ii) the minimum annual guaranty amount equal to 85% of the percentage rent to the Authority the previous year, provided that such amount shall never be less than \$25,000. In Fiscal Year 2012, the Authority received \$25,000 in revenues from the Electronics Concession Agreement.

In 2010, the Authority and Bestseller Inc. (“Bestseller”) entered into a retail merchandise concession agreement to provide newsstand services at the Airport (the “Newsstand Concession Agreement”), which expires on May 31, 2015. Under the Newsstand Concession Agreement, Bestseller is required to pay to the Authority annually the greater of (i) an amount equal to the sum of 10% of gross revenues up to \$600,000 and 15% of gross revenues of \$600,000 or more (“percentage rent”) or (ii) the minimum annual guaranty amount equal to 85% of the percentage rent to the Authority the previous year, provided that such amount shall never be less than \$30,000. In Fiscal Year 2012, the Authority received \$49,401 in revenues from the Newsstand Concession Agreement.

Non-Passenger Terminal Building Concessions and Revenue Arrangements

Rental Cars and Customer Facility Charges. In May 2006, the Authority entered into separate non-exclusive car rental concession and lease agreements (collectively, the “Rental Car Concession Agreements”) with six rental car companies operating at the Airport (collectively, the “Rental Car Companies”). The Rental Car Companies operating at the Airport currently are Avis Rent-A-Car, Budget Rent-A-Car, Hertz Rent-A-Car, National Car Rental, Dollar Rent-A-Car and Nissan Rent-A-Car. The initial five-year terms of the Rental Car Concession Agreements commenced on July 1, 2006. The Authority has exercised its options to extend the terms of five of the Rental Car Concession Agreements for an additional five years to June 30, 2016. One of the Rental Car Companies operates at the Airport on a month-to-month basis under the same terms as the Rental Car Concession Agreement, terminable by either party upon 30 days’ prior notice; however, the Authority intends to exercise its option to extend the term of the Rental Car Concession Agreement to June 30, 2016. Under the Rental Car Concession Agreements, the Rental Car Companies are each required to pay to the Authority annually the greater of (i) a sum equal to 10% of the Rental Car Company’s gross receipts made from or upon the Airport (the “percentage fee”) for such agreement year or (ii) a minimum annual guaranty fee in an amount equal to 85% of such Rental Car Company’s percentage fee payable for the preceding agreement year. The Rental Car Concession Agreements also provide for the payment of annual rent for counter and office space in the Terminal Building, the ready/return parking area and the staging/storage lot. For Fiscal Year 2012, the Authority received \$879,418 in revenues under the Rental Car Concession Agreements, although their aggregate minimum annual guaranty rent was only \$855,182.

The Rental Car Companies are also required to collect on behalf of, and to remit to, the Authority a [\$0.50] per contract day customer facility charge (“CFC”). CFC revenues are not included in Revenues. The Authority applies a portion of the CFCs remitted to the Authority to pay the costs of developing and building the ready/return and staging/storage lot used by the Rental Car Companies and the operating and maintenance expenses of the

Authority allocable to the ready/return and staging/storage lot. The remaining CFCs are held in trust by the Authority to be applied to pay the costs of planning, designing and constructing new rental car facilities. In Fiscal Year 2012, \$55,187 of CFC revenues were remitted to the Authority.

Parking. The parking facility located at the passenger terminal building includes both public parking and commercial vehicle parking. The public parking lot includes both short-term and long-term parking, and the commercial vehicle parking facility includes parking for tour operators, taxis and the Rental Car Companies. The public facilities at the Airport are managed and operated by Pac Air, Ltd. (“Pac Air”) under a concession agreement between Pac Air and the Authority (the “Parking Agreement”). Pursuant to the Parking Agreement, Pac Air also manages the commercial vehicle parking facilities adjacent to the passenger terminal building on an interim basis, pending implementation of an Automated Vehicle Identification System (“AVIS”) developed and financed by Pac Air. The Parking Agreement is scheduled to terminate on October 31, 2016; however, the Authority has the option to extend the Parking Agreement for an additional five years. Pursuant to the Parking Agreement, Pac Air is required to pay to the Authority annually the greater of (i) \$120,000 or (ii) 17% of Pac Air’s monthly gross receipts for its operation of the parking facilities. In the Parking Agreement, the Authority retains, among other things, the right to establish parking rates. Parking rates are established annually and are set forth in the Airport Tariff Schedule, although until Fiscal Year 2013, the Authority had not increased rates since 2007. In addition, Pac Air pays a monthly rental fee for office space at the Airport. The Authority pays a monthly flat service fee to Pac Air to cover operational expenses for the management of the commercial parking facilities. Subject to the approval of the Authority, Pac Air may sell advertising space on the parking facilities. Pac Air is required to pay to the Authority an amount equal to 15% of the gross revenue from the sale of such advertising. In Fiscal Year 2012, the Authority received concession revenues in the amount of \$134,263 pursuant to the Parking Agreement.

Ground Transportation. The Airport receives ground transportation revenues generated from tour bus operators, taxicab operations and airport shuttle services and other courtesy vehicle operations. The Authority has not entered into any long-term concession agreements with any ground transportation providers, although some ground transportation providers rent counter and/or office or other facilities space pursuant to space leases with the Authority. Instead, the various ground transportation providers operate under annual Airport Business Permits, pursuant to which the various ground transportation providers pay to the Authority specified fees and charges. The Authority derives a significant portion of its ground transportation revenues from tour bus operators and taxicab operations. Tour bus operators are required to pay an annual permit fee per vehicle, the amount of which varies depending on vehicle passenger capacity. As of June 30, 2013, approximately 78 tour bus operators held permits to operate at the Airport. In addition, the Authority receives from tour operators a Tour Bus Facility Charge Fee for arriving passengers, which for Fiscal Year 2013, the Authority has set at \$5.00 per arriving passenger for permitted operators and \$10.00 per arriving passenger for non-permitted operators. Taxi operators pay an annual per cab permit fee to operate at the Airport. For Fiscal Year 2013, the Authority has set a taxicab permit charge of \$100 per vehicle per year. As of June 30, 2013, two taxicab companies, operating approximately 72 permitted cabs, provided service at the Airport. In Fiscal Year 2012, the Authority received \$4,803,013 in revenues from its ground transportation-related arrangements (excluding rental income) and operations, including/excluding \$4,771,363 in Tour Bus Facility Charges.

Other Agreements for Airport Facilities

Passenger Terminal Leases. In addition to the concession agreements described above, the Authority leases space in the passenger terminal pursuant to space leases (or holdover tenancies under the same terms as the expired space lease) to a number of entities, ranging from leases to banks providing ATM machines, to leases for tour company counters, to leases to the Transportation Security Administration and the Customs & Quarantine Agency for office and operations space and leases to other entities providing services at the Airport. In Fiscal Year 2012, the Authority received \$3,794,098 in revenues from these space leases, including \$1,846,584 from the Customs & Quarantine Agency for space in the passenger terminal building.

Tiyan Business Park. The Authority receives revenue from the Tiyan Business Park through ground leases with PAC Air Properties, DHL, Triple B and CTSI and from space or ground leases with, or Airport Operating Permits issued to, other entities using the facilities located within the Tiyan Business Park. In Fiscal Year 2012, the Authority received \$140,470 in revenues from its ground leases with PAC Air Properties, DHL, Triple B and CTSI and \$2,727,675 in revenues pursuant to other arrangements for the use of facilities located in the Tiyan Business Park.

On October 31, 2006, the Authority entered into a ground lease agreement with Pac Air Properties (the “Original Pac Air Ground Lease”) to lease 540,000 square feet of space for the purpose of constructing, maintaining and operating facilities suitable for air transportation services (referred to in this Official Statement as the “PAC Air Integrated Cargo Terminal”). Subsequent to the execution of the Original Pac Air Ground Lease, the Authority and Pac Air twice amended and restated the ground lease, including by executing the Second Amended and Restated Ground Lease Agreement, dated May 26, 2010 (as subsequently amended, the “Restated Pac Air Ground Lease”). As so amended, the initial term of the lease is 50 years, commencing on February 22, 2008. For every additional improvement Pac Air Properties makes to the leased premises that exceeds \$2.5 million, Pac Air Properties may exercise the option to renew for an additional 10 years, with the total term of the lease, including extensions, not to exceed 60 years. Pursuant to the Restated Pac Air Ground Lease, rent is deferred until July 29, 2014, the fifth anniversary of the date of beneficial occupancy of the PAC Air Integrated Cargo Terminal. Thereafter, Pac Air Properties will be required to pay the Authority the deferred rent in equal monthly installments, without interest, over the next 10 years at the same time as the regular monthly rent payments. Pac Air Properties may sublet portions of the PAC Air Integrated Cargo Terminal, subject to the consent of the Authority. Only a portion of the PAC Air Integrated Cargo Terminal is currently occupied. Pac Air Properties currently is subletting 32,500 square feet of the PAC Air Integrated Cargo Terminal to the Authority, and in turn, the Authority sub-subleases a portion of the PAC Air Integrated Cargo Terminal to Guam Customs to accommodate the Guam Customs cargo inspection facility and office and to the Guam Waterworks Authority for use as a storage facility and as an operations center for the inspection, testing and maintenance of meters and other items related to the Airport’s water system.

Pursuant to an agreement for ground lease, dated July 1, 2007 (the “Triple B Ground Lease”), between the Authority and Magellan Holdings, L.L.C. (“Magellan”), Magellan leases 70,000 square feet of space for the purposes of constructing, maintaining and operating a multi-modal facility for air and/or ocean freight and related activities (referred to in this Official Statement as the “Triple B Freight Forwarding Building”). Magellan subleases the Triple B Freight Forwarding Building Cargo Terminal to Triple B Forwarders (Guam), Inc. The Triple B Freight Forwarding Building is currently used only for handling sea freight, although it may in the future be used for air cargo. The initial term is 20 years, commencing on July 1, 2007. Magellan may at its option to extend the term of the Triple B Ground Lease for an additional 10 years.

Pursuant to a ground lease agreement, dated December 12, 2008 (the “CTSI Ground Lease”), between the Authority and CTSI, CTSI leases 8,168 square meters of space for the purpose of constructing, maintaining and operating facilities suitable for air and surface cargo import/export processing (referred to in this Official Statement as the “CTSI Freight Forwarding Terminal”). The CTSI Freight Forwarding Terminal is used primarily by CTSI for distribution of its own products. The initial term of the lease is for 25 years, commencing on September 11, 2010. CTSI has the option to extend the initial term for an additional 15 years, subject to certain conditions, with the total term of the lease not to exceed 40 years.

The terms of the Restated Pac Air Ground Lease, the Triple B Ground Lease and the CTSI Ground Lease are substantially similar. Under each ground lease, the lessees are required to pay specified monthly rent, which amount is to escalate by 10% (under the Restated Pac Air Ground Lease and the CTSI Ground Lease) or by 20% (under the Triple B Ground Lease) every fifth year (and subject to additional adjustment for any term extensions), and to pay certain costs and expenses incurred by the Authority in connection with security, landscaping and off-premises lighting within and attributable to their respective leased premises. The ground leases also provided that if all or any part of the improvements are damaged or destroyed by fire or other casualty of any kind, the applicable lessee will be required at its own cost to repair or restore the improvements to the premises and that all insurance proceeds received as a result of damage to or destruction of the improvements are to be applied for such repairs or restoration.

The Authority may terminate any of the Restated Pac Air Ground Lease, the Triple B Ground Lease or the CTSI Ground Lease if the Authority determines that the premises are needed for Airport construction or development. In the event of such a termination, the Authority would be required to compensate the applicable lessee in accordance with the then-applicable eminent domain laws. The Authority may terminate the Restated Pac Air Ground Lease, the Triple B Ground Lease and the CTSI Ground Lease, as applicable, under certain circumstances, including (i) if the applicable lessee makes any assignment for the benefit of its creditors, is decreed insolvent or bankrupt or if a receiver is appointed for the lessee; and (ii) any default by the lessee in any of the terms and conditions of the applicable ground lease (after the expiration of applicable notice and grace periods). In the event of any breach of such ground leases, the Authority may re-enter the property and, following such re-entry, may terminate the applicable ground lease or leave the ground lease in place and re-let any part or all of the premises

subject to the applicable ground lease. If any such ground lease is terminated prior to its expiration date other than for a lessee default, the Authority may be required to reimburse the lessee for a portion of the unamortized net book value of the existing structural improvements (unless otherwise provided for in the applicable ground lease).

Pursuant to a lease agreement, dated as of February 1, 2004 (the “DHL Ground Lease”), between the Authority and DHL, DHL leases 7,551 square meters of space for the purposes of developing and operating a parcel express delivery service (referred to in this Official Statement as the “DHL Cargo Terminal”). The DHL Cargo Terminal is used solely by DHL for express service. The initial term of the lease is 10 years, commencing on July 1, 2004, and may be extended at DHL’s option for three additional consecutive periods, each a five year period. The Authority receives both base rent and ground rent from DHL. Of the rent that is payable each month, the Authority agreed that approximately 80% of such monthly rent would represent DHL’s own cash contributions toward the cost of constructing improvements on the premises and would constitute capital investment on the part of DHL. In addition, DHL is required to pay certain costs and expenses incurred by the Authority in connection with security, landscaping and off-premises lighting within and attributable to the DHL Cargo Terminal.

If all or any part of the DHL Cargo Terminal is destroyed or damaged by fire or other casualty and such damage can be repaired and the premises restored and rendered tenantable within 90 days, the DHL Ground Lease will not be terminated, the Authority will be required to cause the repair and restoration of the improvements to the premises and to provide alternative premises to DHL, and DHL’s rent will be abated during the restoration period. If the Authority is unable to provide alternative premises, DHL may terminate the agreement. If such damage cannot be repaired and the DHL Cargo Terminal restored and rendered tenantable within 90 days, or if the costs exceed the insurance proceeds available to the Authority to pay for such repairs, then either the Authority or DHL may terminate the DHL Ground Lease.

At any time after the July 1, 2009, DHL may terminate the DHL Ground Lease by (i) giving notice to the Authority at least 180 days prior to the effective date of termination, and (ii) payment to the Authority of a cancellation fee equal to the base rent that would have been payable by DHL to the Authority for the portion of the term commencing on the date of termination and ending on the last day of the initial term, discounted to present value using a discount rate of 10%. Under certain circumstances, including failure to pay rent, abandonment, assignment or other defaults (after giving effect to notice and cure periods), the Authority may terminate the DHL Ground Lease. Under certain circumstances, including damage to or destruction of all or a substantial portion of the DHL Cargo Terminal such that it is rendered incapable for use and the Authority has failed to repair the damage or provide for alternative premises, if DHL is required to vacate the DHL Cargo Terminal for a specified period of time or if the Authority breaches certain terms of the DHL Ground Lease, DHL may terminate the DHL Ground Lease.

Airport Industrial Park. Although the Airport Industrial Park is located on property owned by the Authority, not all of the businesses operating in the Airport Industrial Park are directly related to Airport operations. The Airport Industrial Park currently has four tenants operating pursuant to various ground leases, including a gas station and convenience store, a heavy equipment retailer, a restaurant (still under development) and cargo warehouses. In Fiscal Year 2012, the Authority received \$820,990 in revenues from its ground leases in the Airport Industrial Park.

Pursuant to a Ground Lease, dated -August 15, 1991 (the “Esso Ground Lease”), between the Authority and South Pacific Petroleum Corporation (successor-in-interest to Esso Eastern Inc.) (“SPPC”), SPPC leases 5,709 square meters of space for the purposes of constructing and operating a motor vehicle service station and convenience store. The initial 30-year term of the Esso Ground Lease expires on August 13, 2021, and SPPC has the option to extend the Esso Lease for two successive 10 year periods. Pursuant to the Esso Lease, the rental rate at the end of each fifth year increases by 10% of the prior effective rate, subject to further adjustment for any extension. In addition, SPPC is required to pay to the Authority its allocable share of the monthly common area expenses of the Airport Industrial Park, including expenses for security, maintenance, landscaping, streetlights, road repair and utilities within or related to the Airport Industrial Park.

In the event of any damage to or destruction of the leased premises, including any building or other improvements, SPPC is required within 60 days to commence and diligently pursue the repair or reconstruction of such premises; provided, however, if such damage or destruction occurs during the last three years of the term and such damage or destruction renders the premises commercially unusable by SPPC, then SPPC may instead elect to terminate the Esso Ground Lease by delivering or assigning to the Authority all insurance proceeds received or

receivable by SPPC as a result of such damage or destruction and returning the leased premises (at Esso's cost) to the same condition or better as it was at the commencement of the term of the Esso Ground Lease.

Under certain circumstances, the Authority may terminate the Esso Ground Lease and re-enter the property, including (i) any default under the Esso Ground Lease (after giving effect to notice and cure periods); (ii) if Esso is adjudicated a bankrupt or adjudged insolvent; (iii) SPPC makes an assignment for the benefit of its creditors or files a petition in bankruptcy for insolvency or reorganization or applies for an appointment or a receiver; or (iv) any execution or attachment issued against SPPC or its property and the leased premises are taken or occupied (or an attempt is made to take or occupy such premises) by someone other than SPPC, except as permitted under the Esso Ground Lease. If SPPC is in breach of the Esso Ground Lease and has abandoned the premises, the Authority may elect to not to terminate the Esso Ground Lease, and Esso would continue to be obligated to pay rent. The Authority may also re-enter and re-let the premises.

Pursuant to a Ground Lease Agreement, dated April 15, 2008 (as subsequently amended, the "Marianas Ground Lease"), between the Authority and Marianas Steamship Agencies, Inc. ("Marianas Steamship"), Marianas Steamship leases 8,109 square meters of space for the purposes of constructing, maintaining and operating a multi-modal facility for air and/or ocean freight and related activities. The initial term of the Marianas Ground Lease is 21 years and six months, beginning on March 1, 2009 and expiring on August 31, 2030, and Marianas Shipping has the option to extend the term for an additional term expiring on February 28, 2039. Construction of the facility was completed in August 2010.

In 2011, the Authority and IT&E Overseas, Inc. ("IT&E") entered into a Ground Lease Agreement, dated January 17, 2011 (the "IT&E Ground Lease"), pursuant to which IT&E leases 4,091 square meters of space for the purpose of constructing, maintaining and operating a restaurant facility and related activities. The initial term of the IT&E Ground Lease is 15 years, commencing on January 17, 2011 and expiring on January 16, 2026, and IT&E has the option to extend the term for two additional consecutive five year periods. Pursuant to the IT&E Ground Lease, the minimum investment amount for the development, construction and equipping of the restaurant and related facilities is expected to be \$4,000,000. Although the restaurant and related facilities are still under development, and construction is expected to be completed in the latter part of 2013, IT&E's obligation to pay rent under the IT&E Ground Lease began in September 2011, eight months after the commencement date. The IT&E Ground Lease generates approximately \$42,710 in annual revenue.

The terms of the Marianas Ground Lease and the IT&E Ground Lease are substantially similar. Under each ground lease, the lessees are required to pay specified monthly rent, which amount is to escalate by 20% every fifth year (and subject to additional adjustment for any term extensions), and to pay certain costs and expenses incurred by the Authority in connection with security, landscaping and off-premises lighting within and attributable to their respective leased premises. The ground leases also provide that if all or any part of the improvements are damaged or destroyed by fire or other casualty of any kind, the applicable lessee will be required at its own cost to repair or restore the improvements to the premises and that all insurance proceeds received as a result of damage to or destruction of the improvements are to be applied for such repairs or restoration. The Authority may terminate the Marianas Ground Lease and the IT&E Ground Lease if the Authority determines that the premises are needed for Airport construction or development. In the event of such a termination, the Authority would be required to compensate the applicable lessee in accordance with the then-applicable eminent domain laws.

The Authority may terminate the Marianas Ground Lease and/or the IT&E Ground Lease under certain circumstances, including (i) if the applicable lessee makes any assignment for the benefit of its creditors, is decreed insolvent or bankrupt or if a receiver is appointed for the lessee; and (ii) any default by the lessee in any of the terms and conditions of the applicable ground lease (after the expiration of applicable notice and grace periods). In the event of any breach of such ground leases, the Authority may re-enter the property and, following such re-entry, may terminate the applicable ground lease or leave the ground lease in place and re-let any part or all of the premises subject to the applicable ground lease. If either such ground lease is terminated prior to its expiration date other than for a lessee default, the Authority may be required to reimburse the lessee for a portion of the unamortized net book value of the existing structural improvements (unless otherwise provided for in the applicable ground lease).

The fuel farm for the Airport fuel system and the reservoir for the Airport water system are also located in the Airport Industrial Park. See "THE AIRPORT—Airport Facilities."

Leases for Other Airport Facilities. Other facilities at the Airport include the Kunkle Air Cargo Building, the Yellow Cargo Building, aircraft hangars, warehouse and storage areas, a commuter terminal used primarily by Freedom Air for inter-island/commuter operations and that has been converted in part to airline and aviation-services related offices and other facilities used as administrative buildings. The Authority receives revenues from these facilities either through space leases (or hold over tenancies under the same terms as the expired leases) or Airport Business Permits. In Fiscal Year 2012, the Authority received \$262,290 in revenues for the use of these facilities.

Airport Tariff Schedule and Airport Business Permits

The annual rental rates and fees for users of the Airport facilities are set forth in the Airport Tariff Schedule for the Fiscal Year, including the rates and charges to be paid by air carriers or other entities using Airport facilities other than pursuant to a lease or other agreement.

As mentioned above, several businesses operate at the Airport pursuant to Airport Business Permits. These Airport Business Permits generally have terms of one year.

Recent Legislation Regarding Contracts with Public Entities

The Guam Legislature recently enacted two Guam laws imposing additional conditions on the Authority's commercial leases, one of which also affects the Authority's commercial contracts, permits and licenses.

Public Law No. 32-022, enacted and effective April 15, 2013, requires the payment of taxes for lands leased as stipulated in 21 G.C.A. § 60114. The law requires the Authority to pay business privilege tax on all income it receives as lease payments on commercial leases, and requires the Authority to pay real estate tax on the leasehold and all improvements constructed on lands leased by it in commercial leases. The law also provides an exception for existing leases of the Authority where such tax levies may affect the revenue neutrality of the Authority to the potential detriment of its existing General Revenue Bond ratings. The Authority is still examining the impact of this law on its finances and operations.

Public Law No. 32-040, enacted and effective June 11, 2013, limits the term of all commercial contracts, leases, permits and licenses for use of public real property and related facilities to five years, including any extensions, options or renewals. The law does allow for longer-term instruments to be entered into after a determination of need by the Authority Board of Directors, public notice, and notice to the Speaker of the Guam Legislature and a public hearing by the Legislature. If the Legislature does not act on such a determination of need within 60 days, Legislative approval of the longer contractual term is deemed given. The law, by its terms, applies only prospectively from its effective date and does not affect transactions that were in discussion as of the effective date pursuant to the issuance of an officially published request for proposals. Because of the determination of need process, the Authority does not expect the law to have a material adverse impact on its finances. The Authority will continue to seek an amendment to the law excluding the Authority from its application, and in the interim will comply with the law.

FINANCIAL INFORMATION

Historical Financial Results

Table 13 on the following page summarizes the financial results from operations for the Authority for the Fiscal Years ended September 30, 2008 through 2012. See APPENDIX C – “AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR’S REPORT.”

Table 13
A.B. Won Pat International Airport Authority, Guam
Statements of Revenues, Expenses and Changes in Net Assets
Fiscal Years 2008-2012

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating revenues:					
Facilities and systems usage charges:					
Arrival facilities	\$ 5,416,560	\$ 5,387,772	\$ 6,109,684	\$ 6,159,123	\$ 6,398,217
Departure facilities	5,528,596	5,326,503	6,225,493	6,046,101	6,348,530
Immigration	1,717,703	1,937,884	2,236,345	2,210,176	2,337,874
Public apron	2,152,654	1,804,241	1,515,323	1,394,782	2,107,797
Passenger loading bridge	2,121,589	1,689,336	3,547,283	3,366,254	3,676,307
Landing fees	898,065	1,218,711	2,643,417	2,567,747	3,042,109
Utility recovery charge and other fees	276,099	290,131	554,104	442,015	474,691
Fuel flowage fee	189,833	142,507	155,562	158,956	183,933
Total facilities and systems usage charges	<u>18,301,099</u>	<u>17,797,085</u>	<u>22,987,211</u>	<u>22,345,154</u>	<u>24,569,458</u>
Concession fees:					
General merchandise	6,985,111	6,064,436	6,326,954	7,194,836	7,420,798
Ground transportation	4,360,587	3,870,031	4,267,947	4,156,156	4,803,013
Car rental	937,712	910,220	931,766	931,949	934,605
Food and beverage	729,385	707,835	810,174	844,104	902,317
In-flight catering	574,992	589,956	679,358	666,213	754,661
Other	832,150	801,077	870,962	969,699	1,083,785
Total concession fees	<u>14,419,937</u>	<u>12,943,555</u>	<u>13,887,161</u>	<u>14,762,957</u>	<u>15,899,179</u>
Rental income:					
Operating space - airline	2,780,608	2,754,459	2,730,854	3,065,873	3,103,781
Operating space - non-airline	2,398,254	2,997,093	2,730,298	3,749,467	3,820,488
Other	3,925,251	3,587,235	3,953,645	3,803,190	3,936,818
Total rental income	<u>9,104,113</u>	<u>9,338,787</u>	<u>9,414,797</u>	<u>10,618,530</u>	<u>10,861,087</u>
Miscellaneous	75,840	1,651,198	840,907	1,481,857	1,148,209
Total operating revenues	<u>41,900,989</u>	<u>41,730,625</u>	<u>47,130,076</u>	<u>49,208,498</u>	<u>52,477,933</u>
Operating expenses:					
Contractual services	\$16,580,429	\$16,086,870	\$17,338,311	\$18,662,427	\$18,950,053
Personnel services	11,399,538	12,706,013	12,755,098	13,744,204	13,917,232
Materials and supplies	1,205,169	684,259	878,910	825,621	1,178,487
Bad debt expense	551,420	34,889	112,319	490,768	1,105,457
Total operating expenses	<u>29,736,556</u>	<u>29,512,031</u>	<u>31,084,638</u>	<u>33,723,020</u>	<u>35,151,229</u>
Income from operations before depreciation and amortization	12,164,433	12,218,594	16,045,438	15,485,478	17,326,704
Depreciation and amortization	(21,440,046)	(21,797,415)	(22,975,268)	(22,638,455)	(24,956,519)
Loss from operations	<u>(9,275,613)</u>	<u>(9,578,821)</u>	<u>(6,929,830)</u>	<u>(7,152,977)</u>	<u>(7,629,815)</u>
Non-operating income (expense):					
Passenger facility charge income	5,479,217	5,064,667	5,668,517	5,576,838	6,096,248
Interest income	1,978,585	1,468,089	1,282,807	1,155,144	1,194,681
Interest expense	(8,580,584)	(8,339,935)	(7,947,785)	(7,343,883)	(7,164,599)
Other expenses, net	(230,866)	(486,979)	(456,831)	(489,532)	(433,010)
Non-recurring expenses	(16,372)	(52,018)	(32,862)	(48,626)	--
Total non-operating expenses, net	<u>(1,370,020)</u>	<u>(2,346,176)</u>	<u>(1,486,154)</u>	<u>(1,101,433)</u>	<u>(306,684)</u>
Loss before capital grants and transfer in	<u>(10,645,633)</u>	<u>(11,924,997)</u>	<u>(8,415,984)</u>	<u>(8,254,410)</u>	<u>(7,936,499)</u>
Capital Grants from the U.S. Government	29,538,152	35,418,595	17,348,269	9,004,486	6,369,134
Operating Grants from the U.S. Government	390,389	842,931	669,848	503,875	382,298
Transfer from Government of Guam – Office of Highway Safety	--	30,095	60,731	78,063	26,388
Total capital and operating grants	<u>29,928,541</u>	<u>36,291,621</u>	<u>18,078,848</u>	<u>9,586,424</u>	<u>6,777,820</u>
Increase (decrease) in net assets	19,282,908	24,366,624	9,662,864	1,332,014	(1,158,679)
Net assets at beginning of year	<u>252,504,654</u>	<u>271,787,562</u>	<u>296,154,186</u>	<u>305,817,050</u>	<u>307,149,064</u>
Net assets at end of year	<u>\$271,787,562</u>	<u>\$296,154,186</u>	<u>\$305,817,050</u>	<u>\$307,149,064</u>	<u>\$305,990,385</u>

Source: Derived from the audited financial statements of the Authority.

Management's Discussion of Fiscal Year 2012 Financial Results.

In Fiscal Year 2012, revenues increased to \$66.5 million from \$65.5 million in Fiscal Year 2011, an increase of 1.6%. Operating income accounted for \$52.5 million, or 78.9%, of all revenue for Fiscal Year 2012. The remaining \$14.0 million, or 21.1%, was comprised of non-operating income, including interest income, PFC revenue, grants from the U.S. government and transfers from the Government of Guam.

In Fiscal Year 2012, the \$52.5 million in operating revenues represented a 6.6% increase over the \$49.2 million in operating revenues for Fiscal Year 2011. The increase is a result of increases in non-aeronautical revenues, which accounted for approximately 53% of the Authority's operating revenues in Fiscal Year 2012. Concession fees increased to \$15.9 million from \$14.7 million in Fiscal Year 2011, an increase of 7.7%. Concession fees for general merchandise increased 3.1%. Ground transportation revenues increased to \$4.8 million from \$4.2 million in Fiscal Year, an increase of 15.6%, primarily as a result of increased passenger activity. Rental income increased by 2.3% , with non-airline rental income increasing from \$3.8 million in Fiscal Year 2011 to \$4.0 million in Fiscal Year 2012, or 5.3%.

In Fiscal Year 2012, non-operating revenues decreased from \$16.3 million to \$14.1 million, or 13.8%, as a result of decreases in grants from the U.S. government. The amount of federal grants received in Fiscal Year 2012 decreased by \$6.75 million due to delays in the related FAA projects; however, the Authority expects to proceed with such projects in Fiscal Year 2013.

In Fiscal Year 2012, operational expenses increased to \$35.2 million from \$33.7 million in Fiscal Year 2011, an increase of 4.2%, primarily as a result of significant increases in costs of materials and supplies and in bad debt expenses.

Budgeting Process

The Indenture requires that the Authority prepare and adopt an annual budget for each Fiscal Year. The Authority is required under the Airline Operating Agreements to adopt an Annual Budget for the Airport and to establish annually the terminal building rental rates, departure fee, arrival fee, immigration in section fee, loading bridge use fee, apron use fee and landing fee rates for the succeeding Fiscal Year. In April of each year, the Executive Manager requests all Signatory Airlines to submit their month to month projections of total landings for each type of aircraft and associated gross takeoff weight, as well as estimates of total revenue passengers, and each Signatory Airline is required to provide to the Authority on or before May 1 of each Fiscal Year a written estimate of the Maximum Certificated Total Gross Takeoff Weight for the Signatory Airline for the succeeding Fiscal Year.

In developing its annual budget, the Authority takes into account Operation and Maintenance Expenses, the annual debt service requirements for the Authority's outstanding Bonds (including amounts necessary to maintain the debt service coverage ratio required under the Indenture), required deposits to the funds and accounts established pursuant to the Indenture, amortization of assets funded by the Authority and a schedule of capital improvement projects. In addition, deposits to various funds and accounts established outside of the Indenture are included in the budget when approved by the Board of Directors. The Authority generates an estimate of revenues from sources other than Signatory Airline rental rates and fees and then prepares preliminary calculations of the rents and fees to be paid by the Signatory Airlines, determined in accordance with the Airline Operating Agreements. On or before July 1 of each year, the Authority is required to provide to the Signatory Airlines a proposed Annual Budget, including, among other things, a preliminary calculation of the rents and fees to be paid by the Signatory Airlines during such succeeding Fiscal Year. The Executive Manager is required to convene a meeting with the Signatory Airlines within 30 days after the proposed Annual Budget is transmitted, and the Signatory Airlines are given an opportunity to discuss the proposed Annual Budget with the Authority prior to its adoption.

The Authority endeavors to adopt the Annual Budget for the coming Fiscal Year no later than 30 days prior to the commencement of such Fiscal Year. The adjusted rents and fees become effective on the first day of the Fiscal Year for which they apply. In the event the Annual Budget has not been adopted by the Authority by the first day of the Fiscal Year, the rents and fees in effect during the preceding Fiscal Year will remain in effect until the Annual Budget is adopted. Upon the adoption of the Annual Report, the new rents and fees will be made retroactive to the first day of the Fiscal Year. The Authority retains the responsibility and expressly reserves the right to make

all final decisions with respect to the Annual Budget and any subsequent amendment thereof, consistent with and pursuant to the terms and conditions of the Airline Operating Agreements.

The Authority adopted its budget for Fiscal Year 2014 on August 9, 2014.

See “SECURITY AND SOURCES OF PAYMENT OF THE BONDS—Rate Covenant,” “AGREEMENTS FOR THE USE OF AIRPORT PROPERTY—Airline Operating Agreements,” APPENDIX B—“SUMMARY OF THE FORM OF AIRLINE OPERATING AGREEMENT” and APPENDIX E - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Historical Debt Service Coverage

Table 14 below shows the Authority’s Annual Debt Service Coverage for the Fiscal Years ended September 30, 2008 through 2012. The amount of Revenues set forth in Table 14 below may differ from the amount of operating and non-operating revenues set forth in Table 13. For purposes of determining compliance with debt service coverage requirement set forth in the Indenture, the Revenues are calculated by adding operating revenues, PFC revenue, certain interest income, amounts received pursuant to operating grants from the federal government and transfers from the Government of Guam – Office of Highway Safety and certain other non-operating revenue.

Table 14
A.B. Won Pat International Airport Authority, Guam
Debt Service Coverage
Fiscal Years 2008-2012

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues ⁽¹⁾	\$49,299,740	\$48,819,686	\$54,568,576	\$56,333,346	\$60,046,434
Less: Operation and Maintenance Expenses	<u>(30,154,697)</u>	<u>(30,401,047)</u>	<u>(31,729,823)</u>	<u>(34,335,336)</u>	<u>(35,701,522)</u>
Net Revenues	19,145,043	18,418,639	22,838,753	21,998,010	24,344,912
Plus: Other Available Moneys ⁽²⁾	<u>4,142,767</u>	<u>4,282,905</u>	<u>4,292,067</u>	<u>4,304,480</u>	<u>4,317,380</u>
Net Revenues and Other Available Moneys	<u>\$23,287,810</u>	<u>\$22,701,544</u>	<u>\$27,130,820</u>	<u>\$26,302,490</u>	<u>\$28,662,292</u>
Aggregate Annual Debt Service	<u>\$16,571,069</u>	<u>\$17,131,619</u>	<u>\$17,168,269</u>	<u>\$17,217,919</u>	<u>\$17,269,519</u>
Annual Debt Service Coverage (1.25x Required)	1.41	1.33	1.58	1.53	1.66

⁽¹⁾ Revenues as calculated in accordance with the Indenture. Includes operating revenues, PFC revenue, certain interest income, amounts received pursuant to operating grants from the federal government and transfers from the Government of Guam – Office of Highway Safety and certain other non-operating revenue.

⁽²⁾ For any Fiscal Year, the amount designated by the Authority of unencumbered moneys on deposit in the Capital Improvement Fund at the end of the prior Fiscal Year, but in no event to exceed 25% of the Aggregate Annual Debt Service for such Fiscal Year.

Source: Derived from the audited financial statements of the Authority.

Employees’ Retirement Plan

The Government of Guam Retirement Fund (the “Retirement Fund”) provides retirement annuities and other payments to retired Government employees, including employees of the Authority, and their dependents. Employees hired before September 30, 1995 are members of the Government of Guam Employees Retirement System, a defined benefit pension plan (the “DB Plan”), and employees hired after September 30, 1995 are members of the new Defined Contribution Retirement System (the “DC Plan”). The DB Plan and the DC Plan are administered by the Government of Guam Retirement Fund (the “GGRF”). The GGRF issues a publicly available

financial report that includes financial statements and required supplementary information for the DB Plan. As of September 30, 2012, there were a total of 15,752 members in the DB Plan and 7,766 active employees under the DC Plan. As of June 30, 2013, 77 Authority employees were members of the DB Plan and 141 Authority employees were members of the DC Plan.

The DB Plan is a cost-sharing multiple-employer plan to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the DB Plan. A single actuarial valuation is performed annually covering all DB Plan members, and the same contribution rate applies to each employer, including the Authority. Members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The DB Plan member and employer contribution requirements are established, and may be amended, by the GGRF.

Based on the Government of Guam Retirement Fund Actuarial Valuation as of September 30, 2012, which was issued on April 11, 2013 (the "2012 Valuation"), at September 30, 2012 the DB Plan had an actuarial accrued liability of approximately \$2.811 billion, with an unfunded actuarial accrued liability of approximately \$1.483 billion.

Under Title 4, Chapter 8, Section 8137 of the Guam Code Annotated, as amended, the Government of Guam is required to completely fund the unfunded actuarial accrued liability by 2031. The annual actuarial valuations prepared for the DB Plan include actuarial employer contribution rates intended to satisfy this requirement. The actuarial employer contributions rates set forth in the annual valuations apply to the fiscal year beginning one year after the valuation date. Based on the information provided in the 2012 Valuation and in prior valuations, the actuarial employer contribution rates for the fiscal years ended September 30, 2013, 2012 and 2011, were 30.76%, 30.09% and 28.06%, respectively, of covered payroll.

Although the actuarial contributions rates are provided to the Guam Legislature by the Retirement Fund in advance of each Fiscal Year and used for budget preparation, the Guam Legislature is not required to adopt such rates. For the Fiscal Years ended September 30, 2013, 2012 and 2011, employers, including the Authority, funded lower statutory contribution rates of 30.09%, 28.30% and 27.46%, respectively, of covered payroll, based in part on Section 3 of Public Law No. 28-150, which provides that the employer contribution rate to the Retirement Fund are to increase over a five-year period, beginning with Fiscal Year 2007, until it reaches the actuarial recommended contribution rate. The contribution rate for Fiscal Year 2011 was further reduced to 21.44% for the period from June 4, 2011 to September 30, 2011 for most Government agencies. Statutory employee contribution rates for the DB Plan were 9.50% in such Fiscal Year. During the Fiscal Years ended September 30, 2012, 2011 and 2010, the Authority made contributions to the DB Plan in the amounts of \$325,013, \$338,176 and \$353,856, respectively, which were equal to the required contributions for those years.

Based on the information provided in the 2012 Valuation, the actuarial employer contribution rate for the DB Plan the Fiscal Year ending September 30, 2014 is 30.03%. Although the statutory employer and employee contribution rates for the Fiscal Year ending September 30, 2014 have not yet been adopted by the Legislature, the proposed rates currently included in the proposed Executive Budget for Fiscal Year 2014 are 31.02% and 9.5%, respectively.

Contributions to the DC Plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DC Plan. The statutory employer contribution rate for the DC Plan for the years ended September 30, 2012 and 2011 were determined using the same employer rates as the DB Plan. Of such amounts contributed by the employers under the DC Plan, only an amount equal to 5% of the DC Plan member's regular base pay is deposited into the member's individual annuity account; the remaining amount is contributed towards the unfunded liability of the DB Plan. DC Plan members are fully vested upon the completion of five years of government service.

For the years ended September 30, 2012, 2011 and 2010, the Authority made contributions to the DC Plan in the amounts of \$2,368,797, \$2,314,135 and \$2,049,637, respectively, and retirement expenses amounted to \$2,693,810, \$2,652,311 and \$2,403,493, respectively.

See APPENDIX C – “AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR’S REPORT,” Note 7.

Other Post-Employment Benefits

The Government makes certain annual expenditures for certain postretirement healthcare benefits (“OPEBs”) to retirees who are members of the Retirement Fund. The Government provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government shares in the cost of these plans with its contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. As of Fiscal Year ended September 30, 2012, the OPEB unfunded actuarial accrued liability for the Government was approximately \$2.1 billion.

The Governor’s Executive Budget transmitted to the Guam Legislature typically includes provisions to appropriate sums from the General Fund to accommodate the cost of living allowances, supplemental annuities and the medical and dental benefits (generally, the Government’s share of the premiums for the retirees’ insurance) for Government of Guam retirees, which the Government is currently paying on a “pay-as-you-go” basis. The Authority is then required to reimburse the General Fund for the OPEB costs of the Authority’s retirees.

For the years ended September 30, 2012 and 2011, the Authority made contributions in the amounts of \$450,200 and \$474,803, respectively, to reimburse the Government for the OPEB costs of the Authority’s retirees.

See APPENDIX C – “AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR’S REPORT,” Note 7.

Risk Management and Insurance

The Indenture requires that the Authority (i) maintain or cause to be maintained insurance on the Airport with responsible insurers in such amounts and against such risks (including accident to or destruction of the Airport) as are usually maintained by prudent operators of airports similar and similarly situated to the Airport so long as such insurance is available to the Authority on the open market from responsible insurers at reasonable cost and (ii) maintain such other insurance affording protection in such amounts and against such risks as are usually maintained by prudent operators of airports similar to the Airport, in either case, which the Authority deems advisable or necessary to protect the interests of the Authority and the Bondowners. The Authority may satisfy these insurance requirements through a self-insurance program so long as such self-insurance is maintained in the amounts and manner customarily maintained by prudent operators of airports similar to the Airport. The Authority is required to engage an insurance consultant every third year to review the Authority’s self-insurance program and to make recommendations for any necessary modifications, including, but not limited to, any modifications necessary to comply with the Indenture.

The Authority maintains airport operator general liability insurance with coverage of \$500,000,000 for losses arising out of liability for airport operations, with a limit of \$25,000,000 for personal injury. The deductible is \$100,000 per occurrence. The Authority also maintains a property insurance policy for all risks with coverage up to \$200,000,000, including coverage up to \$5,000,000 for boiler and machinery losses and coverage up to \$5,000,000 for damage resulting from windstorms, typhoons or earthquakes. The deductible on the property insurance is \$500,000 per occurrence, no aggregate, increasing to \$5,000,000 for any one occurrence and in an annual aggregate for windstorm, typhoon or earthquake damage. The property insurance also includes coverage for business interruption at the Airport resulting from a covered event and with a 72 hour waiting period.

The Authority also maintains director and officer liability insurance with coverage up to \$4,000,000 per occurrence and in the aggregate for each person; automobile liability insurance with coverage up to \$2,000,000; worker’s compensation insurance with coverage up to \$1,000,000; and employee crime insurance with coverage up to \$1,000,000.

The Authority has established a risk and loss management program to cover uninsured losses and/or deductibles. The Authority also maintains a deposit of \$1,000,000 in the Renewal and Replacement Fund, which is to be combined with funds on deposit in the Risk and Loss Management Fund for purposes of paying any uninsured losses. As of September 30, 2012, the balances in the Renewal and Replacement Fund and in the Risk and Loss Management Fund were \$1,000,000 and \$3,832,707, respectively.

AIRPORT PLANNING

Master Plan Update

In 2005, the Authority commissioned Leo A. Dayl to prepare the Antonio B. Won Pat Guam International Airport Master Plan Update, 2005 (the “2005 Master Plan”), which included a multi-phase plan to implement improvements to, among other things, the airfield, passenger terminal, the Airport Industrial Park, roadways and access points. Several of these projects have either been completed or are underway. The Authority determined that the 2005 Master Plan needed to be updated to address changes in aviation activity expected to occur as result of recent developments in Guam, including, among other things, the planned redeployment to Guam of U.S. Marines currently stationed in Japan and modifications of the U.S. visa waiver program. See “THE AIRPORT—Aviation Activity—Historic Passenger Activity” and APPENDIX A -- “CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING GUAM – Military Activity.” In April 2012, Parsons completed the A.B. Won Pat International Airport Maser Plan Update (the “Master Plan Update”) commissioned by the Authority to update the Master Plan completed in 2005. The primary goals of the Master Plan Update include the determination of physical Airport facilities necessary to meet the Airport’s future passenger and cargo needs; enhancement of the passengers’ overall experiences of passing through the Airport; development of a plan for the separation of arriving uninspected passengers destined for federal inspection services at the international arrivals facilities from departing passengers that conforms to the requirements of the TSA and the Customs and Border Patrol; development of a terminal and cargo facilities plan that confirms the Authority’s strategic vision; development of a landside plan that accommodates the loss of public parking expected to result from the widening of Route 10A; and development of a concessions program to meet the needs of the international Asian tourist.

The Master Plan Update comprises four components: airfield, terminal, landside and other facilities. The airfield component includes aircraft movement areas such as the runways, taxiways and parking aprons. The terminal component includes the passenger processing areas, including ticketing and check-in counters, security facilities, hold rooms, baggage claim and concession and retail space. The landside component includes ground access, parking facilities, rental car facilities, tour bus and other ground transportation areas. The other facilities component includes the aircraft rescue and fire fighting facility, cargo facilities, fuel farm facilities and general aviation facilities.

The seven primary steps of the Master Plan Update process are: (i) conducting an inventory of existing facilities, surveys and observations of key functional areas of the passenger terminal building and the cargo terminal; (ii) preparation of an aviation activity forecast (which went through 2030), including passengers, cargo and operations; (iii) determination of facility requirements based on demand/capacity analysis; (iv) development of alternative concepts and plans; (v) preparation of an airport layout plan; (vi) preparation of environmental evaluation, including a noise exposure map; and (vii) determination of a 20-year development program, including estimated capital improvement costs.

The Master Plan Update includes a facilities implementation plan setting forth the recommended priority projects, estimated project costs and schedule necessary to meet the Authority’s objectives and projected requirements. The priority projects recommended in the Master Plan Update include: (i) improvements to taxiways; (ii) construction of a sterile international arrivals corridor; (iii) relocation of the hold bag screening area; (iv) establishing a new concessions management program; (v) reconfiguration of the TSA security screening area and the addition of additional security lanes; (vi) consolidating commuter aircraft parking positions and creation of a separate domestic passenger area; (vii) construction of additional parking facilities; (viii) construction of a new aircraft rescue and fire fighting facility; (ix) relocation of the cargo only aircraft aprons; (x) relocation of existing ground service equipment staging area; and (xi) upgrades to the fuel system and fire suppression system. The total program costs for all projects identified in the Master Plan Update is estimated to be \$108 million (in 2012 dollars),

including planning, design, construction, program/construction management services, testing, insurance, reserves and contingency, with approximately 60% of such costs to be incurred in the first five years of a 20 year program.

None of the priority projects identified in the Master Plan Update will require an environmental impact statement; however, the relocation of the cargo only aircraft aprons and the construction of the new aircraft rescue and fire fighting facility may require environmental assessments.

The FAA has accepted the Master Plan Update, although updated noise exposure maps are still under final review.

Capital Improvement Plan

Based on the Master Plan Update, the Authority developed a multi-year capital improvement plan (the “Capital Improvement Plan”) for making improvements to the Airport facilities. The Capital Improvement Plan includes the priority projects identified in the Master Plan Update. The Authority has categorized the capital projects included in the Capital Improvement Plan as either “Priority 1 Projects” or “Priority 2 Projects,” both of which are included in the 2013 Projects and are described below. The Priority 1 Projects are those projects on which the Authority has placed a higher priority for design, funding and implementation. In the event of increased cost estimates or reductions in the amounts of available federal grants, the funding and completion of the Priority 1 Projects will take precedence over the design, funding and implementation of the Priority 2 Projects. The 2013 Projects are expected to cost approximately \$130,350,000 and to be completed over the next three years. The Authority expects to finance the costs of the 2013 Projects with a combination of available Authority funds, federal grants and a portion of the proceeds of the 2013 Bonds. See “PLAN OF FINANCE—Refunding Plan.”

The 2013 Projects included in the Capital Improvement Plan as “Priority 1 Projects” include the following capital projects:

- International Arrivals Corridor. The Authority intends construct a new sterile international arrivals corridor leading from the loading bridges to the federal inspection area in the passenger terminal building and make additional terminal improvements to replace the portable walls that currently separate departing screened passengers from non-screened arriving passengers. The Capital Improvement Plan includes \$31,900,000 for this project, of which approximately \$13,200,000 is expected to be funded with federal grants and approximately \$18,700,000 is expected to be funded with proceeds of the 2013 Bonds.
- Seismic Upgrades. The Authority intends to continue Phase 3 near-fault seismic upgrades in the passenger terminal building in the central terminal area and east concourse. The Capital Improvement Plan includes \$11,300,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.
- Hold Bag Screening Relocation. The Authority intends to relocate and consolidate existing baggage screening systems and to construct an in-line baggage screening system and baggage handling system. The Capital Improvement Plan includes \$21,000,000 for this project, of which approximately \$450,000 is expected to be funded with federal grants and approximately \$20,550,000 is expected to be funded with proceeds of the 2013 Bonds.
- SSCP Improvements. The Authority intends improve the TSA security screening checkpoints in the passenger terminal building by adding additional security lanes and reconfiguring the TSA support space. The Capital Improvement Plan includes \$3,100,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.
- FIDS Replacement. The Authority intends to replace the existing flight information display system with a new multimedia, multipurpose system. The Capital Improvement Plan includes \$5,000,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.

- Integrated PLB Replacement. The Authority intends to replace five passenger loading bridges and to install 34 power and pre-conditioned air point of use units. The Capital Improvement Plan includes \$8,200,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.
- ARFF Facility. The Authority intends to construct a new aircraft rescue and fire fighting facility to replace the current aging structure. The Capital Improvement Plan includes \$11,600,000 for this project, of which approximately \$10,440,000 is expected to be funded with federal grants and approximately \$1,160,000 is expected to be funded with proceeds of the 2013 Bonds.
- Common Use Check-In Facilities. The Authority intends to make improvements to the common use check-in facilities in the passenger terminal building to expand the use of check in kiosks. The Capital Improvement Plan includes \$2,800,000 for this project, of which approximately \$1,000,000 is expected to be funded with available funds of the Authority and approximately \$1,800,000 is expected to be funded with proceeds of the 2013 Bonds.
- Fuel System Improvements. The Authority intends to make improvements to Airport's fuel system to improve fuel connections and to improve the fire suppression system. The Capital Improvement Plan includes \$1,000,000 for this project, all of which is expected to be funded with available funds of the Authority.
- Parking Facilities. The Authority intends to construct a single level parking deck over the commercial vehicle area to replace lost parking capacity resulting from the expansion of Route 10A. The Capital Improvement Plan includes \$7,400,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.
- Interisland Passenger Facility. The Authority intends to make improvements to the interisland passenger facility to construct a separate passenger processing facility for inter island operations. The Capital Plan includes \$3,000,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.
- Cargo Apron Relocation. The Authority intends to establish a new cargo only apron area adjacent to the Airport's integrated air cargo facility and to extend the Airport's fuel hydrant system to the new cargo apron area. The Capital Improvement Plan includes approximately \$7,700,000 for this project, of which approximately \$6,930,000 is expected to be funded with federal grants and approximately \$770,000 is expected to be funded with available funds of the Authority.
- Passenger Terminal Maintenance. The Authority intends to replace aging terminal seating and install additional terminal seating in the passenger terminal building. The Capital Improvement Plan includes \$3,500,000 for this project, of which approximately \$500,000 is expected to be funded with available funds of the Authority and approximately \$3,000,000 is expected to be funded with proceeds of the 2013 Bonds.

The 2013 Projects included in the Capital Improvement Plan as "Priority 2 Projects" include the following capital projects:

- Seismic Upgrades. The Authority intends to complete Phase 4 near-fault seismic upgrades in the passenger terminal building in the central terminal area. The Capital Improvement Plan includes \$10,700,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.
- Security Improvements. The Authority intends to improve the Airport security system by replacing the security access control system with a biometric system and other security system upgrades. The Capital Improvement Plan includes \$4,000,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.

- Passenger Terminal Improvements. The Authority intends to make certain improvements to the passenger terminal building, including (i) replacement of flooring in portions of the passenger terminal; (ii) enclosure of arrival tunnel and installation of climate control to increase arrivals lobby area and add commercial space; and (iii) expansion of canopies on the departures area curbside. The Capital Improvement Plan includes \$2,700,000, \$1,200,000 and \$2,800,000, respectively, for these capital projects, all of which is expected to be funded with proceeds of the 2013 Bonds.
- IT Upgrades. The Authority intends to make upgrades to the Authority's information technology and financial management systems and related infrastructure improvements. The Capital Improvement Plan includes \$2,000,000 for this project, \$500,000 of which is expected to be funded available Authority funds and \$1,500,000 of which is expected to be funded with proceeds of the 2013 Bonds.
- Route 10A Landscaping. The Authority intends to incorporate landscaping medians in connection with the Route 10A access roadway. The Capital Improvement Plan includes \$1,700,000 for this project, \$700,000 of which is expected to be funded available Authority funds and \$1,000,000 of which is expected to be funded with proceeds of the 2013 Bonds.
- Replacement of Conveyance Systems. The Authority intends to replace aging elevators, escalators and moving walkways with more energy efficient equipment. The Capital Improvement Plan includes \$2,600,000 for this project, all of which is expected to be funded with proceeds of the 2013 Bonds.

The Authority may in the future include additional capital projects in the Capital Improvement Plan, which may be financed with a combination of available Authority funds, PFC revenues, Additional Bonds, and/or additional federal grants.

REPORT OF THE AIRPORT CONSULTANT

General

In connection with the issuance of the 2013 Bonds, the Authority retained the Airport Consultant to prepare the Report of the Airport Consultant, included as APPENDIX D to this Official Statement. The Report of the Airport Consultant includes, among other things, descriptions of the economic basis for passenger demand at the Airport; the components of passenger demand at the Airport; key factors that may affect future airline traffic at the Airport; historical air traffic activity at the Airport; the forecast for air traffic activity at the Airport through Fiscal Year 2019 and a description of the assumptions on which such forecasts were based; a description of existing facilities at the Airport; a description of the 2013 Projects; and forecasts of debt service, debt service coverage, expenses and revenues through Fiscal Year 2019 and a description of the assumptions upon which such forecasts were based. The Report of the Airport Consultant should be read in its entirety, including the assumptions used to prepare the forecasts made therein and set forth in Table 15 below.

The financial projections and forecasts in the Report of the Airport Consultant are based upon certain information and assumptions that were provided or reviewed with and agreed to by the Authority. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the forecasts set forth in the Report of the Airport Consultant. Although the Airport Consultant and the Authority believe these assumptions to be reasonable for purposes of the forecasts, they are dependent on future events, and no assurance can be given that the forecasts and expectations discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which the forecasts and conclusions are based will be realized. There may be differences between the forecasts and actual results, and such differences may be material. To the extent actual future factors differ from those assumed by the Airport Consultant or provided to the Airport Consultant by others, there may be differences between the forecasts and actual results, and such differences may be material. See "CERTAIN INVESTMENT CONSIDERATIONS" for some of the reasons differences could occur.

Forecast Debt Service Coverage

The Table 15 below sets forth the estimated and forecast revenues, expenses, debt service and debt service coverage on the Bonds, including the 2013 Bonds, for Fiscal Years 2013 through 2019, as presented in the Report of the Airport Consultant included as Appendix D herein. The Report of the Airport Consultant should be read in its entirety to understand the basis of the forecasts.

Table 15
Estimated and Forecast Annual Debt Service Coverage
A.B. Won Pat International Airport Authority, Guam
Fiscal Years Ending September 30

	Estimated	Forecast					
	2013	2014	2015	2016	2017	2018	2019
Calculation of Net Revenues Available for Debt Service							
Airline and nonairline revenues	\$56,316,845	\$63,600,000	\$63,819,000	\$65,027,000	\$67,184,000	\$69,349,000	\$71,451,000
PFC revenue	6,454,000	6,586,000	6,718,000	6,849,000	6,989,000	7,128,000	7,271,000
Total Revenues ⁽¹⁾	\$62,770,845	\$70,186,000	\$70,537,000	\$71,876,000	\$74,173,000	\$76,477,000	\$78,722,000
Less: Operation and Maintenance Expenses	(38,351,767)	(38,994,000)	(40,163,000)	(41,814,000)	(43,999,000)	(46,277,000)	(48,675,000)
Net Revenues	\$24,419,078	\$31,192,000	\$30,374,000	\$30,062,000	\$30,174,000	\$30,200,000	\$30,047,000
Other Available Moneys ⁽²⁾	4,328,486	6,097,000	5,990,000	5,993,000	5,992,000	5,992,000	5,958,000
Net Revenues and Other Available Moneys	\$28,747,564	\$37,289,000	\$36,364,000	\$36,055,000	\$36,166,000	\$36,192,000	\$36,005,000
Calculation of Annual Debt Service Coverage							
Net Revenues and Other Available Moneys	\$28,747,564	\$37,289,000	\$36,364,000	\$36,055,000	\$36,166,000	\$36,192,000	\$36,005,000
Total Annual Debt Service ⁽³⁾	17,313,944	24,387,000	23,961,000	23,971,000	23,966,000	23,967,000	23,831,000
Debt Service Coverage	1.66	1.53	1.52	1.50	1.51	1.51	1.51
Debt Service Coverage Requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25

⁽¹⁾ Revenues as calculated in accordance with the Indenture. Includes operating revenues, PFC revenue, certain interest income, amounts received pursuant to operating grants from the federal government and transfers from the Government of Guam – Office of Highway Safety and certain other non-operating revenue.

⁽²⁾ For any Fiscal Year, the amount designated by the Authority of unencumbered moneys on deposit in the Capital Improvement Fund at the end of the prior Fiscal Year, but in no event to exceed 25% of the Aggregate Annual Debt Service for such Fiscal Year.

⁽³⁾ Total annual debt service has not been revised to reflect the final terms of the 2013 Bonds.

Sources: Historical: The Authority; Estimated and Forecast: Airport Consultant, August 2013.

AIRPORT ENVIRONMENTAL MATTERS

The Authority is required to comply with a number of federal and local laws and regulations. Several significant environmental matters have direct and indirect impacts on the Authority and the Airport, including aircraft noise mitigation and hazardous substance clean up, some of which are described below. A significant portion of the Authority's property has been used in the past for a variety of industrial and military purposes, resulting in environmental contamination. The Authority's financial statements include accrued liabilities, which are established, reviewed and adjusted periodically, in accordance with applicable accounting standards, for the estimated costs of compliance with environmental requirements and remediation of known contamination. As required by GASB 49, as of September 30, 2012, the Authority estimated that its pollution remediation obligations to be approximately \$354,868. The Authority may discover additional environmental liabilities in the future, which would be reflected in adjustments to liabilities on the Authority's financial statements in accordance with GASB 49 and would affect Authority operating expenses. See APPENDIX C—"AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR'S REPORT," Note 10.

Airport Water System

In Fiscal Year 2012, the Authority completed the construction of the initial phases an upgrade to the Airport's water system, including construction of a new reservoir in the Airport Industrial Park, and commissioned operation of a new water system. The final phase of construction, including the installation of lateral connections between the new water lines and the existing structures in the Tiyon Business Park that are currently being serviced by the old United States Navy system, are expected to be completed early in Fiscal Year 2014. The Authority undertook the improvements to the water system in order to provide for an independent source of water to support Airport activities, to accommodate future growth at the Airport, to accelerate the groundwater remediation at the former NAS (as described below) and to address fire suppression concerns at certain Airport facilities. The Airport's water system, including the remedial facilities described below, is currently being operated and maintained by the Guam Waterworks Authority ("GWA") pursuant to the terms of an expired operating agreement. Once the construction of the water system is entirely complete, the Authority intends to negotiate a long-term operating agreement with GWA pursuant to which GWA will operate and maintain the water system, including undertaking certain of the Authority's groundwater remediation responsibilities described below under "—Groundwater Remediation at Former NAS."

The Airport funded the improvements to the Airport water system primarily with AIP grant funds. The FAA has indicated some concerns with the scope of the water system, as well as with some of the associated costs. Following the completion of the final construction phases of the water system and the negotiation of the long-term operating agreement, the form of operating agreement will be subject to review by an independent engineering firm to confirm that the water system and agreement conform to the terms of the FAA grant requirements.

See APPENDIX C—"AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR'S REPORT," Note 10.

Groundwater Remediation at Former NAS

As mentioned above, in September 2000, the United States Navy transferred to the Authority and the Government of Guam approximately 1,417 acres on the former NAS through the PBT conveyance. Pursuant to an Environmental Services Cooperative Agreement, dated as of September 26, 2000 (the "Environmental Services Agreement"), among the Authority, the Government of Guam and the United States Government, the Authority and the Government of Guam assumed responsibility for the completion of certain environmental response actions with respect to the transferred property addressing groundwater contamination at Operable Unit beneath NAS ("OU3") in exchange for a one-time, lump sum payment of \$10,000,000 by the United States Navy. The Authority's obligations under the Environmental Services Agreement include, among other things, construction, operation and maintenance of certain remedial facilities, installation of granular activated carbon ("GAC") treatment systems, and long-term review and monitoring of the wells. In 2013, the Authority received the final draft of the Decision Document (the "OU3DD") setting forth the selected remedy for OU3, which is currently under review by the BRAC Cleanup Team,

as well as the FAA. Under the draft OU3DD, the Authority will also be required to conduct a five year review to ensure that the remedial action taken is or will be protective of human health and the environment. In addition, the GAC treatment system requirement has been satisfied by the GAC system included as part of the Airport's new water system. The Authority's expects to incorporate its obligation to operate and maintain the remedial facilities and to conduct certain monitoring activities into the long-term operating agreement to be negotiated with GWA for the operation and maintenance of the Airport's water system. See "THE AUTHORITY—Termination of Joint Use Agreement and Transfer of the Naval Air Station ("NAS"), Agana" and APPENDIX C—"AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR'S REPORT," Note 4 and Note 10.

Noise Mitigation

In 2003, the FAA approved the Federal Aviation Regulation Part 150 Noise Compatibility Study completed by the Authority to study aircraft noise exposure on the communities surrounding the Airport. As result, the Authority created its Residential Sounds Solution Program ("RSSP"). Under the RSSP, the Authority expects to provide improvements designed to insulate against noise to approximately 500 residences within the highest noise impacted area surrounding the Airport. To date, the RSSP has provided sound insulation to 200 homes, with work currently in progress on 28 homes. The Authority expects to start the next phase of the program, under revised FAA regulations, in Fiscal Year 2014. In exchange for the improvements, the Authority receives avigation easements from the homeowners. The RSSP is funded primarily with AIP grants. Since its inception, the Authority has received approximately \$18,400,000 in AIP grants to fund the RSSP. See APPENDIX C—"AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND INDEPENDENT AUDITOR'S REPORT," Note 4.

CERTAIN INVESTMENT CONSIDERATIONS

The following discussion of considerations is not meant to be an exhaustive list of the risks associated with the purchase of the 2013 Bonds and does not necessarily reflect the relative importance of the various risks. Potential purchasers of the 2013 Bonds are advised to consider the following factors, among others, and to review all of the other information in this Official Statement in evaluating whether to purchase the 2013 Bonds. Any one or more of the risks discussed, and others, could lead to a decrease in the market value and/or in the liquidity of the 2013 Bonds. No assurance can be given that other risk factors will not become material in the future. The 2013 Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the 2013 Bonds and should confer with their own legal and financial advisors before considering a purchase of the 2013 Bonds.

General

The principal of and interest on the Bonds, including the 2013 Bonds, are payable pursuant to the Indenture solely from the Revenues. The ability to pay debt service on the Bonds, including the 2013 Bonds, will depend on receipt by the Authority of sufficient Revenues, pledged as payment for the Bonds, subject to the provisions of the Indenture.

The Authority's ability to generate sufficient Revenues depends upon sufficient levels of aviation activity and passenger traffic at the Airport. Aviation activity and passenger traffic depend on a number of factors, many of which are not within the Authority's control. To the extent the Authority is unable to make up for Revenue shortfalls, the ability to pay debt service on the Bonds, including the 2013 Bonds, may be adversely affected.

Airline Operating Agreements

Pursuant to the Airline Operating Agreements between the Authority and each of the Signatory Airlines, each Signatory Airline agrees to pay rentals, fees and charges for its use of the Airport in an amount that is sufficient to generate total Revenues in an amount to allow the Authority to satisfy its Rate Covenant. Unless earlier terminated in accordance with their terms, nine of the Airline Operating Agreements terminate on September 30, 2016, and one of the Airline Operating Agreements terminates on September 30, 2013. Prior to the expiration of the

Airline Operating Agreements, the Authority expects to enter into new agreements with the users of the Airport that will generate Revenues at a rate sufficient to pay operating and maintenance expenses as well as debt service on the Authority's outstanding Bonds, including the 2013 Bonds. No assurances can be made concerning the outcome of any such negotiations or the content or rate-setting mechanism of any new agreements with the airlines utilizing the Airport. Any change in the manner of assessing rentals, fees and charges could have an adverse impact on the timely payment of the principal of or the interest on the 2013 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant," "AGREEMENTS FOR USE OF AIRPORT FACILITIES—Airline Operating Agreements" and APPENDIX B—"SUMMARY OF THE FORM OF AIRLINE OPERATING AGREEMENT."

Demand for Air Travel

The Bonds, including the 2013 Bonds, are payable solely from Revenues, and the amount of Revenues depends primarily on the level of aviation activity and passenger traffic at the Airport.

The level of aviation activity and enplaned passenger traffic at the Airport depend upon a number of factors, many of which are outside the control of the Authority, including, among others, economic and political conditions, such as the population, levels of disposable income and the nature, level and concentration of industrial and commercial activity in the service area; international hostilities; world health concerns; natural disasters; aviation security concerns, including terrorism; accidents involving commercial passenger aircraft; airline service and routes; airline airfares and competition; airline industry economics, including labor relations, fuel prices, aging aircraft fleets and other factors discussed below under "—Financial Condition of the Airlines"); capacity of the national air traffic control and airport system; reliability of air service; and the capacity, availability and convenience of service at the Airport.

Many of these factors are outside of the Authority's control. Changes in demand, decreases in aviation activity and their potential effects on passenger traffic at the Airport may result in reduced Revenues.

Financial Condition of the Airlines

The ability of the Authority to generate Revenues depends, in large part, upon the financial health of the aviation industry. The economic condition of the industry is volatile, and the aviation industry has undergone significant changes in recent years, including mergers, acquisitions, bankruptcies and closures. Further, the aviation industry is sensitive to a variety of factors, including (i) the cost and availability of labor, fuel, aircraft, supplies and insurance; (ii) general economic conditions; (iii) international trade; (iv) currency values; (v) competitive considerations, including the effects of airline ticket pricing; (vi) traffic and airport capacity constraints; (vii) governmental regulation, including security regulations and taxes imposed on airlines, and passengers and maintenance and environmental requirements; (viii) passenger demand for air travel; (ix) strikes and other union activities; (x) availability of financing; and (xi) disruptions caused by natural disasters, airline accidents, criminal incidents and acts of war or terrorism.

Since 2001, the global airline industry has undergone substantial structural changes and has sustained significant financial losses, and after a period of improved cash flow beginning in 2005, airlines are facing significant challenges. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the local, national and global economies, security concerns and other factors. Structural changes to the industry also result from the impact of low cost carriers, internet travel websites and reorganization following bankruptcy or insolvency. In addition, outside of the United States, many countries have wholly or partially privatized their national airlines, and certain air service agreements have been liberalized, which has resulted in increased competition. Other airlines have changed their business practices, including reducing or eliminating service on unprofitable routes, reducing their work forces, implementing pay cuts, reducing fares, deferring aircraft deliveries, streamlining operations, merging with other airlines and significantly increasing the use of smaller, regional jets.

Efforts of airlines to stimulate traffic by significantly discounting fares have affected consumer expectations regarding airfares. In addition, airfares have become easier to compare, which has made pricing and marketing among airlines more competitive.

The price of fuel has been a significant cost factor for the airline industry. According to Airlines for America (formerly known as the Air Transport Association of America), fuel has overtaken labor as the industry's top cost. Some of the airlines that sought airline bankruptcy protection have cited high fuel prices as a contributing factor. While some airlines have hedged fuel prices through the purchase of oil future contracts, the substantial increase in fuel prices has had a significant impact on profitability, and future fuel price increases or sustained higher prices could continue to affect the financial condition of airlines and the level of service they provide. Increases in fuel prices have also caused airlines to increase airfares and to institute fuel, checked baggage and other extra surcharges, all of which may have a negative effect on the demand for air travel.

The airline industry is highly cyclical and is subject to intense competition, high operating and capital costs and varying demand. Passenger volumes are highly sensitive to a number of factors, including those described above under "—Demand for Air Travel." Airlines are vulnerable to fuel price spikes, labor activity, seasonal travel patterns, economic recession and external shocks, such as terrorism, world health concerns, military conflicts and natural disasters. As a result, financial performance can fluctuate dramatically from one reporting period to the next.

The Authority makes no representation with respect to the continued viability of any of the carriers serving the Airport, airline service patterns or the impact of any airline failures on Revenues.

Effect of Airline Bankruptcies

The bankruptcy of an airline with significant operations at the Airport could have a material adverse effect on operations of the Airport and on Revenues.

In the event of a bankruptcy of an airline operating at the Airport, the automatic stay provisions of the United States Bankruptcy Code could prevent any action to collect any amount owing by the airline to the Authority, any action to enforce any obligation of the airline to the Authority, or any action by the Authority to terminate any agreement with the airline, unless the permission of the bankruptcy court was obtained. With the authorization of the bankruptcy court, the airline may be able to repudiate some or all of its agreements with the Authority and stop performing its obligations (including payment obligations) under such agreements. To the extent that any agreement that is repudiated constitutes a lease of real property, the claim of the Authority may be significantly limited. Alternatively, the airline may threaten to repudiate an agreement with the Authority unless the Authority renegotiates the agreement and provides the airline with more favorable terms. Depending on the circumstances, the Authority may conclude that it has no choice but to renegotiate the agreement. In addition, with the authorization of the bankruptcy court, the airline may be able to assign any of its agreements with the Authority to another entity, notwithstanding the provisions of the agreement. The 2013 Bondowners may be required to return to the airline as preferential transfers any money that was used to make payments on the 2013 Bonds and that was received from the airline during the 90 days immediately preceding the filing of the bankruptcy petition.

The airlines operating at the Airport are also required to pay to the Authority PFCs collected from enplaned passengers at the Airport. The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Authority) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose on financial statements the existence and amount of funds regarded as trust funds. The airlines, however, are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. The treatment of these arrangements in a bankruptcy case of an airline is not clear. Should an airline go into bankruptcy, the airline may not be required to turn over to the Authority any PFCs in its possession at the time it goes into bankruptcy. While the airline is in bankruptcy, it may not be required to turn over PFCs that are collected prior to the time that the Authority demands the turnover of the PFCs. Even after a demand is made, it is possible that the airline would not be required to turn over subsequently-collected PFCs.

In the event that a foreign airline goes into bankruptcy or similar proceedings in a foreign country, the losses suffered by the Authority may be worse than those described above. The 2013 Bondowners may be required to return to the airline payments on the 2013 Bonds in an amount larger than that described above. There may be other adverse consequences of such a proceeding. The Authority is unable to predict what types of orders could be issued by a foreign tribunal.

There may be delays in payments on the 2013 Bonds while a court considers any of these issues. There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in payments on the 2013 Bonds, or result in losses to the holders of the 2013 Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2013 Bonds.

Effect of Concessionaire Bankruptcies

The bankruptcy of a concessionaire with significant operations at the Airport could have a material adverse effect on operations of the Airport and on Revenues.

In the event of a bankruptcy of a concessionaire operating at the Airport, the automatic stay could prevent any action to collect any amount owing by the concessionaire to the Authority, any action to enforce any obligation of the concessionaire to the Authority, or any action by the Authority to terminate any agreement with the concessionaire, unless the permission of the bankruptcy court was obtained. With the authorization of the bankruptcy court, the concessionaire may be able to repudiate some or all of its agreements with the Authority and stop performing its obligations (including payment obligations) under such agreements. To the extent that any agreement that is repudiated constitutes a lease of real property, the claim of the Authority may be significantly limited. Alternatively, the concessionaire may threaten to repudiate an agreement with the Authority unless the Authority renegotiates the agreement and provides the concessionaire with more favorable terms. Depending on the circumstances, the Authority may conclude that it has no choice but to renegotiate the agreement. In addition, with the authorization of the bankruptcy court, the concessionaire may be able to assign any of its agreements with the Authority to another entity, notwithstanding the provisions of the agreement. The 2013 Bondowners may be required to return to the concessionaire as preferential transfers any money that was used to make payments on the 2013 Bonds and that was received from the concessionaire during the 90 days immediately preceding the filing of the bankruptcy petition.

There may be delays in payments on the 2013 Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of a concessionaire that could result in delays or reductions in payments on the 2013 Bonds, or result in losses to the holders of the 2013 Bonds. Regardless of any specific adverse determinations in a concessionaire bankruptcy proceeding, the fact of a concessionaire bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2013 Bonds.

Effect of Authority Insolvency

Should the Authority become insolvent, there could be a material adverse effect on operations of the Airport and on Revenues, resulting in delays or reduction in payments on the 2013 Bonds, or in losses to the holders of the 2013 Bonds.

United Airlines – The Airport’s Largest Carrier

United Airlines has continued to use Guam as the Micronesian hub following the merger with Continental. The Airport’s runway and terminal capacities are good, relative to nearby alternatives. There is risk associated with the potential for an airline to reduce or discontinue service when the airline accounts for a sizable market share of the enplanements at the airport. In Fiscal Year 2012, United accounted for approximately 49.1% of the total enplaned passengers at the Airport. The Authority cannot predict the effect that a reduction or discontinuation of service by United would have on the Authority or Revenues, or whether another airline would provide the service previously provided by United.

Protests Regarding Duty Free Concession

The recent award by the Authority of the specialty retail merchandise concession at the Airport to Lotte is the subject of four pending administrative protests. The Authority cannot predict with certainty the future scope, procedural path, timing of any resolution, or the eventual outcomes of the proceedings described above. If the OPA finds that there were irregularities in the procurement process leading to the award of the concession to Lotte, the

OPA could, among other remedies, cancel, terminate or revise the award or declare the award null and void and award the concession to the next highest ranked proposer, subject to successful negotiations. Alternatively, even if the OPA finds that there were irregularities in the procurement process, the OPA may ratify and affirm the award of the concession to Lotte as being in the best interests of the Territory of Guam. In the event the Lotte Concession Agreement is invalidated by a final and non-appealable administrative or judicial decision, the Authority would be required to conduct a new competitive procurement process for the concession, which it would expect to complete as expeditiously as possible. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES—Passenger Terminal Building Concessions and Revenue Arrangements—Duty Free Concession.”

No Acceleration; Limitations on Remedies

The 2013 Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation on the occurrence or continuance of an Event of Default. Upon the occurrence or continuation of an Event of Default, a Bondholder would only be entitled to principal and interest payments on the 2013 Bonds as they come due. Under certain circumstances, Holders of the 2013 Bonds may not be able to pursue certain remedies or enforce covenants contained in the Indenture. The remedies available to the Holders of the 2013 Bonds upon an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under existing law, the remedies specified by the Indenture and the 2013 Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2013 Bonds (including Bond Counsel’s approving opinion) will be qualified, as to enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors.

Report of the Airport Consultant

The Report of the Airport Consultant included as APPENDIX D to this Official Statement contains certain assumptions and projections. Actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in the Report of the Airport Consultant are not necessarily indicative of future performance, and neither the Airport Consultant nor the Authority assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Revenues may be materially less than expected, and consequently, the ability to make timely payments of the principal of and interest on the 2013 Bonds from Revenues may be materially adversely affected. See APPENDIX D - “REPORT OF THE AIRPORT CONSULTANT.”

Adverse Conditions Affecting International Economic and Political Conditions

Historically, the tourism industry and airline passenger traffic, both worldwide and in Guam, has correlated closely with the state of the world’s economies and levels of real disposable income. Also, currency exchange rates, trade balances, political relationships, and conflicts within and between countries are increasingly important influences on tourism and passenger traffic at major international airports.

Economic growth in Japan and throughout the Pacific Rim, and the resulting effect on overseas travel from these countries, is a major determinant of airline traffic at the Airport. Tourism, particularly from Japan, represents a significant share of the economic activity on Guam and is the major source of airline passenger traffic at the Airport. The Japanese government has encouraged international travel as a means of reducing its trade surplus and Guam has benefited directly from this policy. Any change in the policy could affect Revenues and the ability of the Authority to pay debt service on the Bonds, including the 2013 Bonds.

In the event of a significant downturn in tourism, including a downturn related to Japanese or global economic, political or societal conditions, the Authority would likely suffer a reduction in passenger traffic that could result in reduced Revenues. For example, following the earthquake and tsunami in Japan on March 11, 2011, the number of tourists visiting Guam from Japan in Fiscal Year 2011 dropped by approximately 7.3% compared to Fiscal Year 2010. Although visitor arrivals from Japan increased in Fiscal Year 2012, increasing 10.2% over Fiscal Year 2011, no assurance can be given that Guam will not experience a similar or greater reduction in the number of

visitors from Japan or other visitor markets as a result of other natural disasters or other economic, political or societal conditions. For a discussion of projected enplaned passengers, see the Report of the Airport Consultant included as APPENDIX D. The Report of the Airport Consultant should be read in its entirety for a complete understanding of the assumptions and rationale for the projections.

Airport Capacity and Operating Restrictions in Japan and Other Key Markets

Airports in Japan and throughout the Pacific Rim are among the most congested in the world. Increased demands by the airlines on the capacity of airports and air traffic control systems in the Pacific Rim have resulted in aircraft delays and restrictions on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. In addition, opposition to aircraft noise has resulted in curfews on aircraft operations at certain airports, including Tokyo Narita International Airport. These restrictions affect the scheduling of flights to and from the Airport.

Federal Funding

The Budget Control Act of 2011 (the “Budget Control Act”) requires that the Director of the United States Office of Management and Budget (“OMB”) calculate, using a statutory formula, certain cuts to federal programs necessary to reduce spending to levels specified in the Budget Control Act and that the President issue an order implementing the reductions in spending (the “sequester”), with the first cuts to occur on January 2, 2013. In August 2012, Congress required OMB to provide estimates of the reductions to specific programs that would be ordered on January 2, 2013 if the sequester occurred. On September 14, 2012, OMB provided a report of those estimates, and among the reductions identified by OMB were reductions to the budgets for the FAA and TSA. On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012 (the “2012 Act”), which, among other things, revised certain income tax rates and extended certain tax provisions and benefits, but did not include the deficit reduction legislation required under the 2011 Budget Act. Instead, the 2012 Act extended the deadline for Congress to enact deficit reducing legislation to March 1, 2013. Congress failed to enact such legislation, and the automatic spending cuts went into effect on March 1, 2013.

As a result of the sequester, the FAA was required to cut \$637 million and the TSA is required to cut \$396 million from their respective budgets by the end of the fiscal year on September 30, 2013. The FAA is taking several steps to effect the required cuts, including implementing a hiring freeze, delaying projects and furloughing employees (including air traffic controllers, safety inspectors and technicians). The FAA budget cuts are expected to result in flight delays and reductions in air traffic. TSA is addressing its budget cut requirements by, among other things, implementing a hiring freeze, cutting over-time and furloughing employees, which are expected to result in longer wait times at security. On May 1, 2013, President Obama signed into law the Reducing Flight Delays Act of 2013, which ended FAA air traffic controller furloughs, but also reduced the amount of available AIP funds in federal fiscal year 2013. The sequester will continue to affect budgets for federal agencies, including the FAA and TSA, and could affect FAA operations and the availability of federal grants, likely for several years.

As of August 1, 2013, Congress has not adopted a budget for federal fiscal year 2014. The Authority cannot predict whether Congress will adopt a budget and appropriate funds for the AIP.

Considerations Regarding Passenger Facility Charges

Pursuant to the PFC Acts, the FAA has approved the Authority’s application to require the airlines to collect and remit to the Authority a passenger facility charge on each enplaning revenue passenger at the Airport. The Authority expects to use PFC revenues to pay a portion of the debt service on 2013 Refunding Bonds.

No assurance can be given that PFC revenues will actually be received in the amounts or at the times contemplated by the Authority. The amount and timing of receipt of actual PFC revenues are expected to vary depending on actual levels of qualified passenger enplanements at Airport. See “-Demand for Air Travel” above.

In addition, the FAA may terminate the Authority’s ability to impose PFC revenues, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with

the FAA's approval, the PFC Acts or the regulations promulgated thereunder, or (b) the Authority otherwise violates the PFC Acts or regulations. The Authority's authority to impose passenger facility charges may also be terminated if the Authority violates certain AIP grant assurances and certain provisions of the Airport Noise and Capacity Act ("ANCA") and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the Authority's authority to impose passenger facility charges would not be summarily terminated. No assurance can be given that the Authority's authority to impose passenger facility charges will not be terminated by Congress or the FAA, that the passenger facility charge program will not be modified or restricted by Congress or by the FAA so as to reduce PFC revenues available to the Authority or that the Authority will not seek to decrease the amount of the passenger facility charges to be collected.

In the event the FAA or Congress reduced or terminated the Authority's ability to collect PFC revenues, or passenger facility charge collections were otherwise less than anticipated, the Authority would need to use other Revenues to pay debt service that it expects to pay with PFC revenues.

Events Affecting the U.S. Military Presence

It is expected that the anticipated relocation of U.S. Marines from Okinawa, Japan, to Guam will add, over the next 10 years, up to \$10 billion of additional construction activity, compared to Guam's historic construction activity of approximately \$700 million for Fiscal Year 2010. Although Guam's construction industry has time to develop its capacity in anticipation of this significant increase in activity, it is possible that much of the work will be awarded to outside developers and project managers. Although the relocation of U.S. Marines to Guam is expected to reap benefits for the Guam economy in the short-term, the long-term benefits are not likely to be as great if the construction activity is largely completed by non-local firms. See APPENDIX A -- "CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING GUAM – Military Activity."

The level of Revenues is also affected by the U.S. military presence on Guam, including arrivals through the Airport by military and civilian visitors and contractors. Expansions in the U.S. military presence, such as the expansions planned for the next 10 years, could have a direct, positive impact on Revenues by spurring new economic activity and attracting visitors to Guam. However, economic, geopolitical, and other influences that are beyond the Government's control might result in a decision by the U.S. government to reduce the existing presence of the U.S. military on Guam or forego some or all of the planned enhancements to its presence on Guam. Significant military spending cuts have been discussed by various federal elected representatives in recent months. In the event that the U.S. military changes its current plans with respect to staffing and other strategic improvements on Guam, the level of Revenues could be adversely affected. In the event that the U.S. military elects to reduce or eliminate its presence on Guam, Revenues could decline. See APPENDIX A -- "CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING GUAM – Military Activity."

Typhoons and Earthquakes and Other Natural Disasters

Because of its location on the southern end of the Marianas Islands chain, Guam is exposed to periodic typhoons, super typhoons and earthquakes. Typhoons have caused significant damage to facilities and infrastructure on Guam, including its water and electric systems. Guam's relatively small size, and the concentrated location of many of Guam's businesses in Tumon Bay, means that it is possible that a natural disaster could adversely affect numerous businesses at the same time. To counter this risk, Guam has taken numerous precautions to protect the island in the event of certain weather and seismic related events. Building codes in Guam are specifically designed to ensure that structures be able to sustain strong typhoon winds and earthquakes. To that end, the vast majority of the building structures on Guam are constructed of reinforced concrete or masonry and construction on Guam is governed by the Uniform Building Code (the same standard used in most seismically active regions of the United States). The Guam National Weather Service also monitors tropical storms, and warnings are generally issued in advance of any weather-related event. Businesses also typically have preparations in place for typhoon season. In addition, over the last ten years much of the power distribution system in the Tumon area has been "hardened" (i.e. wooden poles being replaced with concrete poles and/or distribution systems being moved underground) to avoid any major interruptions in business activity should a natural disaster hit. Although the United States Federal Emergency Management Agency ("FEMA") makes disaster relief assistance available after significant typhoon or earthquake damage, there can be no assurance that future typhoons and/or earthquakes will not cause significant

damage on Guam, or that FEMA will provide disaster relief assistance if significant damage is experienced. There can also be no assurance that, even with FEMA assistance, damage that results from future typhoons or earthquakes will not adversely affect business activity the number of visitors to Guam and/or operations at the Airport and, as a result, Revenues.

Uncertainties Relating to Political and Military Actions

Guam is approximately 3,800 miles west-southwest of Honolulu, Hawaii, the nearest major city of the United States. The significant United States military presence on Guam, its distance from locations in the United States and its location in relation to potential sites of political and military conflict in Asia make Guam both a location of great value to the United States militarily and a potential site of military conflict. Political events in Asia may create the risk of conflict for the region in general and, in some cases, for Guam. In response to recent threats by North Korea to launch ballistic missile attacks against U.S. military targets, including targets on Guam, the U.S. military deployed a missile defense system to Guam. Although as of July 2013, these threats do not appear to have materially impacted the number of tourists visiting Guam, no assurance can be given that these threats and any future military actions will not have an adverse effect on Guam tourist activity and Airport operations and, as a result, the availability of Revenues sufficient to pay debt service on the Bonds, including the 2013 Bonds.

Aviation Security Concerns

Like that of many destinations, Guam's tourism industry is susceptible to the negative impacts of terrorism and other conflicts on the travel industry in general. Concerns about the safety of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in light of existing international hostilities, potential terrorist attacks and world health concerns. Since the September 11, 2001 terrorist attacks and the hostilities in Afghanistan and Iraq, intensified security precautions have been instituted by government agencies, airlines and airport operators. Current and future security measures may create significantly increased inconvenience and delays at the Airport and may adversely affect the Authority's operations, expenditures and revenues.

The Authority cannot predict whether the Airport will be a target of terrorists in the future. The Authority also cannot predict the effect of any future government-required security measures on passenger activity at the Airport.

Uncertainties of Projections and Assumptions

This Official Statement contains certain assumptions, estimates, projections and other forward-looking statements. Demonstration of compliance by the Authority with certain of the covenants contained in the Indenture also may be based upon assumptions, estimates and projections. Actual results, however, may differ, perhaps materially, from those projected. In addition, certain assumptions with respect to future business and financing decisions, including the decision to undertake, or to postpone or cancel, future capital improvements of the Airport may not occur and are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the existence of any particular future set of facts or circumstances, and prospective purchasers of the 2013 Bonds are cautioned not to place undue reliance upon any forecasts, estimates, plans or projections or requirements for forecasts or projections. If actual results are less favorable than the results projected or if the assumptions used in preparing projections prove to be incorrect, the ability of the Authority to make timely payment of the principal of and interest on the Bonds, including the 2013 Bonds, may be materially and adversely affected.

Regulations and Restrictions Affecting the Airport

The operations of the Airport are affected by a variety of contractual, statutory and regulatory restrictions and limitations including extensive federal legislation and regulations, including, without limitation, the provisions of the Airport Operating Agreements, terminal leases, various grant assurances, the federal acts authorizing the imposition, collection and use of PFC revenues and extensive federal legislation and regulations applicable to all airports in the United States. In the aftermath of the September 11, 2001 terrorist attacks, the Airport also was

required to implement enhanced security measures mandated by the FAA, the TSA, the Department of Homeland Security and Airport management.

It is not possible to predict whether future restrictions or limitation on operations at the Airport will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC collections for capital projects for the Airport or to pay debt service on the Authority's Bonds, including the 2013 Bonds, or whether such restrictions or legislations would adversely affect Revenues.

Local Law Affecting Airport

From time to time legislation is proposed in the Guam Legislature that could potentially impact operations at the Airport, the manner in which the Authority conducts its business and the generation of Revenues. No assurance can be given that future legislation enacted by the Guam Legislature will not have an adverse effect on Airport operations or on the Authority's business operations and the generation of Revenues.

Federal Law Affecting Airport Rates and Charges

In general, federal aviation law requires that airport fees charges to airlines and other aeronautical users be reasonable and that to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. The Authority is not aware of any formal dispute involving the Airport over any existing rates and charges. The Authority believes that the rates and charges methodology it utilizes and the rates and charges it imposes are reasonable and consistent with applicable law. There can be no assurance, however, that a complaint will not be brought against the Authority in the future, challenging such methodology and the rates and charges established by the Authority. If a judgment is rendered against the Authority, there can be no assurance that rates and charges paid by aeronautical users of the Airport will not be reduced. An adverse determination in a challenge could limit the ability of the Authority to charge airlines and other aeronautical users rates sufficient to meet the Rate Covenant in the Indenture and could have a material adverse effect on the receipt of Revenues.

2013 Projects; Delays and Cost Increases; Availability of Funds

The estimated costs of, and the projected schedule for, the 2013 Projects described under "AIRPORT PLANNING—Capital Improvement Plan" and included in the financial analysis in the Report of the Airport Consultant are subject to a number of uncertainties. The ability of the Authority to complete the 2013 Projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental issues. No assurance can be made that the 2013 Projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Additional Bonds and may result in increased costs per enplaned passenger to the airlines.

In addition, certain funding sources are assumed to be available for the 2013 Projects. For example, the Authority expects that federal grants will be available to pay a significant portion of the costs of several of the 2013 Projects. No assurances can be given that such funding will, in fact, be available. If such funding source is, or other expected funding sources are, not available, the Authority may have to eliminate or scale down one or more of the 2013 Projects or incur additional indebtedness, possibly including issuing Additional Bonds, to finance such projects. Such changes could result in actual results differing materially from the forecasts in the Report of Airport Consultant.

Rate Covenant Limitations

The Authority has covenanted in the Indenture to fix, prescribe and collect rents, fees and charges in connection with the services and facilities furnished by the Airport sufficient to satisfy the Rate Covenant. The

Indenture provides that if Revenues and Net Revenues in a Fiscal Year were to fall below the levels necessary to meet the Rate Covenant for such Fiscal Year, the Authority would be obligated to engage an Airport Consultant and to revise such rates, fees and charges or methods of operation and to take such other actions as may be in conformity with such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider, if any. The ability of the Authority to increase rates and charges and to reduce expenses is limited by, among other things, federal law (including the provisions thereof described under “—Regulations and Restrictions Affecting the Airport”) and certain agreements with airlines and other users of Airport facilities. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant” and “AGREEMENTS FOR THE USE OF AIRPORT FACILITIES.”

Continuing Compliance with Tax Covenants; Changes in Law

The Indenture and the Authority’s tax certificate will contain various covenants and agreements on the part of the Authority that are intended to establish and maintain the tax-exempt status of interest on the 2013 Bonds. A failure by the Authority to comply with such covenants and agreements, including any remediation obligations, could, directly or indirectly, adversely affect the tax-exempt status of interests on the 2013 Bonds. Any loss of tax-exemption could cause all of the interest received by the Beneficial Owners of the 2013 Bonds to be taxable. All or a portion of interest on the 2013 Bonds also could become subject to federal and/or other income tax as a result of changes of law. See “TAX MATTERS.” The Authority is not required to redeem the 2013 Bonds should the interest become taxable.

AIRLINE INDUSTRY INFORMATION

Certain of the airlines operating at the Airport, or their respective parent corporations, are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, file reports and other information with the Securities and Exchange Commission (the “SEC”). Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a website containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial aid and operating statistics with the United States Department of Transportation (“U.S. DOT”). Such reports can be inspected at the U.S. DOT’s Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from U.S. DOT at prescribed rates.

Airlines serving the Airport owned by foreign governments or foreign corporations operating airlines serving the Airport (unless such foreign airlines have American Depositary Receipts (“ADRs”) registered on a national exchange) are not required to file information with the SEC. Such foreign airlines, or foreign corporations operating airlines, file limited information only with the U.S. DOT.

The Authority undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or U.S. DOT as described in this section or (ii) any material contained on the SEC’s website as described in this section, including, but not limited to, updated information on the SEC website or links to other internet sites accessed through the SEC’s website. Any such information is not part of this Official Statement nor has such information been incorporated by reference herein, and such information should not be relied upon in deciding whether to invest in the 2013 Bonds.

See also “CERTAIN INVESTMENT CONSIDERATIONS” for discussions regarding the financial condition of the airlines and the effects of airline bankruptcies on the Authority.

LITIGATION

No Litigation Relating to the 2013 Bonds

There is no litigation or proceeding, pending (with service of process having been received by the Authority or otherwise known to counsel to the Authority) or, to the knowledge of such counsel, threatened (either in local or federal courts on Guam) seeking to restrain or enjoin the execution, issuance, sale or delivery of the 2013 Bonds or the Authority's general legal authority to collect, pledge or pay Revenues under the Indenture, or in any way contesting or affecting the legal existence of the Authority or the titles of certain relevant officials of the Authority to their offices or the validity or enforceability of the 2013 Bonds or the Indenture.

Other Litigation Relating to the Authority and the Airport

From time to time, the Authority is a party to litigation and is subject to claims arising out of its normal course of business and operations. A significant pending proceeding relates to the recent award by the Authority of the specialty retail merchandise concession at the Airport and is further described under "AGREEMENTS FOR USE OF AIRPORT FACILITIES—Passenger Terminal Building Concessions and Revenue Arrangements—Duty Free Concession." At this time, there is no other pending litigation relating to the Authority or the operations or business pertaining to the Authority or the Airport that would reasonably be expected to have a material impact on Revenues or the operations of the Airport.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any 2013 Series A Bond or 2013 Series C Bond for any period that such 2013 Series A Bond or 2013 Series C Bond or is held by a "substantial user" of the respective facilities financed or refinanced by the 2013 Series A Bonds or the 2013 Series C Bonds, or by a "related person" within the meaning of Section 147(a) of the Code. Bond Counsel is of the further opinion that interest on the 2013 Series A Bonds and 2013 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that interest on the 2013 Series A Bonds and the 2013 Series B Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel also observes that interest on the 2013 Series C Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that the 2013 Bonds are exempt, as to principal and interest, from taxation by any state or territory of the United States or any political subdivision thereof, or by the District of Columbia. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the 2013 Bonds is less than the amount to be paid at maturity of such 2013 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2013 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2013 Bonds which is excluded from gross income for federal income tax purposes and is exempt from taxation by any state or territory of the United States or any political subdivision thereof, or by the District of Columbia. For this purpose, the issue price of a particular maturity of the 2013 Bonds is the first price at which a substantial amount of such maturity of the respective series of 2013 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2013 Bonds accrues daily over the term to maturity of such 2013 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2013 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2013 Bonds. Beneficial Owners of the 2013 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2013 Bonds with original

issue discount, including the treatment of Beneficial Owners who do not purchase such 2013 Bonds in the original offering to the public at the first price at which a substantial amount of such 2013 Bonds is sold to the public.

2013 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2013 Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2013 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2013 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2013 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the 2013 Bonds may adversely affect the value of, or the tax status of interest on, the 2013 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2013 Bonds is excluded from gross income for federal income tax purposes and that the 2013 Bonds are exempt, as to principal and interest, from taxation by any state or territory of the United State or any political subdivision thereof, or by the District of Columbia, the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2013 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration’s proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the 2013 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2013 Bonds. Prospective purchasers of the 2013 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the 2013 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel’s engagement with respect to the 2013 Bonds ends with the issuance of the 2013 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2013 Bonds in the event of an audit examination by the IRS. Under current

procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2013 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2013 Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

UNDERWRITING

The 2013 Bonds are to be purchased from the Authority by Citigroup Global Markets Inc. and Wells Fargo Securities, Inc. (collectively, the “Underwriters”) pursuant to the terms of a Bond Purchase Agreement (the “Bond Purchase Agreement”) between the Underwriters and the Authority. The purchase price of the 2013 Series A Bonds is \$15,206,621.63, representing the aggregate principal amount of the 2013 Series A Bonds (\$14,620,000.00), plus original issue premium of \$679,844.65 and less Underwriters’ discount of \$93,223.02. The purchase price of the 2013 Series B Bonds is \$34,050,899.98, representing the aggregate principal amount of the 2013 Series B Bonds (\$33,675,000), plus original issue premium of \$635,810.15, less original issue discount of \$45,184.80 and less Underwriters’ discount of \$214,725.37. The purchase price of the 2013 Series C Bonds is \$199,391,532.07, representing the aggregate principal amount of the 2013 Series C Bonds (\$199,040,000), plus original issue premium of \$2,757,650.15, less original issue discount of \$1,136,958.80 and less Underwriters’ discount of \$1,269,159.28. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2013 Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval by counsel of certain legal matters.

The Underwriters reserve the right to join with dealers and other underwriters in offering the 2013 Bonds to the public. The Underwriters intend to offer the 2013 Bonds for sale at the prices or yields set forth on the inside cover page hereof. Such initial public offering prices or yields may be changed from time to time by the Underwriters without prior notice. The Underwriters may offer and sell the 2013 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than or at yields higher than the public offering prices or yields stated on the inside front cover page.

Citigroup Inc., parent company of Citigroup Global Markets Inc., an Underwriter of the 2013 Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Citigroup Global Markets Inc. may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2013 Bonds.

Wells Fargo Bank, National Association (“WFBNA”), one of the underwriters of the 2013 Bonds, has entered into an agreement (the “Distribution Agreement”) with its affiliate, Wells Fargo Advisors, LLC (“WFA”), for the distribution of certain municipal securities offerings, including the 2013 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2013 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC (“WFSLLC”) and Wells Fargo Institutional Securities, LLC (“WFIS”), for the distribution of municipal securities offerings, including the 2013 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority, including the 2003 Bonds being refunded.

VERIFICATION OF ESCROW

Causey Demgen & Moore P.C. (the "Verification Agent") will verify from the information provided to them the mathematical accuracy as of the date of the closing on the 2013 Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the securities and/or cash deposits listed in the underwriters' schedules, to be held in escrow, will be sufficient to pay, when due, the principal or redemption price of and interest on the 2003 Bonds. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the redemption price and principal of and interest on the 2003 Bonds will be paid as described in the accompanying schedules, nor as to the exemption from taxation of the interest on the 2013 Bonds.

CERTAIN LEGAL MATTERS

The validity of the 2013 Bonds and certain other legal matters are subject to the approving opinion of Bond Counsel. The form of opinion Bond Counsel proposes to render with respect to the 2013 Bonds is attached as APPENDIX F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by Hawkins, Delafield & Wood LLP, Portland, Oregon, their counsel.

FINANCIAL STATEMENTS

The audited financial statements of the Authority for the fiscal year ended September 30, 2012 included in APPENDIX C have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

AVAILABLE INFORMATION

During the initial offering period for the 2013 Bonds, copies of the Authority's audited financial statements are available from the Authority, P.O. Box 8770, Tamuning, Guam, 96931, and copies of the Indenture may be obtained, upon written request, from the Underwriters.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), are expected to assign their ratings of "A2" (stable outlook) and "AA-" (stable outlook), respectively, to the Insured 2013 Bonds, assuming the 2013 Bond Insurance Policy is delivered at the time that the Insured 2013 Bonds are issued. Moody's and S&P have assigned their underlying ratings of "Baa2" and "BBB," respectively, to the Insured 2013 Bonds. Moody's and S&P have assigned their ratings of "Baa2" and "BBB," respectively, to the 2013 Bonds that are not Insured 2013 Bonds. The ratings reflect only the views of the rating agencies assigning such ratings, and an explanation of the significance of any such rating may be obtained from such rating agency. There is no assurance that either of the ratings will continue for any given period of time or that either of the ratings will not be revised downward or withdrawn entirely by either such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the 2013 Bonds.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) between the Authority and Digital Assurance Certification, L.L.C. (“DAC” or the “Dissemination Agent”), the form of which is attached to this Official Statement as APPENDIX H, the Authority will covenant for the benefit of the holders of the 2013 Bonds to provide its annual financial statements and certain financial information and operating data relating to the Authority by not later than 180 days after the end of the Fiscal Year (currently September 30) to which such information pertains, commencing with the Fiscal Year ending September 30, 2013 (each, an “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Reports and the notices of enumerated events are to be filed with the Municipal Securities Rulemaking Board through its EMMA system. The specific nature of the information to be contained in the Annual Reports and in the notices of enumerated events is described in the form the Continuing Disclosure Agreement in APPENDIX H hereto. The Authority is making these covenants for the benefit of the holders and Beneficial Owners of the 2013 Bonds and to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), as amended from time to time (“Rule 15c2-12”).

Although the Authority has timely filed annual reports and filed material events notices, the Authority has determined that its annual reports for the past five years did not include certain financial information and operating data of the Authority for such years, as required by the Authority’s previous continuing disclosure undertaking. On March 13, 2013, the Authority provided the omitted financial information and operating data in a notice filed with the MSRB via its EMMA system. In addition, the Authority did not always file notices of changes by S&P and Moody’s of their respective ratings of the insured financial strength of MBIA Insurance Corporation and its successor, National Public Finance Guarantee, as the insurer of the 2003 Bonds (collectively, the “2003 Bond Insurer”). The Authority has implemented procedures to ensure timely filing of all future notices of enumerated events required by Rule 15c2-12. Other than as described in this paragraph, the Authority has complied in all material respects with its previous continuing disclosure undertaking within the past five years.

The Authority designates DAC as the Dissemination Agent in the Continuing Disclosure Agreement. Pursuant to the Continuing Disclosure Agreement, the Dissemination Agent has only the duties specifically set forth in the Continuing Disclosure Agreement. The Dissemination Agent’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the Authority has provided such information to the Dissemination Agent as required by the Continuing Disclosure Agreement. The Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Continuing Disclosure Agreement. The Dissemination Agent has no duty or obligation to review or verify any information in the annual report, audited financial statements, notice of notice event or voluntary report, or any other information, disclosures or notices provided to it by the Authority and is not to be deemed to be acting in any fiduciary capacity for the Authority, the Bondholders or any other party. The Dissemination Agent has no responsibility for the Authority’s failure to report to the Dissemination Agent a notice event or a duty to determine the materiality thereof. The Dissemination Agent shall have no duty to determine or liability for failing to determine whether the Authority has complied with the Continuing Disclosure Agreement. The Dissemination Agent may conclusively rely upon certifications of the Authority at all times.

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APPENDIX A

CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE TERRITORY OF GUAM

Guam is the westernmost territory of the United States of America (the “U.S.”), as well as the largest and southernmost island of the Marianas archipelago, and the largest of the 2,000 islands in Micronesia. Located at 13 degrees north latitude, 144 degrees east longitude in the western Pacific Ocean, the island is about 30 miles long and varies from four to nine miles wide, with a total land area of approximately 212 square miles. Guam is approximately 3,800 miles west-southwest of Honolulu, Hawaii, 1,550 miles south-southeast of Tokyo, Japan and 1,600 miles east of Manila, Philippines. The Mariana Trench, which has the deepest known ocean depth (39,198 ft.), extends from northeast to southwest of Guam. According to the U.S. Census Bureau, Guam’s population as of April 2010 was estimated to be 159,358.

Guam was first settled approximately 4,000 years ago. Its strategic location in the Western Pacific has historically made it a desirable property for the world’s superpowers. The indigenous Chamorro people first came in contact with Europeans in 1521 when Ferdinand Magellan landed at Guam’s Umatac Bay. Miguel Lopez de Legazpi claimed the island for Spain in 1565. Spanish colonization of Guam began in 1668 and lasted until the end of the Spanish-American War in 1898. As outlined in the Treaty of Paris, signed in December 1898, Guam was ceded to the United States along with Cuba, Puerto Rico, and the Philippines. Guam has since remained under U.S. administration, except for two and a half years of Japanese occupation during World War II. On July 21, 1944, U.S. forces recaptured Guam and reestablished a naval government. In 1950, the U.S. Congress passed the Organic Act of Guam (the “Organic Act”) granting the Chamorro people U.S. citizenship and establishing a civilian government.

Guam’s current political status is that of an unincorporated territory of the U.S. The organization and powers of the Government of Guam (the “Government”) are determined by the Organic Act. The Government consists of three branches: executive, legislative and judicial. A governor (the “Governor”) elected at large every four years heads the executive branch. The Government maintains a staff of approximately 11,730 employees under the direction of the Governor and the Governor’s department heads. The unicameral legislature consists of 15 senators elected at large every two years. The judiciary branch consists of the Superior Court of Guam, which is the court of general trial jurisdiction, and the Supreme Court of Guam, the court of highest appeal, established in 1996. Guam also has a Federal District Court and is within the jurisdiction of the Ninth Circuit U.S. Court of Appeals and the U.S. Supreme Court. Guam has one elected non-voting representative to the U.S. House of Representatives elected at large every two years.

Tourism revenues and U.S. federal and military spending contribute to Guam’s economy. Guam’s proximity to many of the major cities of Asia and the South Pacific greatly contributes to the diversity of the island’s population and the visitor industry. This geographic feature also provides U.S. military operations with significant flexibility compared to other locations in the Pacific and Asia. Guam has an international airport, the Antonio B. Won Pat Guam International Air Terminal (the “Airport”), operated by the A. B. Won Pat International Airport Authority, Guam (the “Authority”), a public corporation and autonomous instrumentality of the Government. See “THE AUTHORITY” and “THE AIRPORT” in the front portion of this Official Statement.

On September 24, 2012, the Bureau of Economic Analysis of the United States Department of Commerce (“BEA”) released its 2010 gross domestic product (“GDP”) and gross domestic income (“GDI”) estimates for Guam and revised estimates for 2002 through 2009. As set forth in Table A-1, the BEA’s estimates indicate that Guam’s GDP grew from \$3.349 billion in 2002 to \$4.577 billion in 2010. The 2010 GDP figure consists of approximately \$2.8 billion of personal consumption expenditures, \$2.9 billion of government consumption expenditures and gross investment, and \$233 million of private fixed investment, and is offset by approximately \$1.4 billion of net exports. The BEA also estimates that Guam’s real per capita GDP, measured in 2005 dollars adjusted for inflation, grew from \$23,378 in 2002 to \$25,420 in 2010.

Guam’s real GDP increased 1.2% in 2010 after increasing 1.1% in 2009. For comparison, real GDP for the United States (excluding territories) decreased 2.4% in 2010 after increasing 1.7% in 2009. The largest contributor to the growth in Guam’s real GDP during this period was federal government spending. The majority of this spending was by the Department of Defense. Federal spending increased in both 2010 and 2009; the increases in

both years largely reflected increases in construction spending and in compensation. See “—Economic Indicators—Construction” and “—Military Activity—Military Expenditures” below.

TABLE A-1
GUAM GROSS DOMESTIC PRODUCT
CALENDAR YEARS 2002 – 2010⁽¹⁾
(Millions of Dollars)

<u>Calendar Year</u>	<u>Gross Domestic Product</u>
2002	\$3,349
2003	3,494
2004	3,774
2005	4,056
2006	4,077
2007	4,207
2008	4,335
2009	4,542
2010 ⁽¹⁾	4,577

⁽¹⁾ Latest data available.

Source: Department of Commerce Bureau of Economic Analysis.

Spending by tourists makes up the vast majority of Guam’s exports of services. Guam’s net real exports of services increased 1.2% in 2010 after falling 13.2% in 2009 and 11.3% in 2008. These fluctuations correspond with the number of visitors to Guam. Guam’s real consumer spending on goods and services fell 3.3% in 2010 after only small declines in 2009 and 2008. Consumer prices rose during this period, increasing 1.0% in 2010 after increasing 1.1% in 2009 and 5.6% in 2008.

Most food and goods are imported, and approximately 70% of imports are from the U.S. mainland. Guam’s commercial shipping port owns five cargo-handling piers along with two fuel piers and three marinas. The port is the entry point for more than 90% of Guam’s imports and also serves as a transshipment center for Micronesia. The port handled approximately 1.86 million revenue tons, including the contents of over 85,000 twenty-foot-equivalent unit containers, and received approximately 15,000 passengers (including cruise ship calls) in 2012. The port is located within Apra Harbor, a natural lagoon enclosed by a submerged coral bank and a barrier reef, and is operated by the Port Authority of Guam, ”), a public corporation and autonomous instrumentality of the Government.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Geography and Climate

The island of Guam was formed by an uplift of undersea volcanoes. It is surrounded by coral reefs near the shore and consists of two distinct areas of about equal size. The northern region of Guam is a high coralline limestone plateau rising up 850 feet above sea level. It contains the northern water lens, which is the main source of fresh water on the island. The southern region of Guam is mountainous with elevations of 700 to 1,200 feet above sea level. Apra Harbor, one of the largest protected deep-water harbors in the world, is located on the western side of the island.

Guam’s climate is pleasantly warm year-round. The mean annual temperature is 85 degrees Fahrenheit. The general temperature ranges from the low 70s to mid 80s degrees Fahrenheit. Annual rainfall averages 85 inches in the western coastal area to 110 inches in the highest mountain locations in the south. Three quarters of the total annual rainfall occurs between the months of June and December.

Like other Pacific islands, Guam is periodically subject to typhoons and tropical storms. From 1962 to date, the eyes of twelve of these storms passed directly over or just south of the island. Seven of these typhoons caused damage great enough to result in federal disaster relief: Super Typhoon Karen in 1962, Typhoon Pamela in 1976, Typhoon Russ in 1990, Super Typhoon Omar in 1992, Super Typhoon Paka in 1997, and Typhoon Chata'an and Super Typhoon Pongsona in 2002. In 2002, Guam adopted the International Building Code, 2009 Edition, requiring all new construction to be designed to tolerate wind velocities of 155 mph. Due to its location near the Mariana Trench, Guam also occasionally experiences seismic activity, including earthquakes and tsunamis. Other than a major earthquake of 8.1 magnitude on August 8, 1993, which also created a minor tsunami, no recent earthquakes or tsunamis have caused significant damage on Guam.

Economic Indicators

Population

Guam's residents originate from all parts of the Asia-Pacific region in addition to the U.S. mainland. In addition to Guam's indigenous Chamorro people, who comprise approximately 47% of the population, large numbers of mainland Americans, Filipinos, Chinese, Japanese, and South Koreans constitute the bulk of Guam's population. There are also substantial numbers of Micronesian islanders, Vietnamese and East Indians. Guam's diverse population makes it one of the most cosmopolitan communities in the Western Pacific.

According to the 2010 U.S. Census, Guam's 2010 population estimate was 159,358. This represents a 2.9% increase over the 2000 U.S. Census tabulation of 154,805, which was in turn a 16.3% increase over the 1990 population of 133,152.

Guam currently has 40 public schools, 25 private schools, four Department of Defense schools, one community college and one university. Approximately 31,000 students attend Guam's elementary and secondary schools. The Guam Public School System secured financing in late 2006 and in 2008 for the construction of four additional public schools. Three of the new schools opened for the 2008-2009 school year, and the remaining school, an elementary school, opened for the 2009-2010 school year. The Guam Public School System also secured additional financing in 2010 for the demolition and reconstruction of the John F. Kennedy High School facility which had closed in 2008 for safety reasons. The reconstruction of the John F. Kennedy High School was completed in August 2011, allowing it to be in service for the 2011-2012 school year. Expansion of the existing Okkodo High School is underway and the school is expected to be in service for the 2013-2014 school year. Both Guam Community College and the University of Guam are accredited by the Western Association of Schools and Colleges. The University of Guam is the only accredited four-year institution of higher learning in the western Pacific, and it offers graduate programs in select areas of study.

Employment

Approximately 75% of Guam's workforce is employed in the private sector, with the remainder in government, both local and federal. Guam's individual and household incomes have fairly equal distributions, as compared to other nations, islands, or territories in similar stages of economic development.

In 2012, the private sector gained approximately 1,290 jobs, whereas the public sector shed 300 jobs, including 200 Government jobs and 70 federal government jobs. The most significant changes in the private sector were 680 more jobs in construction, 420 more jobs in transportation and public utilities and 220 more jobs in services, offset in part by a decrease of 120 finance, insurance and real estate jobs.

Federal employment for the year ending December 31, 2012 was down by 70 jobs from the prior year's figures. Government employment for the year ending December 31, 2012 decreased by 200 from the previous year's figure.

The distribution of civilian employment in Guam based on payrolls from 2008 to 2012 is listed by industry in Table A-2. Excluded from the civilian employment estimates in Table A-2 are self-employed individuals, active duty military personnel, proprietors, volunteers and unpaid family workers. The payroll survey in Table A-2

includes all civilian personnel on payroll, including multiple jobholders counted at each place of employment, and nonresident alien workers.

TABLE A-2
Civilian Employment⁽¹⁾
2008-2012

	As of December 31,				
	2008	2009	2010	2011	2012
Private sector:					
Agriculture	350	320	320	210	140
Construction	6,460	6,660	6,660	5,860	6,540
Manufacturing	1,700	1,790	1,790	1,740	1,660
Transportation & public utilities	4,820	4,660	4,500	4,250	4,670
Wholesale trade	2,060	1,930	2,100	2,180	2,320
Retail trade	11,540	11,660	11,610	11,630	11,730
Finance, insurance, and real estate	2,560	2,520	2,650	2,640	2,520
Services	16,240	16,130	17,160	16,250	16,470
Total private	45,730	45,670	46,790	44,760	46,050
Public sector:					
Federal government	3,760	3,830	3,940	4,130	4,060
Guam government ⁽²⁾	11,350	11,720	11,870	11,930	11,730
Total public	15,110	15,550	15,810	16,060	15,760
Total Payroll Employment	60,840	61,220	62,600	60,820	61,840

⁽¹⁾ Data includes both full-time and part-time employees who worked during any part of the pay period, temporary alien workers and employees under 16 years of age. Data are based upon the number of paychecks issued by employers. Dual and multiple jobholders are counted once for each job held. Proprietors, unpaid family workers, domestic servants and military active duty personnel are excluded.

⁽²⁾ Includes temporary contractual employees, autonomous agencies, Agency for Human Resources Development Disaster Recovery, and senior/youth employment programs.

Source: *Current Employment Report, Department of Labor, Government of Guam.*

Table A-3 shows the top 15 private employers on Guam and number of employees.

TABLE A-3
Top 15 Private Employers on Guam
Calendar Year 2012

<u>Employer (and Type of Enterprise)</u>	<u>Number of Employees</u>
1. Calvo Enterprises, Inc. (insurance, various)	1,120
2. DZSP 21 LLC (military support services)	1,010
3. United Continental Holdings, Inc. (airline)	1,000
4. Black Construction Corp. (construction)	983
5. Triple J Enterprises (automotive, various)	643
6. Hilton Guam Resort & Spa (hotel)	590
7. Pacific International Inc. (construction)	555
8. Pacific Islands Club Guam (resort)	551
9. Bank of Guam (financial services)	495
10. GTA TeleGuam (telecommunications)	346
11. Joeten Enterprises Inc. (retail and real estate)	345
12. Atkins Kroll Inc. and Microl Corp. Saipan (motor goods)	323
13. dck Pacific Guam (construction)	320
14. GFS Group (military support services)	275
15. Jones & Guerrero Co. Inc. (construction, various)	<u>267</u>
Total	8,823

Companies selected by employee count from among top 30 by revenues, as compiled by the source.
Source: Guam Business Magazine 2012 Top Companies.

Unemployment

The Government reports employment and unemployment separately. Guam's unemployment was 10.7% as of December 2012, the most recent date for which information is available.

Table A-4 lists unemployment statistics for March 2004 to December 2012. Differences in the employment figures in Table A-2 and Table A-4 arise as a result of differences in the surveys' coverage and exclusions. For example, the household survey in Table A-4 excludes civilians living within military installations or in military housing, and employees under the age of 16 years.

TABLE A-4
Unemployment Statistics⁽¹⁾
2004-2012

As of⁽²⁾	Total Labor Force	Number Unemployed	Unemployment Rate (%)
Mar. 2004	61,520	4,710	7.7
Dec. 2005	64,130	4,500	7.0
Mar. 2006	65,940	4,530	6.9
Sept. 2006	66,450	4,890	7.4
Sept. 2007	63,600	5,310	8.3
Sept. 2009	70,310	6,510	9.3
March 2011	74,950	9,970	13.3
March 2012	68,400	8,060	11.8
September 2012	72,980	7,970	10.9
December 2012 ⁽³⁾	72,560	7,800	10.7

⁽¹⁾ Data include civilian non-institutional population 16 years of age and older, but exclude non-immigrant aliens and civilians living within military installations or in military housing. Individuals with one or more jobs or dual jobs are counted once.

⁽²⁾ Dates as of which data are provided reflect reported data available from the Guam Department of Labor, Bureau of Labor Statistics.

⁽³⁾ Most recent available information.

Source: Guam Department of Labor, Bureau of Labor Statistics.

Construction

Guam's construction industry is generally measured by the number and value of building permits. Building permits constitute an important economic indicator of the type and level of construction activities planned as well as corresponding employment increases once the buildings are completed.

Table A-5 lists the dollar value of the construction permits issued during the period from Fiscal Year 2008 through Fiscal Year 2012. Values given include permits for new construction and additions.

TABLE A-5
Fiscal Year Building and Construction Permits
Fiscal Years 2008-2012
(Dollars in Thousands)

	2008	2009	2010	2011	2012⁽¹⁾
Residential	\$69,690	\$50,419	\$67,047	\$45,403	\$60,139
Commercial & Industrial	17,209	44,816	14,729	26,911	39,444
Government	94,298	116,268	76,487	84,236	113,390
Hotels	3,070	–	200	934	830
Condominiums Apartments & Dormitories	2,200	495	76,537	848	–
Other ⁽¹⁾	13,360	6,053	28,494	15,683	2,955
Total	<u>49,466</u>	<u>44,420</u>	<u>15,255</u>	<u>42,942</u>	<u>147,197⁽²⁾</u>
	\$249,293	\$262,471	\$278,749	\$216,957	\$363,955

⁽¹⁾ Includes permit renewals, demolitions, relocations and church buildings.

⁽²⁾ Includes \$120 million for Guam Regional Medical City.

Source: Guam Department of Public Works.

During Fiscal Year 2011, approximately \$217 million of building and construction permits were issued. The delay in the planned relocation of U.S. Marines and military dependents from Okinawa and Iwakuni, Japan to Guam resulted in a decrease in construction projects for Fiscal Year 2011. The relocation of U.S. Marines to Guam has been revised to include approximately 4,700 to 6,000 service members and their families, about half the amount originally expected. Negotiations between the United States and Japan governments of the final terms and extent of the relocation are ongoing. See “—Military Activity—Military Personnel” and “—Military Expenditures.” During Fiscal Year 2012, approximately \$364 million of building and construction permits were issued, an increase of approximately 168% over Fiscal Year 2011. This increase is due primarily to permit renewals, demolitions, relocations, church buildings and the construction of the Guam Regional Medical City. In addition to the rebound in permits issued in Fiscal Year 2012, for the first nine months of Fiscal Year 2013, approximately \$238.6 million of building and construction permits have been issued.

Tracts of private, affordable housing, upscale gated communities and million-dollar ocean-vista homes are under construction. Housing developments under construction include Talo Verde Estates in Upper Tumon, Villa Pacita in Yigo, Quintas del Mar and Pago Bay Resort in Yona. The Government is providing incentives and assistance to developers and contractors to meet the Governor’s goal to build 3,000 more affordable homes on Guam over a five-year period. New shopping centers in Mangilao and Tumon were completed in 2010. Construction of a \$2 million supermarket in the southern part of Guam is scheduled to be completed in October 2013. Construction of a proposed two-story Grandview Mall in Tumon has commenced and is scheduled to begin operations by early 2014. Construction is ongoing for the Guam Regional Medical City, a nonprofit, tertiary level medical facility and the first non-governmental facility of its type on the island. Phase one of the hospital is anticipated to open in 2014 with 130 beds (phase two will include 90 additional beds) at a cost of approximately \$250 million. The Hospital Development Foundation on Guam estimates that Guam residents spend \$82 million annually to pay for care at private hospitals outside of Guam; it is anticipated that this new private hospital on Guam will capture a large portion of that revenue.

Ongoing or recently completed Government construction projects include \$150 million of airport capital improvements, including runway extension and taxiway projects to accommodate expanded air service, long-haul flights to the U.S. mainland and projected passenger and cargo increases, demolition of former naval housing and noise insulation, an estimated \$159.7 million to fund the closure of the Ordot Dump and the opening of a new landfill facility, and \$260 million of capital improvement projects for the Port Authority of Guam master plan. In late 2010, Guam Power Authority issued \$206.6 million of revenue bonds to finance projects that include a smart grid, and generation, transmission and distribution facility upgrades. The Department of Education secured financing to build a new high school to replace an existing facility in Tamuning and for the expansion of another high school in Dededo. The University of Guam is working towards a \$21.7 million construction project of a new Student Services Center and Engineering School Annex. The Department of Land Management is also working towards a \$15.75 million construction project for a new administration building. The Department of Public Works’ 2030 Guam Transportation Plan provided \$70 million of project funding in 2008 and over \$160 million of federal funding for projects from 2008 through 2011. Finally, the Guam Visitors Bureau (“GVB”) secured financing for \$67 million of capital projects, including creation of new tourist destinations and enhancement of existing historical and park sites.

In 2009 and 2010, the Government was also awarded approximately \$386 million of American Recovery and Reinvestment Act funding for programs and infrastructure projects.

Other Economic Activity

Table A-6 reflects the Government's business privilege tax collections for Fiscal Years 2003 through 2012. Business privilege tax collections for a given fiscal year may not directly reflect gross business receipts in the prior fiscal year because businesses sometimes file late or multi-year business privilege tax returns. Generally, collections have increased over the last several years due to population growth, inflation, expansion of existing military facilities, and upgrades to a number of local hotels to accommodate increased demand for high-end rooms.

TABLE A-6
Government of Guam Business Privilege Tax Collections
Fiscal Years 2003 – 2012

<u>Fiscal Year</u>	<u>Business Privilege Tax Collections</u>
2003 ⁽¹⁾	\$156,095,935
2004 ⁽¹⁾	170,610,706
2005	149,081,382
2006	155,386,098
2007	172,745,349
2008	185,795,875
2009	182,583,996
2010	188,621,364
2011	200,047,641
2012	221,443,640

⁽¹⁾ Reflects temporary increase in the business privilege tax rate from 4% to 6% from April 2003 through April 2004.

Sources: Government of Guam Audited Financial Statements for Fiscal Years 2003-2012.

The Government is seeking through legislative and regulatory efforts to streamline business and construction permitting processes, to obtain an exemption from the Jones Act which would expand the market for shipments to Guam and reduce the cost of imports, to develop the captive insurance market for the Asian market, and continued pursuit of the China visa waiver program.

Other developments being pursued by the Government, private enterprise or both include a bonded warehouse on Guam as a consolidation and customs clearance center, a hub for the collection and transshipment of recyclable materials in the region, a redevelopment of the Hagåtña area, light domestic manufacturing of construction materials, expanded eco and sports tourism, and television and commercial film production for Asian producers.

Guam Tourist Industry

Tourism has represented the primary source of income for Guam's economy for over twenty-five years. Visitor arrivals rose to over 1,000,000 travelers for the first time in 1994 and have remained near or above that level ever since.

Table A-7 sets forth the annual number of visitors to Guam for Fiscal Years 2003 through 2012. The number of annual visitors to Guam increased from 856,931 in Fiscal Year 2003 to 1,270,161 in Fiscal Year 2012, an average annual increase of 5.4%. Visitor arrivals were generally flat from Fiscal Year 2005 to Fiscal Year 2007. Arrivals for Fiscal Year 2008 declined due to the global recession. Arrivals for Fiscal Year 2009 declined due to a spike in diagnoses of the H1N1 virus in Japan in early 2009. Visitor arrivals increased approximately 11.2% from Fiscal Year 2009 to Fiscal Year 2010. Arrivals for Fiscal Year 2011 declined following the natural disasters in Japan in March 2011; however, the overall effect was mitigated by increased arrivals from South Korea and Taiwan. Arrivals for Fiscal Year 2012 increased by 10.7%. As of March 2013, arrivals were 706,549, as compared to 648,410 for the same period in Fiscal Year 2012.

TABLE A-7
Annual Visitor Arrivals to Guam
Fiscal Years 2003-2012

<u>Fiscal Year</u>	<u>Visitor Arrivals</u>
2003	856,931
2004	1,156,199
2005	1,210,147
2006	1,217,111
2007	1,223,290
2008	1,179,246
2009	1,053,248
2010	1,170,857
2011	1,147,134
2012	1,270,161

Source: Guam Visitors Bureau.

Table A-8 provides a comparison of cumulative visitor arrivals by month to Guam for calendar years 2006 through 2013. A year-over-year comparison between 2012 and 2013 reflects an increase of visitors for each month except January, which showed only a slight decline over 2012. Several factors may account for the increase, such as the expanded number of airline flight routes to Guam, the favorable exchange rate for Asian visitors, the preparations for the military expansion, and the relative improvement of the overall global economy.

TABLE A-8
Cumulative Visitor Arrivals to Guam by Month
2006-2013

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
January	119,562	109,073	108,100	98,298	103,262	108,243	116,588	116,558
February	226,486	216,072	212,450	191,753	212,583	219,894	228,717	238,630
March	340,561	324,276	319,011	292,693	322,380	328,596	355,093	375,358
April	427,577	414,661	405,898	373,399	405,136	399,490	442,899	466,855 ⁽¹⁾
May	520,036	501,054	497,388	445,296	493,628	469,961	525,596	552,979 ⁽¹⁾
June	608,955	600,331	592,270	505,396	579,263	545,654	620,544	-
July	718,678	711,641	699,103	603,046	690,071	645,240	732,514	-
August	833,660	840,564	803,982	706,623	810,220	766,028	864,502	-
September	921,312	932,928	887,280	798,749	916,735	866,461	976,844	-
October	1,012,011	1,024,240	973,493	877,060	1,005,277	956,737	1,081,178	-
November	1,108,396	1,120,811	1,054,045	958,988	1,099,731	1,056,082	1,190,311	-
December	1,211,674	1,224,894	1,141,779	1,052,871	1,196,296	1,159,778	1,308,035	-

⁽¹⁾ Preliminary.

Source: Guam Visitors Bureau.

Guam Visitors Bureau

The Guam Visitors Bureau (“GVB”) is a nonprofit membership corporation and has existed in its current form since 1984. Its mission is to efficiently and effectively promote and develop Guam as a safe and satisfying destination for visitors and to derive maximum benefits for the people of Guam. Policy for GVB is set by a twelve-member board of directors, consisting of five directors appointed by the Governor with the advice and consent of the Guam Legislature, two directors appointed by the Speaker of the Guam Legislature, four directors elected by the members, and one director selected by at least a two-thirds vote of the other eleven directors. The activities of GVB are administered by a board-appointed General Manager. Membership in GVB is not restricted to any particular group. Recent efforts to promote tourism include a Guam branding initiative; efforts to expand visitor markets

through expansion of the visa waiver program and similar initiatives and the expansion of airline arrivals to Guam; and encouraging longer stays and repeat visits by enhancing and promoting tourist and cultural destinations and events on the island. Funding for GVB's operations is appropriated by the Guam Legislature from amounts available in the Tourist Attraction Fund.

Key Visitor Markets

Guam receives visitors from a variety of countries, and GVB is intent on further diversifying Guam's visitor base. Guam's top four visitor markets include Japan, South Korea, U.S./Hawaii and Taiwan. The great majority of visitors to Guam originate from Japan, as Guam is one of only four markets worldwide that attracts nearly one million Japanese tourists per year. In Fiscal Year 2012, Japan accounted for approximately 71.5% of visitors to Guam, with approximately 50.3% of Japanese visitors originating from the Kanto (Tokyo) region. In Fiscal Year 2012, Guam's next largest tourist markets were South Korea (13.0%), the U.S./Hawaii (5.1%), Taiwan (3.9%), and the Commonwealth of the Northern Mariana Islands ("CNMI") (1.4%). Total civilian air arrivals increased approximately 5.9% between Fiscal Year 2011 and Fiscal Year 2012.

On March 11, 2011, an earthquake measuring 8.9 on the Richter Scale occurred near northeastern Japan, followed by a tsunami that affected Japan's northern and central east coast. While Guam saw a decline in Japanese tourists in the months following the tsunami in Japan, with total visitor arrivals from Japan for 2011 dropping approximately 7.2% as compared to 2010, increased arrivals from Taiwan and South Korea helped to minimize the overall effect on tourist arrivals. In Fiscal Year 2011, Japan accounted for approximately 71.8% of visitors to Guam, with approximately 34% of Japanese visitors originating from the Kanto (Tokyo) region. Guam's next largest tourist markets in Fiscal Year 2011 were South Korea (12.6%), the U.S./Hawaii (5.2%), Taiwan (3.5%), and the Commonwealth of the Northern Mariana Islands ("CNMI") (1.6%). Total civilian air arrivals decreased approximately 2% between Fiscal Year 2010 and Fiscal Year 2011. To date, Guam's tourist industry has fully recovered from the effects of the Japanese disasters and Guam is back to pre-disaster arrival numbers from Japan. See "CERTAIN INVESTMENT CONSIDERATIONS – Typhoons and Earthquakes" in the front portion of this Official Statement.

GVB continues to market to the South Korea, Taiwan, Hong Kong and China markets to further diversify and expand Guam's visitor base and will soon expand its marketing efforts to Russia. From Fiscal Year 2011 to Fiscal Year 2012, visitor arrivals from Korea, Taiwan, China and Russia grew 13.8%, 22.5%, 46.6%, and 455% respectively.

Table A-9 sets forth a comparison of visitor arrivals to Guam by country for Fiscal Years 2007 through 2012.

TABLE A-9
Fiscal Year Visitor Arrivals by Country
Fiscal Years 2007-2012

	<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>	
	<u>Arrivals</u>	<u>Percent of Total</u>										
Japan	932,396	76.2%	884,907	75.0%	817,628	77.6%	887,986	75.8%	823,645	71.8%	907,765	71.5%
South Korea	123,024	10.1%	116,250	9.9%	83,803	8.0%	120,065	10.3%	145,081	12.6%	165,143	13.0%
Taiwan	22,635	1.9%	21,239	1.8%	22,191	2.1%	29,420	2.5%	40,709	3.5%	49,851	3.9%
U.S. Mainland/Hawaii	48,590	4.0%	53,038	4.5%	54,386	5.2%	60,651	5.2%	59,636	5.2%	64,766	5.1%
CNMI	17,099	1.4%	18,196	1.5%	17,786	1.7%	18,369	1.6%	17,932	1.6%	17,272	1.4%
Micronesia ⁽¹⁾	11,742	1.0%	12,978	1.1%	13,894	1.3%	14,176	1.2%	14,933	1.3%	14,884	1.2%
Philippines	8,165	0.7%	10,709	0.9%	11,386	1.1%	12,016	1.0%	10,748	0.9%	10,240	0.8%
Australia	2,339	0.2%	2,413	0.2%	2,440	0.2%	2,896	0.2%	3,660	0.3%	4,071	0.3%
Canada	625	0.1%	756	0.1%	672	0.1%	672	0.1%	703	0.1%	773	0.1%
Europe	1,540	0.1%	1,605	0.1%	1,581	0.2%	1,589	0.1%	1,511	0.1%	1,566	0.1%
Hong Kong	6,790	0.6%	4,921	0.4%	2,802	0.3%	5,640	0.5%	8,519	0.7%	8,396	0.7%
Thailand	195	0.0%	217	0.0%	290	0.0%	327	0.0%	498	0.0%	383	0.0%
China, P.R.C.	1,379	0.1%	1,674	0.1%	2922	0.3%	4,669	0.4%	6,179	0.5%	9,040	0.7%
Vietnam	-	0.0%	56	0.0%	36	0.0%	80	0.0%	105	0.0%	113	0.0%
Russia	31	0.0%	2	0.0%	356	0.0%	385	0.0%	528	0.0%	2,931	0.2%
Others/Unknown	<u>3,677</u>	<u>0.3%</u>	<u>4,051</u>	<u>0.3%</u>	<u>3,621</u>	<u>0.3%</u>	<u>3,887</u>	<u>0.3%</u>	<u>4,036</u>	<u>0.4%</u>	<u>4,441</u>	<u>0.3%</u>
Total Air⁽²⁾	1,180,227	96.5%	1,133,012	96.1%	1,035,794	98.3%	1,162,828	99.3%	1,138,423	99.2%	1,261,635	99.3%
Total Sea	<u>43,063</u>	<u>3.5%</u>	<u>46,234</u>	<u>3.9%</u>	<u>17,454</u>	<u>1.7%</u>	<u>8,029</u>	<u>0.7%</u>	<u>8,711</u>	<u>0.8%</u>	<u>8,526</u>	<u>0.7%</u>
Total Air & Sea	1,223,290	100.0%	1,179,246	100.0%	1,053,248	100.0%	1,170,857	100.0%	1,147,134	100.0%	1,270,161	100.0%

⁽¹⁾ Includes Palau, FSM and RMI.

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Years 2007 and 2008, includes military vessel arrivals. For Fiscal Years 2009 through 2012, military vessel arrivals were not available.

Source: Guam Visitors Bureau.

Table A-10 highlights the percentage change in annual visitor arrivals to Guam by country for Fiscal Years 2007 through 2012.

TABLE A-10
Percentage Change in Annual Visitor Arrivals by Country
Fiscal Years 2007-2012

	2007	2008	% Change from 2007	2009	% Change from 2008	2010	% Change from 2009	2011	% Change from 2010	2012	% Change from 2011
Japan	932,396	884,907	(5.1)%	817,628	(7.6)%	887,986	8.6%	823,645	(7.2)%	907,765	10.2
South Korea	123,024	116,250	(5.5)	83,803	(27.9)	120,065	43.3	145,081	20.8	165,143	13.8
Taiwan	22,635	21,239	(6.2)	22,191	4.5	29,420	32.6	40,709	38.4	49,851	22.5
U.S. Mainland/Hawaii	48,590	53,038	9.2	54,386	2.5	60,651	11.5	59,636	(1.7)	64,766	8.6
CNMI	17,099	18,196	6.4	17,786	(2.3)	18,369	3.3	17,932	(2.4)	17,272	(3.7)
Micronesia ⁽¹⁾	11,742	12,978	10.5	13,894	7.1	14,176	2.0	14,933	5.3	14,884	(0.3)
Philippines	8,165	10,709	31.2	11,386	6.3	12,016	5.5	10,748	(10.6)	10,240	(4.7)
Australia	2,339	2,413	3.2	2,440	1.1	2,896	18.7	3,660	26.4	4,071	11.2
Canada	625	756	21.0	672	(11.1)	672	0.0	703	4.6	773	10.0
Europe	1,540	1,605	4.2	1,581	(1.5)	1,589	0.5	1,511	(4.9)	1,566	3.6
Hong Kong	6,790	4,921	(27.5)	2,802	(43.1)	5,640	101.3	8,519	51.0	8,396	(1.4)
Thailand	195	217	11.3	290	33.6	327	12.8	498	52.3	383	(23.1)
China, P.R.C.	1,379	1,674	21.4	2922	74.6	4,669	59.8	6,179	32.3	9,040	46.3
Vietnam	-	56	-	36	(35.7)	80	122.2	105	31.3	113	7.6
Russia	31	2	(93.6)	356	17,700.0	385	8.1	528	37.1	2,931	455.1
Other/Unknown	3,677	4,051	10.2	3,621	(10.6)	3,887	7.3	4,036	3.8	4,441	10.0
Total Air⁽²⁾	1,180,227	1,133,012	(4.0)%	1,035,794	(8.6)%	1,162,828	12.3%	1,138,423	(2.1)%	1,261,635	10.8%
Total Sea⁽³⁾	43,063	46,234	7.4%	17,454	(62.3)%	8,029	(54.0)%	8,711	8.5%	8,526	(2.1)%
Total Air & Sea	1,223,290	1,179,246	(3.6)%	1,053,248	(10.7)%	1,170,857	11.2%	1,147,134	(2.0)%	1,270,161	10.7%

⁽¹⁾ Includes Palau, FSM and RMI.

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Years 2007 and 2008, includes military vessel arrivals. For Fiscal Years 2009 through 2012, military vessel arrivals were not available.

Source: Guam Visitors Bureau.

In November 2009, the U.S. updated its policies relating to the visa waiver program available for travel to Guam for tourism or business. The current program allows visitors holding passports from Australia, Brunei, Hong Kong, Japan, Malaysia, Nauru, New Zealand, Papua New Guinea, Republic of Korea, Singapore, Taiwan and the United Kingdom to visit Guam and/or CNMI without a visa for a period of up to 45 days. The U.S. Department of Homeland Security granted parole authority for Russia commencing on January 15, 2012, allowing visa waivers for Russian visitors to Guam. Visitor arrivals from Russia in Fiscal Year 2012 numbered 2,931 versus 528 in Fiscal Year 2011, an increase of 455%.

The Government of Guam and GVB continue to lobby for expansion of the visa waiver program to visitors to Guam from mainland China. A decision on China is expected this year.

Hotels

Tumon Bay, located on Guam’s west coast, is the heart of Guam’s tourist industry. The hotels that line Tumon Bay provide lodging to the majority of visitors to Guam. During the 1990s and early 2000s, Guam’s inventory of hotel rooms increased over 100%, with substantial growth in the number of hotel rooms occurring from 1991 to 1993 and from 1995 to 2001. As of April 2013, there were 34 hotels in Guam, including many notable international hotel operators, with an inventory of over 8,200 rooms. Guam’s annual weighted hotel occupancy rate improved from 60% in 2006 to 68% in 2007, but declined to 64% in 2008 and to 60% in 2009. In calendar year 2010, annual weighted hotel occupancy rates increased to 71%, then to 72% in 2011. The weighted average room rate during the period from January to December 2011 also increased to \$114 from \$111 during 2010. As of December 2012, the weighted average hotel occupancy rate and room rate was 81% and \$123 respectively.

Table A-11 lists the top fifteen hotel operators and the number of rooms as of February 2013.

TABLE A-11
Top Fifteen Hotel Operations in Guam
As of February 2013

<u>Hotel/Resort</u>	<u>Year Opened</u>	<u>Location</u>	<u>Number of Rooms⁽¹⁾</u>
Pacific Islands Club	1980	Tumon	777
Hilton Guam Resort & Spa	1972	Tumon	645
Outrigger Guam Resort	1999	Tumon	600
Guam Plaza Hotel	1983	Tumon	505
Hotel Nikko Guam	1992	Tumon	492
Hyatt Regency Guam	1994	Tumon	450
Westin Resort Guam	1996	Tumon	432
Onward Beach Resort	1992	Tamuning	430
Guam Reef & Olive Spa Resort	1974	Tumon	422
Guam Marriott Resort	1987	Tumon	380
Fiesta Resort Guam	2006	Tumon	318
Sheraton Laguna Guam	2007	Tamuning	318
Guam Aurora Resort Villa & Spa	2009	Tumon	273
Holiday Resort Guam	2005	Tumon	252
Verona Resort & Spa	2012	Tumon	218
Total			6,512

⁽¹⁾ Numbers may not reflect actual capacity as hotel management may make rooms unavailable at any given time.

Source: Guam Visitors Bureau.

Pursuant to Section 30101(b), Title 11, Guam Code Annotated, the Hotel Occupancy Tax is an excise tax levied and imposed by the Government against transient occupants of a room or rooms in a hotel, lodging house or similar facility located in Guam. The Hotel Occupancy Tax has been levied at the rate of 11% of the rental price

charged or paid per occupancy per day since April 1, 1995. Table A-12 below shows the amount of Hotel Occupancy Tax Revenues collected during each of the calendar years shown.

TABLE A-12
Annual Hotel Occupancy Tax Revenues
Calendar Years 2004 – 2012

<u>Calendar Year</u>	<u>Amount</u>
2004	\$17,859,367
2005	19,158,350
2006	19,528,390
2007	21,179,962
2008	20,822,521
2009	19,622,561
2010	22,334,1034 ⁽¹⁾
2011	22,961,598
2012	26,759,709

⁽¹⁾ Repeal of exemption applicable to certain Government employees was effective May 17, 2010.

Source: Guam Visitors Bureau.

Significant hotel renovations totaling \$100 million over the past few years have been undertaken at Hilton Guam Resort and Spa, Pacific Islands Club, Guam Marriott Resort, Hotel Nikko Guam, Royal Orchid Guam, Sheraton Laguna Guam Hotel, Hyatt Regency Guam and Westin Resort Guam. In addition, the property developer Tanota Partners is constructing a new \$110 million, 400-room hotel tower, the Dusit Thani Guam, which will include a ballroom with a 2,000 person seating capacity and stand between the Outrigger Guam Resort, the Hyatt Regency Guam, and a commercial center filled with retail shops, restaurants and clubs also owned by Tanota Partners in Tumon. The Dusit Thani Guam is scheduled for a soft opening in late 2013. The soft opening is scheduled for fall of 2013. Under new ownership, the Guam Marriott Resort and Spa began \$25 million of renovations in the second quarter of 2011. These projects are expected to be completed in 2013. Leo Palace Resort has completed \$2.4 million of hotel renovation projects. The Royal Orchid Hotel has indicated its plans to convert 200 rooms to 98 residential condo units. The Guam Reef Hotel & Olive Spa has completed the first phase of approximately \$12 million of renovations that started in October 2012. The Sherwood Hotel was sold in September 2011 and re-opened in 2012 as the new Verona Resort and Spa with 218 rooms. In addition, Lotte Hotels and Resorts (“Lotte Hotels”) has been its \$20 million renovation and rebranding of the Guam Aurora Resort Villa & Spa, which encompasses 242 rooms, four restaurants, three banquet halls, an outdoor swimming pool, a spa and a chapel. The Lotte Hotels renovated and rebranded hotel is currently scheduled to re-open in late 2013.

Political Self-Determination

There have been efforts dating as far back as 1984 to study the potential for Guam to become a Commonwealth of the United States of America. Federal legislation that would grant Guam greater authority over its internal affairs and ensure the right of self-determination for the Chamorro people of Guam was developed on Guam and approved in two plebiscites by the people of Guam in 1987. Although such federal legislation was introduced in the 105th U.S. Congress in 1988, it was never adopted. Guam’s Commission on Decolonization reconvened in September 2011, for its first meeting since 2003, to discuss options for Guam’s political self-determination and future political status and has continued to meet periodically since.

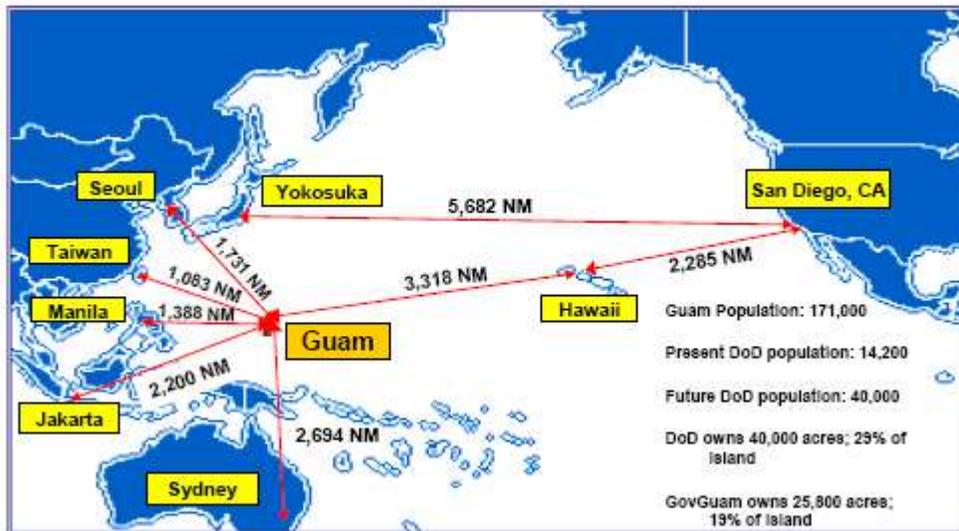
Military Activity

Recent world events have increased recognition of Guam’s strategic military value that could result in increasing military presence in Guam and its contribution to the Guam economy. As recently as January 2012, the U.S. Department of Defense indicated the importance of a strong U.S. military presence in Asia-Pacific region. A strong U.S. presence in the Pacific demonstrates active support for Japan, South Korea, Australia and other Pacific Rim allies and supports U.S. economic and security interests. Guam is positioned geographically to constitute an

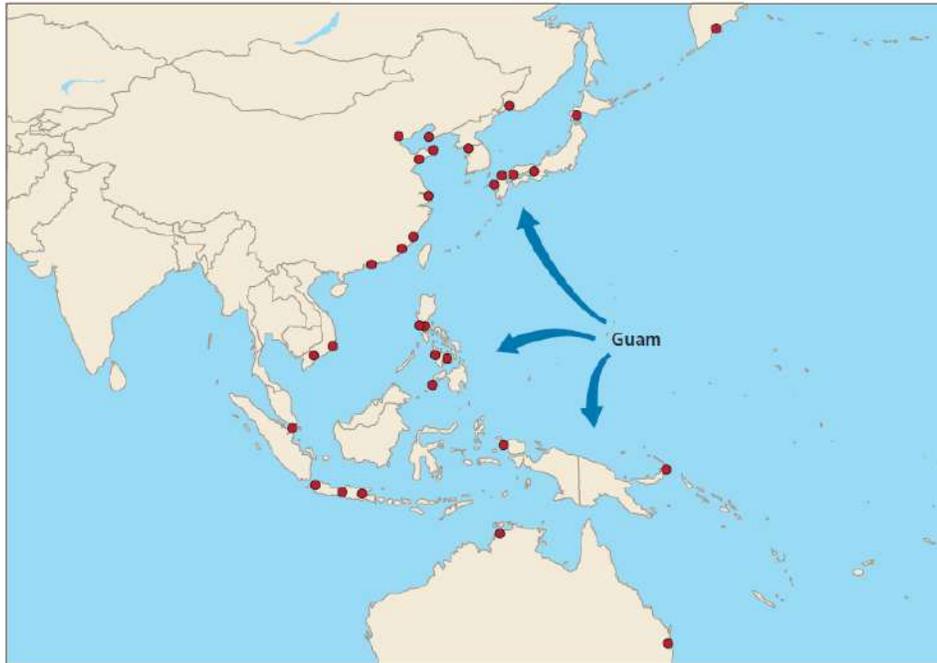
extended homeland defense perimeter, protecting the U.S. west coast and Hawaii from acts of aggression. Military bases on Guam can support forward deployed capabilities in Asia and allow rapid response to any threat to stability of the Asian region or any threat to the U.S. originating in the Asian region. Other advantages of Guam's military activity include:

- Geographic location: closer to potential flashpoints of conflict in Asia and the Middle East.
- U.S. Sovereign territory: no need for host nation consent to pre-position war munitions, to deploy weapons or to conduct operations.
- Air Force, Navy and Marine Corps, Coast Guard, National Guard and Reserve facilities with substantial munitions, fuel supply, communications, command and control capabilities.
- Unencumbered air and sea space for live fire and special operations training including EOD, SEALs and other joint war-fighting and operational readiness initiatives.
- Deep water harbor with 17,000 linear feet of wharfage with ability to handle three million pounds of ordnance (net explosive weight).
- Significant airfield capability including dual, two mile long runways with contingency, mobilization and surge capable civilian airfields on Guam and CNMI.
- Repair capabilities for surface vessels, submarines, aircraft and combat equipment at the Intermediate Maintenance Facility, the privatized ship repair facility, the submarine tender, Naval Base Guam and Andersen Air Force Base and civilian facilities.

The map below shows Guam's location in the Pacific and relative distances between major cities in the Pacific Rim.



The map below identifies Major Ports that can be reached from Guam in 5 days or less.



Military Personnel

The level of active duty military personnel in Guam increased slightly from 2007 to 2010. In the years following 2010, Guam began to experience a decrease in military personnel as a result of the delay in the relocation of the Third Marine Expeditionary Force from Okinawa and Iwakuni, Japan to Guam. Concerns regarding the high cost of the relocation, delays in relocating U.S. military personnel and facilities currently within Japan, and the U.S. budget deficit have extended the implementation timeframe for the relocation of the U.S. Marines from Japan and reduced the expected number of relocating personnel from 9,000 to approximately 5,000. If current U.S. military plans come to fruition, Guam is expected to experience an increase of approximately 5,000 active duty military and up to 10,000 dependents, although the Government cannot predict whether, when or to what extent such increase may occur. Regardless, there currently exists significant United States military missions on Guam. The U.S. Air Force hosts a rotating presence of bomber, tanker and fighter aircraft and permanently stationed RQ-4 Global Hawk unmanned aerial reconnaissance assets in addition to a variety of aircraft and contingency response training events. The U.S. Navy has home-ported three fast attack submarines in Guam: the USS Oklahoma City, the USS Chicago and the USS Key West.

The U.S. government may choose to relocate military fleets, equipment and personnel from time to time in ways that either increase or decrease the U.S. military presence on Guam, and the Government cannot predict whether or when such adjustments may occur. However, military presence on Guam is expected to increase.

Table A-13 lists active duty military personnel on Guam from 2007 through 2012.

TABLE A-13
Active Duty Military Personnel on Guam
2007-2012

<u>Year</u>	<u>Navy</u>	<u>Air Force</u>	<u>Army</u>	<u>Marines</u>	<u>Coast Guard</u>	<u>Total</u>
2007	3,879	1,596	632	4	175	6,286
2008	3,584	1,930	625	4	188	6,331
2009	3,523	2,042	619	4	191	6,379
2010	3,488	2,097	620	4	191	6,400
2011	3,555	1,907	615	5	193	6,275
2012	3,065	1,216	260	13	223	4,777

Source: Guam State Data Center, Bureau of Statistics and Plans.

Table A-14 lists military dependents on Guam from 2007 through 2012.

TABLE A-14
Military Dependents on Guam
2007-2012

<u>Year</u>	<u>Navy</u>	<u>Air Force</u>	<u>Army</u>	<u>Marines</u>	<u>Coast Guard</u>	<u>Total</u>
2007	2,774	1,941	1,178	4	154	6,051
2008	2,048	2,434	1,204	4	143	5,833
2009	1,975	3,410	1,201	7	228	6,821
2010	3,207	2,442	1,172	10	228	7,059
2011	2,445	3,365	1,199	10	228	7,247
2012	2,170	2,319	600	11	281	5,381

Source: Guam State Data Center, Bureau of Statistics and Plans.

As displayed in Table A-15, the number of civil service personnel on Guam steadily increased from 2006 to 2008. During this period, the number of military civil service personnel on Guam increased by over 20%. In 2009, military civil service personnel (both local and stateside hire) decreased by 11.5% but exceeded 2006 levels. From 2009 to 2010, the number of military civil service personnel on Guam increased by approximately 6.9%. Figures for 2012 reflect an increase in personnel over the 2011 level in preparation for the relocation of forces from Okinawa.

TABLE A-15
Military Civil Service Personnel on Guam
2006-2012

<u>Year</u>	<u>Non-Appropriated Fund Personnel</u>	<u>Local Hire</u>	<u>Stateside Hire</u>	<u>Total</u>
2006	860	1,415	778	3,053
2007	989	1,566	803	3,358
2008	1,121	1,692	895	3,708
2009	1,176	1,292	810	3,278
2010	942	1,556	1,022	3,520
2011	638	1,490	372	2,500
2012	1,272	1,767	283	3,322

Source: Guam State Data Center, Bureau of Statistics and Plans.

Military Expenditures

Table A-16 provides a breakdown of military salaries expended on Guam during Fiscal Years 2004 through 2010, the most recent year for which information is available. Periodic changes in these figures reflect deployment of Guam-based troops to active duty in other locations. The U.S. Bureau of Census ceased publication of military salary data in 2011 due to budgetary constraints.

TABLE A-16
Department of Defense Expenditures on Guam
Active Duty and Civilian Military Salaries
Fiscal Years 2004-2010⁽¹⁾
(In Thousands)

<u>Fiscal Year</u>	<u>Active Military</u>	<u>Inactive Military</u>	<u>Civil Service Employees</u>	<u>Coast Guard Employees</u>	<u>Total Salaries</u>
2004	\$206,570	\$20,533	\$38,776	\$167	\$266,046
2005	211,239	23,544	55,291	159	290,233
2006	233,475	18,986	56,065	144	308,670
2007	233,521	11,290	58,381	149	303,341
2008	101,303	13,880	60,794	157	176,134
2009	114,218	85,938	66,224	215	266,595
2010	241,496	15,751	72,923	225	330,395

⁽¹⁾ Latest data available.

Source: Consolidated Federal Funds Report, Bureau of the Census.

An increase in Department of Defense procurement contracts results from the loss of civil service personnel. As the private sector carries out functions previously performed predominantly by civil service personnel, federal spending under procurement contracts generally increases. Expenditures also increased as the military undertook various projects in support of current missions and relocation from Okinawa including a new Naval hospital.

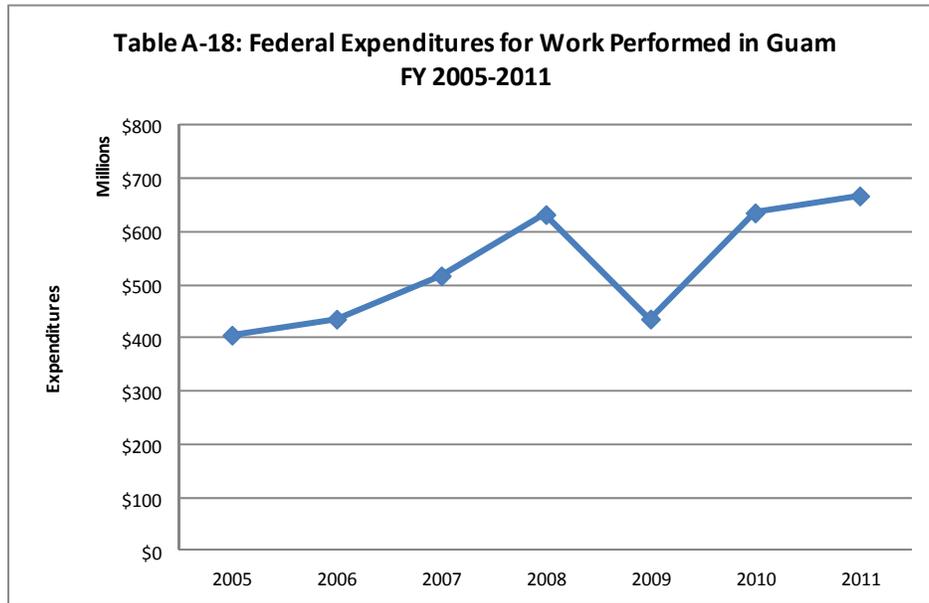
TABLE A-17
Department of Defense Procurement Contracts for Guam
Fiscal Years 2006-2012
(In Thousands)

Fiscal Year	Department of Defense Procurement
2006	\$270,843
2007	341,933
2008	392,553
2009	342,630
2010	666,023
2011	663,806
2012	310,102

Source: USASpending.gov and Guam State Data Center, Bureau of Statistics and Plans.

The USASpending.gov website continuously updates its procurement data such that expenditures reported for any one year changes approximately every six months, usually increasing the amounts previously published. To obtain a more current picture of military contract awards, GEDA maintains a database of contracts awarded by the Department of Defense for Guam as reported on various military websites supplemented with data from the Naval Facilities Engineering Command Contracting Office. This database indicates that over \$339 million was awarded in Fiscal Year 2006; over \$351 million was awarded in Fiscal Year 2007; approximately \$476 million was awarded in Fiscal Year 2008; approximately \$636 million was awarded for Fiscal Year 2009; over \$964 million was awarded for Fiscal Year 2010; \$674 million was awarded in Fiscal Year 2011; and \$532 million was awarded in Fiscal Year 2012. Given that not all Department of Defense contract awards are reported on the source websites, it is believed that the database maintained by GEDA understates total contract awards for these years.

The federal government publishes all federal agency transactions for work performed in Guam in its website located at www.USASpending.gov. The chart below indicates that from Fiscal Year 2005 to Fiscal Year 2011, the most recent year for which information is available, agencies of the federal government, including the Department of Defense, paid an average of \$533 million per year to companies for work performed in Guam. The expectation is that payments will increase significantly as a result of the increased military presence on Guam. The increase in spending in 2010 and 2011 is partially attributable to funds provided under the American Recovery and Reinvestment Act of 2009.



Source: USAspending.gov compiled by GEDA and the Guam Bureau of Statistics and Plans.

Congressional authorizations for appropriations for military construction and family housing projects are depicted in Table A-19 below. Steady growth in such authorizations was evident from Fiscal Year 2007 to Fiscal Year 2010. Fiscal Year 2011 saw a significant decline in appropriations due to delays as a result of environmental and land acquisition issues associated with the relocation of Marines from Japan to Guam. This decline has continued for 2012 and 2013 as the impact of the relocation of Marines is still being studied and Department of Defense still needs to meet certain Congressional requirements. The Department of Defense studies are currently scheduled for completion in early 2014. For Fiscal Year 2014, the President has approved the Department of Defense's request for \$495 million for military construction in Guam and has sent the request to Congress for approval.

**TABLE A-19
U.S. Military Construction Authorizations for Guam
Fiscal Years 2007-2013
(In Thousands)**

<u>Year</u>	<u>Total Authorizations</u>
2007	\$208,746
2008	290,700
2009	179,100
2010	737,614
2011	246,030
2012	116,600
2013	101,904

Source: Guam Economic Development Authority.

Of the \$116.6 million appropriated in Fiscal Year 2012, \$33 million is conditioned on certain actions to be taken by the Marine Corps, the Secretary of Defense, and other federal agencies. While the Government believes progress is being made to satisfy these conditions, no assurance can be given as to when or if such conditions will be satisfied. Fiscal Year 2013 construction projects recently authorized by Congress include upgrade of the Defense

Logistics Agency Fuel Pipeline (\$67.5 million); North Ramp Utilities at Andersen Air Force Base Guam (\$25.9 Million); and the Guam Army National Guard Joint Force Headquarters (\$8.5 million). Fiscal Year 2014 projects submitted for Congressional approval include: Aircraft Maintenance Hangar - North Ramp (\$85.67 million); Broad Area Maritime Surveillance (BAMS) Forward Operational and Maintenance Hangar (\$61.7 million); Dehumidified Supply Storage Facility (\$17.17 million); Emergent Repair Facility Expansion (\$35.86 million); Modular storage Magazines (\$63.38 million); Sierra Wharf Improvements (\$1.17M); X-ray Wharf Improvements (\$53.42 million); Pacific Airpower Resiliency (PAR) - Fuel Systems Hardened Buildings (\$20 million); PAR - Strike Tactical Missile Mxs Facility (\$10.53 million); PAR - Tanker GP Mx Hangar/AMU/Sqd Ops (\$132.6 million); PRTC RED HORSE Airfield Operations Facility (\$8.5 million); and PRTC SF Fire Rescue and Emergency Management (\$4.6 million).

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APPENDIX B

SUMMARY OF THE FORM OF AIRLINE OPERATING AGREEMENT

The following is a summary of certain provisions of the form of Airline Operating Agreement and Terminal Building Lease (the "Airline Operating Agreement") to which reference is made for a complete statement of the provisions and contents thereof. Capitalized terms used herein which are not otherwise defined will have the meanings set forth in the Airline Operating Agreements. The Airline Operating Agreements provide for the lease and use of certain premises and facilities of the Airport. The Authority has entered into Airline Operating Agreements with each of China Airlines, Delta Air Lines, Eva Air, Hyannis Air Service, Inc. d.b.a. Cape Air ("Cape Air"), Japan Airlines, Jeju Air, JINAIR, Korean Air, Philippine Airlines, United Airlines (each a "Signatory Airline," and together, the "Signatory Airlines"). The Airline Operating Agreements expire on September 30, 2016, except the Airline Operating Agreement with Cape Air, which expires on September 30, 2013. The Airline Operating Agreements are substantially similar except for provisions relating to different exclusive use premises for each Signatory Airline.

Definitions

"Air Transportation" means the carriage for hire of persons, baggage, property, cargo, and mail by aircraft.

"Aircraft Arrivals" means any aircraft arrivals at the Airport (including, without limitation, scheduled, charter, sightseeing, training, test, ferry, courtesy, and inspection flights, or any other flights) operated by an Air Transportation company. Aircraft Arrivals do not include any flights by aircraft owned or operated by the U.S. Government, or any aircraft returning to the Airport as the result of an equipment failure, passenger emergency, meteorological, or other precautionary reason without first landing at another airport.

"Airline" means the entity that has executed an Airline Operating Agreement and that is identified in the first paragraph of such Airline Operating Agreement. However, and notwithstanding anything to the contrary in the applicable Airline Operating Agreement, for purposes of the enjoyment of the rights conferred on the Airline under the its Airline Operating Agreement, it is agreed in such Airline Operating Agreement that any Airline Affiliate (as defined in such Airline Operating Agreement) of the Airline is to have the rights afforded the Airline under the its Airline Operating Agreement, including the right to use the premises leased under such Airline Operating Agreement to the Airline, without payment of any additional charges or premiums, it being agreed in the Airline Operating Agreement that such Airline Affiliate is to be entitled to signatory rates and charges under such Airline Operating Agreement and that the Airline and any Airline Affiliates are to be counted as one airline for purposes of computing any shared use or joint use charges; provided, however, that the Airline is to be responsible for the actions (including the payment of any activity fees incurred by) any such Airline Affiliate while such Airline Affiliate operates at the Airport until the Airline gives the Authority 90 days advance written notice that the Airline will no longer be responsible for the actions (or activity fees) of such Airline Affiliate, at which time such Airline Affiliate may enter into its own agreement with the Authority.

"Airline Affiliate" means any Air Transportation company, to the extent that such Air Transportation company (i) is a parent or subsidiary of the Airline, or (ii) shares flight codes or livery with the Airline at the Airport, or (iii) otherwise operates under the Airline's trade name at the Airport, provided that no major airline, as such term is defined by the FAA, will be classified as an Affiliate of another major airline.

"Airline Employees" means airline crew, and other airline employees traveling on a non-revenue basis, but does not include dependents of airline employees.

"Airport" means the Antonio B. Won Pat International Airport, Guam, as the same may change from time to time, together with all related facilities owned or operated or acquired by the Authority, as further defined in the Bond Indenture.

“Airport Cost Centers” means direct cost areas to be used in accounting for Airport revenues and expenses and for calculating and adjusting rents and fees described in the Airline Operating Agreements, as more particularly described below:

A. “Airfield Area” means those areas of civil cost responsibility of the Airport, as they exist or as they may be expanded, modified, changed, or developed after the date of the Airline Operating Agreement, that provide for the landing, takeoff, taxiing, parking (other than in the Apron Area), or other operations of aircraft. The Airfield Area includes the runways, taxiways, approach and clear zones, safety areas, infield areas, landing and navigational aids, and other facilities and land areas at the Airport required by or related to aircraft operations.

B. “Apron Area” means the areas of the Airport, as they exist or as of the date of execution of the applicable Airline Operating Agreement or as they may be expanded, modified, changed or developed after the date of the applicable Airline Operating Agreement, that are dedicated to the parking, servicing, and ground handling of aircraft.

C. “Terminal Area” means the access roads, public and employee automobile parking areas, and other areas surrounding the Terminal Building, as such areas exist or as of the date of execution of the applicable Airline Operating Agreement or as they may be expanded, modified, changed, or developed after the date of the applicable Airline Operating Agreement.

D. “Terminal Building” means the terminal building serving the airlines together with the associated concourses, as such areas exist or as of the date of execution of the applicable Airline Operating Agreement or as they may be expanded, modified, changed, or developed after the date of the applicable Airline Operating Agreement.

E. “Other Buildings and Areas” means those portions of the Airport not included in the preceding Airport Cost Centers, including the facilities, installations, and improvements thereon as such areas exist or as of the date of execution of the applicable Airline Operating Agreement or as they may be expanded, modified, changed, developed, or acquired after the date of the applicable Airline Operating Agreement.

“Airport Requirement” means all costs and expenses incidental to, necessary for, or arising out of the operation of the Airport, including but not limited to Operation and Maintenance Expenses, Annual Debt Service and coverage on Airport revenue bonds, repayment of loans, and the cost of defending, settling, or satisfying the results of any litigation or threatened litigation directly arising out of the operation and management of the Airport or any aspect thereof.

“Airport Revenue” means Revenues as defined in the Bond Indenture.

“Annual Debt Service” means the aggregate Annual Debt Service as defined in the Bond Indenture.

“Annual Budget” means the budget of the Authority pertaining to the Airport for any Fiscal Year.

“Apron Use Fee” means the fee charged to an Airline for each use by such Airline of the Apron Area by the Airline’s aircraft.

“Arrival Fee” means the fee charged to an Airline for each Arriving Passenger carried by such Airline.

“Arrivals Facilities” means those Terminal Building facilities used for Arriving Passengers, including customs inspection, inbound baggage handling, baggage claim and certain other areas.

“Arriving Passengers” means revenue and non-revenue passengers, excluding Airline Employees, arriving at the Airport and terminating their journeys in Guam.

“Bond Indenture” means the 2003 Indenture relating to the Guam International Airport Authority 2003 General Revenue Bonds, together with any supplemental bond indenture and any future indentures or resolutions, authorizing the issuance of Bonds, other than Special Facility Bonds, payable from Airport Revenue.

“Bonds” means any bond or bonds issued in accordance with the provisions of the Bond Indenture, other authorizing legislation enacted in accordance with the provisions of the Bond Indenture, other authorizing legislation enacted by the Territory as more specifically defined in such Bond Indenture, or such other authorizing legislation enacted by the Territory.

“Capital Improvement” means any single item or a series of substantially similar items having an aggregate net cost in excess of \$100,000 and a useful life in excess of five years acquired, purchased, or constructed to improve, maintain, preserve, or develop the Airport.

“Capital Improvement Fund” means the fund described in the Airline Operating Agreements.

“Departure Facilities” means those Terminal Building facilities used for an Airline’s Enplaned Passengers including departure lounges, baggage make up, bus gate facilities, security and certain other areas.

“Departing Passengers” means revenue and non-revenue passengers, excluding Airline Employees, originating their journey in Guam.

“Deplaned Passengers” means (1) Arriving Passengers, and (2) in- transit passengers arriving and departing from the Airport on the same flight, or making a connection with another flight; and includes revenue and non-revenue passengers, excluding Airline Employees.

“Enplaned Passengers” means (1) Departing Passengers and (2) in- transit passengers arriving in and departing from the Airport on the same flight, or making a connection with another flight; and includes revenue and non-revenue passengers, excluding Airline Employees.

“Enplanement Fee” means the fee charged to an Airline for each Enplaned Passenger carried by such Airline.

“Exclusive Use Space” means the premises leased by the Authority to an Airline under its Airline Operating Agreement.

“Executive Manager” means the Executive Manager of the Authority, designated as such by the Authority.

“FAA” means the Federal Aviation Administration of the U.S. Government or any federal agencies succeeding to its jurisdiction.

“Fiscal Year” means the 12 months commencing on October 1 of any calendar year and ending on September 30 of the next succeeding calendar year or any other 12 month period established by the Authority.

“Immigration Inspection Facilities” means those facilities operated by U.S. immigration authorities, including passenger inspection areas and other office and support space.

“Immigration Inspection Fee” means the fee charged by the Authority to an Airline for each Deplaned Passenger of such Airline, who uses Airport Immigration Inspection Facilities.

“Joint Airline Use Space” means the premises leased by the Authority to an Airline and one or more other airlines.

“Landing Fee” means the fee charged to an Airline for each such Airline Aircraft Arrival made at the Airport.

“Loading Bridge Positions” means aircraft parking positions at which the passenger loading bridges owned by the Authority are available and provided to Air Transportation companies for their use.

“Loading Bridge Use” means each Aircraft Arrival which uses a Loading Bridge Position for enplaning and/or deplaning passengers or Airline Employees, excluding use by an aircraft returning to a gate as a result of an equipment failure, passenger emergency, meteorological or other precautionary reason without first landing at another airport.

“Loading Bridge Use Fee” means the fee charged to an Airline for each Loading Bridge Use.

“Maximum Certificated Gross Takeoff Weight” means the maximum certificated weight, in 1,000 pound units, that each aircraft operated by an Airline is certificated by either the FAA for U.S. or non-U.S. airlines or the government of the country of origin for non-U.S. airlines, as recited in such Airline’s flight manual governing that aircraft type. Maximum Certificated Gross Takeoff Weight is to be rounded up to nearest 1,000-pound unit for all landing fee computations. For the purposes of the Airline Operating Agreements, widebody aircraft are those having a Maximum Certificated Gross Takeoff Weight in excess of 240,000 pounds.

“Monthly Revenue Report” means the monthly report, provided by an Airline to the Authority, that is required to include the following data in the format stated by the Authority:

A. Passenger Data

i. Deplaned Passengers

- a. Arriving passengers: revenue, non-revenue and total categories displayed by domestic, international and total.
- b. Inbound in-transit passengers: revenue, non-revenue and total categories displayed by thru, connecting and total.
- c. Total deplaned passengers.

ii. Enplaned Passengers

- a. Departing Passengers: revenue, non-revenue and total categories displayed by domestic, international and total.
- b. Outbound in-transit passengers: revenue, non-revenue and total categories displayed by thru, connecting and total.
- c. Total enplaned passengers.

B. Cargo/Mail Data

- a. Cargo (pounds): revenue, non-revenue and total categories displayed by deplaned, enplaned and total.
- b. Mail (pounds): revenue, non-revenue and total categories displayed by deplaned, enplaned and total.

C. Aircraft operations

- i. Number of aircraft arrivals by aircraft type, and category of scheduled passenger, charter passenger, cargo, other and total.

ii. Aircraft Maximum Certificated Gross Takeoff Weight and Loading Bridge Use.

“Operation and Maintenance Expenses” means all reasonable and necessary current expenses of the Authority, paid or accrued, for operating, maintaining, and repairing the Airport, as more specifically defined in the Bond Indenture.

“Passenger Facility Charge” or “PFC” means a charge authorized by Federal Aviation Regulations 14 CFR Part 158 and imposed by the Authority on enplaned passengers (as defined in FAR 14 CFR Part 158) at the Airport, as same may be amended, modified, or supplemented from time to time.

“Signatory Airlines” means those airlines providing Air Transportation to and from the Airport that have executed substantially similar agreements with the Authority covering the use and occupancy of facilities at the Airport.

“Terminal Building Requirement” means the total amounts summarized in the provisions of the Airline Operating Agreement summarized under the heading “Calculation of Terminal Building Rental Rate,” used to calculate the Terminal Building rental rate.

“Total Takeoff Weight” means the sum of the Maximum Certificated Gross Takeoff Weight for all Signatory Airline Aircraft Arrivals over a stated period of time. Said sum will be rounded up to the nearest 1,000 pound unit for all landing fee computations.

“Usable Space” means the gross space in the Terminal Building at the Airport less mechanical and administration space.

Term

An Airline Operating Agreement becomes effective when executed by the Authority and each Signatory Airline and will continue in effect until its expiration date or until earlier terminated in accordance with its terms. The current Airline Operating Agreements expire on September 30, 2016, except the Airline Operating Agreement with Cape Air, which expires on September 30, 2013.

Rents and Fees

Consideration

The consideration that a Signatory Airline agrees in its respective Airline Operating Agreement to provide the Authority for leasing Exclusive Use Space and Joint Airline Use Space and using the Airfield Area, Apron Area, Terminal Area, and Other Buildings and Areas (as such premises are more fully described in such Airline Operating Agreement), and exercising the other rights and privileges under such Airline Operating Agreement is (i) providing regularly scheduled Air Transportation to and from the Airport, and (2) paying rents and fees required by such Airline Operating Agreement. As provided in the Airline Operating Agreement, failure to provide regularly scheduled Air Transportation to and from the Airport for a period of 60 days (except as a result of governmental action, during periods of labor disputes, or as a result of damage or destruction of facilities as summarized under the heading “Damage and Destruction” below) will permit the Authority to terminate the applicable Airline Operating Agreement on 30 days advance written notice. If an Airline resumes regularly scheduled Air Transportation to and from the Airport within such period, the Airline Operating Agreement is to continue in full force and effect. Unless the Airline Operating Agreement is terminated in whole or in part by Authority, the Airline is required to pay to the Authority rents and fees under such Airline Operating Agreement for the term thereof. In the event the Authority terminates an Airline Operating Agreement pursuant to the provisions thereof summarized in this paragraph, the Airline will have no further liability to the Authority under such Airline Operating Agreement except for liabilities incurred prior to the termination date.

Pursuant to the Airline Operating Agreements, the Authority is required to calculate annually the following fees in accordance with the provisions of the Airline Operating Agreements: (1) Terminal Building Rents, (2)

Enplanement Fees, (3) Arrival Fees, (4) Immigration Inspection Fees, (5) Loading Bridge Use Fees, (6) Apron Use Fees, and (7) Landing Fees. See “Adjustment of Airline Rents and Fees” below.

Failure to Make Payments

If an Airline fails to furnish the Executive Manager with an activity report and payments of fees as required by its Airline Operating Agreement, such Airline’s fees are to be determined as follows: (1) Enplanement Fees and Arrival Fees are to be determined by assuming its Enplaned Passengers and Arriving Passengers during the preceding month were 110% of its Enplaned Passengers and Arriving Passengers during the most recent month for which such figure is available; (2) Immigration Inspection Fees are to be determined by assuming that its international Deplaned Passengers during the preceding month were one 110% of its international Deplaned Passengers during the most recent month for which such figure is available; (3) Loading Bridge Use Fees are to be determined by assuming that the Loading Bridge Uses for the Signatory Airline during the preceding month were 110% of its Loading Bridge Uses during the most recent month for which such figure is available; (4) Apron Use Fees are to be determined by assuming that its Aircraft Arrivals during the preceding month were 110% of its Aircraft Arrivals during the most recent month for which such figure is available; and (5) Landing Fees are to be determined by assuming that its takeoff weight during the preceding month was 110% of its takeoff weight during the most recent month for which such figure is available.

Additional Rent

The Authority, after due notice to an Airline, may, but is not obligated to, cure any default on an Airline’s part in fulfilling such Airline’s covenants and obligations under its Airline Operating Agreement. Any amounts paid or costs incurred by the Authority to cure any such default by an Airline are agreed on and declared in its Airline Operating Agreement to be additional rent. Unless otherwise provided in such Airline Operating Agreement, all additional rent is to be due and payable with the next succeeding installment of monthly rent due under such Airline Operating Agreement.

Additional Passenger Fees and Charges

Legislation and regulations have been enacted that permit the Authority to levy PFCs on each Signatory Airline’s passengers using the Airport (FAR 14 CFR Part 158). The Airline Operating Agreements are subject and subordinate to such legislation and regulation, and the Authority reserves the right to enact such fee. The Authority currently levies a PFC (as approved by the FAA) and each Signatory Airline agrees in its Airline Operating Agreement to cooperate with the collection of such PFC amounts in accordance with FAA regulations. The Authority reserves the right to implement such other similar fees or charges as may be authorized by cognizant governmental authorities having jurisdiction over the Authority in its capacity as operator of the Airport.

Fees for Other Commercial Activities

Notwithstanding any other provision of an Airline Operating Agreement, the Authority expressly reserves the right in the Airline Operating Agreements to establish charges and fees for other commercial activities except an Airline’s Air Transportation activities at the Airport. Such commercial activities may include, but are not be limited to, merchandising (both duty free and duty paid), food, beverage, insurance, rental cars, currency exchange, parking, category sales, and other concession operations that are available to the public.

Should an Airline purchase in-flight meals for consumption aboard its aircraft or other prepared foodstuffs for consumption within the Airline’s Exclusive Use Space from any supplier other than a food concessionaire on the Airport, the Authority may impose a percentage fee upon such supplier no greater than the percentage fee paid for similar sales by any inflight food concessionaire authorized at the Airport. It is understood that the Authority will not impose a percentage fee on in-flight meals prepared in flight kitchens operated by an Airline (including a subsidiary of the Airline) for consumption in flight by an Airline’s passengers.

Should an Airline contract with a third party (other than another Signatory Airline) to provide maintenance and service upon its aircraft or to furnish ground services that might otherwise be performed by the Airline under the

applicable Airline Operating Agreement, such third party (other than another Signatory Airline) shall be deemed to be conducting a business at the Airport and must, at all times while so engaged, meet the requirements of and have an agreement with the Authority. The Authority may impose charges, rents, and fees upon such third party for facilities use and for services provided for all Airport tenants.

Any ground transportation commercial carrier regularly transporting persons or their baggage to and from the Airport, any contractor or supplier who is requested by an Airline to supply goods and services on the Airport, and all parties who are requested by the Airline to go beyond the roads furnished for the public at the Airport is required to first secure and thereafter hold a valid license or other agreement with the Authority for the right to perform such acts and is required to pay the Authority fees in amounts no less than the cost of issuing and administering such licenses and agreements, plus 10% of such cost. In addition, any ground transportation commercial carrier regularly transporting persons except as provided in the applicable Airline Operating Agreement or their baggage to and/or from the Airport is required to first agree in writing to pay the Authority such rents, fees, or percentage of the fares or charges for such ground transportation as the Authority and such carrier may establish in a written agreement. All such ground transportation will be conducted and be subject to the Rules and Regulations.

Aircraft Storage Fee

An Airline will pay the Authority for the storage of the Airline's aircraft on designated storage aprons (not at the Airline's parking positions) at reasonable rates fixed by the Authority from time to time in the Rules and Regulations and Airport Tariff Schedule, where aircraft storage shall be defined to occur at any time after the Airline's aircraft has been parked at the Airport for longer than 48 continuous hours.

No Other Fees and Charges

Except as expressly provided for in its Airline Operating Agreement, no further rents, fees, or charges are to be levied against or collected from an Airline, its passengers, shippers, and receivers of freight and express nor its suppliers of material, contractors, or furnishers of services by the Authority for the premises, facilities, rights, licenses, and privileges granted to an Airline under such Airline Operating Agreement. However, the Authority expressly reserves the right to assess and collect reasonable fees from parties other than the Airline for inflight catering, vending, ground transportation, and other services provided to the Airline. Also, the Authority expressly reserves the right to assess and collect a PFC in accordance with the provisions of the Airline Operating Agreement as summarized under the heading "Fees for Other Commercial Activities" above.

Anything in the Airline Operating Agreements to the contrary notwithstanding, the provisions of the Airline Operating Agreement as summarized under this heading are not to be interpreted or understood as contracting away the Authority's governmental authority.

Adjustment of Airline Rents and Fees

Effective Date of Adjustments

Pursuant to the Airline Operating Agreement, the Terminal Building rental rates, Departure Fee, Arrival Fee, Immigration Inspection Fee, Loading Bridge Use Fee, Apron Use Fee, and the Landing Fee rate are required to be adjusted annually as described below. Such adjustments are to be effective on the first day of the Fiscal Year for which they apply.

Annual Budget

Pursuant to the Airline Operating Agreements, the Authority is required each year to adopt an Annual Budget for the Airport and establish Terminal Building rental rates, a Departure Fee, an Arrival Fee, an Immigration Inspection Fee, a Loading Bridge Use Fee, an Apron Use Fee and a Landing Fee rate. The provisions of the Airline Operating Agreement summarized under this heading are intended to provide a meaningful consultation process in which (1) the Authority can review its Annual Budget with an Airline, and (2) an Airline will have an opportunity to

comment on the Annual Budget prior to the Annual Budget being adopted by the Authority. The Authority is required to give due consideration to an Airline's input and comments on the Annual Budget received during the consultation process. The Annual Budget review process is described below.

On or before May 1 of each Fiscal Year, each Airline is required to submit to the Executive Manager a written estimate of the Maximum Certificated Total Gross Takeoff Weight for the Airline for the succeeding Fiscal Year.

On or before July 1 of each Fiscal Year, the Authority is required to submit to the Airlines its proposed Annual Budget for the succeeding Fiscal Year, including: (1) estimated Operation and Maintenance Expenses; (2) Annual Debt Service, if any, and any fund deposits required pursuant to the Bond Indenture; (3) amortization of the Authority's funded assets; (4) a statement of estimated revenue from all sources other than Signatory Airline Terminal Building rents, Enplanement Fees, Arrival Fees, immigration inspection Fees, Loading Bridge Use Fees, Apron Use Fees, and Landing Fees for the succeeding Fiscal Year; (5) a schedule of the Capital Improvements to the Airport proposed to be undertaken by the Authority during the succeeding Fiscal Year and (6) a preliminary calculation of the Terminal Building rental rates, Enplanement Fee, Arrival Fee, Immigration Inspection Fee, Loading Bridge Use Fee, Apron Use Fee, and the Landing Fee rate for the succeeding Fiscal Year, calculated in accordance with the provisions of the Airline Operating Agreements summarized below.

Within 30 days after distribution of the report described above, the Executive Manager is required to convene a meeting of the Signatory Airlines to discuss the Annual Budget.

If the Signatory Airlines request additional information concerning the Annual Budget, the Executive Manager is required to convene a second meeting of the Signatory Airlines to discuss such additional information. Upon notice by the Executive Manager, the second meeting is required to be held within 30 days after the first meeting. At the second meeting, the Executive Manager is to respond to questions raised during the first meeting and provide the Signatory Airlines with the requested information concerning the Annual Budget. If, after the second meeting, the Signatory Airlines do not concur with said Annual Budget and so notify the Executive Manager within 10 days after the second meeting, the Executive Manager, at the request of the Signatory Airlines, is to schedule a meeting between the Signatory Airlines and the Authority.

Pursuant to the Airline Operating Agreements, if, for any reason, the Annual Budget has not been adopted as of the first day of any Fiscal Year, the rents and fees in effect during the preceding Fiscal Year are to continue in effect until the new Annual Budget has been adopted by the Authority and the Authority has calculated the rents and fees in accordance therewith. The new rents and fees are then to be made effective retroactive to the first day of such Fiscal Year, or upon agreement of Signatory Airlines and the Authority the total amount of the uncollected rents and fees accrued since the beginning of the Fiscal Year may be combined with the rents and fees to be collected over the remainder of the Fiscal Year and the new rental rates and other charges adjusted accordingly.

The Executive Manager is required to promptly furnish the Airlines with a copy of a report containing such adopted Annual Budget together with the calculation of Terminal Building rental rates, the Enplanement Fee, the Arrival Fee, the Immigration Inspection Fee, the Loading Bridge Use Fee, the Apron Use Fee, and the Landing Fee rate that will be effective from and after the beginning of the Fiscal Year for which the Annual Budget is adopted.

The Authority retains the responsibility and expressly reserves the right to make all final decisions with respect to the Annual Budget, and any subsequent amendment thereof. Such decisions are to be consistent with and pursuant to the terms and conditions of the Airline Operating Agreements.

Calculation of Terminal Building Rental Rates

Each year the Executive Manager is required to calculate the Terminal Building requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in the Authority's Annual Budget: (1) the total of direct and allocated indirect estimated Operation and Maintenance Expenses allocated to the Terminal Building; (2) an amount 1.25 times the pro rata portion of Airport Annual Debt Service, if any, allocated to the Terminal Building, or such other amount as may be required by the Bond Indenture; (3) the pro rata portion of the

annual requirement of any subordinate security or other loans allocated to the Terminal Building; (4) the pro rata portion of the estimated amount, if any, for other deposits required by the Bond Indenture or the Airline Operating Agreements and allocated to the Terminal Building; (5) the total amount or the pro rata portion of the annual amortization allocated to the Terminal Building of any Capital Improvements placed in service by the Authority prior to or after the date of the applicable Airline Operating Agreement and prior to the beginning of the Fiscal Year for which the rates and fees are being determined, which have been financed by the Authority from its own resources. Such annual amortization is to be calculated and based on the economic life for each capital item determined by the Authority in accordance with generally accepted accounting principles at an interest rate equal to the average interest rate on outstanding Authority Bonds for the preceding calendar year or at such other rate as to which the Signatory Airlines and the Authority may agree. In performing these calculations, no amortization charges are to be included on capital expenditures that have been financed with grants-in-aid or the proceeds of Authority Bonds or other securities, the debt service for which has been included elsewhere in these calculations; (6) the estimated amount of any assessment, judgment, or charge (net of insurance proceeds) to become payable by the Authority relating directly to the Airport or its operation and allocated to the Terminal Building; (7) any estimated deficit or credit for the operation of the Terminal Building during the then-current Fiscal Year or any adjustment carried over from preceding Fiscal Years to reflect any difference between actual versus estimated expenses; and (8) a credit equal to the allocated portion of the balance in the Other Available Moneys Coverage Subaccount.

The Terminal Building rental rate is then calculated by dividing the Net Terminal Building Requirement (computed as described in the above paragraph) by the Usable Space. The Terminal Building rental rate is multiplied by the total square footage of Exclusive Use and Joint Airline Use Space (excluding Departure Facilities, Arrival Facilities and Immigration Inspection Facilities, the costs of which are recovered through the Enplanement Fee, the Arrival Fee and the Immigration Inspection Fee, respectively) leased by all airlines to determine the annual portion of the Terminal Building Requirement to be recovered through airline Terminal Building space rentals,

Calculation of Enplanement Fee

Each year the Executive Manager is required to calculate the Enplanement Fee requirement for the succeeding Fiscal Year by multiplying the total square footage of the Departure Facilities by the average annual Terminal Building rental rate. The Enplanement Fee is calculated by dividing the Enplanement Fee requirement by the estimated number of Signatory Airline Enplaned Passengers at the Airport for the succeeding Fiscal Year as projected by the Executive Manager. The Executive Manager is to give consideration to estimates of numbers of passengers provided by the Signatory Airlines.

Calculation of Arrival Fee

Each year the Executive Manager is required to calculate the Arrival Fee requirement for the succeeding Fiscal Year by multiplying the total square footage of the Arrivals Facilities by the average annual Terminal Building rental rate. The Arrival Fee is calculated by dividing the Arrival Fee requirement by the estimated number of Signatory Airline Arriving Passengers at the Airport for the succeeding Fiscal Year as projected by the Executive Manager. The Executive Manager is to give consideration to estimates of numbers of passengers provided by the Signatory Airlines.

Calculation of Immigration Inspection Fee

Each year, the Executive Manager is required to calculate the Immigration Inspection Fee requirement for the succeeding Fiscal Year by multiplying the total square footage of the Immigration Inspection Facilities by the average annual Terminal Building rental rate. The Immigration Inspection Fee is calculated by dividing the Immigration Inspection Fee requirement by the estimated number of Signatory Airline international Deplaned Passengers at the Airport for the succeeding Fiscal Year as projected by the Executive Manager. The Executive Manager is to give consideration to estimates of numbers of passengers provided by the Signatory Airlines.

Calculation of Loading Bridge Use Fee

Each year the Executive Manager is required to calculate the Loading Bridge Use Fee requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in the Authority's Annual Budget: (1) the total of direct estimated Operation and Maintenance Expenses allocated to the Loading Bridges; (2) an amount 1.25 times the pro rata portion of Airport Annual Debt Service, if any, allocated to the Loading Bridges, or such other amount as may be required by the Bond Indenture; (3) the pro rata portion of the annual requirement of any subordinate security or other loans allocated to the Loading Bridges; (4) the pro rata portion of the estimated amount, if any, for other deposits required by the Bond Indenture or the Airline Operating Agreements and allocated to the Loading Bridges; (5) the total amount or the pro rata portion of the annual amortization allocated to the Loading Bridges, of any Capital Improvements placed in service by the Authority prior to or after the date of the applicable Airline Operating Agreements and prior to the beginning of the Fiscal Year for which the rates and charges are being determined, which have been financed by the Authority from its own resources. Such annual amortization is to be calculated and based on the economic life for each capital item determined by the Authority in accordance with generally accepted accounting principles at an interest rate equal to the average interest rate on outstanding Authority Bonds for the preceding calendar year or at such other rate as to which the Signatory Airlines and the Authority may agree. In performing these calculations no amortization charges is to be included on capital expenditures that have been financed with grants-in-aid or the proceeds of Authority Bonds or other securities, the debt service for which has been included elsewhere in such calculations; (6) the estimated amount of any assessment, judgment, or charge (net of insurance proceeds) to become payable by the Authority relating directly to the Airport or its operation and allocated to the Loading Bridges; and (7) any estimated deficit or credit for the operation of the Loading Bridges during the then-current Fiscal Year or any adjustment carried over from preceding Fiscal Years to reflect any difference between actual versus estimated expenses.

The Loading Bridge Use Fee is then calculated by dividing the Loading Bridge Use Fee requirement by the estimated number of Signatory Airline Loading Bridge Uses for the succeeding Fiscal Year as projected by the Executive Manager.

Calculation of Apron Use Fee

Each year the Executive Manager is required to calculate the Apron Area requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in the Authority's Annual Budget: (1) the total of direct and allocated indirect estimated Operation and Maintenance Expenses allocated to the Apron Area; (2) an amount 1.25 times the pro rata portion of Airport Annual Debt Service, if any, allocated to the Apron Area, or such other amount as may be required by the Bond Indenture; (3) the pro rata portion of the annual requirement of any subordinate security or other loans of Authority allocated to the Apron Area; (4) the pro rata portion of the estimated amount, if any, for other deposits required by the Bond Indenture or the Airline Operating Agreements and allocated to the Apron Area; (5) the total amount or the pro rata portion of the annual amortization allocated to the Apron Area of any Capital Improvements placed in service by the Authority prior to or after the date of the applicable Airline Operating Agreement and prior to the beginning of the Fiscal Year for which the rates and charges are being determined, which have been financed by the Authority from its own resources. Such annual amortization is to be calculated and based on the economic life for each capital item determined by the Authority in accordance with generally accepted accounting principles at an interest rate equal to the average interest rate on outstanding Authority Bonds for the preceding calendar year or at such other rate as to which the parties may agree. In performing these calculations, no amortization charges is to be included on capital expenditures that have been financed with grants-in-aid or the proceeds of Authority Bonds or other securities, the debt service for which has been included elsewhere in such calculation; (6) the estimated amount of any assessment, judgment, or charge (net of insurance proceeds) to become payable by the Authority relating directly to the Airport or its operation and allocated to the Apron Area; (7) any estimated deficit or credit for the operation of the Apron Area during the then-current Fiscal Year or any adjustment carried over from preceding Fiscal Years to reflect any difference between actual versus estimated expenses.

The Apron Use Fee is then calculated by dividing the Apron Area requirement by the estimate of the Total Takeoff Weight of all Signatory Airline Aircraft Arrivals at the Airport for the succeeding Fiscal Year as projected by the Executive Manager based in part on the estimates provided by the Signatory Airlines.

Calculation of Landing Fee Rate

Each year, the Executive Manager is required to calculate the Airport Requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in the Authority's Annual Budget: (1) the total of the direct and indirect estimated Operation and Maintenance Expenses of the Authority; (2) an amount 1.25 times Airport Annual Debt Service, or such other amount as may be required by the Indenture; (3) the estimated amount of the annual requirement of any subordinate security or other loans pertaining to the Airport; (4) the estimated amount, if any, for other deposits required by the Bond Indenture or the Airline Operating Agreements; (5) the annual amortization allocated to the Terminal Building, Apron Area, Airfield Area, and Loading Bridges of the total amount of any Capital Improvements placed in service by the Authority prior to or after the effective date of the applicable Airline Operating Agreements and prior to the beginning of the Fiscal Year for which rates and charges are being determined, which have been financed by the Authority from its own resources. Such annual amortization is to be computed based on the economic life for each capital item determined by the Authority in accordance with generally accepted accounting principles at an interest rate equal to the average interest rate on outstanding Authority Bonds for the preceding calendar year or at such other rate as to which the Signatory Airlines and the Authority may agree. In performing the calculations described in this paragraph, interest only is to be charged for land acquisition, and no amortization charges is to be included on capital expenditures that have been financed with grants-in-aid or the proceeds of Authority Bonds or other securities, the debt service for which has been included elsewhere in such calculations; (6) the estimated amount of any assessment, judgment, or charge (net of insurance proceeds) to become payable by the Authority relating directly to the Airport or its operation; and (7) any overpayment or underpayment estimated for operation of the Airport during the then-current Fiscal Year, or any adjustment carried over from preceding Fiscal Years, to reflect any difference between actual versus estimated revenues or expenses.

The Landing Fee requirement for the succeeding Fiscal Year is then calculated by subtracting the following Landing Fee credits from the Airport requirement calculated as summarized in the above paragraph: (1) the revenue estimated to be derived by the Authority in the succeeding Fiscal Year from Airport concessions, rents, fees, and charges from other than Signatory Airlines, service fees (excluding Passenger Facility Charges and FAA grant-in-aid), and use fees; (2) the unrestricted investment income estimated to be earned by the Authority in the succeeding Fiscal Year from all funds and accounts except the Construction Fund and the Capital Improvement Fund; (3) the total of all Terminal Building rents, Arrival Fees, Immigration Inspection Fees, Loading Bridge Use Fees, and Apron Use Fees estimated to be paid by the Signatory Airlines during the succeeding Fiscal Year; and (4) a credit equal to the balance in the Other Available Moneys Coverage Subaccount.

The Landing Fee rate for the succeeding Fiscal Year is then calculated by dividing the Landing Fee requirement computed as described above by the composite estimate of the total Maximum Gross Certificated Takeoff Weight of all Signatory Airline Aircraft Arrivals at the Airport for the succeeding Fiscal Year as projected by the Executive Manager based in part on the estimates provided by the Signatory Airlines.

During the term of the Airline Operating Agreements, the Landing Fee rate may not be less than zero cents (\$0.00) per one-thousand pounds of Maximum Certificated Gross Takeoff Weight.

Special Increases in Landing Fee Rate

The Airline Operating Agreements provide that if the total Landing Fee requirement during any Fiscal Year is reasonably expected to vary by more than 10% from the projected total Landing Fees requirement for such Fiscal Year, the Landing Fee rate may, if deemed necessary by the Executive Manager after consultation with the Signatory Airlines, which consultation may be by telephone, be revised (increased or decreased) resulting in an adjusted Landing Fee effective April 1 of such Fiscal Year for the balance of such Fiscal Year by an amount equal to the difference between projected and revised total Landing Fee requirement divided by the estimated Total Takeoff Weight of all Signatory Airlines during the balance of such Fiscal Year. Such revision would occur no more than once in any Fiscal Year.

Extraordinary Adjustments of Rents and Fees

Notwithstanding any other provisions of the Airline Operating Agreements, if, at any time during the term thereof, the revenues of the Airport are not sufficient to pay, when due, all items included in the reports by the Authority prepared pursuant to the Airline Operating Agreements, or to pay any reasonable obligation or expense or cost incidental or necessary to, or arising out of, the operation of the Airport, including, without limitations, emergency repairs or expenses, the reasonably necessary cost of defending, settling, or satisfying any litigation or threatened litigation that relates to the Airport, or any aspect thereof, or to compensate for the loss of revenue by reason of any labor dispute, the Authority may, upon notice to and consultation with the Signatory Airlines, adjust Terminal Building rents, Enplanement Fees, Arrival Fees, Immigration Inspection Fees, Loading Bridge Use Fees, Apron Use Fees, and the Landing Fee rate to such amounts as are sufficient to assure the Authority that all such items, expenses, and costs are to be paid in full, solely from revenues of the Airport, provided that the Authority has used its commercially reasonable best efforts to reduce its operating costs and budget for the then current Fiscal Year before adjusting such rents and fees.

Capital Improvements

On or before July 1 of each Fiscal Year, the Executive Manager is required to report to the Signatory Airlines the purchase price, design and construction cost, or lease cost of Capital Improvements to be programmed and included in the Annual Budget for the ensuing Fiscal Year and the debt service and/or amortization, or lease payment schedule to be added to the rents and fees, pursuant to the Airline Operating Agreements, for those Capital Improvements.

The report is to include, for Capital Improvements, the following: (1) a description of the proposed Capital Improvement, together with cost estimates and any available preliminary drawings; (2) a statement of the need for such Capital Improvement; (3) a statement of the benefits to be derived from such Capital Improvement; (4) the referred means of financing (including the terms of any loans and projected interest rate); and (5) the allocation of the cost thereof within the Airport Cost Centers and the estimated effect on airline rents and fees.

Within a reasonable time, but no sooner than 14 days after distribution of the report, the Executive Manager is required to convene a meeting of the Signatory Airlines to discuss the proposed Capital Improvements and the preferred means of financing their costs. Each Capital Improvement that 60% of the Signatory Airlines in number who pay more than 60% of the rents and fees (during the prior 12 month period) do not disapprove of in writing within 30 days following the meeting (or the date any supporting documentation for the proposed Capital Improvements is provided by the Authority) are deemed to be concurred with and may be implemented at any time following the meeting.

For each Capital Improvement which 60% of the Signatory Airlines in number who pay more than 60% of the rents and fees disapprove, the Executive Manager is required to convene a second meeting of the Signatory Airlines no sooner than 30 days following the first meeting at which the Executive Manager will respond to questions raised during the first meeting, and provide the Signatory Airlines with the requested information concerning the Capital Improvement(s). If, within 30 days after the second meeting, 60% of the Signatory Airlines in number who pay more than 60% of the rents and fees notify the Authority that they disapprove of said Capital Improvement(s), the Capital Improvement(s) are to be deferred until the next ensuing Fiscal Year. In such ensuing Fiscal Year, if the Authority decides to proceed to implement such Capital Improvement(s) the Authority may do so without further meeting or approval, and will disclose the Capital Improvement(s) (subject to the provisions of the Airline Operating Agreement as summarized under this heading) in the Annual Budget and include the amortization, debt service (including coverage), or loan payments for such Capital Improvement(s) in the rents and fees of the Signatory Airlines.

If any proposed Capital Improvement is disapproved, the Authority may include the amortization, debt service (including coverage), or loan payments for such Capital Improvement in the calculation of Signatory Airline rents and fees if the Authority determines that such Capital Improvement is necessary or prudent to ensure compliance with a rule, regulation, or order of any governmental agency that has jurisdiction over the operation of the Airport.

The Authority may also implement any proposed Capital Improvement if the amortization, debt service (including coverage), or loan payments for such Capital Improvement are not to be included in Signatory Airline rents and fees.

Other than as described in the immediately preceding paragraph, the Authority may not acquire, purchase or construct any Capital Improvement having a cost in excess of \$10,000,000 if concurrence of such improvement is specifically withheld by 60% of Signatory Airlines in number who pay more than 60% of the Signatory Airline rents and fees.

Default

Default by a Signatory Airline

If a Signatory Airline fails to (1) pay rent or another payment past due under the Airline Operating Agreement within 10 days after receipt of written notice of the due date; (2) commence immediately to keep and perform any of its other covenants and agreements within 20 days after receipt of written notice; or (3) continue to complete any of its covenants and agreements after performance is commenced, or after the filing of any petition, proceedings, or action by, for, or against a Signatory Airline under any insolvency, bankruptcy, or reorganization act of law, then after notice and at the election of the Authority:

(a) After terminating the Airline Operating Agreement, the Authority may reenter the space and alter, modify, improve and relet all or any part of it to others, for the account of the Signatory Airline, including costs of renovation and 15% administrative fee to be paid to the Authority for all sublease rents received, and the Signatory Airline will promptly reimburse the Authority for any deficiency in rents or other payments received under such subletting, as compared with the Signatory Airline's obligations under the Airline Operating Agreement.

(b) At any time before or after a reentry and reletting as described in this section, the Authority may terminate the Signatory Airline's rights under the Airline Operating Agreement, and the Authority may reenter and take possession of all space, and terminate all rights and privileges granted to the Signatory Airline under the Airline Operating Agreement, without any restriction on recovery by the Authority for past due rents and other obligations of the Signatory Airline.

(c) In the event of default by the Signatory Airline which is not cured in accordance with the provisions described under this section, the Authority is entitled to the following: (i) to recover reasonable attorneys' fees, consultant fees, or other expenses associated with the default together with any court cost and the cost of removing and storing any property of the Signatory Airline, and (ii) to place a lien on all nonflight, property and equipment of the Signatory Airline for the amount owed to the extent that such lien does not violate any other lawful agreement covering such nonflight property and equipment that the Signatory Airline is party to, and (iii) in the event the Authority must remove and store property of the Signatory Airline, the Signatory Airline agrees to reimburse the Authority reasonable storage fees plus 15% for administration costs, and (iv) in the event the Authority must store the Signatory Airline's property and the property remains unclaimed, the Authority will post notice for 30 days, during such notice period, the Authority will publish notice three times in the local daily newspaper. At the end of the notice period, the Authority will sell such property by "private power of sale."

Additional Rights to Authority

In the event of a breach or default or threat of breach or default by a Signatory Airline of any of the covenants or provisions of its Airline Operating Agreement, the Authority will have the right to seek an injunction and the right to invoke any remedy allowed by law or in equity as if re-entry, summary proceeding and other remedies were not provided for in the Airline Operating Agreement. Mention in the Airline Operating Agreement of any particular remedies will not preclude the Authority from any other remedy, in law or in equity. The Airline Operating Agreement also provides that the Authority will have all additional rights and remedies as may be provided to landlords by law.

Termination

Events Permitting Termination of an Airline Operating Agreement by a Signatory Airline

A Signatory Airline may terminate its Airline Operating Agreement and terminate all of its future obligations under such Airline Operating Agreement at any time that such Signatory Airline is not in default in its payments or other obligations to the Authority under such Airline Operating Agreement, by giving the Executive Manager 60 days advance written notice if (1) the Authority is in default of any material and substantive portion of the Airline Operating Agreement or (2) any act occurs that deprives such Signatory Airline permanently of the rights, power, and privileges necessary for the proper conduct and operation of its Air Transportation business at the Airport.

Events Permitting Termination of an Airline Operating Agreement by the Authority

In addition to other events described in the Airline Operating Agreements permitting the Authority to terminate an Airline Operating Agreement, the Authority, at its option, may declare an Airline Operating Agreement terminated on the happening of any one or more of the following events, and may exercise all rights of entry and re-entry on the Signatory Airline's Exclusive Use Space if: (1) the rents and fees or other money payments that the Signatory Airline has agreed under the applicable Airline Operating Agreement to pay will be unpaid on the date same becomes due; (2) any act occurs that deprives the Signatory Airline permanently of the rights, power, and privileges necessary for the proper conduct and operation of its Air Transportation business; (3) the Signatory Airline (a) ceases the conduct of scheduled air service at the Airport for a period of 60 consecutive days or (b) fails to operate scheduled passenger service departures each week from the Airport, for a period of 90 days or more (except by reason of strikes or causes beyond the control of the Signatory Airline); (4) the Signatory Airline abandons and fails to use its Exclusive Use Space for a period of 30 consecutive days, except when such abandonment and cessation are due to fire, earthquake, labor dispute, strike, governmental action, default of the Authority, or other cause beyond the Signatory Airline's control; (5) the Signatory Airline uses or permits the use of its Exclusive Use Space at any time for any purpose for which the use thereof at that time is not authorized by the Airline Operating Agreements, or by a subsequent written agreement between the parties, or permits the use thereof in violation of any law, rule, or regulation to which the Signatory Airline has agreed in the Airline Operating Agreement to conform; and (6) the Signatory Airline is in violation of any provision of the Airline Operating Agreement and has not begun remedy within 30 days notice thereof.

The Airline Operating Agreements provide that the Authority's termination will not be effective unless and until at least 30 days have elapsed after written notice to the Signatory Airline specifying the date upon which such termination will take effect and the cause for which it is being terminated has not been cured or if the Signatory Airline commences to cure the cause of such termination within said 30 day period, so, long as the Signatory Airline continues diligently and in good faith to cure such cause.

Damage or Destruction

Should the premises used by an Airline under an Airline Operating Agreement or portions thereof or buildings or structures of which portions of such premises may be a part be damaged by fire or other casualty, and if the damage is repairable within a reasonable time from the date of the occurrence, the premises are to be repaired with due diligence by the Authority, and in the meantime the rental allocable to the particular building, rooms or other portion of the premises rendered untenable, for the period from the occurrence of the damage to the completion of the repairs, is to be abated in the same proportion that the untenable portion thereof bears to the whole thereof, or, if the damage or destruction has rendered the entire building untenable, said rental is to be abated entirely.

Should the premises used by an Airline under an Airline Operating Agreement or portion thereof or buildings or structures of which portions of such premises may be a part be completely destroyed by fire or other casualty, or should they be damaged to such an extent that the damage cannot, in the opinion of the Authority, be repaired within a reasonable time after the occurrence, the Authority or the Airline will have the option to terminate the applicable Airline Operating Agreement to the extent that it applies to the particular building, rooms or other portions of the premises so rendered untenable, on 60 days written notice effective as of any date not more than

90 days after the occurrence. In the event that the provisions of an Airline Operating Agreement described in this paragraph shall become applicable, the parties are to advise each other within 30 days after the happening of any such damage whether they have elected to continue the Airline Operating Agreement in effect as to the portions of the premises damaged or destroyed, or to terminate it. If the parties elect to continue the Airline Operating Agreement, the Authority will be required to commence and prosecute with due diligence any work necessary to restore or repair the premises and will exert its best efforts to provide the Airline with temporary substitute space while the repairs are being completed. If either party fails to notify the other party of its election within said 30 day period, the Authority will be deemed to have elected to terminate the Airline Operating Agreement as to the portions of the premises damaged or destroyed, and the applicable Airline Operating Agreement will automatically terminate as to such portions 90 days after the occurrence of the damage. For the period from the occurrence of any damage to the premises to the date of completion of the repairs to the premises (or to the date of termination of the applicable Airline Operating Agreement as to such portions of the premises if the Authority does not restore them), the rental allocable to the particular building, rooms or other portion of the premises involved is to be abated in the same proportion as the untenable portion thereof bears to the whole thereof, or, if the damage has rendered the entire building untenable, said rental is to be abated entirely, and upon termination of the Airline Operating Agreement as to such damaged or destroyed premises, the Airline will have no further obligation to pay the rental allocable thereto. If temporary substitute space is furnished by the Authority, a reasonable rental may be charged therefor.

Security Deposit

If an Airline delinquent in the payment of its rents, landing fees and other fees due in accordance with the terms and conditions of its Airline Operating Agreement, and has failed to cure such delinquency as stipulated, for three (3) months out of any Fiscal Year, the Executive Manager may require that within 30 days, the Airline be required to remit to the Authority a security deposit which amount is to be based upon (a) the Airline's estimated Landing Fees for two (2) months (as determined on the basis of the Airline's published flight schedule as of that date times the actual Landing Fee rate effective as of that date), (b) the Airline's estimated Exclusive and Joint Airline Use Space rents for two (2) months (as determined on the basis of Airline's actual leased space as of that date times the actual rental rates effective as of that date, using activity data for the most recent calendar month to allocate Joint Airline Use Space costs), (c) Airline's estimated Arrival Fee for two (2) months (as determined on the basis of Airline's published flight schedule as of that date times the actual Arrival Fee effective as of that date), (d) Airline's estimated Loading Bridge Use Fees for two (2) months (as determined on the basis of Airline's published flight schedule as of that date times the actual Loading Bridge Use Fee effective as of that date), and (e) Airline's estimated Apron Use Fees for two (2) months (as determined on the basis of Airline's published flight schedule as of that date times the actual Apron Use Fee effective as of that date). The security deposit may be adjusted by the Authority as Airline's flight activity, passenger activity, and space rental commitment increases or decreases.

If the Airline is a new entrant to the Airport, or if the Airline was previously a non-signatory to an Airline Operating Agreement, then the Executive Manager is to require the Airline to remit to the Authority a security deposit equivalent to two (2) months of the rents, estimated landing fees and other fees described above. This security deposit may be returned at such time that the Executive Manager determines that the Airline has demonstrated fiscal responsibility.

Such deposit is required to be in the form of an irrevocable letter of credit, or other security satisfactory to the Authority, in a form approved by the Executive Manager. If the Authority accepts cash deposits, the interest on cash deposits are required to be retained by the Authority and used in the calculation of rents and fees.

Document(s) evidencing this deposit must provide that the same shall be periodically renewed until the beginning of the month of October following termination or cancellation of this Agreement as is herein provided.

If payments required by an Airline under the terms of its Airline Operating Agreement are not made in accordance with the payment provisions set forth therein, the Authority has the right to forfeit, take, and use so much of such security deposit as may be necessary to make such payment in full and to exercise any other legal remedies to which it may be entitled. In this event, the Airline will be required, within 30 days, to remit to the Authority such amount as is required to restore Airline's security deposit to the required balance.

Airline Relinquishment of Exclusively Leased Space

The Airline Operating Agreements provide that, from time to time during the term of an Airline Operating Agreement, it may become necessary for the Airline to relinquish exclusively leased space to the Authority. In the event the Airline wishes to relinquish exclusively leased space, it is required to give the Authority notice of its intent to relinquish such space, which notice is to identify the specific exclusively leased space to be returned to the Authority. The space identified in the Airline's notice is to be deemed to be automatically excluded from such Airline's leasehold on September 30th in the Fiscal Year in which notice is received by the Authority. The Airline will be responsible for the payment of rent through September 30th in the Fiscal Year in which notice is received by the Authority, unless the relinquished space is relet or reassigned prior to September 30th, in which case the Airline is to be required only to pay rent on that space through the date such lease or assignment is effective or any new tenant occupies the relinquished space.

Bond Indenture and Flow of Funds

Subordination to Bond Indenture

Pursuant to the Airline Operating Agreements, the Airline Operating Agreements and all rights of the Airlines thereunder are expressly subordinated and subject to the lien and provisions of any pledge, transfer, hypothecation, or assignment made at any time by the Authority pursuant to the terms, covenants, and conditions of present and future Bond Indentures, which are incorporated into the Airline Operating Agreements by reference.

In the event of conflicts between the Airline Operating Agreements and the Bond Indenture, the Bond Indenture governs.

The Airline Operating Agreements provide that the Authority will not enact any Bond Indenture or subsequently amend a Bond Indenture so as to require a change in the method of calculation of rents and fees payable hereunder or so as to materially adversely affect the rights of an Airline under the applicable Airline Operating Agreement.

Flow of Funds

Subject to the terms and provisions of the Bond Indenture, it is mutually understood and agreed in the Airline Operating Agreements that, as long as any Bonds secured by the Bond Indenture are outstanding, all Airport Revenue and PFC proceeds will be deposited, maintained, and paid as set forth in the Bond Indenture.

Covenant Not to Grant More Favorable Terms

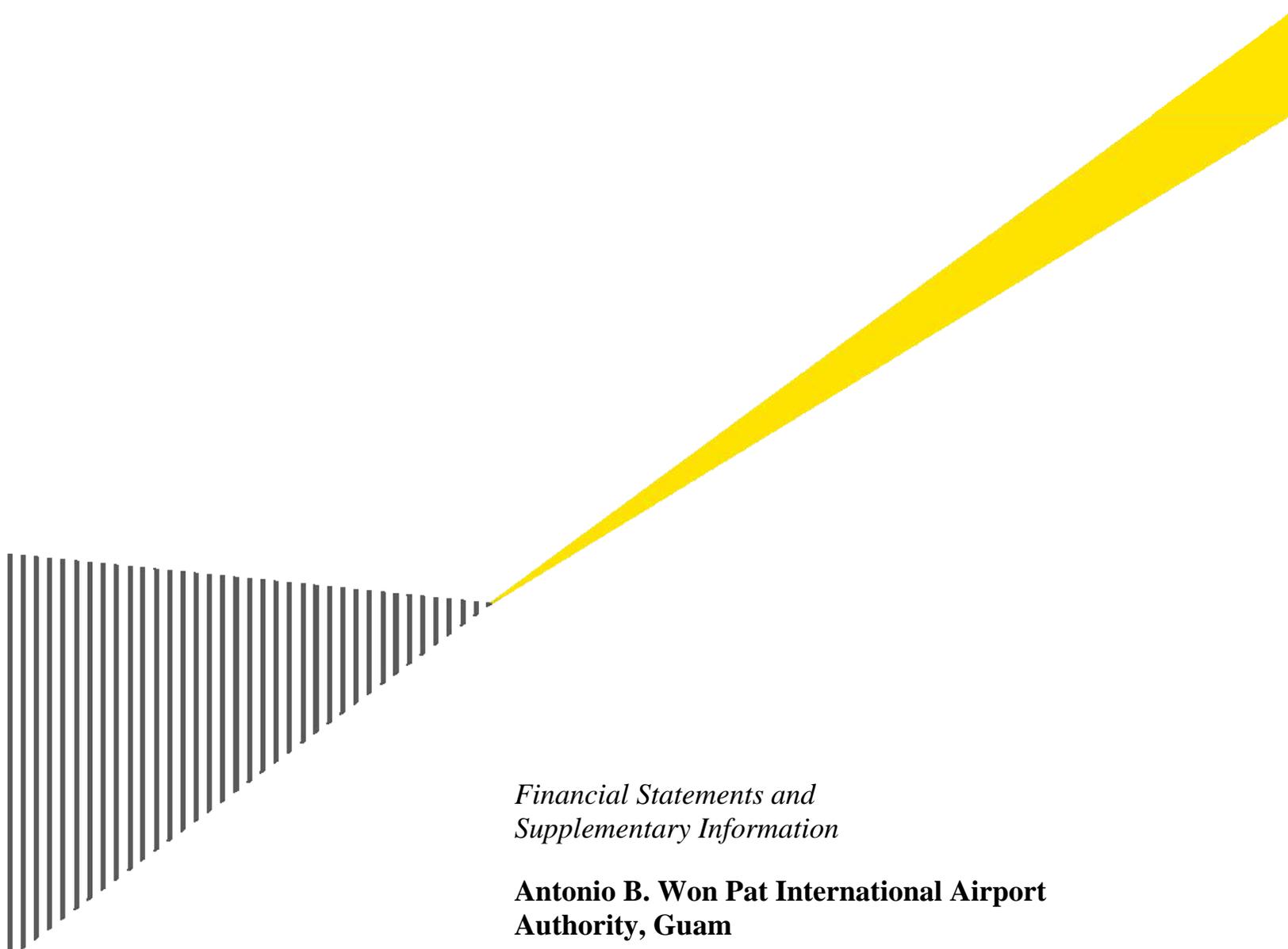
The Authority has covenanted in the Airline Operating Agreements that it will not enter into any lease, contract, or any other agreement with any other Air Transportation company containing materially more favorable terms than the Airline Operating Agreements, or to grant to any tenant engaged in Air Transportation, rights or privileges with respect to the Airport that are not accorded the Airlines under the Airline Operating Agreements, unless the same rights, terms, and privileges are concurrently made available to the Airlines. The covenant does not extend to any carrier only operating aircraft less than 50,000 pounds Maximum Certificated Gross Take-Off weight.

Price Level Adjustments

The fixed dollar amounts contained in the Airline Operating Agreements may be adjusted each year pursuant to the Indenture or otherwise in proportion to the changes in the Implicit Price Deflator index published by the U.S. Department of Labor, Bureau of Labor Statistics, using as a base the latest published index available as of January, 2004.

APPENDIX C

**AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012 AND
INDEPENDENT AUDITOR'S REPORT**



*Financial Statements and
Supplementary Information*

**Antonio B. Won Pat International Airport
Authority, Guam**

*Years ended September 30, 2012 and 2011
with Report of Independent Auditors*

Ernst & Young LLP

Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and
Supplementary Information

Years ended September 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
Antonio B. Won Pat International Airport Authority, Guam

We have audited the accompanying statements of net assets of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Antonio B. Won Pat International Airport Authority, Guam as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013, on our consideration of the Antonio B. Won Pat International Airport Authority, Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Antonio B. Won Pat International Airport Authority, Guam's financial statements. The supplementary information included in Schedules 1 through 9 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

January 29, 2013

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis

Year ended September 30, 2012

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam's (the "Authority") activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ("FY") ended September 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam to own and operate the facilities of the Guam International Airport Terminal (the "Terminal").

The Authority is a self-sustaining autonomous government agency, and operates and maintains the Terminal. The Terminal provides facilities for commuter and domestic overseas flights, and international flights for destinations in Micronesia, Asia and Australia. It is authorized to impose and collect rates and charges for the Terminal's services and properties to generate revenues to fund operating expenses. The 2003 Airport Bonds issued by the Authority, federal grants and airport revenues funded the construction of the Airport Terminal Building and the Capital Improvement Program.

A. Mission Statement

The Authority strives to ensure the safety and security of the traveling public, is dedicated to maintaining a superior and reliable level of airport services for our island residents and tourists, and is committed to supporting the development of air linkages and facilities which are integral parts of the island's future economic growth. The Authority's vision is to advance Guam further as the first class premier air transportation hub of the region.

B. Using the Financial Statements

The Authority utilizes the flow of economic measurement focus. Financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has implemented GASB 20 and elected not to apply Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989.

The Statement of Revenues, Expenses and Changes in Net Assets replaces the Statement of Revenues, Expenses and Changes in Retained Earnings. Revenues are now categorized as either operating or non-operating based upon definitions provided by GASB 34. Significant recurring sources of the Authority's revenues, including federal grants are reported as non-operating revenues.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights

There was an improvement in the level of global air travel for the period ending September 30, 2012. The International Air Transport Association (IATA) expects a revenue increase of 2.1% and net industry profits of \$6.7 billion down from \$8.8 billion in 2011. Actions by airlines to cut costs and improve industry structures have generated better than expected financial performance given the difficult business environment.

IATA's outlook for 2013 is moderately better, driven by higher or stabilized economic activity and slightly lower fuel prices. Industry profits in 2013 are forecasted to be higher at \$8.4 billion.

Passenger activity in FY 2012 was a banner year for the Authority. It's been 11 years since FY 2001 that passenger enplanements exceeded the 1.5 million threshold. FY 2012 signatory enplanements of 1,566,356 and total enplanements of 1,574,491 exceeded the prior year by 10.6% and 9.4%, respectively. When compared to budget projections, actual signatory airline enplanements increased by 6.2%.

The Authority continued to rank in the top 10 in international arrivals for all U.S. ports of entry ahead of large airports such as Atlanta and Washington, D.C. Over 90% of the Authority's enplanements are international from Origin & Destination markets.

The Authority welcomed a third airline from South Korea, Jeju Airlines, a low cost carrier. Jeju's entry prompted a flurry of capacity increases from their competitors and equally important, opened direct air service from South Korea's second largest city, Busan, a long sought after destination.

The super-merger of United and Continental Airlines as the world's largest carrier continues to move forward. The Authority is monitoring United's progression so as to sustain current air services and to promote Guam in their route planning strategies.

During FY 2012, the number of signatory airlines increased by 25%, from 8 to 10 airlines, the largest number in the Authority's history. Eva Air and Jeju Airlines are the new entrants. This demonstrates the signatory airlines commitment and positive outlook to the Guam market despite their obligation to guarantee the Authority's financial bottom line.

Going forward to FY 2013, the Authority seeks to maintain the FY 2012 signatory enplanement level with a slight uptick of 1.4% or 1,588,924 enplanements. There are uncertainties with the devaluation of currencies from our major markets and its contractionary impact on leisure travel; confidence in the global economy; stable fuel costs; and the U.S. rise from the fiscal slippery slope. The Authority finds that being conservative is the sweet spot between optimism and realism.

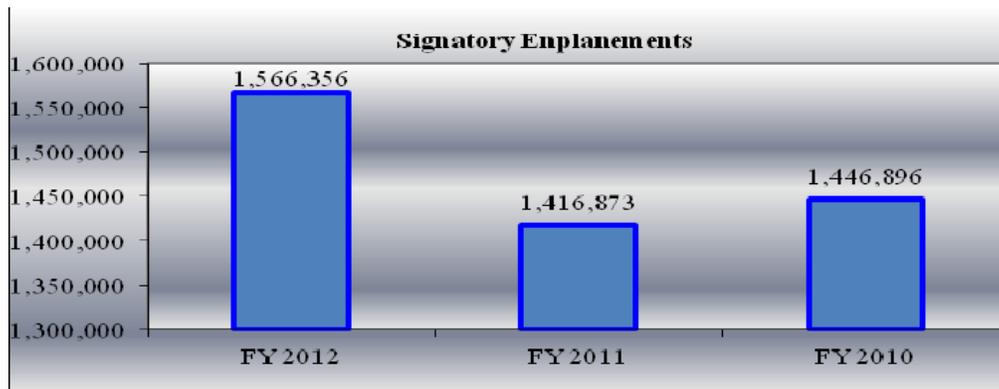
Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Activities for the Authority for the years ended September 30, 2012, 2011, and 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	2012 % Increase (Decrease) from 2011
Major revenue sources:				
Landing fees	\$ 3,042,109	\$ 2,567,747	\$ 2,643,417	18.5%
Terminal Lease	10,861,087	10,618,530	9,414,797	2.3%
Concessions and parking	<u>15,899,179</u>	<u>14,762,957</u>	<u>13,887,161</u>	7.7%
Total	<u>\$29,802,375</u>	<u>\$27,949,234</u>	<u>\$25,945,375</u>	6.6%
Passenger (enplanements) activity:				
Signatory airlines	1,566,356	1,416,873	1,446,896	10.6%
Other airlines	<u>8,135</u>	<u>22,551</u>	<u>9,979</u>	-63.9%
Total enplanements	<u>1,574,491</u>	<u>1,439,424</u>	<u>1,456,875</u>	9.4%
Aircraft operations	<u>48,750</u>	<u>46,030</u>	<u>44,426</u>	5.9%
Aircraft landed weights (000)	<u>3,296,664</u>	<u>2,787,086</u>	<u>3,169,573</u>	18.3%
O & D passengers	2,819,665	2,548,446	2,570,240	10.6%
Transfer passengers	<u>167,328</u>	<u>175,181</u>	<u>183,430</u>	-4.5%
Total passengers	<u>2,986,993</u>	<u>2,723,627</u>	<u>2,753,670</u>	9.7%



Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

For FY 2012, the signatory airlines cost per enplaned passenger (CPE) of \$16.81 is a decrease from the \$16.95 CPE in FY 2011 primarily due to the increase in enplanement activity for the year. This was also reflective of management's resolve to maintain the line on expenses and in-line with the Authority's budgeted projection of \$17.12.

In addition to maintaining a competitive cost structure, the Authority has managed to maintain sufficient debt service coverage of 1.66 versus the 1.25 debt service requirements of the 2003 Bond Covenant. Moreover, the Authority continued to maintain a superior and reliable level of airport services in the facilitation of passengers and cargo to their destinations safely, efficiently, and effectively, key success factors paramount to the Authority's financial success, while promoting commerce and connectivity to our neighboring islands and countries in the region.

The following airlines served the Authority with scheduled or charter overseas passenger or cargo flights for FY 2012: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines and Aerospace Concepts with the latter operating a business jet service.

The principal commuter airlines providing inter-island passenger flight service to and from Guam and the Commonwealth of the Northern Mariana Islands (CMNI) are Freedom Air, Micronesian Aviation Systems, and Cape Air. Cargo operators include Asia Pacific Airlines, Federal Express and UPS.

D. Financial Operation Highlights

For FY 2012, total revenues amounted to \$66.5 million, an increase of 1.6% year-over-year versus FY 2011 amount of \$65.5 million. Operating income which amounted to \$52.5 million accounted for 78.9% of all revenue in 2012. The remaining 21.1% or \$14.0 million of revenue was comprised of non-operating income that included interest income, passenger facility charges, and grants from the U.S. government and transfers from the government of Guam.

The Authority continues to focus efforts to expand and diversify the non-airline revenue stream.

Operational Revenues

The \$52.5 million in operational revenues earned in FY 2012 represented a 6.6% increase versus the \$49.2 million recorded in FY 2011. This increase in operating revenue may be attributed to the increase in non-aeronautical revenue streams which accounted for 53% of the Authority's operating revenue in 2012. Concession fees increased to \$15.9 million or 7.7% year-on-year, versus the \$14.7 million in 2011. General merchandise revenue rose 3.1% but resulted in a decreased average spend per enplaned passenger of approximately \$4.71 in 2012 versus \$5.07 in 2011. Ground transportation rose 15.6% from \$4.2 million to \$4.8 million due to increased passenger activity. Rental income increased by 2.3% for the same period with non-airline rentals reflecting an increase of 5.3%, up \$4.0 million from \$3.8 million.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Non-Operating Revenues

Non-operating revenues decreased in 2012 by 13.8% versus 2011, \$14.1 million versus \$16.3 million respectively. The disparity in 2012 was solely attributed to the decrease in grants from the U.S. government which amounted to \$6.75 million. Specific FAA projects were delayed or placed on hold but are expected to progress during FY 2013.

Operational Expenses

For FY 2012, operational expenses which equaled \$35.2 million, reflects a 4.2% year-over-year increase from FY 2011's amount of \$33.7 million. Increases of 42.7% for materials and supplies and 125.3% for bad debt expense contributed largely to the higher FY 2012 operational costs. The number of FTE employees decreased by 3.5%, from 199 to 192.

Review of Notable Events in FY 2012

FY 2012 passenger activity continued to recover from the Japan disaster and the upward trend continued throughout the year similarly pegged to historical high peak months. FY 2012 signatory enplanements of 1,566,356 and total enplanements of 1,574,491 exceeded the prior year by 10.6% and 9.4% respectively. These are highest totals in the post-9/11 era.

The Authority welcomed Jeju Airlines as the newest airline entrant. The number of signatory airlines increased 25%, from 8 to 10. Air service development remains a high priority for the Authority.

Key financial metrics include a decrease of the signatory airline cost per enplaned passenger from \$16.95 in 2011 to \$16.81 in 2012 and the increase of the debt service coverage ratio from 1.53 in 2011 to 1.66 in 2012. The Series 2003 airport revenue bonds require a minimum debt service coverage of 1.25.

Credit rating agency, Standard & Poor's affirmed the Authority's bond rating of BBB with a stable outlook during FY 2012. The credit ratings are critical to the financial success of the Authority and will ensure the Authority is positioned to take advantage of any opportunities that may reduce interest rates for future financing or realize potential savings opportunities through a refinancing of the 2003 Bond issuance.

The Authority continues to work closely with local and federal government stakeholders on a memorandum of understanding (MOU) for the Tiyan Parkway that will also mitigate the impact of the closure to Central Avenue due to runway operations. Department of Public Works (DPW) has completed the environmental assessment resulting in a mutually acceptable roadway alignment. Property acquisition options are currently being vetted.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Review of Notable Events in FY 2012, continued

The Authority's Master Plan Update is nearing completion with the environmental component remaining. Legislative informational briefing and stakeholder reviews have been conducted. In addition, a Geographic Information System survey and Electronic Airport Layout Plan pilot project is progressing that will provide key data and information for Guam's airport and serve as a precursor to the Federal Aviation Administration's NextGen project for air navigation.

The Authority has contracted, financed and started its energy management program that resulted in a performance contract to change out key mechanical and lighting systems that would save energy through efficiencies. Energy savings of about \$1.4 million per year are guaranteed by the performance contractor for 10 years and, funds, in part, a short term, United States Department of Agriculture guaranteed, low interest subordinate loan from a local bank.

The Authority's new airport water system is in operation with no outages or low pressure recorded to date. Lateral connections to existing buildings are in progress. Guam Waterworks Authority (GWA) is operating and maintaining the system on an interim basis until data is collected to form the basis for a longer term agreement. The new water system will meet the airport's demand into the future; would accelerate the remediation of groundwater contamination and; fully resolve fire suppression issues at all airport facilities.

Airline Signatory Rates and Charges

The Authority entered into an airport operating and lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. In exchange for more favorable rates, the signatory airlines are guarantors of the Authority's financial position. These leases became effective October 1, 2006 and with an extension of five years will remain in effect through September 30, 2016.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Financial Position Summary

A condensed summary of the Authority's statements of net assets at September 30, 2012, 2011 and 2010 is shown below:

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	2012 % Increase (Decrease) from <u>2011</u>
Current assets:				
Unrestricted current assets	\$ 12,549,055	\$ 7,736,116	\$ 12,164,255	62.2%
Restricted current assets	1,661,610	1,779,158	2,036,006	-6.6%
Non-current assets:				
Unrestricted assets	21,060,361	22,117,162	21,972,719	-4.8%
Restricted assets	32,941,612	32,671,610	32,415,162	0.8%
Capital assets	398,963,653	405,381,493	413,838,006	-1.6%
Avigation easements	11,975,643	12,984,992	13,994,340	-7.8%
Deferred bond issue costs	<u>4,857,336</u>	<u>5,448,094</u>	<u>6,256,409</u>	-10.8%
Total assets	<u>\$484,009,270</u>	<u>\$488,118,625</u>	<u>\$502,676,897</u>	-0.8%
<u>LIABILITIES</u>				
Current liabilities:				
Payable from unrestricted assets	\$ 10,215,231	\$ 9,380,778	\$ 15,926,850	8.9%
Payable from restricted assets	15,472,745	14,941,518	15,050,224	3.6%
Long term liabilities	<u>152,330,909</u>	<u>156,647,265</u>	<u>165,882,773</u>	-2.8%
Total	<u>178,018,885</u>	<u>180,969,561</u>	<u>196,859,847</u>	-1.6%
<u>NET ASSETS</u>				
Invested in capital assets – net of related debt	254,505,279	258,910,440	260,440,321	-1.7%
Restricted	28,720,477	28,604,250	28,025,944	0.4%
Unrestricted	<u>22,764,629</u>	<u>19,634,374</u>	<u>17,350,785</u>	15.9%
Total	<u>305,990,385</u>	<u>307,149,064</u>	<u>305,817,050</u>	-0.4%
Total liabilities and net assets	<u>\$484,009,270</u>	<u>\$488,118,625</u>	<u>\$502,676,897</u>	-0.8%

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Revenues

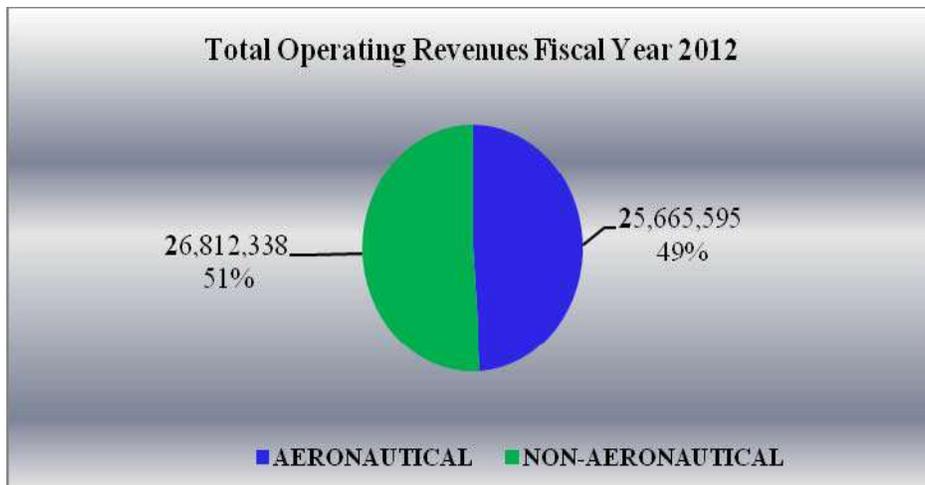
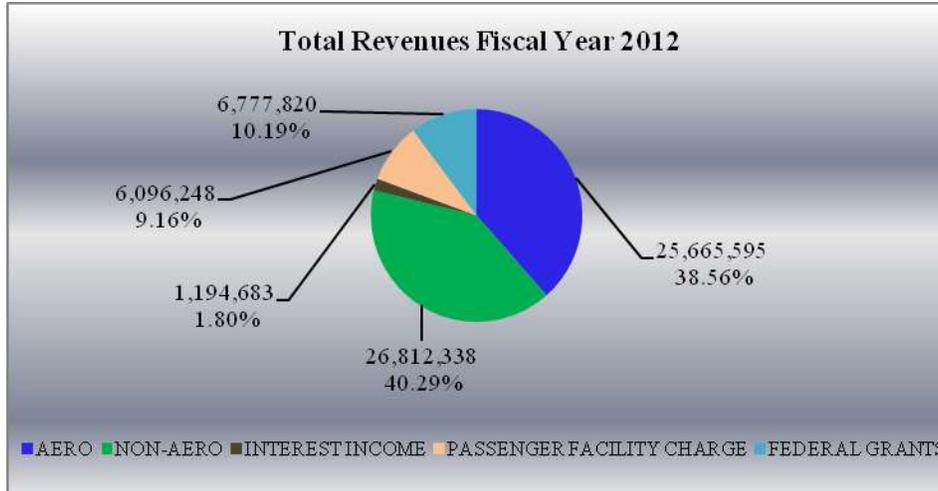
A summary of revenues for the years ended September 30, 2012, 2011 and 2010 and the amount and percentage of change in relation to prior year is as follows:

	2012	2012 %	2011	2011 %	2010	2010 %	2012 % Increase (Decrease) from 2011
	<u>2012</u>	<u>of Total</u>	<u>2011</u>	<u>of Total</u>	<u>2010</u>	<u>of Total</u>	
Operating:							
Facilities and systems usage charges:							
Arrival facilities	\$ 6,398,217	9.6%	\$ 6,159,123	9.4%	\$ 6,109,684	8.5%	3.9%
Departure facilities	6,348,530	9.5%	6,046,101	9.2%	6,225,493	8.6%	5.0%
Immigration	2,337,874	3.5%	2,210,176	3.4%	2,236,345	3.1%	5.8%
Public apron	2,107,797	3.2%	1,394,782	2.1%	1,515,323	2.1%	51.1%
Passenger loading bridge	3,676,307	5.5%	3,366,254	5.1%	3,547,283	4.9%	9.2%
Landing fees	3,042,109	4.6%	2,567,747	3.9%	2,643,417	3.7%	18.5%
Utility recovery charge and other fees	474,691	0.7%	442,015	0.7%	554,104	0.8%	7.4%
Fuel flowage fee	<u>183,933</u>	<u>0.3%</u>	<u>158,956</u>	<u>0.2%</u>	<u>155,562</u>	<u>0.2%</u>	15.7%
Total facilities and systems usage charges	<u>24,569,458</u>	<u>36.9%</u>	<u>22,345,154</u>	<u>34.0%</u>	<u>22,987,211</u>	<u>31.9%</u>	10.0%
Concession fees:							
General merchandise	7,420,798	11.2%	7,194,836	11.0%	6,326,954	8.8%	3.1%
Ground transportation	4,803,013	7.2%	4,156,156	6.3%	4,267,947	5.9%	15.6%
Car rental	934,605	1.4%	931,949	1.4%	931,766	1.3%	0.3%
Food and beverage	902,317	1.4%	844,104	1.3%	810,174	1.1%	6.9%
In-flight catering	754,661	1.1%	666,213	1.0%	679,358	0.9%	13.3%
Other	<u>1,083,785</u>	<u>1.6%</u>	<u>969,699</u>	<u>1.5%</u>	<u>870,962</u>	<u>1.1%</u>	11.8%
Total concession fees	<u>15,899,179</u>	<u>23.9%</u>	<u>14,762,957</u>	<u>22.5%</u>	<u>13,887,161</u>	<u>19.1%</u>	7.7%
Rental income:							
Operating space - airline	3,103,781	4.7%	3,065,873	4.7%	2,730,854	3.8%	1.2%
Operating space - non-airline	3,820,488	5.7%	3,749,467	5.7%	2,730,298	3.8%	1.9%
Other	<u>3,936,818</u>	<u>5.9%</u>	<u>3,803,190</u>	<u>5.8%</u>	<u>3,953,645</u>	<u>5.5%</u>	3.5%
Total rental income	<u>10,861,087</u>	<u>16.3%</u>	<u>10,618,530</u>	<u>16.2%</u>	<u>9,414,797</u>	<u>13.1%</u>	2.3%
Miscellaneous	<u>1,148,209</u>	<u>1.7%</u>	<u>1,481,857</u>	<u>2.4%</u>	<u>840,907</u>	<u>1.1%</u>	-22.5%
Total operating	<u>52,477,933</u>	<u>78.9%</u>	<u>49,208,498</u>	<u>75.1%</u>	<u>47,130,076</u>	<u>65.2%</u>	6.6%
Non-Operating:							
Interest income	1,194,681	1.8%	1,155,144	1.8%	1,282,807	1.8%	3.4%
Passenger facility charge	6,096,248	9.2%	5,576,838	8.5%	5,668,517	7.9%	9.3%
Grants from the U. S. Government	6,751,432	10.1%	9,508,361	14.5%	18,018,117	25.0%	-29.0%
Transfer from Government of Guam - OHS	<u>26,388</u>	<u>0.0%</u>	<u>78,063</u>	<u>0.1%</u>	<u>60,731</u>	<u>0.1%</u>	-66.2%
Total non-operating	<u>14,068,749</u>	<u>21.1%</u>	<u>16,318,406</u>	<u>24.9%</u>	<u>25,030,172</u>	<u>34.8%</u>	-13.8%
Total revenues	\$ <u>66,546,682</u>	<u>100.0%</u>	\$ <u>65,526,904</u>	<u>100.0%</u>	\$ <u>72,160,248</u>	<u>100.0%</u>	1.6%

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued



Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

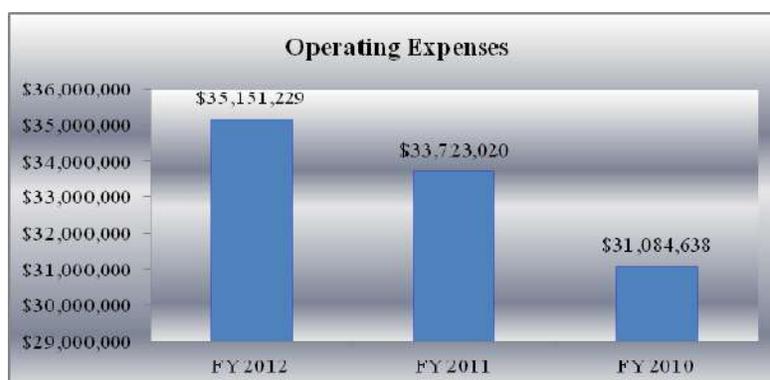
Revenues, continued

Receipts from grants from the United States Government amounted to \$6.8 million for FY 2012. An additional \$8.2 million in federal grants and amendments were awarded to the Authority in 2012. The majority of monies will be used for airfield and aviation infrastructure improvements, environmental assessments and base conversion projects.

Expenses

A summary of expenses for the years ended September 30, 2012, 2011, and 2010 and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2012</u>	2012 % of Total	<u>2011</u>	2011 % of Total	<u>2010</u>	2010 % of Total	2012 % Increase (Decrease) from 2011
Operating:							
Contractual services	\$18,950,053	28.0%	\$18,662,427	29.1%	\$17,504,651	28.0%	1.5%
Personnel services	13,917,232	20.6%	13,744,204	21.4%	12,755,098	20.4%	1.3%
Materials and supplies	1,178,487	1.7%	825,621	1.3%	712,570	1.1%	42.7%
Bad debt expense	<u>1,105,457</u>	<u>1.6%</u>	<u>490,768</u>	<u>0.8%</u>	<u>112,319</u>	<u>0.2%</u>	125.3%
Total operating expenses	<u>35,151,229</u>	<u>51.9%</u>	<u>33,723,020</u>	<u>52.6%</u>	<u>31,084,638</u>	<u>49.7%</u>	4.2%
Depreciation and amortization	<u>24,956,519</u>	<u>36.9%</u>	<u>22,638,455</u>	<u>35.3%</u>	<u>22,975,268</u>	<u>36.8%</u>	10.2%
Non-Operating:							
Interest expense	7,164,599	10.6%	7,343,883	11.4%	7,947,785	12.7%	-2.4%
Other expenses	<u>433,010</u>	<u>0.6%</u>	<u>489,532</u>	<u>0.7%</u>	<u>489,693</u>	<u>0.8%</u>	-11.5%
Total non-operating expenses	<u>7,597,609</u>	<u>11.2%</u>	<u>7,833,415</u>	<u>12.1%</u>	<u>8,437,478</u>	<u>13.5%</u>	-3.0%
Total expenses	<u>\$67,707,357</u>	<u>100.0%</u>	<u>\$64,194,890</u>	<u>100.0%</u>	<u>\$62,497,384</u>	<u>100.0%</u>	5.5%
Total full time employees	192		199		200		



Antonio B. Won Pat International Airport Authority, Guam

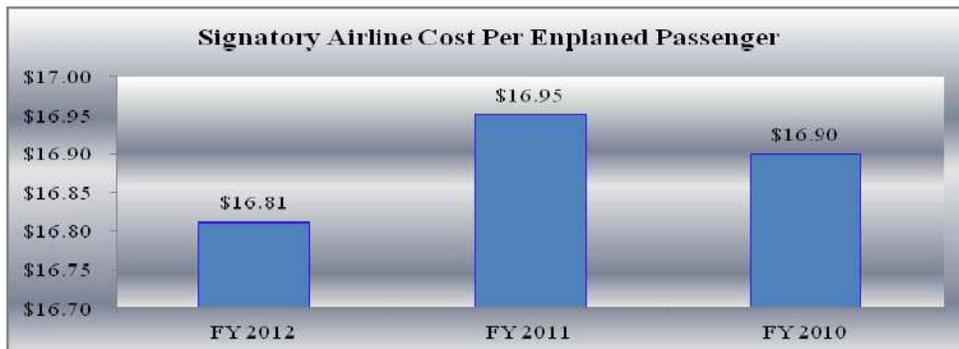
Management's Discussion and Analysis, continued

E. Cost Per Enplaned Passenger & Debt Service Coverage

Cost Per Enplaned Passenger

A summary of the cost per enplaned passenger for the years ended September 30, 2012, 2011 and 2010, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2012</u>		<u>2011</u>		<u>2010</u>	
	<u>Actual</u>	<u>% of Totals</u>	<u>Actual</u>	<u>% of Totals</u>	<u>Actual</u>	<u>% of Totals</u>
Airport Revenues						
Signatory Airline rentals & fees	\$26,332,581	43.9%	\$24,016,783	42.6%	\$24,452,297	44.8%
Revenues from sources other than Signatory Airline rentals and fees	27,208,919	45.3%	26,157,787	46.4%	23,717,183	43.5%
Passenger Facility Charge revenue	6,096,248	10.2%	5,576,838	9.9%	5,668,517	10.4%
Operating grants from U.S. Government	<u>408,686</u>	<u>0.6%</u>	<u>581,938</u>	<u>1.1%</u>	<u>730,579</u>	<u>1.3%</u>
Airport Revenues	<u>\$60,046,434</u>	<u>100.0%</u>	<u>\$56,333,346</u>	<u>100.0%</u>	<u>\$54,568,576</u>	<u>100.0%</u>
		<u>% Change</u>		<u>% Change</u>		
Signatory Airline enplaned passengers	1,566,356	10.6%	1,416,873	-2.1%	1,446,896	
Signatory Airline cost per enplaned passenger	\$16.81	-0.8%	\$16.95	0.3%	\$16.9	



Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

E. Cost Per Enplaned Passenger & Debt Service Coverage, continued

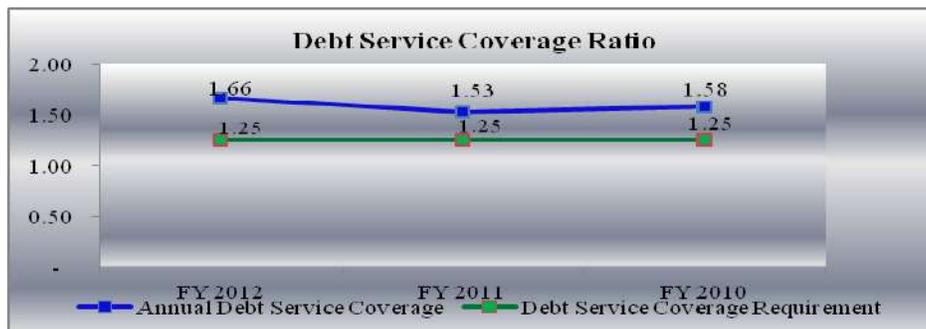
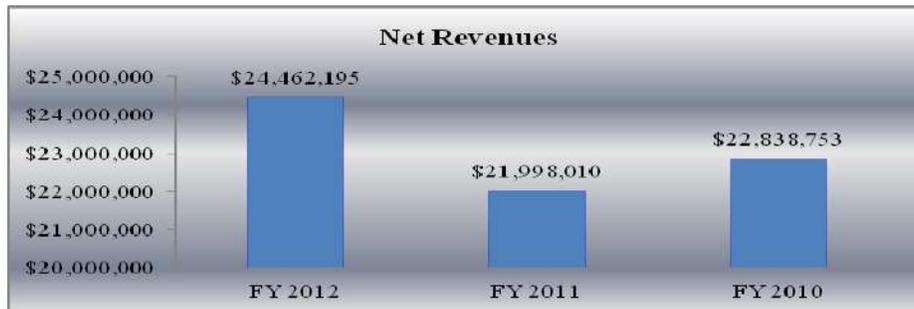
Debt Service Coverage

Under the Bond Indenture for the issuance of the 2003 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. A summary of the annual debt coverage for the years ended September 30, 2012, 2011 and 2010 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	2012 % Increase (Decrease) from 2011
Airport Revenues	\$60,046,434	\$56,333,346	\$54,568,576	6.6%
Less: Operation and Maintenance Expenses	<u>(35,701,522)</u>	<u>(34,335,336)</u>	<u>(31,729,823)</u>	4.0%
Net Revenues	24,344,912	21,998,010	22,838,753	10.7%
Plus: Other Available Moneys	<u>4,317,380</u>	<u>4,304,480</u>	<u>4,292,067</u>	0.3%
Net Revenues and Other Available Moneys	<u>\$28,662,292</u>	<u>\$26,302,490</u>	<u>\$27,130,820</u>	9.0%

Rate Covenant

Net Revenues and Other Available Moneys	\$28,662,292	\$26,302,490	\$27,130,820	9.0%
Total Annual Debt Service	\$17,269,519	\$17,217,919	\$17,168,269	0.3%
Annual Debt Service Coverage	1.66	1.53	1.58	8.6%
Debt service coverage requirement	1.25	1.25	1.25	



Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

F. Outlook for FY 2013

For 2013, the industry forecast is expected to improve in terms of passenger activity and profitability with an increase of over 25% over 2012. Global economies are expected to improve and business travel will rebound.

The Authority's passenger projections of 1,588,924 enplanements reflect a very conservative outlook year-over-year with a 1.4% growth in FY 2013. Signatory enplanement growth of 10.6% in FY 2012 may not be sustainable since the hotel room inventory is already saturated during peak holiday periods. The strength of foreign currency remains a factor that makes Guam an attractive and value-added destination but Japan is expected to devalue their currency to improve export results and it is uncertain how that will impact outbound travel from Guam's largest visitor market. The Russia visa waiver parole authority has produced increased passenger arrivals and is a growth market. The China visa waiver continues to be evaluated by the federal government and if parole authority is extended, it will open a whole new chapter for the Authority and the visitor industry.

The Authority in partnership with the Guam Economic Development Agency (GEDA) has initiated the finance planning process for the 2013 bond call date to re-finance the 2003 bond issue and possibly seek new capital. Preliminary meetings with the rating agencies will occur in early FY 2013. Low interest rates are projected to remain flat and may result in double-digit savings to the Authority's current debt service. These savings coupled with new and increased non-airline revenue sources will make new capital bonds feasible. A sampling of projects that will be considered include a permanent solution to the concourse separation mandate, relocation of TSA baggage screening from the ticket lobbies to the in-line outbound baggage system, common use check in facilities, improvements to enhance customer service levels and projects to increase the useful life of the air terminal.

The Authority and Guam Visitor's Bureau (GVB) will continue to pursue an aggressive air service development program. Concurrently, the Authority, GVB and GEDA are to provide the data and support to seek new hotel development and expansion. The Authority and GVB will continue to work on air service opportunities for charters and scheduled extra sections from our incumbent airlines need to manage their fleet and seek ways to maximize aircraft utilization.

The Authority will work closely with its airline partners to contain operational cost and improve upon the projected \$17.20 as CPE for FY 2013. By maintaining a low cost structure and affordable airport rates and charges, the Authority hopes to increase airline activity that ultimately translates into increased operating revenue through its concessions.

Antonio B. Won Pat International Airport Authority, Guam

Management's Discussion and Analysis, continued

F. Outlook for FY 2013, continued

The Authority will also engage a new specialty retail contract as part of the merchandise concessions in early FY 2013. Proposals are being evaluated and, at a minimum, the annual guarantee will increase by 50% from \$4.0 million to \$6.0 million as required by the RFP. The business model for the food and beverage concessions will be reviewed to improve passenger services and maximize sales through a diversification of healthy, branded and local choices.

The Authority will complete airfield improvements with the installation of a new Instrument Landing System for Runway 6L. The same runway is also expected to be rehabilitated with bid opening in early FY 2013. These projects pave the way for the runway to be operational for long-haul air service.

The Authority expects to finalize an action plan with DPW for the Tiyan Parkway and mitigate the closure of Central Avenue. Land acquisition initiatives will be formalized as part of an amended MOU. Concurrently, consultations will continue for a phased expansion of Route 10A to connect Routes 1 and 16.

With several initiatives and projects underway, the Authority remains committed to positioning Guam as a low cost major transportation hub in the Western-Pacific region for 2013.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets

	September 30,	
	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Unrestricted assets:		
Cash (<i>Note 3</i>)	\$ 1,820,208	\$ 865,406
Passenger facility charge cash (<i>Note 3</i>)	24,172	99,298
Accounts receivable, trade, net of allowance for doubtful accounts of \$1,991,620 at September 30, 2012 (\$886,162 at September 30, 2011) (<i>Note 3</i>)	6,202,347	5,688,114
Passenger facility charge receivables (<i>Note 3</i>)	895,209	561,902
Receivables from the United States Government	3,556,402	454,035
Inventory and other	<u>50,717</u>	<u>67,361</u>
Total unrestricted current assets	<u>12,549,055</u>	<u>7,736,116</u>
Restricted assets:		
Customs fees, cash (<i>Note 3</i>)	74,066	335,358
Customs fees, receivables (<i>Note 11</i>)	<u>1,587,544</u>	<u>1,443,800</u>
Total restricted current assets	<u>1,661,610</u>	<u>1,779,158</u>
Total current assets	<u>14,210,665</u>	<u>9,515,274</u>
Accounts receivable from tenant, unrestricted (<i>Notes 3 and 8</i>)	<u>799,200</u>	<u>540,000</u>
General Revenue Bonds (<i>Note 6</i>):		
Investments and cash with trustees, unrestricted	20,261,161	21,577,162
Investments and cash with trustees, restricted	<u>32,941,612</u>	<u>32,671,610</u>
	<u>53,202,773</u>	<u>54,248,772</u>
Capital assets, at cost less accumulated depreciation (<i>Notes 4 and 10</i>)	398,963,653	405,381,493
Avigation easements (<i>Note 4</i>)	11,975,643	12,984,992
Deferred bond issue and loan costs	<u>4,857,336</u>	<u>5,448,094</u>
Total assets	<u>\$ 484,009,270</u>	<u>\$ 488,118,625</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets, continued

	September 30,	
	<u>2012</u>	<u>2011</u>
Liabilities and Net Assets		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 2,752,640	\$ 2,366,675
Accounts payable - construction	4,752,646	4,382,840
Other liabilities (Note 10)	903,803	1,173,341
Security deposits and deferred income	1,281,047	1,135,533
Current portion of annual leave (Note 9)	308,095	322,389
Current portion of loan payable to bank (Notes 5 and 9)	217,000	---
Total payable from unrestricted assets	<u>10,215,231</u>	<u>9,380,778</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam (Note 11)	2,042,986	1,785,059
General Revenue Bonds:		
Current installments (Notes 5 and 9)	9,590,000	9,095,000
Accrued interest	3,839,759	4,061,459
Total payable from restricted assets	<u>15,472,745</u>	<u>14,941,518</u>
Total current liabilities	<u>25,687,976</u>	<u>24,322,296</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued sick leave (Notes 7 and 9)	159,480	170,548
Long-term portion of annual leave (Note 9)	687,076	667,578
Long-term loan payable to bank (Notes 5 and 9)	5,377,897	---
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds (Notes 5 and 9)	<u>146,106,456</u>	<u>155,809,139</u>
Total non-current liabilities	<u>152,330,909</u>	<u>156,647,265</u>
Total liabilities	<u>178,018,885</u>	<u>180,969,561</u>
Commitments and contingencies (Notes 5 and 10)		
Net assets:		
Invested in capital assets, net of related debt	254,505,279	258,910,440
Restricted (Notes 4 and 10)	28,720,477	28,604,250
Unrestricted	<u>22,764,629</u>	<u>19,634,374</u>
Total net assets	<u>305,990,385</u>	<u>307,149,064</u>
Total liabilities and net assets	<u>\$ 484,009,270</u>	<u>\$ 488,118,625</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Revenues, Expenses and Changes in Net Assets

	Year ended September 30,	
	<u>2012</u>	<u>2011</u>
Revenues (<i>Note 5</i>):		
Facilities and systems usage charges	\$ 24,569,458	\$ 22,345,154
Concession fees (<i>Notes 3 and 8</i>)	15,899,179	14,762,957
Rental income (<i>Note 8</i>)	10,861,087	10,618,530
Miscellaneous	<u>1,148,209</u>	<u>1,481,857</u>
Total revenues	<u>52,477,933</u>	<u>49,208,498</u>
Operating costs and expenses:		
Contractual services (<i>Note 8</i>)	18,950,053	18,662,427
Personnel services	13,917,232	13,744,204
Materials and supplies	1,178,487	825,621
Bad debt	<u>1,105,457</u>	<u>490,768</u>
Total operating costs and expenses	<u>35,151,229</u>	<u>33,723,020</u>
Income from operations before depreciation and amortization	17,326,704	15,485,478
Depreciation and amortization	<u>(24,956,519)</u>	<u>(22,638,455)</u>
Loss from operations	<u>(7,629,815)</u>	<u>(7,152,977)</u>
Non-operating income (expense):		
Passenger facility charge income	6,096,248	5,576,838
Interest income	1,194,681	1,155,144
Interest expense	<u>(7,164,599)</u>	<u>(7,343,883)</u>
Other expenses, net (<i>Note 5</i>)	<u>(433,014)</u>	<u>(440,906)</u>
Non-recurring expenses	<u>(---)</u>	<u>(48,626)</u>
Total non-operating expenses, net	<u>(306,684)</u>	<u>(1,101,433)</u>
Loss before capital grants and transfer in	<u>(7,936,499)</u>	<u>(8,254,410)</u>
Capital grants from the United States Government	6,369,134	9,004,486
Operating grants from the United States Government	382,298	503,875
Transfer from Government of Guam - Office of Highway Safety (OHS)	<u>26,388</u>	<u>78,063</u>
Total capital and operating grants	<u>6,777,820</u>	<u>9,586,424</u>
(Decrease) increase in net assets	<u>(1,158,679)</u>	1,332,014
Net assets at beginning of year	<u>307,149,064</u>	<u>305,817,050</u>
Net assets at end of year	<u>\$ 305,990,385</u>	<u>\$ 307,149,064</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows

	Year ended September 30,	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 50,600,813	\$ 49,674,617
Cash paid to suppliers for goods and services	(19,800,746)	(26,788,816)
Cash paid to employees	(13,923,096)	(13,735,127)
Net cash provided by operating activities	<u>16,876,971</u>	<u>9,150,674</u>
Cash flows from investing activities:		
Net sales of investments with trustee	1,045,999	139,109
Investment interest income	<u>1,194,681</u>	<u>1,155,144</u>
Cash provided by investing activities	<u>2,240,680</u>	<u>1,294,253</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(10,655,998)	(12,364,279)
Principal payment on General Revenue Bonds	(9,207,683)	(8,744,295)
Interest paid on General Revenue Bonds	(7,901,219)	(7,554,058)
Loan cost	(172,757)	---
Passenger facility charge receipts	5,762,941	5,687,918
U.S. Government capital grants	3,649,065	12,331,987
Transfer from Government of Guam - OHS	<u>26,384</u>	<u>78,063</u>
Net cash used in capital and related financing activities	(18,499,267)	(10,564,664)
Net increase (decrease) in cash	618,384	(119,737)
Cash at beginning of year	<u>1,300,062</u>	<u>1,419,799</u>
Cash at end of year	<u>\$ 1,918,446</u>	<u>\$ 1,300,062</u>
Consisting of:		
Unrestricted	\$ 1,844,380	\$ 964,704
Restricted - current	<u>74,066</u>	<u>335,358</u>
	<u>\$ 1,918,446</u>	<u>\$ 1,300,062</u>

Non-cash investing and financing activities:

During the year ended September 30, 2012, the Authority recorded an increase to capital assets and bank loan totaling \$5,594,897 representing loan proceeds disbursed directly by the bank to a contractor.

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2012</u>	<u>2011</u>
Reconciliation of loss from operations and other expenses to net cash provided by operating activities:		
Loss from operations	\$(7,629,815)	\$(7,152,977)
Non-recurring and other expenses, net	(<u>433,010</u>)	(<u>489,532</u>)
	(<u>8,062,825</u>)	(<u>7,642,509</u>)
Adjustments to reconcile loss from operations and other expenses, net to net cash provided by operating activities:		
Depreciation and amortization	24,956,519	22,638,455
Bad debt expense	1,105,457	490,768
(Increase) decrease in assets:		
Accounts receivable	(1,763,434)	883,807
Inventory	16,644	(24,831)
Accounts receivable from tenant	(259,200)	(259,200)
Increase (decrease) in liabilities:		
Accounts payable	1,013,698	(6,696,603)
Other current liabilities	(269,538)	(89,802)
Security deposits and deferred income	145,514	(158,488)
Annual leave	5,204	(29,587)
Accrued sick leave	(<u>11,068</u>)	<u>38,664</u>
Total adjustments	<u>24,939,796</u>	<u>16,793,183</u>
Net cash provided by operating activities	<u>\$ 16,876,971</u>	<u>\$ 9,150,674</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements

Years ended September 30, 2012 and 2011

1. Organization and Summary of Accounting Policies

Organization

The Antonio B. Won Pat International Airport Authority, Guam, (the Authority), was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam to own and operate the facilities of the Guam International Air Terminal, located at Tiyan, Guam. It is charged with the acquisition, construction, operation and maintenance of the airport and related facilities for civil aviation on Guam. The Authority supports its operations through landing fees and charges for the use of its facilities and through rentals under concessionaire agreements.

Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: net assets invested in capital assets, net of related debt; restricted and unrestricted. Net assets invested in capital assets, net of related debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

Cash

For the purpose of the statements of cash flows, cash is defined as cash on hand and in banks. Cash on hand and in banks include passenger facility charge cash and customs fees, cash.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Accounts Receivable

Accounts receivable are primarily due from airlines utilizing the Authority's airport terminal facilities and various business establishments located in Guam. The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. As of September 30, 2012 and 2011, receivables that are more than ninety days past due totaled approximately \$3,588,000 and \$2,373,000, respectively. The Authority accrues finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventory

Inventory is recorded at the lower of cost (using first-in, first-out method) or market value.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are primarily determined based on quoted market values.

Capital Assets and Depreciation and Amortization

Capital assets, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of airport facilities and amortization of improvements has been computed by the straight-line method using estimated useful lives of 5 to 35 years for buildings and 3 to 10 years for equipment.

The Authority capitalizes buildings, land improvements and equipment that have a cost of \$5,000 or more and an estimated useful life of at least three years. The costs of normal maintenance and repairs that do not add to the value of the asset or do not materially extend the lives of the assets are not capitalized.

The costs of issuing bonds to finance construction of airport facilities have been capitalized and are being amortized on a weighted-average basis over the lives of the bonds outstanding.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Capital Assets and Depreciation and Amortization, continued

Loan costs incurred are capitalized and amortized over the term of the loan (five years) using the straight-line method, which approximates the effective interest method.

Capitalization of Interest

The Authority charges to construction-in-progress interest incurred during the period of construction. Interest is capitalized in accordance with Financial Accounting Standards Board Accounting Standards Codification No. 835-20 *Capitalization of Interest* for all projects which are not constructed with the proceeds of tax exempt bonds or grant funds. Interest capitalization ceases when constructed facilities are placed in service.

Avigation Easements

Avigation easements are property rights acquired by the Authority whenever land use around the Guam International Air Terminal needs to be controlled or when air rights are required. The Authority capitalizes the cost incurred for air rights and is amortized over 15 years using the straight-line method.

Compensated Absences

In accordance with Public Law 27-005 and Public Law 28-068, employees vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service.
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service.
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

The statutes reduce the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law 27-106 amended subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave from February 28, 2003 shall be lost.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Compensated Absences, continued

Accrued annual leave up to 320 hours is converted to pay upon termination of employment. Amounts to be paid during the next fiscal year are reported as current.

Bond Premium and Discount

The premium on the 2003 General Revenue Bonds is being amortized on a weighted-average basis over the life of the bond issues.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of the Guam International Air Terminal. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, Passenger Facility Charges and certain other non-recurring income and expenses.

Revenues are recognized when earned or when services are rendered. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Passenger Facility Charges

Passenger Facility Charges (PFC) generate income to be expended by the Authority for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. PFC income is recorded as non-operating income in the statements of revenues, expenses and changes in net assets.

Environmental Costs

Liabilities for future remediation and monitoring costs are recorded when environmental assessments and/or remedial and monitoring efforts are probable and the costs can be reasonably estimated. These liabilities are not reduced by possible recoveries from third parties, and projected cash expenditures are not discounted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Risk Management

The Authority is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation and environmental liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters. The Authority has procured catastrophic insurance, as discussed in Note 10.

New Accounting Standards

During the year ended September 30, 2012, the Authority implemented the following pronouncements:

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011. The statement establishes guidance for accounting and financial reporting for service concession arrangements.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for periods beginning after June 15, 2012. The statement addresses reporting entity issues that have arisen since the issuance of Statement No. 14 and Statement No. 34.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The statement incorporates into the GASB's authoritative literature certain accounting and financial guidance issued on or before November 30, 1989.

In June 2011, GASB issued Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for periods beginning after June 15, 2011. The statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The statement also sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

New Accounting Standards, continued

The implementation of these pronouncements did not have a material effect on the financial statements of the Authority.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straightline basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans, that are administered through trusts or equivalent arrangements that meet certain criteria.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

The Authority is currently evaluating the effects the above statements will have on its financial statements.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the 2011 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported increase in net assets.

2. Subsequent Events

The Authority has evaluated subsequent events through January 29, 2013.

3. Concentrations of Credit Risk and Major Customers

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of cash deposits and accounts receivable.

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2012 and 2011, \$250,000 of the Authority's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 15% of total operating revenues for each of the years ended September 30, 2012 and 2011. Receivables from the primary concessionaire totaled \$1,026,490 and \$929,017 at September 30, 2012 and 2011, respectively.

For the years ended September 30, 2012 and 2011, approximately 28% and 29%, respectively, of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2012 and 2011, the receivable from this airline customer totaled \$1,821,986 and \$1,397,109, respectively.

Concentration of credit risk with respect to the remaining accounts receivable which are due primarily from other various airlines, concessionaires and tour operators is limited due to the large number of customers comprising the Authority's customer base.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

4. Airport Facilities

A summary of changes in capital assets for the year ended September 30, 2012 is as follows:

	Beginning Balance October 1, 2011	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2012
Capital assets depreciated:				
Terminal building	\$341,133,294	\$ 42,288	\$ 1,168,833	\$342,344,415
Other buildings	84,814,026	93,445	206,319	85,113,790
Airfield area	81,786,724	19,300	440,443	82,246,467
Apron area	40,983,694	---	---	40,983,694
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>8,676,487</u>	<u>35,701</u>	<u>---</u>	<u>8,712,188</u>
Total capital assets depreciated	582,142,933	190,734	1,815,595	584,149,262
Less accumulated depreciation	<u>(307,231,657)</u>	<u>(23,183,657)</u>	<u>---</u>	<u>(330,415,314)</u>
Net capital assets depreciated	<u>274,911,276</u>	<u>(22,992,923)</u>	<u>1,815,595</u>	<u>253,733,948</u>
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	<u>73,008,844</u>	<u>16,575,083</u>	<u>(1,815,595)</u>	<u>87,768,332</u>
Total capital assets not depreciated	<u>130,470,217</u>	<u>16,575,083</u>	<u>(1,815,595)</u>	<u>145,229,705</u>
	<u>\$405,381,493</u>	<u>\$ (6,417,840)</u>	<u>\$ ---</u>	<u>\$398,963,653</u>

The Authority acquired avigation easements from surrounding residential homeowners in exchange for the cost of installing residential sound insulation. Construction-in-progress at September 30, 2012 and 2011 included \$696,963 and \$661,913, respectively, of costs associated with the residential sound insulation program. At September 30, 2012 and 2011, the Authority's avigation easements totaled \$11,975,643 and \$12,984,992, net of amortization, respectively, and is shown as avigation easements in the accompanying statements of net assets.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

4. Airport Facilities, continued

A summary of changes in capital assets for the year ended September 30, 2011 is as follows:

	Beginning Balance October 1, 2010	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2011
Capital assets depreciated:				
Terminal building	\$330,412,546	\$ ---	\$10,720,748	\$341,133,294
Other buildings	61,065,843	15,000	23,733,183	84,814,026
Airfield area	57,263,161	---	24,523,563	81,786,724
Apron area	40,983,694	---	---	40,983,694
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>8,657,093</u>	<u>19,394</u>	<u>---</u>	<u>8,676,487</u>
Total capital assets depreciated	523,131,045	34,394	58,977,494	582,142,933
Less accumulated depreciation	(286,410,865)	(20,820,792)	<u>---</u>	(307,231,657)
Net capital assets depreciated	<u>236,720,180</u>	<u>(20,786,398)</u>	<u>58,977,494</u>	<u>274,911,276</u>
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	<u>119,656,453</u>	<u>12,329,885</u>	<u>(58,977,494)</u>	<u>73,008,844</u>
Total capital assets not depreciated	<u>177,117,826</u>	<u>12,329,885</u>	<u>(58,977,494)</u>	<u>130,470,217</u>
	<u>\$413,838,006</u>	<u>\$ (8,456,513)</u>	<u>\$ ---</u>	<u>\$405,381,493</u>

On September 30, 2005, the Authority entered into a quitclaim deed with the Government of Guam, wherein the Government of Guam transferred a parcel of land with an appraised value of \$2,530,000 to the Authority. As more fully discussed in Note 10, the deed was entered into in response to a request by the Federal Aviation Administration (FAA) that the Authority seek reimbursement of \$564,702 in unresolved federal program questioned costs as of September 30, 2004. The \$2,530,000 is included as a component of capital assets in the accompanying statements of net assets. Due to numerous uncertainties surrounding the Tiyan properties, the Authority has noted that it may elect to utilize the excess contribution from the land transfer to offset any subsequent obligations by the Government of Guam if so determined by the federal government.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

4. Airport Facilities, continued

Interest capitalized for the years ended September 30, 2012 and 2011, totaled \$514,920 and \$605,752, respectively.

Airport facilities are located on approximately 236 acres. The Authority has no cost basis in 212 acres of this property; the remaining 24 acres have a cost basis of \$3,014,194.

In September 2000, the United States Navy (Navy) transferred approximately 1,417 acres of property surrounding the Airport facilities to the Authority and the Government of Guam at no cost. This land is recorded at its appraised value of \$51,210,000 (at September 2000) and is included as a component of capital assets in the accompanying statements of net assets. In fiscal year 2001, the Navy paid the Authority \$10,000,000 (see Note 10) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank

Long-term revenue bonds payable at September 30, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
(1) General revenue bonds, Series 2003 (original issue of \$216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal payments due in varying annual installments with \$9,590,000 and \$9,095,000 due in October 2012 and 2011, respectively, and increasing to \$17,175,000 on October 2023	\$155,005,000	\$164,100,000
Less current installments	(9,590,000)	(9,095,000)
	145,415,000	155,005,000
Add net unamortized premium on bonds	3,551,487	4,130,326
Less deferred difference on refunding of 1993 bonds	(2,860,031)	(3,326,187)
	<u>\$146,106,456</u>	<u>\$155,809,139</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank, continued

Future bond principal and mandatory sinking fund installments payable by the Authority to the bond trustees are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 9,590,000	\$ 7,482,000	\$ 17,072,000
2014	10,030,000	7,076,000	17,106,000
2015	10,510,000	6,621,000	17,131,000
2016	11,065,000	6,121,000	17,186,000
2017	11,635,000	5,585,000	17,220,000
2018 through 2022	68,770,000	18,019,000	86,789,000
2023 through 2024	<u>33,405,000</u>	<u>1,732,000</u>	<u>35,137,000</u>
	<u>\$155,005,000</u>	<u>\$ 52,636,000</u>	<u>\$207,641,000</u>

On September 30, 2003, the Authority issued \$216,250,000 in Series 2003 General Revenue Bonds to retire \$216,185,000 of outstanding 1993 Series bonds. The net proceeds of \$192,699,547 (after payment of \$11,007,710 in underwriting fees, insurance, and other issuance cost) plus an additional \$30,969,034 of 1993 Series fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the refunding of the 1993 bonds on October 31, 2003.

The refunding resulted in a difference on refunding of \$7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. This amount was deferred and is being amortized over the remaining life of the 1993 bonds. For the years ended September 30, 2012 and 2011, the amortization expense totaling \$466,155 and \$493,507, respectively, are included as a component of other expenses, net in the accompanying statements of revenues, expenses and changes in net assets.

The General Revenue Bonds, Series 2003, including interest, are payable from and are secured by a pledge of revenues under the indenture. The bonds are collateralized by a lien upon and pledge of revenues to be received by the Authority, the trustees and the depository. The Authority also engaged the Bond Issuer to secure the financial guaranty insurance policy, guaranteeing the schedule payment of the principal and interest on the 2003 Bonds when due. Neither the payment of the principal on the bonds, nor any interest thereon, is a debt, liability or obligation of the Government of Guam.

The bond indentures include certain debt service and reserve requirements including the requirement that net revenues as defined in the bond indentures plus other available monies be equal to at least 125% of the annual debt service.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank, continued

(2) Long-term loan payable to bank at September 30, 2012 consisted of the following:

First Hawaiian Bank, 3.75% interest rate fixed for 5 years, monthly payment of interest only shall be made for the first year of the loan starting on July 27, 2012; thereafter, monthly payments of principal and interest in the amount of \$267,362 starting on August 27, 2013, which will amortize the loan over a period of 4 years. The principal balance and all accrued interest will be due and payable on July 27, 2017. The loan is secured by a Security Agreement and a UCC-1 Financing Agreement. The loan is subject to U.S. Department of Agriculture's (USDA) written commitment to the bank to guaranty no less than 90% of the loan to the Authority

\$5,594,897

Less current installment

217,000

\$5,377,897

On June 27, 2012, the Authority entered a loan agreement with First Hawaiian Bank (FHB) to finance the Authority's energy efficient upgrades. The loan amount is for \$11.9 million. The disbursement of the loan proceeds will be based on the payment of the costs incurred for work actually done and improvements actually installed by a contractor under the performance contract. The loan will be disbursed directly to the contractor by FHB upon the Authority's approval. During the year ended September 30, 2012, the amount of loan disbursed by FHB directly to the contractor totaled \$5,594,897 and is recorded as part of capital assets and current portion and long-term loan payable in the accompanying 2012 statement of net assets. The undisbursed portion of the loan at September 30, 2012 totals \$6,305,103. The \$11.9 million is subject to USDA's Loan Note Guarantee; however, the Loan Note Guarantee for the loan will not be executed by USDA until all construction has been completed, equipment has been purchased and installed, and the facility is certified as operational by the appropriate official, which is expected to be in August 2013. At September 30, 2012, the loan was supported by a Conditional Commitment for Guarantee by the USDA.

This loan is also secured by a Security Agreement and UCC-1 Financing Statement which identify sums in the Subordinate Securities Fund and Capital Improvement Fund as collateral for the loan. Both funds are allocated Revenues pursuant to Section 5.02 of the Bond Indenture. Obligations of the Authority payable from the aforementioned funds are

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank, continued

subordinate to the pledge and lien of airport Revenues to secure payment of the Authority's Bonds.

As part of the loan conditions, the Authority shall maintain a minimum debt service ratio of 1.25 to 1.

Future maturities of the FHB long-term loan payable is as follow:

<u>Year ending September 30</u>	
2013	\$ 217,000
2014	1,329,000
2015	1,380,000
2016	1,433,000
2017	<u>1,236,000</u>
	<u>\$5,595,000</u>

6. Investments and Cash with Trustees

The aforementioned bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the bond proceeds. At September 30, 2012 and 2011, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2012</u>	<u>2011</u>
Operations and Maintenance Reserve Fund	\$ 9,378,260	\$ 9,252,793
Federal Grant Funds	6,414,589	7,095,661
Self-Insurance Fund	3,838,135	4,038,862
Capital Improvement Fund	400,038	545,579
General Revenue Fund	225,457	639,581
Operations and Maintenance Fund	<u>4,682</u>	<u>4,686</u>
Total Unrestricted	<u>20,261,161</u>	<u>21,577,162</u>
Cash with trustees	4,718	449,771
Bond Reserve Funds	18,506,524	18,063,952
Debt Service Funds	13,430,224	13,157,642
Renewal and Replacement Fund	<u>1,000,146</u>	<u>1,000,245</u>
Total Restricted	<u>32,941,612</u>	<u>32,671,610</u>
	<u>\$53,202,773</u>	<u>\$54,248,772</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

Investments are stated at fair market value. The amortized cost and fair value of investments at September 30, 2012 and 2011 are summarized as follows:

	2012			2011		
	Amortized Cost	Gross unrealized gains	Fair value	Amortized Cost	Gross unrealized gains	Fair value
Cash with trustees	\$ 4,718	\$ ---	\$ 4,718	\$ 449,771	\$ ---	\$ 449,771
Money market/ trust funds	25,714,887	---	25,714,887	27,494,078	---	27,494,078
Investment agreements	18,045,950	---	18,045,950	18,045,950	---	18,045,950
Short-term investments	8,120,110	67,286	8,187,396	7,024,998	160,945	7,185,943
U.S. Treasury notes	<u>1,212,615</u>	<u>37,207</u>	<u>1,249,822</u>	<u>1,037,893</u>	<u>35,137</u>	<u>1,073,030</u>
	<u>\$53,098,280</u>	<u>\$ 104,493</u>	<u>\$53,202,773</u>	<u>\$54,052,690</u>	<u>\$ 196,082</u>	<u>\$54,248,772</u>

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name;
- Category 2 Investments that are uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the Authority's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name.

As of September 30, 2012 and 2011, all investments were classified as Category 2 investments.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, amended GASB Statement No. 3 to, in effect, eliminate disclosure for deposits and investments falling into categories 1 and 2 and provide for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. In compliance with the bond indenture, the Authority minimized the interest rate risk, by limiting maturity of investments. A majority of the Authority's investment securities have maturities of 5 years or less. This reduces the impact of interest rate movements seen with longer maturity investments.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Authority. In compliance with the bond indenture, the Authority minimized credit risk losses by limiting investments to the safest types of securities. Bank of Hawaii Investment Services Group, Bank of Guam, Citibank N.A. and Coast 360 Federal Credit Union manage the Federal Fund accounts investing in U.S. Treasury Securities, U.S. Government Agencies, Domestic Corporate Bonds, Money Market Funds and Certificate of Deposits insured by the Federal Deposit Insurance Corporation. The U.S. Treasury Securities are low risk investments as they are guaranteed by the full faith and credit of the U.S. government. While U.S. Government Agencies are not guaranteed, they are backed by the U.S. government and are recognized as low risk investments as well. In addition, certain funds held with the Bank of Guam-Trustee are invested in Government Obligations Funds through Federated Investments. Funds with co-trustee, U.S. Bank, are invested in First American Treasury Obligations Fund. All investment securities are within the requirement of the bond indenture.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2012 and 2011.

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

At September 30, 2012, the Authority's investments were as follows:

	Standard & Poor's/Moody's Credit Rating	Investment Maturities (In Years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
US treasury notes	Aaa-mf	\$ ---	\$ 1,246,250	\$ ---	\$ ---	\$ 1,246,250
US government agencies:						
Federal Home Loan Mortgage Corporation	Aaa/AAA	399,868	210,562	---	---	610,430
Federal National Mortgage Association	Aaa/AAA	824,533	1,688,129	---	---	2,512,662
Corporate notes:						
CDC Funding Corporation	Aa1/AA+/AAA	---	---	---	18,045,950	18,045,950
Other	Aaa/AAA	---	17,884	---	---	17,884
Other	Aa/AA	68,341	282,706	---	---	351,047
Other	A	233,738	774,808	---	---	1,008,546
Other	Baa/BBB	118,056	133,512	---	---	251,568
Other	Not rated	15,430	---	---	---	15,430
Money Market Funds:						
Federated Investments	AAA	4,102,595	---	---	---	4,102,595
US Bank, NA	A1/Aa2	13,430,207	---	---	---	13,430,207
Citibank, NA	Baa2	3,831,899	---	---	---	3,831,899
Bank of Guam	BBB	6,868,118	---	---	---	6,868,118
Other	Not rated	<u>869,750</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>869,750</u>
		<u>\$ 30,762,535</u>	<u>\$ 4,353,851</u>	<u>\$ ---</u>	<u>\$ 18,045,950</u>	<u>\$ 53,162,336</u>
Cash						4,718
Accrued interest						<u>35,719</u>
						<u>\$ 53,202,773</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

6. Investments and Cash with Trustees, continued

At September 30, 2011, the Authority's investments were as follows:

	Standard & Poor's/Moody's Credit Rating	Investment Maturities (In Years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
US treasury notes	Aa+/Aaa	\$ 35,916	\$1,033,407	\$ ---	\$ ---	\$ 1,069,323
US government agencies:						
Federal Home Loan Mortgage Corporation	Aaa	809,701	1,092,592	---	---	1,902,293
Federal National Mortgage Association	Aaa	199,681	1,117,213	---	---	1,316,894
Other guaranteed by FDIC	Aaa	328,949	---	---	---	328,949
Corporate notes:						
CDC Funding Corporation	A+/Aa3	---	---	---	18,045,950	18,045,950
Other	Aaa	36,273	33,763	---	---	70,036
Other	Aa/Aa2	20,552	365,533	---	---	386,085
Other	A/A2	116,790	741,035	6,304	---	864,129
Other	Bbb/Baa2	---	193,304	---	---	193,304
Money Market Funds:						
Federated Investments	Aaa	2,078,675	---	---	---	2,078,675
US Bank, NA	A1/Aa2	13,175,325	---	---	---	13,175,325
Citibank, NA	A/A1	4,032,850	---	---	---	4,032,850
Bank of Guam	Bbb/Baa2	9,417,765	---	---	---	9,417,765
Other	Not rated	<u>867,327</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>867,327</u>
		<u>\$31,119,804</u>	<u>\$4,576,847</u>	<u>\$ 6,304</u>	<u>\$18,045,950</u>	53,748,905
Cash						449,771
Accrued interest						<u>50,096</u>
						<u>\$54,248,772</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

7. Employee Benefits and Other

Employee Retirement Plan

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees Retirement System, a defined benefit pension plan (DB Plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until December 31, 1999, and for several limited periods after December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, they remained under the old plan.

The DB Plan and the DCRS are administered by the Government of Guam Retirement Fund (GGRF), to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

DB Plan

The DB Plan is a cost-sharing multiple-employer plan. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

Plan members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The contribution requirements of the plan members and the Authority are established and may be amended by the GGRF.

Statutory contribution rates for employer and employee contributions were 28.3% and 9.50%, respectively, for the year ended September 30, 2012, 27.46% and 9.50%, respectively, for the year ended September 30, 2011 and 26.04% and 9.50%, respectively, for the year ended September 30, 2010.

Actuarial contribution rates were 30.09%, 28.06% and 29.31% for the years ended September 30, 2012, 2011 and 2010, respectively.

During the years ended September 30, 2012, 2011 and 2010, contributions made and accrued, which were equal to the required contributions for those years, amounted to \$325,013, \$338,176 and \$353,856, respectively.

Notes to Financial Statements, continued

7. Employee Benefits and Other, continued

DCRS

Contributions into the DCRS, by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

During the years ended September 30, 2012, 2011 and 2010, contributions made and amounts accrued under the DCRS amounted to \$2,368,797, \$2,314,135 and \$2,049,637, respectively.

Retirement expense amounted to \$2,693,810, \$2,652,311 and \$2,403,493 for the years ended September 30, 2012, 2011 and 2010, respectively.

Accrued Sick Leave

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. As of September 30, 2012 and 2011, the Authority has accrued an estimated liability of \$159,480 and \$170,548, respectively. However, this amount is an estimate and actual payout could differ from those estimates.

Notes to Financial Statements, continued

7. Employee Benefits and Other, continued

Other Post-Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

8. Leases

DFS

In November 2002, DFS was selected as primary concessionaire for the airport terminal for a ten year term commencing January 2003.

In accordance with the concession agreement, rental income from DFS shall be the greater of the following:

1. Four million dollars (the "minimum guarantee") plus five hundred thousand dollars (the "additional rent"), or;
2. The sum of 20% of gross revenues up to \$30 million plus 22.5% of gross revenues exceeding \$30 million

During the lease term, the minimum guarantee rent and the additional rent are paid in equal monthly installments on or before the first day of each month.

DFS also entered into a concession agreement with the Authority for additional store space for a five year term which expired in 2011, but the concession continues on a month-to-month basis until a new agreement is finalized. Effective fiscal year 2011, DFS entered into another concession agreement with the Authority for a separate additional store space for a five year term. For each of these agreements, DFS guarantees to pay a minimum annual rent of \$250,000 during each lease year, or the percentage rent which is 22.5% of annual gross revenues for each lease year, whichever amount is greater.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

8. Leases, continued

DFS, continued

Concession fee income for the years ended September 30, 2012 and 2011 includes \$2,346,397 and \$2,125,392 of percentage rent income in excess of the minimum guarantee and additional rent on the DFS lease, respectively.

The future minimum lease receipts under the remainder of the DFS Concession Agreements as of September 30, 2012 are as follows:

<u>Year ending</u> <u>September 30,</u>	
2013	\$1,750,000
2014	<u>250,000</u>
Total minimum lease payments receivable	<u>\$2,000,000</u>

Pac Air Properties, LLC

Effective February 22, 2008 (Commencement Date), the Authority and Pac Air Properties, LLC (Pac Air) agreed to amend and restate its existing ground lease agreement dated October 31, 2006 in its entirety. The new agreement has an initial lease term of fifty (50) years beginning on the commencement date, with an option on the part of Pac Air to renew for an additional ten (10) years. In accordance with the agreement, Pac Air shall make agreed-upon capital improvements at a cost of no less than \$25 million to the leased premises with an area of approximately 540,000 square feet. On the termination or expiration of the lease, capital improvements will be surrendered to the Authority. The Authority shall waive rental payments during the construction phase but no later than the first two (2) years from the initial term of the lease. Beginning on the date of beneficial occupancy, which is on September 1, 2009 the date which marks the end of the construction phase and the waiver of rent, the monthly rent shall amount to \$21,600 but payment of such rent shall be deferred for the next five (5) years, at such time the deferred rent shall be paid starting on September 1, 2014 in equal monthly installments over the next ten (10) years at the same time and under the same conditions as the regular monthly rent payments. For each of the years ended September 30, 2012 and 2011, the Authority accrued rental income totaling \$259,200 and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net assets. At September 30, 2012 and 2011, accrued rental receivable totals \$799,200 and \$540,000, respectively, and is shown as accounts receivable from tenant in the accompanying statements of net assets.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

8. Leases, continued

Pac Air Properties, LLC, continued

Future minimum rental income under the aforementioned Pac Air lease agreement is as follows:

Year ending <u>September 30,</u>	
2013	\$ 259,200
2014	259,200
2015	286,200
2016	286,200
2017	286,200
Thereafter	<u>19,774,703</u>
Total future minimum lease payments receivable	<u>\$21,151,703</u>

In 2010, the Authority entered into a lease-back agreement with Pac Air to lease a total of 32,500 square feet of space in the completed facility on the leased premises for 5 years with annual rent of \$1,058,400. Rent expense for each of the years ended September 30, 2012 and 2011 amounted to \$1,058,400 and is included under contractual services in the accompanying statements of revenues, expenses and changes in net assets.

On December 2010, the Authority entered into a sublease agreement with the Government of Guam's Customs and Quarantine Agency (GovGuam CQA) to lease 25,000 square feet of the aforementioned 32,500 square feet rental space for 5 years, with annual rental income of \$1,024,200. Rental income for each of the years ended September 30, 2012 and 2011 amounted to \$1,024,200 and is included under rental income in the accompanying statements of revenues, expenses and changes in net assets.

Future minimal rent expense arising from the Pac Air lease-back agreement and future minimal sublease income from GovGuam CQA is as follows:

Year ending <u>September 30,</u>	Lease back <u>Expense</u>	Sublease <u>Income</u>	Net (Expense) <u>Income</u>
2013	\$(1,058,400)	\$ 1,024,200	\$(34,200)
2014	(1,058,400)	1,024,200	(34,200)
2015	<u>(923,400)</u>	<u>1,024,200</u>	<u>100,800</u>
	<u>\$(3,040,200)</u>	<u>\$3,072,600</u>	<u>\$ 32,400</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

8. Leases, continued

Other Leases

The Authority has lease agreements with scheduled air carriers, various concessionaires and other airport users. The agreements provide the lessees with the use of the airport's system facilities, equipment and services. The signatory airline operating agreements and terminal building leases expire on September 30, 2016. Other ground lease agreements will expire ranging from September 2015 through September 2035. The lease agreements with six rent-a-car companies will expire in June 2016.

The future minimum rentals on other noncancellable operating leases (excluding the DFS and Pac Air and GovGuam CQA lease described above) as of September 30, 2012 are as follows:

Year ending September 30,	
2013	\$ 7,015,000
2014	6,089,000
2015	5,800,000
2016	5,357,000
2017	1,301,000
Thereafter	<u>10,033,000</u>
Total future minimum lease payments receivable	<u>\$35,595,000</u>

9. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2012 and 2011 follows:

	Outstanding September 30, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2012</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued sick leave	\$ 170,548	\$ ---	\$ 11,068	\$ 159,480	\$ ---	\$ 159,480
Accrued annual leave	989,967	5,204	---	995,171	308,095	687,076
Loan payable to bank	---	5,594,897	---	5,594,897	217,000	5,377,897
2003 General revenue bonds	<u>164,904,139</u>	<u>---</u>	<u>9,207,683</u>	<u>155,696,456</u>	<u>9,590,000</u>	<u>146,106,456</u>
	<u>\$166,064,654</u>	<u>\$ 5,600,101</u>	<u>\$9,218,751</u>	<u>\$ 162,446,004</u>	<u>\$10,115,095</u>	<u>\$152,330,909</u>

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

9. Long-Term Liabilities, continued

	Outstanding September 30, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2011</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued sick leave	\$ 131,884	\$ 38,664	\$ ---	\$ 170,548	\$ ---	\$ 170,548
Accrued annual leave	1,019,554	---	29,587	989,967	322,389	667,578
2003 General revenue bonds	<u>173,648,434</u>	<u>---</u>	<u>8,744,295</u>	<u>164,904,139</u>	<u>9,095,000</u>	<u>155,809,139</u>
	<u>\$174,799,872</u>	<u>\$ 38,664</u>	<u>\$8,773,882</u>	<u>\$166,064,654</u>	<u>\$9,417,389</u>	<u>\$156,647,265</u>

10. Commitments and Contingencies

Environmental Response Actions

As discussed in Note 4, in September 2000, the Navy transferred 1,417 acres of property to the Authority and Government of Guam at no cost. In fiscal year 2001, the Navy paid the Authority \$10,000,000 as a lump sum but not in accordance to the payment provisions of the Quitclaim Deed from the Navy. In exchange for the payment, the Authority and the Government of Guam apparently assumed obligations for environmental response actions addressing specific groundwater contamination even if the cost of the response actions exceeds the \$10 million received from the Navy. The Authority's management has received the final draft of the Decision Document (DD) for Operable Unit 3 (OU3) which is the groundwater located under the former Naval Air Station. The DD presents the selected remedy for OU3 which is the remedial alternative 3. It calls for extraction and treatment at Well NAS-1 and future wells, if necessary, and natural attenuation. The DD identifies the Navy as the lead agency for the cleanup with support agencies that include the Authority, Guam Environmental Protection Agency (GEPA) and the US EPA. The Navy, the Authority and GEPA are the authorized signatories for the DD. The final draft of the DD is presently being reviewed by the BRAC Cleanup Team.

The Authority's responsibilities under the draft DD are limited to sampling and testing as currently performed. The new task is for the Authority to conduct a 5 year review to ensure the remedial action is or will be protective of human health and the environment. This new task may reduce the ongoing sampling and testing requirements or completely eliminate them. Moreover, the granular activated carbon (GAC) treatment provided under the Authority's new water system satisfies the GAC treatment component of future wells meeting the selected remedy. No further obligation of the Authority is required under the draft DD. A portion of the remaining balance of the \$10 million received from the Navy, although reprogrammed to the Capital Improvement Fund, will remain as a contingent unencumbered sum to pay for future sampling and testing requirements and any potential improvements under the Environmental Services Cooperative Agreement that were not constructed under the Authority's water system.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

10. Commitments and Contingencies, continued

Environmental Response Actions, continued

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2012, the Authority estimated, based upon a weighted average probability of future cash outflows, that its pollution remediation obligations as called for under GASB No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* totaled \$354,868. At September 30, 2012 and 2011, future pollution remediation and monitoring costs totaling \$354,868 and \$454,568, respectively, is reflected as a component of other current liabilities in the accompanying statements of net assets.

Federal Program Costs

The Authority receives, on a reimbursement basis, grants from the U.S. Government for certain capital construction projects primarily through the Airport Improvement Program (AIP). The Authority also receives grants from other sources. These grants are subject to financial and compliance audits to ascertain whether federal laws and regulations have been followed.

As discussed in Note 4, on September 30, 2005 the Authority received a parcel of land with an appraised value of \$2,530,000 from the Government of Guam, which represented reimbursement to the Authority for questioned costs totaling \$564,702 as of September 30, 2004, that the FAA requested for reimbursement.

As of September 30, 2011, questioned costs estimated to be at approximately \$60,000 was identified based on the construction costs of interconnections as reported by an independent engineer during their review of the design and construction of the Authority's water system based on the grant applications submitted to the FAA. Based on additional verification by the project's construction manager, the Authority subsequently reimbursed the FAA the verified amount of \$60,000 to resolve the audit finding. The FAA then followed with a grant amendment letter to increase grant funding by \$755,815 to reimburse the Authority for increased eligible project costs.

As of September 30, 2012, there were no unresolved questioned costs.

Commitments

The Authority has commitments totaling approximately \$16.2 million under several construction contracts at September 30, 2012.

In addition, the Authority has commitments under other various contracts totaling approximately \$13.9 million at September 30, 2012.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

10. Commitments and Contingencies, continued

Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority also maintains deposit of \$1 million annually in the Renewal and Replacement Fund which will be combined with funds in the Self Insurance Fund to cover damage in the event of a natural catastrophe. The balances in the Renewal and Replacement Fund and Self-Insurance Fund are \$1,000,000 and \$3,832,707 respectively, at September 30, 2012, and \$1,000,000 and \$4,038,862, respectively, at September 30, 2011. The Authority has a catastrophic insurance policy with coverage up to \$5 million as a supplement to the self-insurance.

Government of Guam General Fund

Pursuant to 5 GCA Chapter 22 § 22421 *Transfer of Autonomous Agency Revenues to Autonomous Agencies Collections Fund*, certain autonomous agencies, to include the Authority, are to remit certain amounts to the Government of Guam General Fund at the end of each fiscal year.

On March 31, 2011, the Authority received an invoice from the Department of Administration (DOA) for payment of \$12,250,000, representing an annual assessment on the Authority of \$875,000 for years 1998 to 2011. The Authority is unable to recognize this invoice as a liability as it does not conform to the requirements of 5 GCA § 22421 as it is unclear how the annual contribution amount of \$875,000 allocated to the Authority was determined. This does not conform to the requirement that the Governor of Guam and the Authority's Board of Directors shall consult and decide on a formula. Moreover, the statute of limitation for prior year assessments is limited to three years.

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2003 General Revenue Bonds Indenture (2003 Indenture) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of the Authority's revenues under any formula will place the Authority in breach of the 2003 Indenture and will jeopardize ongoing and future federal funding, possibly even subjecting the Authority to millions of dollars in federal civil penalties. Accordingly, the Authority cannot transfer any of its revenues to the General Fund as directed by 5 G.C.A. § 22421 and no liability has been recorded for this contingency as of September 30, 2012 and 2011. This position has been supported by legal determinations, past and present.

The Authority recognizes that it is an instrumentality of the Government of Guam. The Authority may reimburse the Government of Guam for costs of services and contributions provided to the Authority subject to the standards of documentation as required by the FAA's Policy and Procedures Concerning the Use of Airport Revenue. The Authority may also pay for an indirect cost allocation that is reasonable, transparent, calculated similarly for other governmental units and consistent with Attachment A to OMB Circular A-87 and the aforementioned FAA policy.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

10. Commitments and Contingencies, continued

Government of Guam General Fund, continued

During the course of Fiscal Year 2012, numerous discussions were held between the Authority, the FAA and the Office of the Governor on the GovGuam assessment. Resultantly, it is apparent that there is a greater understanding of the Authority's obligations as pressures to remit the assessment have subsided. In addition, the Authority's oversight senator had introduced a legislative bill to repeal the requirements of 5 GCA Chapter 22 §22421. A public hearing is pending.

Water System Infrastructure Upgrade

The new airport water system was commissioned and made operational in phases during 2012. The phasing was required to address the fire protection issues with the airport terminal first and to address potential leaks and water loss with the existing piping and valves in light of the higher water pressures.

The remaining work under the new airport water system is to install the laterals that connect the new infrastructure to the existing structures in north Tiyan that are presently supplied by the old Navy water system. This is estimated to be completed by the 2nd quarter of FY13.

Concurrent with the commissioning of the new airport water system, the Authority entered into an interim agreement with Guam Waterworks Authority (GWA) to operate and maintain the water system for a minimum of one year. GWA's system rates will be status quo during the interim period. Moreover, the Authority is to monitor the system operations and maintenance processes and collect baseline data for subsequent negotiations with GWA for a longer term agreement.

Although, the Authority continues to assert that all costs associated with the airport water system are supported by adequate documentary evidence, the Authority did reimburse the FAA for questioned costs as noted in the above *Federal Program Costs*. As a final measure, the FAA would require that the independent engineering firm that performed the review of the airport water system project assess that the final agreement between the Authority and GWA conforms to the uses as noted in their report.

Litigation

The Authority is involved in certain litigation inherent to its operations. Management is of the opinion that liabilities of a material nature will not be realized.

Antonio B. Won Pat International Airport Authority, Guam

Notes to Financial Statements, continued

10. Commitments and Contingencies, continued

Other

In December of 2012, the Department of Administration paid out merit bonuses for line agency employees who met the criteria set forth pursuant to 4 GCA Chapter 6 § 6203. Merit bonuses are to be paid to employees who receive a superior rating evaluation conducted for increment purposes. The Authority is currently conducting its due diligence to determine its obligation to pay out merit bonuses. Accordingly, an estimate of costs to pay bonuses for airport employees has not been determined at this time.

11. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2012 and 2011, the Authority has assessed and collected from air carriers fees for customs and agricultural inspection services rendered at the Airport terminal. Guam Public Law 23-45 requires the Authority to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

At September 30, 2012 and 2011, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$2,042,986 and \$1,785,059, respectively, for the above charges, of which \$1,587,544 and \$1,443,800, respectively, are reflected as customs fees, receivables in the accompanying statements of net assets. The fees are not reflected as an expense or revenue by the Authority.

Supplementary Information

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2012 and 2011

Schedule 1

Facilities and Systems Usage Charges

	<u>2012</u>	<u>2011</u>
Arrival facilities	\$ 6,398,217	\$ 6,159,123
Departure facilities	6,348,530	6,046,101
Passenger loading bridge usage charge	3,676,307	3,366,254
Landing fees	3,042,109	2,567,747
Immigration	2,337,874	2,210,176
Public apron	2,107,797	1,394,782
Utility recovery and other fees	474,691	442,015
Fuel flowage fees	183,933	158,956
	<u>\$ 24,569,458</u>	<u>\$ 22,345,154</u>

Schedule 2

Concession Fees

	<u>2012</u>	<u>2011</u>
General merchandise	\$ 7,420,798	\$ 7,194,836
Ground transportation	4,803,013	4,156,156
Car rental	934,605	931,949
Food and beverage	902,317	844,104
In-flight catering	754,661	666,213
Advertising	452,565	448,125
Money exchange	379,211	326,169
Parking lot	134,263	105,000
Other	117,746	90,405
	<u>\$ 15,899,179</u>	<u>\$ 14,762,957</u>

Schedule 3

Rental Income

	<u>2012</u>	<u>2011</u>
Operating space:		
- Non-airline	\$ 3,820,488	\$ 3,749,467
- Airline	3,103,781	3,065,873
Building and maintenance shop rentals	1,957,055	1,638,743
Other	1,716,873	1,913,090
Cargo rentals	262,890	251,357
	<u>\$ 10,861,087</u>	<u>\$ 10,618,530</u>

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2012 and 2011

Schedule 4
Contractual Services

	<u>2012</u>	<u>2011</u>
Power	\$ 6,999,726	\$ 6,801,521
Repairs and maintenance	5,545,945	4,642,427
Professional services	2,618,726	2,707,369
Miscellaneous	1,405,350	1,812,624
Insurance	1,384,319	1,536,328
Utilities and telephone	519,968	713,819
Advertising and promotions	331,045	307,469
Travel/Training and Certifications	<u>144,974</u>	<u>140,870</u>
	<u>\$ 18,950,053</u>	<u>\$ 18,662,427</u>

Schedule 5
Personnel Services

	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 10,356,825	\$ 10,295,803
Retirement contributions	2,763,279	2,652,311
Insurance	<u>797,128</u>	<u>796,090</u>
	<u>\$ 13,917,232</u>	<u>\$ 13,744,204</u>
Full-time employee count in September	<u>192</u>	<u>199</u>

Schedule 6
Materials and Supplies

	<u>2012</u>	<u>2011</u>
Equipment and vehicle maintenance and supplies	\$ 514,130	\$ 410,289
Office and security supplies	263,707	148,729
Miscellaneous	206,562	118,481
Electrical and plumbing	103,052	101,520
Building maintenance and supplies	<u>91,036</u>	<u>46,602</u>
	<u>\$ 1,178,487</u>	<u>\$ 825,621</u>

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2012

Schedule 7
Insurance Coverage

Name of Insurer	Policy	Risk Coverage
Dongbu Insurance Co., Ltd. Seoul, Korea	Airport Operations Liability	\$ 500,000,000
National Union Fire Insurance Co. of Pittsburgh, Pennsylvania	Property Insurance	\$ 200,000,000
National Union Fire Insurance Co. of Pittsburgh, Pennsylvania	Catastrophe Insurance	\$ 5,000,000
Chartis American Home Assurance Co.	Directors & Officers Liability (Sublimit of \$1,000,000 for Employment Practices Liability)	\$ 4,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Automobile	\$ 2,000,000
National Union Fire Insurance Co. of Pittsburgh, Pennsylvania	Workers' Compensation	\$ 1,000,000
Chartis American Home Assurance Co.	Crime Insurance	\$ 1,000,000

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2012 and 2011

Schedule 8

Reconciliation of Historical Financial Results

	Year ended September 30,	
	2012	2011
Change in net assets:		
Revenues	\$ 59,768,862	\$ 55,940,480
Expenses	(35,151,229)	(33,723,020)
Income before depreciation	24,617,633	22,217,460
Depreciation	(24,956,519)	(22,638,455)
	(338,886)	(420,995)
Interest and other expenses	(7,597,609)	(7,833,415)
Transfer from the Government of Guam - OHS	26,388	78,063
Grants from the United States Government	6,751,432	9,508,361
(Decrease) increase in net assets	\$(1,158,675)	\$ 1,332,014
Net Revenues (per Bond Resolution):		
Revenues	\$ 59,768,862	\$ 55,940,480
Operation and maintenance expenses	(35,423,950)	(33,942,470)
Net revenues available for debt service	\$ 24,344,912	\$ 21,998,010
Reconciliation:		
Change in net assets	\$(1,158,675)	\$ 1,332,014
Add back:		
Depreciation	24,956,519	22,638,455
Interest expense	7,164,599	7,343,883
Miscellaneous	(116,712)	(158,156)
Deduct:		
Capital grants from the United States Government	(6,369,134)	(9,004,486)
Interest income on funds related to construction	(131,685)	(153,700)
	24,344,912	21,998,010
Other available monies	4,317,380	4,304,480
Funds available for debt service	\$ 28,662,292	\$ 26,302,490
Debt Service*	\$ 17,269,519	\$ 17,217,919

* - amounts of the aggregate annual debt service for such fiscal years as defined in the Bond Indenture Agreement.

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2012

Schedule 9
Employee Data

<u>Department</u>	<u>Employees (b)</u>	<u>Personnel Services (a)</u>
Board	1	\$ 46,180
Administration	31 (c)	1,995,871
Property Management	9	735,734
Planning	1	82,634
Accounting	10	655,106
Engineering	3	237,125
Operations	20	1,223,895
Properties & Facilities Maintenance	39	2,224,191
Airport Police	48	3,701,634
Aircraft Rescue Fire Fighting	<u>30</u>	<u>3,014,862</u>
Total	<u><u>192</u></u>	<u><u>\$ 13,917,232</u></u>

Note(s):

- a. Expenditures are funded by Operating & Maintenance Fund Account.
- b. Filled positions, not including Limited Term Appointments related to Airport Police pursuant to Transportation Security Administration mandated.
- c. Administration consisted of:

Executive Management	2
Division Head	1
Administrative support	5
Safety	3
Audit and compliance	3
Personnel	4
Marketing	3
Procurement	7
Management Information System	<u>3</u>
	<u><u>31</u></u>

APPENDIX D
REPORT OF THE AIRPORT CONSULTANT

Appendix

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

A.B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM,
GENERAL REVENUE BONDS, 2013 SERIES A, B, AND C

Prepared for

A.B. Won Pat International Airport Authority
Agana, Guam

Prepared by

LeighFisher
Burlingame, California

August 14, 2013

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August 14, 2013

Mr. Charles H. Ada II
Executive Manager
A.B. Won Pat International Airport Authority, Guam
P. O. Box 8770
Tamuning, Guam 96931

Re: Report of the Airport Consultant on behalf of the A.B. Won Pat International Airport Authority, Guam, concerning the issuance of General Revenue Bonds, 2013 Series A, B, and C

Dear Mr. Ada:

LeighFisher is pleased to submit this Report of the Airport Consultant (the Report) on certain aspects of the proposed issuance of General Revenue Bonds, 2013 Series A, B, and C (referred to herein as the 2013 Bonds) by the A.B. Won Pat International Airport Authority, Guam (the Authority). This letter and the accompanying attachment and exhibits constitute our Report.

Proceeds of the 2013 Bonds will be used to (1) fund a portion of the costs of the 2013 Projects described below, (2) refund the outstanding 2003 Bonds, (3) pay the costs of issuance of the 2013 Bonds, and (4) satisfy any Bond Reserve requirements. The purpose of this Report is to evaluate the ability of the Authority to satisfy the requirements of the Rate Covenant (defined below) during the forecast period.

2013 PROJECTS

The Authority has identified a list of capital improvements planned to be implemented over the next 3 years at A.B. Won Pat International Airport (the Airport), referred to herein as the 2013 Projects. Specific elements of the 2013 Projects are described later in the Report. The total cost of the 2013 Projects is estimated by the Authority to be \$145 million. The 2013 Projects are to be financed with proceeds of 2013 Bonds, federal grants, and Authority funds.

BOND INDENTURE

The 2013 Bonds are to be issued under the terms of the 2003 Master Indenture and the 2013 Supplemental Indenture (together referred to as the Bond Indenture), and are secured by a pledge of Revenues.

The Rate Covenant of the Bond Indenture requires the Authority to fix, prescribe, and collect rents, fees, and charges so that:

1. Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required to be made pursuant to the provisions of the Bond Indenture; and
2. The sum of Net Revenues plus Other Available Moneys during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year.

Mr. Charles H. Ada II
August 14, 2013

AIRLINE AGREEMENT

Certain airlines (the Signatory Airlines) operate at the Airport under a lease and operating agreement with the Authority.

In 2006, the Authority entered into an airline lease and operating agreement (the Airline Agreement) to provide the Signatory Airlines the nonexclusive right to use the Airport facilities, equipment, improvements, and services in addition to occupying certain premises and facilities. This agreement was originally set to expire on September 30, 2011. In 2011, the Authority and the Signatory Airlines agreed to extend the Airline Agreement to September 30, 2016. Some of the Signatory Airlines executed the Airline Agreement in 2006, and some of the Signatory Airlines have executed agreements more recently. All of the Signatory Airlines have Airline Agreements with the same termination date of September 30, 2016, with the exception of Cape Air, who has an extension in process but not yet executed.

The Airline Agreement permits the Authority to set rents and fees each Fiscal Year in order to recover the annual capital and operating costs of the Airport and to ensure compliance with the Rate Covenant of the Bond Indenture. For purposes of this Report, it was assumed that future airline agreements would have substantially similar rates and charges methodology for the period after FY 2016.

CONCESSION AGREEMENT

The primary concession agreement at the Airport is the agreement covering the operation of the duty free retail merchandise concession, representing the single largest source of nonairline revenue at the Airport. In 2012 the Authority initiated a competitive procurement for the duty free concession, and in 2013 selected Lotte Duty Free Guam, LLC (Lotte) and then entered into a new duty free concession agreement with Lotte (Lotte Concession Agreement), dated May 18, 2013. On July 21, 2013, Lotte took occupancy of the duty free concession space at the Airport, and is now operating under the terms of the Lotte Concession Agreement. The Lotte Concession Agreement is scheduled to produce significantly higher annual revenue to the Authority in comparison to the previous agreement.

The award of the Lotte Concession Agreement has been challenged by two of the unsuccessful proposers in differing administrative and judicial forums. Some of the challenges have been heard and acted upon, and others are pending. In connection with the challenges that have been acted upon, the Authority has maintained that the procurement and the resulting Lotte Concession Agreement are valid. However, the Authority is not legally permitted to comment on the challenges that remain pending.

On the basis of the representations made by the Authority with regard to the challenges already acted upon, it was assumed for the purposes of this Report that the Lotte Concession Agreement will stand. However, this cannot be assured, and it is possible that an adverse determination in a future proceeding could result in a change in the operator and/or terms of the concession, which could impact the amount of revenue generated by the Authority from the concession agreement. The Authority believes, based on the strength of multiple offers received in 2012, that such an alternative outcome would produce concession revenue within the range of the offers received in 2012, or at a minimum of about \$13 million per year. All else equal, this would increase the amount required to be recovered through airline rates and charges, but not unreasonably so in the context of (a) the historical range of airline cost per enplaned passenger, and (b) the actions available to the Authority to mitigate potential increases in airline rates and charges, as discussed in the Report. If the Authority was not able to receive this minimum level of concession revenue, the financial results would be correspondingly less favorable.

Mr. Charles H. Ada II
August 14, 2013

SCOPE OF THE REPORT

The Report was prepared to address the ability of the Authority to meet the requirements of the Rate Covenant during the forecast period taking into account the outstanding Bonds and the planned 2013 Bonds. In conducting our study, we analyzed:

- Future airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the region served by the Airport, visitor characteristics, historical trends in airline traffic, recent airline service developments and airfares, and other key factors that may affect future airline traffic
- The status and estimated costs of the 2013 Projects, and operational considerations affecting Airport revenues and expenses
- Estimated sources and uses of funds and the Annual Debt Service resulting from the issuance of the 2013 Bonds
- Historical and forecast use of Passenger Facility Charge (PFC) revenues
- Historical relationships among revenues, expenses, and airline traffic at the Airport
- Audited financial results for the Airport for FY 2012, the budget for FY 2013, and year-to-date actual financial results for FY 2013
- The Airline Agreement and the associated calculation and adjustment of airline rentals, fees and charges
- The agreement for duty free retail and associated revenue for the Authority
- Other contractual agreements relating to the use and lease of the Airport such as the operation of public automobile parking and other concession and service privileges, and the leasing of buildings and grounds

We have relied upon the Authority and its consultants for estimates of project costs and construction schedules for the 2013 Projects; upon the Authority and bond counsel for interpretation of the Bond Indenture; and upon Citigroup Global Markets Inc. for the plan of debt finance and estimated Annual Debt Service for the proposed 2013 Bonds.

We assisted Authority management in identifying key factors upon which the future financial results of the Airport may depend and in formulating assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts presented in the accompanying exhibits provided at the end of this Report.

Mr. Charles H. Ada II
August 14, 2013

Forecast Debt Service Coverage

As shown in Exhibit E and F at the end of this Report, Revenues are forecast to be sufficient, in each Fiscal Year of the forecast period, to meet the requirements of the Rate Covenant of the Bond Indenture.

The table below summarizes the forecast of Net Revenues and debt service coverage.

FORECAST DEBT SERVICE COVERAGE							
A.B. Won Pat International Airport, Guam							
(for the 12 months ending September 30; dollars in thousands)							
	Estimate	Forecast					
	2013	2014	2015	2016	2017	2018	2019
Net Revenues and Other Available Moneys <i>(a)</i>	\$28,748	\$37,289	\$36,364	\$36,055	\$36,166	\$36,192	\$36,005
Aggregate Annual Debt Service	\$17,314	\$24,387	\$23,961	\$23,971	\$23,966	\$23,967	\$23,831
Debt Service Coverage	1.66	1.53	1.52	1.50	1.51	1.51	1.51
Coverage requirement	1.25	1.25	1.25	1.25	1.25	1.25	1.25

Note: Totals may not add due to rounding.

(a) Per the Bond Indenture, for purposes of calculating Debt Service coverage, Other Available Moneys is the amount designated by the Authority of unencumbered amounts on deposit in the Capital Improvement Fund at the end of the prior fiscal year, up to 25% of Aggregate Annual Debt Service.

Sources: A.B. Won Pat International Airport Authority, Guam, and LeighFisher. See Exhibits to this Report.

Assumptions Underlying the Financial Forecasts

The forecasts are based on information and assumptions that were provided by or reviewed with and agreed to by Authority management. The forecasts reflect Authority management’s expected course of action during the forecast period and, in Authority management’s judgment, present fairly the expected financial results of the Airport. Those key factors and assumptions that are significant to the forecasts are set forth in the attachment, “Background, Assumptions, and Rationale for the Financial Forecasts.” The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences may be material. Neither LeighFisher nor any person acting on our behalf

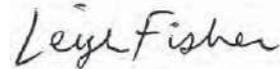
Mr. Charles H. Ada II
August 14, 2013

makes any warranty, expressed or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in the report. We have no responsibility to update this report to reflect events and circumstances occurring after the date of the report.

* * * * *

We appreciate the opportunity to serve as the Airport Consultant in connection with this proposed financing.

Respectfully submitted,



LEIGHFISHER

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Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

A.B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM,
GENERAL REVENUE BONDS, 2013 SERIES A, B, AND C

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1.0 AIRLINE TRAFFIC ANALYSIS

This section presents a review of (1) the Airport, (2) the economic basis for passenger demand, including socioeconomic, visitor industry, and other factors that contribute to passenger demand, (3) the components of passenger demand at the Airport, (4) the key factors that will affect future airline traffic, and (5) forecasts of airline traffic at the Airport through FY 2019.

1.1 The Airport

The Airport is operated by the Authority, an autonomous agency of the Government of Guam. The Federal Aviation Administration (FAA) classifies the Airport as a small hub. In FY 2012, 1.6 million passengers were enplaned at the Airport—1.4 million originating passengers and 0.2 million connecting passengers. The majority of the passengers are tourist visitors to Guam from international originations.

1.1.1 Airport Facilities

The Airport occupies 1,800 acres of land and is located approximately two miles northeast of downtown Hagatna, and one mile southeast of the principal tourism area of Tumon Bay. Roadway access to the Airport is presently via Route 10A (Airport Access Road) which provides access to the airport from Route 1 (Marine Corps Drive) and Route 16 (Army Drive).

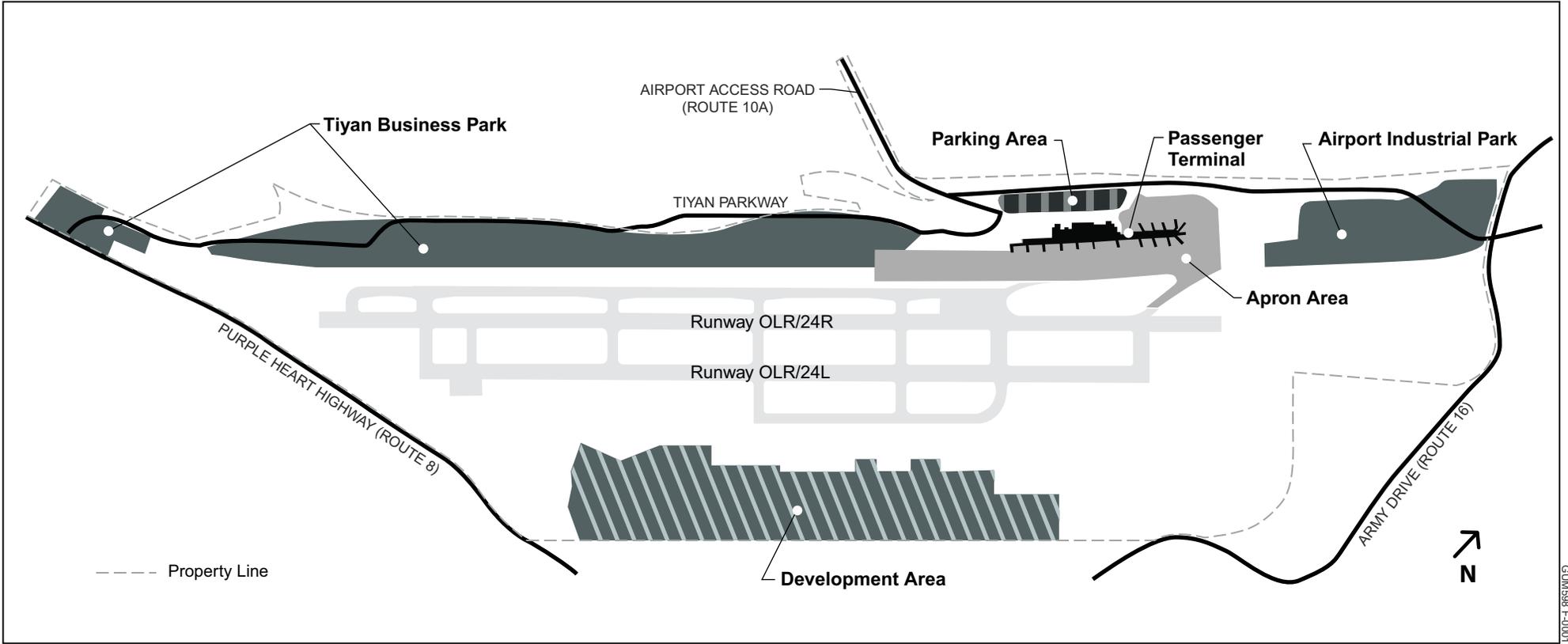
The airfield consists of two sets of parallel east-west runways, associated taxiways, and navigational aids. The principal runway, 06L-24R, is 12,000 feet long, having been extended in FY 2010, principally as a means to facilitate increased air cargo activity and support long-term airline service development. The 10,014-foot Runway 06R-24L is parallel to the principal runway.

The Airport has a passenger terminal building with 21 aircraft parking positions and 18 common-use gates equipped with passenger loading bridges. The terminal building contains immigration and customs inspection stations for inbound and outbound processing, as well as other facilities for passenger processing and services.

The parking lot in front of the terminal building has 733 spaces for public parking, as well as parking areas for airport tenants, VIPs, taxis, and tour buses, and spaces for rental cars.

Other facilities on the Airport include air cargo buildings, aircraft hangars, warehouses and storage areas, the Tiyan Business Park, the Airport Industrial Park, and various other buildings.

Figure 1 shows the Airport layout, including principal facilities. The Airport has significant land outside the terminal building for future development of airline and non-airline revenue-generating facilities.



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Figure 1
AIRPORT LAYOUT
 A. B. Won Pat International Airport - Guam
 August 2013

GLM1598 F-0001

1.1.2 Airport Role

The Airport has an important role in the local, regional, and international air transportation systems. It is the only commercial service airport in Guam, the largest airport in Micronesia, the 18th largest U.S. gateway airport in terms of international enplaned passengers in 2011, the 75th busiest airport in the U.S. in terms of enplaned passengers in 2011, and a hub for United Airlines (formerly Continental Airlines).

As of May 2013, the Airport was served by 2 U.S. major airlines, 2 regional and commuter airlines, and 7 foreign-flag airlines, offering service to 21 destinations.

Although Guam is a Territory of the U.S., it is geographically closer to the countries of the Asia-Pacific region than to the mainland U.S., as shown on Figure 2. Guam is a popular tourist destination for residents of Japan, Korea, and other Asian countries, and the majority of the passengers using the Airport are inbound tourist visitors from international originations. Thus, while classified as a small hub airport by FAA in terms of total enplaned passengers, the Airport was the 18th largest among U.S. gateway airports in terms of total international passengers.

United Airlines uses Guam as a hub in its global route network. The United hub principally serves international tourist demand, but also connects passengers to and from the regional Micronesian islands, and serves domestic passengers to and from Hawaii and beyond to the U.S. mainland.

1.2 Economic Basis for Passenger Demand

The economy of Guam is primarily influenced by its role as an Asian tourist destination, but also by global economic developments, local business activity and its position as a strategic U.S. military base in the Pacific.

1.2.1 Local Economic Indicators

Table 1 presents a summary of the change in economic indicators from 2000 to 2012, including population, employment, and real gross domestic product (GDP).

Guam's GDP increased an average of 1.3% per year, in constant 2005 dollars between 2002 and 2010 (the earliest and most recent years for which data are available) compared with an average increase of 1.6% per year in U.S. GDP during the same period.

The population of Guam increased from 155,000 in 2000 to 159,000 in 2010, an annual rate of 0.3%. This compares to a rate of 0.9% for the U.S. over the same period.

In addition to its significant tourism industry, Guam is a major forward base for the U.S. military, and houses Andersen Air Force Base and U.S. Naval Base Guam. The United States' Department of Defense intends to relocate to Guam between approximately 4,700 and 5,000 military personnel (principally of the U.S. Marine Corps), civilian personnel and their families that are currently based in Okinawa, Japan. The scope, schedule, and phasing of this relocation is still to be confirmed. Such relocation would not only provide increased demand for various services in Guam that could increase economic growth, but also could potentially provide additional demand for airline travel. The forecast presented in this Report does not include this potential increased demand for air travel.

Figure 2
AIRPORT LOCATION
 A.B. Won Pat International Airport, Guam



Employment on Guam, as with the U.S. as a whole, has fluctuated from 2000 to 2012, experiencing periods of growth but also decline during two different economic recessions. As of 2012, the level of employment on Guam was about 61,000. The latest data for unemployment on Guam are as of December 2012, with a reported unemployment rate of 10.7%, as compared to 7.8% for the U.S., according to the Department of Labor for Guam and the U.S., respectively.

Approximately 90% of Airport passengers are tourist visitors to Guam, whose demand is driven by economic conditions in their origin market, as well as other factors. As such, economic activity for the principal visitor origination markets is discussed in later sections.

Table 1
HISTORICAL SOCIOECONOMIC DATA
Guam and United States
2000-2012

Year	Population (thousands)		Non-agricultural Employment (thousands)		Gross domestic product (2005 dollars, millions)		Gross Domestic Product per capita (2005 dollars)	
	United		United		United		United	
	Guam (a)	States (a)	Guam (b)	States (c)	Guam (d)	States (d)	Guam (d)	States (d)
2000	155	282,162	60	131,881	n.a.	11,216,400	n.a.	39,752
2001	155	284,969	58	131,919	n.a.	11,337,500	n.a.	39,785
2002	156	287,625	55	130,450	3,640	11,543,100	23,378	40,132
2003	156	290,108	57	130,100	3,688	11,836,400	23,611	40,800
2004	157	292,805	57	131,509	3,944	12,246,900	25,185	41,826
2005	157	295,517	58	133,747	4,056	12,623,000	25,818	42,715
2006	158	298,380	58	136,125	3,916	12,958,500	24,863	43,430
2007	158	301,231	60	137,645	3,939	13,206,400	24,930	43,841
2008	158	304,094	61	136,852	3,962	13,161,900	25,013	43,282
2009	159	306,772	60	130,876	4,005	12,757,900	25,205	41,588
2010	159	309,330	62	129,917	4,052	13,063,000	25,420	42,230
2011	n.a.	311,592	61	131,497	n.a.	13,299,100	n.a.	42,681
2012	n.a.	313,914	61	133,739	n.a.	13,591,100	n.a.	n.a.
2000-2010	0.3%	0.9%	0.4%	(0.1)%	n.a.	1.5%	n.a.	0.6%
2002-2010	0.3	0.9	1.6	(0.1)	1.3	1.6	1.1	0.6
2000-2012	n.a.	0.9	0.2	0.1	n.a.	1.6	n.a.	n.a.

(a) U.S. Department of Commerce, Bureau of the Census website, accessed April 2013.

(b) Department of Labor, Government of Guam, Current Employment Statistics, accessed April 2013.

(c) U.S. Department of Labor, Bureau of Labor Statistics website, accessed April 2013.

(d) U.S. Department of Commerce, Bureau of Economic Analysis website, accessed April 2013.

Table 2 presents historical Guam employment data by main industry sector (including agriculture) between 2000 and 2012. The two largest private employment sectors are services and retail trade, reflecting the tourism orientation of the local economy. The recent increase in employment in the construction sector relates to the U.S. military buildup on Guam.

Table 2
HISTORICAL EMPLOYMENT BY INDUSTRY SECTOR
 Guam

	2000	2005	2010	2011	2012	Average Annual Percent Change
Private sector						
Agriculture	340	230	330	240	140	(7.1)%
Construction	4,320	4,270	6,770	6,080	6,310	3.2
Manufacturing	1,630	1,660	1,790	1,770	1,710	0.4
Transportation and public utilities	5,110	4,890	4,520	4,250	4,540	(1.0)
Wholesale trade	1,920	1,880	2,090	2,130	2,250	1.3
Retail trade	12,250	12,320	11,500	11,400	11,560	(0.5)
Finance, insurance and real estate	2,500	2,500	2,590	2,630	2,530	0.1
Services	<u>16,010</u>	<u>15,370</u>	<u>16,840</u>	<u>16,130</u>	<u>16,410</u>	0.2
Total private sector	44,080	43,120	46,430	44,630	45,450	0.3%
Public sector						
Federal	3,230	3,220	3,870	4,060	3,990	1.8%
Government of Guam	<u>12,530</u>	<u>11,370</u>	<u>11,880</u>	<u>11,900</u>	<u>11,820</u>	(0.5)
Total public sector	<u>15,760</u>	<u>14,590</u>	<u>15,750</u>	<u>15,960</u>	<u>15,810</u>	0.0%
Total employment	59,840	57,710	62,180	60,590	61,260	0.2%

Source: Department of Labor, Government of Guam, Current Employment Statistics, 2012.

1.2.2 Large Employers

Table 3 lists 20 selected large private employers in Guam, as measured by employees. The list includes a diverse mix of companies, including air transportation, financial services, and hotels and construction companies. In particular, there is significant representation from the hospitality and construction industries, reflective of the importance of tourism and the U.S. military presence in Guam. It should be noted that major healthcare employers are principally operated by the Government of Guam and so are not shown on this table.

Table 3
SELECTED LARGE PRIVATE EMPLOYERS
 Guam

Company	Description	Employment
United Continental Holdings, Inc.	Passenger airline	>1,000
Calvo Enterprises Inc.	Insurance, merchandise, manufacturing, real estate	1,120
DZSP21 LLC	Military facility support contracting	1,010
Black Construction Corp.	Construction	983
Triple J Enterprises Inc.	Auto sales and service, food, real estate	643
Hilton Guam Resort & Spa	Hospitality	590
Pacific International Inc.	Construction	555
Pacific Islands Club Guam	Hospitality	551
Bank of Guam	Full-service banking	495
GTA Teleguam	Telecommunications	346
Joeten Enterprises Inc.	Retail	345
Atkins Kroll Inc. and Microl Corp. Saipan	Motor goods	323
dck pacific Guam LLC	Construction	320
GFS Group	Government and military base support	275
Jones & Guerrero Co. Inc.	Retail	267
Parsons Corp.	Construction and engineering	250
Docomo Pacific	Telecommunications	189
South Pacific Petroleum Corp.	Petroleum	175
Core Tech International	Construction and engineering	158
Ambros Inc.	Beverage distribution	145

Note: Companies selected by employee count from among top 30 by revenues, as compiled by the source.

Source: Guam Business Magazine online, accessed March, 2013.

1.2.3 Visitors to Guam

According to the Guam Visitors Bureau (GVB), approximately 1.24 million people visited Guam by air in 2012, as shown in Table 4. The number of annual visitors by air in 2012 was approximately equivalent to the number in 2000 (1.26 million); between 2000 and 2012, the visitor market went through two cycles of decline and recovery.

Visitors from Japan have historically represented the majority of visitors to Guam, although this share decreased from about 83% in 2000 to about 73% in 2012. The decline in Japan's share of Guam's visitors is due to (1) the decline in the number of Japanese visitors to Guam over this period, and (2) the increase in the number of visitors from other countries, most notably South Korea. The share of Guam's visitors from South Korea increased from 6% to 13% over this period. From 2000 to 2012, visitors from Japan decreased 1.2% annually, while visitors from all markets excluding Japan increased 3.6% annually, reflecting development of these other markets. The GVB and other agencies involved in tourism development have recognized the importance of developing all visitor markets, including Japan, historically the largest market, and others such as South Korea and China, that can provide diversity and growth in the future.

Table 4
HISTORICAL VISITOR ARRIVALS BY AIR TO GUAM
 2000 – 2012

	Japan	South Korea	Taiwan	U.S.	Neighboring islands (a)	Philippines	Hong Kong	China	Other	Total
2000	1,043,827	77,174	41,055	41,328	37,508	5,934	9,355	866	7,812	1,264,859
2001	1,021,887	95,918	33,818	42,180	38,126	5,569	9,020	798	8,208	1,255,524
2002	751,506	121,185	21,317	40,092	32,168	6,427	8,893	1,284	8,197	991,069
2003	606,100	94,429	17,576	41,878	31,107	6,381	5,054	733	6,892	810,150
2004	897,046	92,559	24,471	44,792	31,864	7,135	5,150	827	8,387	1,112,231
2005	936,219	104,715	23,048	41,580	31,373	6,575	4,289	867	8,047	1,156,713
2006	962,007	114,471	17,018	43,501	30,361	7,980	5,455	1,068	8,030	1,189,891
2007	933,492	123,024	22,635	47,901	28,873	8,166	6,790	1,379	8,396	1,180,656
2008	815,262	83,639	22,191	46,670	31,636	11,357	2,802	2,838	8,724	1,025,119
2009	882,782	116,041	21,237	46,370	31,150	10,652	4,921	1,672	9,006	1,123,831
2010	887,986	120,065	29,420	60,651	32,545	12,016	5,640	4,669	9,836	1,162,828
2011	819,256	144,844	40,707	49,562	32,840	10,667	8,512	6,091	10,442	1,122,921
2012	901,683	164,821	49,851	50,967	32,089	10,171	8,396	8,929	13,113	1,240,020
Average annual percent increase (decrease)										
2000-2012	(1.2)%	6.5%	1.6%	1.8%	(1.3)%	4.6%	(0.9)%	21.5%	4.4%	(0.2)%
2000-2008	(3.0)	1.0	(7.4)	1.5	(1.4)	8.5	(14.0)	16.0	1.4	(0.8)
2008-2012	2.6	18.5	22.4	2.2	(0.7)	(2.7)	31.6	33.2	10.7	3.3
Share of total										
2000	82.5%	6.1%	3.2%	3.3%	3.0%	0.5%	0.7%	0.1%	0.6%	100.0%
2001	81.4	7.6	2.7	3.4	3.0	0.4	0.7	0.1	0.7	100.0
2002	75.8	12.2	2.2	4.0	3.2	0.6	0.9	0.1	0.8	100.0
2003	74.8	11.7	2.2	5.2	3.8	0.8	0.6	0.1	0.9	100.0
2004	80.7	8.3	2.2	4.0	2.9	0.6	0.5	0.1	0.8	100.0
2005	80.9	9.1	2.0	3.6	2.7	0.6	0.4	0.1	0.7	100.0
2006	80.8	9.6	1.4	3.7	2.6	0.7	0.5	0.1	0.7	100.0
2007	79.1	10.4	1.9	4.1	2.4	0.7	0.6	0.1	0.7	100.0
2008	79.5	8.2	2.2	4.6	3.1	1.1	0.3	0.3	0.9	100.0
2009	78.6	10.3	1.9	4.1	2.8	0.9	0.4	0.1	0.8	100.0
2010	76.4	10.3	2.5	5.2	2.8	1.0	0.5	0.4	0.8	100.0
2011	73.0	12.9	3.6	4.4	2.9	0.9	0.8	0.5	0.9	100.0
2012	72.7	13.3	4.0	4.1	2.6	0.8	0.7	0.7	1.1	100.0

Notes: For fiscal years ended September 30.

(a) Includes Commonwealth of the Northern Mariana Islands, Federated States of Micronesia, Republic of the Marshall Islands, and Palau.

Source: Guam Visitors Bureau.

Specific factors that have contributed to the decrease in the number and share of Japanese visitors to Guam since 2000 include:

- From 2000 to 2012, Japan's GDP (in 2005 dollars) increased an average of 0.8% per year, less than the U.S. average of 1.6% per year during this period, and much less than most of the largest Asian economies. Most recently, from 2007 to 2009, Japan's GDP decreased 3.8% annually in response to the global economic recession, and then increased 2.1% annually between 2009 and 2012 as the economy recovered.
- The set of overseas destinations visited by Japanese travelers has become more diversified in recent years, and Guam's share of total outbound Japanese travelers has decreased. According to the Japan National Tourism Organization (JNTO), there were 17.82 million annual outbound travelers in 2000, increasing to 18.49 million in 2012 at a 0.3% annual rate. JNTO reported that 1.05 million visits were to Guam in 2000 (equal to 5.9% of total outbound visits), decreasing 1.2% annually to 0.93 million annual visits to 2012 (equal to 5.0% of total outbound visits).
- In addition, a number of events occurred between 2000 and 2012 that reduced the demand for Japanese overseas travel, including the terrorist attacks in the United States in 2001, the beginning of the Iraq war and the severe acute respiratory syndrome (SARS) epidemic in 2003, concerns about the spread of "swine flu" caused by the H1N1 virus in 2009, and the Fukushima tsunami and nuclear accident in 2011.

The outlook for the Japanese visitor market depends significantly on the forecast of Japan's economic performance, which is discussed in the next section.

As mentioned above, the Guam Visitors Bureau is focused on the development of new origination markets in order to reduce reliance on the Japan market. In particular, the Government of Guam has worked to obtain visa waivers specific to Guam, recently granted to Russia and currently being sought for other countries such as China.

1.2.4 Hotel Rooms

The availability of hotel rooms is a key factor in accommodating visitor demand, and therefore an important infrastructure component of the Guam economy. Table 5 provides historical data on the number of hotel rooms and average occupancy rates from 1990 to 2012. From 1990 to 2000, in response to rapid growth in visitor demand, there was significant development of new hotel capacity, and the number of rooms more than doubled from 4,955 in 1990 to 10,110 in 2000. This significant increase in capacity resulted in a reduction in the average occupancy rate over this period. During the period from 2000 to 2012, the hotel room inventory declined, as some hotels were closed for renovations and/or economic reasons. With the consolidation in supply, the average occupancy rate increased from 2000 to 2012. With the recovered occupancy rates and likelihood of future growth in visitor activity, there are renewed plans to introduce new and/or renovated hotel rooms on Guam. According to GVB, as of May 2013 there were plans for construction of an additional 1,219 rooms, representing a 15% increase in capacity from 2012 levels. At recent historic occupancy rates, this development would be sufficient to accommodate the forecast passenger traffic presented later in this Report.

Table 5
HISTORICAL HOTEL ROOM DATA
 Guam

	1990	2000	2005	2010	2011	2012	CAGR 2000-2012
Hotel rooms (a)	4,955	10,110	9,236	8,719	8,849	8,285	(1.6)%
Occupancy rate (b)	89%	63%	62%	70%	70%	76%	1.6
Average daily room rate (b)	\$95	\$101	\$106	\$111	\$114	\$123	1.7

Notes: CAGR: Compounded annual growth rate.

(a) Reported in calendar years.

(b) Reported in fiscal years ending September 30.

Sources: Hotel rooms: Guam Visitors Bureau, May 2013.

Occupancy rate and average daily room rate: Guam Hotel and Restaurant Association, May 2013.

1.2.5 Economic Outlook

The outlook for economic activity and visitor demand in Guam is substantially related to the global economic outlook, as well as the specific economic outlook for the U.S. and key countries in the Asia-Pacific region.

Global Economy. Table 6 presents economic projections for selected global regions as prepared by the International Monetary Fund (IMF). The IMF projects that global economic growth, as measured by real GDP (gross domestic product), would occur at higher rates in the next few years compared to the recent historical trend: global real GDP is estimated to have increased 3.2% in 2012 and 3.3% in 2013, and is projected to increase between 4.0% and 4.5% annually from 2014 to 2018.

Projections for selected groupings of countries are also shown in Table 6. As shown, the developing nations of Asia are forecast to experience a higher rate of growth than the advanced economies of the world, which could provide opportunities for increases in visitor demand to Guam.

U.S. Economy. The U.S. economy, after expanding from November 2001 to December 2007, entered into a recession, which was triggered by a contraction in the real estate markets combined with a surge in energy and other commodity prices in 2006. There was a significant decline in U.S. economic performance, measured by decreases in U.S. GDP during four consecutive quarters beginning with the third quarter of 2008 through the second quarter of 2009. Between 2009 and 2012, the U.S. economy experienced positive real GDP growth, as shown in Table 7.

Asia-Pacific Economies. Table 7 shows historical and projected real GDP growth for the principal Asia-Pacific economies that have generated visitors to Guam. As shown, most of these Asia-Pacific economies are projected to continue to experience relatively strong GDP growth, which would support the potential for increased tourist demand for Guam.

Due to the majority share of number of visitors to Guam, Japan is the Asia-Pacific country most important to future visitor and passenger demand. While Japan's economy is not projected to grow at annual rates as fast as many other Asia-Pacific countries, the economic growth for Japan has recently shown signs of improving. Japan's government, headed by Prime Minister Shinzo Abe, elected in 2012,

embarked upon a fiscal stimulus program beginning in January 2013 to end a long-standing period of deflation and to support higher real GDP growth. In July 2013, Mr. Abe’s ruling coalition achieved a parliamentary election victory that is interpreted by many analysts as an endorsement of the economic growth policies initiated by Mr. Abe, and reason to expect further improvements in Japan’s economic outlook. Thus, while not assured, it is possible that the rate of economic growth in Japan over the next several years could exceed that shown in Table 7 below.

Table 6
PROJECTED GROWTH IN REAL GROSS DOMESTIC PRODUCT
 Selected Global Regions

	Estimated		Projected		
	2012	2013	2014	2015	2015-2018
World	3.2%	3.3%	4.0%	4.4%	4.5%
Major advanced economies (G7) (a)	1.4	1.3	2.2	2.5	2.4
Other advanced economies (b)	1.8	2.5	3.4	3.4	3.5
Association of Southeast Asian Nations – 5 (c)	6.1	5.9	5.5	5.5	5.7
Developing Asia (d)	6.6	7.1	7.3	7.6	7.7

-
- (a) The United States, the United Kingdom, France, Germany, Italy, Canada and Japan.
 - (b) Australia, Czech Republic, Denmark, Hong Kong SAR, Iceland, Israel, Korea, New Zealand, Norway, San Marino, Singapore, Sweden, Switzerland, and Taiwan.
 - (c) Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
 - (d) Composed of 28 countries including China, India, Indonesia, Malaysia, Maldives, Marshall Islands, Micronesia, Philippines, Samoa, Solomon Islands, Thailand, and Vietnam.

Source: International Monetary Fund, World Economic Outlook, April 2013.

Guam Economy. Long-term economic forecasts for Guam were not available as input to this Report. As discussed earlier, the economy of Guam is influenced by its western Pacific geographic location, popularity as an Asia-Pacific tourist destination, and role as a U.S. military base. As a result, its economic growth could be expected to be influenced by those factors, as discussed earlier in this Report.

Risks to the Economic Outlook. While the projections presented in this section represent a range of the most likely economic scenarios developed by the sources noted, there are risks to the economic outlook. In the near term, major global economies could again experience recession, with the implication that the forecast growth rates presented above would not likely be realized. Individually, each country that generates visitors to Guam has risk factors that could result in the forecast growth rates presented above not being realized.

Table 7
HISTORICAL AND PROJECTED GROSS DOMESTIC PRODUCT
 Selected Visitor Markets to the Territory of Guam
 (in billions of 2005 US dollars)

	Japan	South Korea	Taiwan	U.S.	Neighboring islands (a)	Philippines	Hong Kong	China
Historical								
2000	\$4,266.9	\$678.3	\$299.2	\$11,216.4	\$0.5	\$82.4	\$145.2	\$1,417.1
2001	4,274.7	705.2	294.2	11,337.5	0.5	84.7	145.9	1,534.7
2002	4,286.0	755.6	309.6	11,543.1	0.5	87.8	148.6	1,674.3
2003	4,346.5	776.8	320.8	11,836.4	0.5	92.2	153.1	1,841.8
2004	4,465.8	812.7	341.0	12,246.9	0.5	98.4	166.0	2,027.8
2005	4,552.2	844.9	356.9	12,623.0	0.5	103.1	177.8	2,256.9
2006	4,645.0	888.6	376.6	12,958.5	0.5	108.5	190.3	2,543.6
2007	4,754.8	934.0	399.1	13,206.4	0.5	115.7	202.4	2,904.7
2008	4,699.4	955.5	403.0	13,161.9	0.5	120.5	207.1	3,183.6
2009	4,403.9	958.5	394.7	12,757.9	0.5	121.8	201.6	3,476.5
2010	4,629.4	1,017.6	437.3	13,063.0	0.5	131.1	215.6	3,834.5
2011	4,596.3	1,054.5	454.9	13,299.1	0.5	136.3	226.5	4,189.3
2012 (b)	4,690.1	1,081.4	466.2	13,583.9	0.5	142.5	232.9	4,503.5
Projected								
2013	4,770.1	1,121.0	485.3	13,910.3	0.6	149.3	242.9	4,884.1
2014	4,843.2	1,171.5	504.8	14,325.0	0.6	156.7	254.3	5,315.3
2015	4,906.1	1,220.9	524.7	14,711.8	0.6	164.2	266.8	5,767.1
2016	4,962.4	1,268.4	545.2	15,109.0	0.6	172.1	279.1	6,242.9
2017	5,018.9	1,315.8	566.2	15,501.8	0.6	180.4	291.3	6,742.4
2018	5,069.1	1,363.4	587.7	15,904.9	0.6	188.9	303.4	7,264.9
Average annual percent increase (decrease)								
2000-2012	0.8%	4.0%	3.8%	1.6%	0.9%	4.7%	4.0%	10.1%
2012-2018	1.3	3.9	3.9	2.7	2.0	4.8	4.5	8.3

(a) Includes Commonwealth of the Northern Mariana Islands, Federated States of Micronesia, Republic of the Marshall Islands, and Palau.

(b) Data for certain countries are estimated for 2012.

Source: United States Department of Agriculture, Economic Research Service, International Macroeconomic Data Set, November 3, 2012.

1.3 Historical Airline Traffic

This section presents information on historical airline traffic at the Airport, including (1) enplaned passenger trends; (2) airline service and passenger market shares; (3) originating passenger demand; and (4) connecting passenger activity and trends.

1.3.1 Enplaned Passenger Trends

From FY 1980 to FY 2012, the number of enplaned passengers at the Airport increased from 0.5 million to 1.6 million, at an average annual rate of 3.6%, as shown in Table 8 and Figure 3. The period of significant market growth was from 1980 to 2000, when the development of hotels on Guam was combined with Asia-Pacific economic growth to generate significant growth in airport traffic. Since 2000, the number of passengers has decreased and then increased through two major cycles of global recession, combined with other events. As of the end of FY 2012, the number of enplaned passengers, 1.57 million, was lower than the level seen in FY 2000, of 1.74 million. More specific conditions and factors affecting recent airline traffic results from FY 2000 to FY 2012 are discussed below.

Between FY 2000 and FY 2003, enplaned passenger levels decreased, principally as a result of the events of the September 11, 2001 terrorist attacks, the worldwide economic downturn and the SARS epidemic. Passenger levels increased between FY 2003 and FY 2007 as global economies recovered from recession, but then decreased between FY 2007 and FY 2009 in part as a result of reductions in airline seating capacity in response to high fuel prices as well as the effects of the national and global economic recessions. Enplaned passenger levels then increased between FY 2009 and FY 2012, in part as a result of the global economic recovery and a moderation in fuel prices.

In FY 2011, enplaned passengers decreased 2.1%, principally as a result of a significant decrease in visitors from Japan, mainly as a result of the 2011 Fukushima tsunami and nuclear accident and subsequent economic downturn. In FY 2012, the number of passengers enplaned at the Airport increased 9.4%, which in part reflects a recovery from the 2011 decrease in enplaned passengers, but is also the result of growth in other visitor markets such as China, Korea and Taiwan. During the first 5 months of FY 2013 (October 2012 through February 2013), the number of enplaned passengers at the Airport increased 11.1% compared with the same period in FY 2012.

Historical information on visitors by nationality is provided earlier in the Report in Table 4; between 2000 and 2012 total visitors decreased at a similar rate (-0.1%) to originating passengers (-0.2%) as shown in Table 8. A comparison of the total visitor data in Table 4 and the originating enplaned passenger data in Table 8 indicates that for most years of that period, about 90% of originating enplaned passengers were visitors to Guam (and the remainder would therefore be residents of Guam traveling to other destinations).

The level of connecting passengers has fluctuated over the historical period, depending somewhat on airline service networks and strategies. Connecting passengers at the Airport decreased 4.9% annually between FY 2000 and FY 2012, principally as a result of reductions in connecting activity by United Airlines (formerly Continental Airlines), the principal hub airline at the Airport. In particular, service has been reduced to certain destinations that historically generated connecting passenger activity.

1.3.2 Airline Service and Passenger Market Shares

Passenger airline service and enplaned passenger market shares are discussed below.

Airline Service. Table 9 lists the passenger airlines providing service at the Airport in May 2013. The Airport is served by a total of 11 airlines, including 2 major U.S. airlines, 2 regional and commuter airlines that provide interisland service, and 7 foreign-flag airlines.

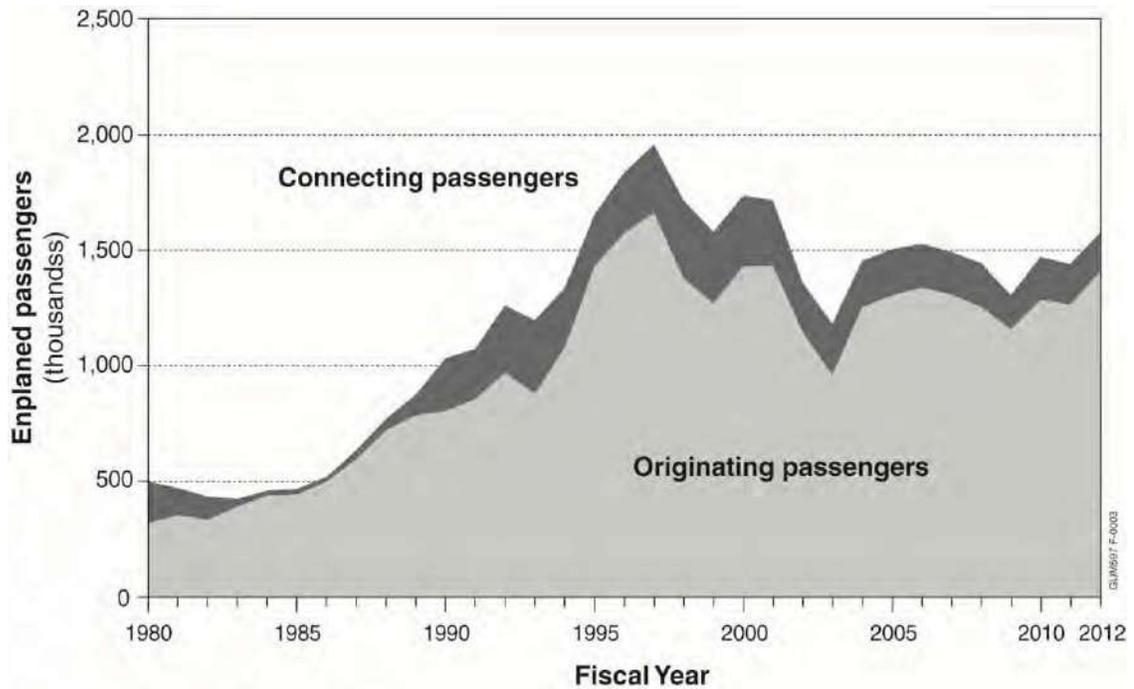
Table 8
HISTORICAL ENPLANED PASSENGERS
 A.B. Won Pat International Airport Authority, Guam
 FY 1980 – FY 2012

	<u>Originating</u>	<u>Connecting</u>	<u>Total</u>	<u>Annual percent change</u>
1980	322,127	177,975	500,102	
1990	805,279	227,213	1,032,492	7.5%
2000	1,429,517	305,707	1,735,224	5.3
2001	1,433,046	282,090	1,715,136	(1.2)
2002	1,146,508	212,527	1,359,035	(20.8)
2003	959,910	220,688	1,180,598	(13.1)
2004	1,253,113	200,251	1,453,364	23.1
2005	1,303,975	199,329	1,503,304	3.4
2006	1,337,630	189,301	1,526,931	1.6
2007	1,308,607	182,581	1,491,188	(2.3)
2008	1,254,134	189,041	1,443,175	(3.2)
2009	1,158,752	146,457	1,305,209	(9.6)
2010	1,286,486	183,430	1,469,916	12.6
2011	1,264,243	175,181	1,439,424	(2.1)
2012	1,407,163	167,328	1,574,491	9.4
Oct. - Feb.				
2012	572,125	62,872	634,997	
2013	625,970	79,803	705,773	11.1%
Annual Growth Rate				
2000-2012	(0.1)%	(4.9)	(0.8)%	
2000-2010	(1.0)	(5.0)	(1.6)	
2010-2012	4.6	(4.5)	3.5	

Note: For Fiscal Years ended September 30.

Source: A.B. Won Pat International Airport Authority, Guam.

Figure 3
HISTORICAL ENPLANED PASSENGERS
 A.B. Won Pat International Airport, Guam
 FY 1980 – FY 2012



Source: A.B. Won Pat International Airport Authority, Guam.

Table 9
SCHEDULED PASSENGER AIRLINES SERVING GUAM
 May 2013

Major/national	Foreign-flag
Delta Air Lines	China Airlines
United Airlines	Eva Airways
	Japan Airlines
Regional/commuter	Jeju Air
Cape Air	Jin Air
Freedom Air	Korean Air
	Philippine Airlines

Source: Official Airline Guides, Inc. online database, accessed May 2013.

Table 10 summarizes average daily scheduled departures to principal destinations as of May 2013. Air transportation on Guam is characterized by three types of service as illustrated on Figure 4: (1) interisland service among the Western Pacific islands, including the Commonwealth of the Northern Mariana Islands (CNMI – with principal airports at Rota and Saipan); the Republic of the Marshall Islands (RMI – with principal airports at Kwajalein and Majuro); Palau – with a principal airport at Koror; and the Federated States of Micronesia (FSM – with principal airports at Truk and Yap), (2) domestic service to the U.S. (Honolulu), and (3) medium- and long-haul international service, primarily to destinations in the Pacific Rim.

Table 10
SCHEDULED AVERAGE DAILY DEPARTURES
 May 2013

	Scheduled Departing Flights
Medium- and Long-haul	
Tokyo	7
Osaka	4
Nagoya	3
Seoul	3
Manila	3
Fukuoka	1
Taipei	1
Other (a)	<u>2</u>
Subtotal	23
Honolulu	1
Interisland	
Saipan	5
Rota	2
Other interisland (b)	<u>2</u>
Subtotal	9
Total	33

Notes: Totals may not add as a result of rounding.

(a) Includes less than daily departures to Busan, Cairns, Hiroshima, Hong Kong, Niigata, Okayama, Sapporo and Sendai.

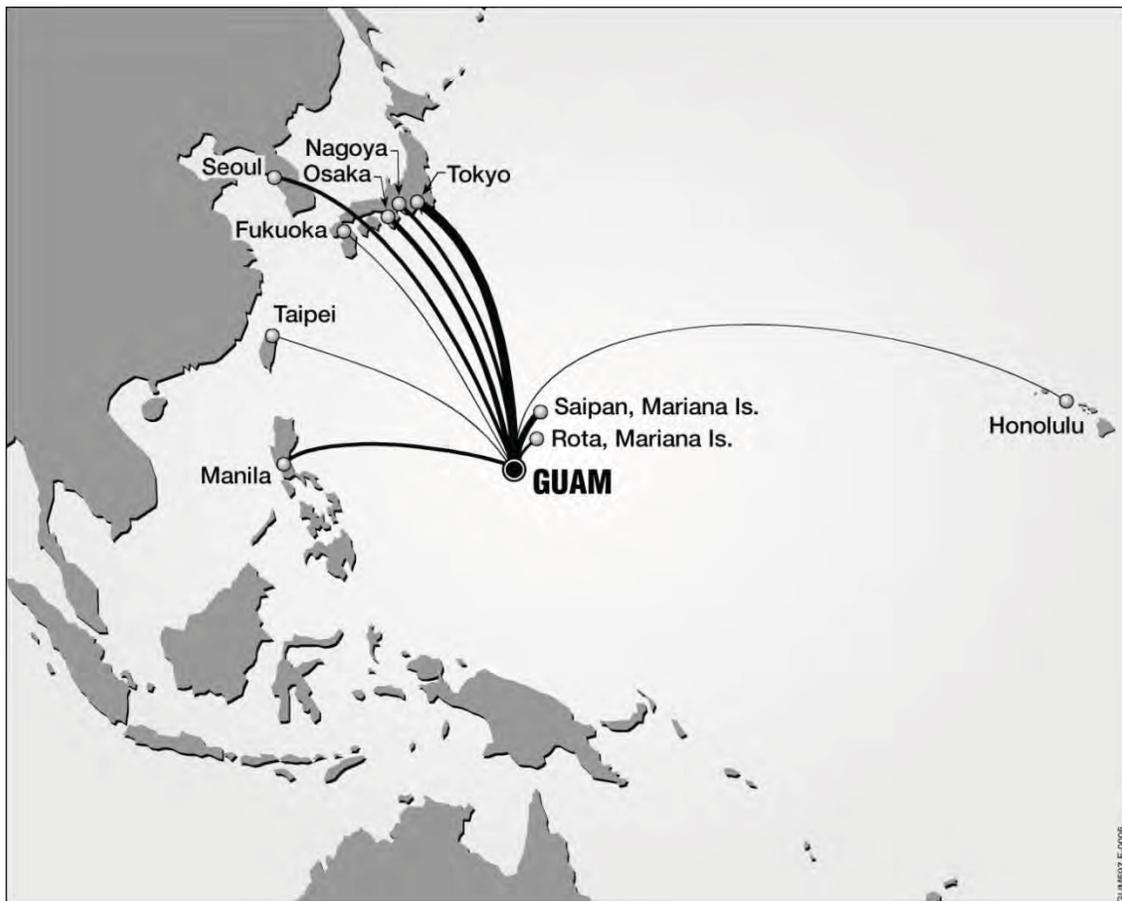
(b) Includes less than daily departures to Koror, Truk and Yap.

Source: Official Airline Guides, Inc. online database, accessed May 2013.

In May 2013, an average of 23 daily flights departed from Guam to international destinations, with principal service to destinations in Japan (particularly Tokyo, Osaka and Nagoya), South Korea and the Philippines. In addition, there were 9 daily flights from the Airport to other interisland destinations, and domestic service to Honolulu consisting of a daily long-haul flight.

While airline service is principally provided by major flag carriers such as United Airlines, Delta Air Lines, and Korean Air, low-cost carriers (LCCs) such as Jeju Air and Jin Air of South Korea have introduced service at the Airport in recent years. Additional LCC airline service development could support continued passenger growth at the Airport, given the ability of LCCs to serve major Asia-Pacific destinations using narrowbody aircraft.

Figure 4
AVERAGE DAILY PRIMARY NONSTOP SERVICE DESTINATIONS SCHEDULED DEPARTURES – MAY 2013
 A.B. Won Pat International Airport, Guam



Source: Official Airline Guides, Inc. online database, accessed May 2013.

Table 11 presents a summary of scheduled passenger airline scheduled service in terms of annual departing seats at the Airport for the most recently completed fiscal year, FY 2012. United Airlines provided the largest number (49%) of scheduled departing seats at the Airport in FY 2012, which includes flights operated by regional affiliates, such as Cape Air. The remaining shares of scheduled departing seats at the Airport were distributed in a similar proportion to the passenger data, with Delta Air Lines providing the second largest share (19%). Principal destinations included Tokyo with 29% of scheduled departing seats, Seoul with 15% of scheduled departing seats and Osaka with 14% of scheduled departing seats.

Table 11
SCHEDULED DEPARTING SEATS BY AIRLINE AND DESTINATION
A.B. Won Pat International Airport, Guam
FY 2012

	Enplaned Seats	Percentage of Total
United Airlines (a)		
Tokyo (Narita)	279,980	13.8%
Osaka (Kansai)	104,537	5.1
Nagoya (Centrair)	103,217	5.1
Honolulu	100,740	5.0
Saipan	84,134	4.1
Manila	71,365	3.5
Fukuoka	48,948	2.4
Koror	46,435	2.3
Other	<u>167,507</u>	<u>8.2</u>
Total	1,006,863	49.5%
Delta Air Lines		
Tokyo (Narita)	226,626	11.1%
Osaka (Kansai)	91,260	4.5
Nagoya (Centrair)	<u>67,140</u>	<u>3.3</u>
Total	385,026	18.9%
Korean Air		
Seoul (Incheon)	133,710	6.6%
Osaka (Kansai)	88,650	4.4
Other	<u>13,920</u>	<u>0.7</u>
Total	236,280	11.6%
Jeju Air		
Seoul (Incheon)	105,462	5.2%
Japan Airlines		
Tokyo (Narita)	86,505	4.3%
China Airlines		
Taipei	33,184	1.6%
Philippine Airlines		
Manila	77,704	3.8%
Eva Airways		
Taipei	26,436	1.3%
Jin Air		
Seoul (Incheon)	68,409	3.4%
Other airlines	<u>8,857</u>	<u>0.4%</u>
Total	2,034,726	100.0%
Principal Destinations		
Tokyo (Narita)	593,111	29.1%
Seoul (Incheon)	307,581	15.1
Osaka (Kansai)	284,447	14.0
Nagoya (Centrair)	170,357	8.4
Manila	149,069	7.3
Honolulu	100,740	5.0
Saipan	84,134	4.1
Taipei	59,620	2.9
Other	<u>285,667</u>	<u>14.0</u>
	2,034,726	100.0%

(a) United Airlines also provides service using regional commuter affiliate airlines such as Cape Air.

Source: Official Airline Guides, Inc., online database, accessed May 2013.

Enplaned Passenger Market Shares. Enplaned passengers by airline for FY 2012 are shown on Table 12. In FY 2012, United Airlines had the largest market share of enplaned passengers (49.1%) at the Airport, followed by Delta Air Lines (19.2%), Korean Air (12.8%), and Japan Airlines (5.1%).

As shown on Figure 5, since FY 2000, there has been an increase in the number of airlines carrying passengers at the Airport, and a greater diversity of market share.

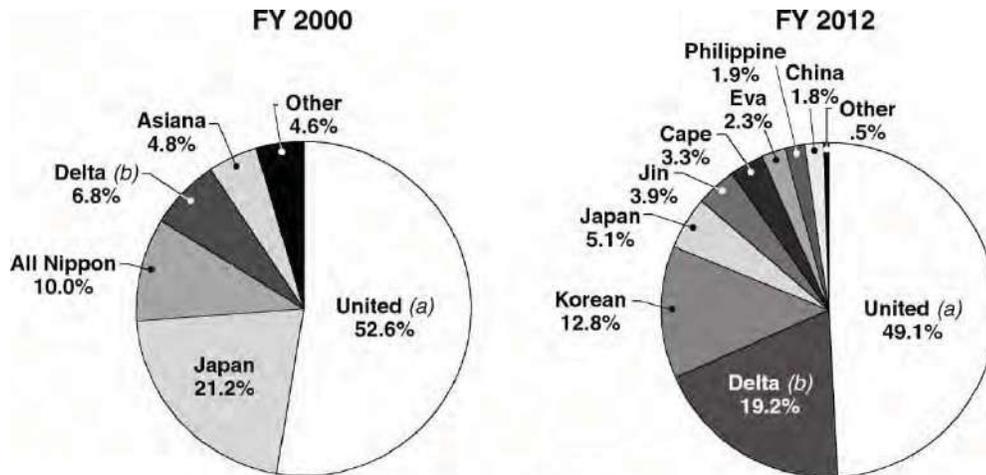
Table 12
ENPLANED PASSENGERS BY AIRLINE
 A.B. Won Pat International Airport, Guam
 FY 2012

	Enplaned passengers
Signatory	
Cape Air	52,645
China Airways	27,587
Delta Air Lines	302,963
Eva Airways	36,119
Japan Airlines	80,502
Jin Air	61,737
Korean Air	200,920
Philippine Airlines	30,236
United Airlines	773,509
Other	<u>138</u>
Total signatory	1,566,356
Non-signatory	
Airlines	1,869
Commuter airlines	5,443
Other	823
Total non-signatory	<u>8,135</u>
Total	1,574,491

Note: For Fiscal Years ended September 30.

Source: A.B. Won Pat international Airport Authority, Guam.

Figure 5
ENPLANED PASSENGER MARKET SHARES
 A.B. Won Pat International Airport, Guam



(a) Continental Micronesia Airlines in 2000.

(b) Northwest Airlines in 2000.

Note: For Fiscal Years ended September 30.

Source: A.B. Won Pat International Airport Authority, Guam.

1.3.3 Originating Passenger Markets

Originating passengers are those passengers whose flights originate at the Airport, and who are not connecting from another flight.

Table 13 presents the top 20 origin-destination passenger markets for the Airport in FY 2012. The top five markets—Tokyo, Osaka, Seoul, Nagoya and Manila — together accounted for 77.9% of total originating passengers in FY 2012. The largest origin-destination markets outside Japan were Seoul (12.9%), Manila (4.9%) and Honolulu (3.0%).

Table 13 also presents average daily scheduled nonstop departing seats to the Airport's top 20 origin-destination markets and to all other markets in May 2013. All of the scheduled daily nonstop departing seats from the Airport were to the top 20 markets listed.

Table 13
TOP 20 ORIGIN-DESTINATION PASSENGER MARKETS AND AIRLINE SERVICE
A.B. Won Pat International Airport, Guam
FY 2012, except as noted

Rank	Origin-destination market	Air miles from Guam	Percent of originating airline passengers	Average scheduled daily nonstop departing seats May 2013
1	Tokyo	1,550	37.9%	1,601
2	Osaka	1,580	14.3	775
3	Seoul	2,000	12.9	583
4	Nagoya	1,550	7.9	454
5	Manila	1,600	4.9	301
6	Honolulu	3,800	3.0	273
7	Taipei	1,730	2.4	185
8	Saipan	130	2.3	236
9	Fukuoka	1,650	1.8	133
10	Hong Kong	2,120	1.1	43
11	Koror	810	1.0	128
12	Sapporo	2,030	0.9	49
13	Okinawa	1,420	0.8	56
14	Sendai	1,710	0.6	37
15	Hiroshima	1,620	0.5	36
16	Truk, Caroline Islands	630	0.5	89
17	Okayama	1,620	0.4	34
18	Niigata	1,720	0.4	34
19	Los Angeles	6,090	0.4	--
20	Pohnpei, Caroline Islands	1,020	<u>0.3</u>	<u>--</u>
	Subtotal		94.3%	5,047
	Other cities		<u>5.7%</u>	<u>--</u>
	Total		100.0%	5,047

Note: For Fiscal Year ended September 30.

Sources: Originating percentage: Sabre Airport Data Intelligence, online database, accessed May 2013.
Seats: Official Airline Guides, Inc. online database, accessed May 2013.

1.5 Key Factors Affecting Future Airline Traffic

In addition to the demographics and economy of Guam, as discussed earlier, key factors that will affect future airline traffic at the Airport include:

- Economic and political conditions
- Aviation safety, security, and public health concerns
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Capacity of the national air traffic control system
- Capacity of the Airport

1.5.1 Economic and Political Conditions

Historically, airline passenger traffic has correlated closely with local, national, and global economic conditions. Global economic recessions have contributed to reduced passenger numbers at airports.

With the globalization of business and the increased importance of international trade and tourism, international economics, trade balances, currency exchange rates, political relationships, and hostilities all influence passenger traffic at airports. Sustained future increases in passenger traffic at the Airport will depend on stable international conditions as well as national and global economic growth.

1.5.2 Aviation Safety, Security, and Public Health Concerns

Concerns about the safety of air travel and the effectiveness of security precautions influence passenger travel behavior and affect airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures can lead to the avoidance of travel, particularly given the discretionary nature of leisure travel, which represents a significant portion of the Guam air travel market.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were partly responsible for the steep decline in airline travel in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the U.S. Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies.

Public health and safety concerns have also affected airline travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome (SARS) led public health agencies to issue advisories against nonessential travel to certain regions of the world. In 2009, concerns about the spread of influenza caused by the H1N1 virus reduced certain international travel, particularly to and from Mexico and Asia. In April 2010, airspace and airports in much of Europe were closed for several days because of the threat to flight safety related to the ash cloud from the eruption of a volcano in Iceland. In March 2011, airline travel to and from Japan decreased following a destructive earthquake and tsunami. In addition, political events in North Korea have periodically increased political tension within the North Asia region and beyond and could potentially affect regional demand for air travel.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health and safety concerns, and international

hostilities. Provided that precautions of government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not safety or security, factors.

1.5.3 Financial Health of the Airline Industry

The number of passengers using the Airport will depend partly on the profitability of the airline industry and the associated ability of the industry and individual airlines to make the necessary investments to continue providing service.

Between 1995 and 2000, the U.S. airline industry was profitable, but as a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 attacks, increased fuel and other operating costs, and price competition, the industry again experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately \$40 billion.

To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. Between 2002 and 2005, US Airways, United Airlines, Delta Air Lines, Northwest Airlines, Hawaiian Airlines, ATA Airlines, Aloha Airlines, and Independence Air filed for bankruptcy protection.

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, but in 2008, as oil and aviation fuel prices increased to unprecedented levels and the economic recession deepened, the industry experienced a profitability crisis. The industry responded by grounding older, less fuel-efficient aircraft, adopting fuel-saving operating practices, hedging fuel requirements, reducing scheduled seat capacity, eliminating unprofitable routes, laying off employees, reducing employee compensation, reducing other non-fuel expenses, increasing airfares, and imposing ancillary fees and charges. The U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat miles) approximately 4% in 2008 and an additional 8% in 2009.

In 2010 and 2011, the U.S. airline industry regained profitability in the face of sustained high fuel prices by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. In 2010, according to Airlines for America (formerly the Air Transport Association of America), the U.S. passenger airlines collectively increased domestic seat-mile capacity by 1.8% and yet recorded a net profit of \$3.7 billion. In 2011, U.S. passenger airlines collectively increased domestic seat-mile capacity by 1.2% and recorded a net profit of \$1.9 billion. Comprehensive data on U.S. airline industry profitability for 2012 are not yet available.

In terms of the global airline industry, the International Air Transport Association (IATA) in March 2013 projected global airline profits of \$10.6 billion in 2013, compared to the estimated \$7.6 billion global airline profit in 2012. Expectations differ by world region. IATA projects that the North American and Asia-Pacific airlines together will account for almost 75% of the industry's total profit (\$7.8 billion) in 2013. According to IATA, Asia-Pacific airlines are estimated have the highest earnings before interest (EBIT) margin (5.3%) estimated for 2013, followed by North American airlines (4.1%), and both are above the global average of 3.3%. According to IATA, the global airline industry's financial performance is showing slight improvement as a result of airline restructuring, with principal risks including a renewed Eurozone crisis. IATA also believe that the global industrial production cycle bottomed out in the 3rd Quarter of 2012 and as such expect global growth in revenue passenger kilometers (RPKs) of 5.4% in 2013.

In the western Asia-Pacific region, the principal airlines serving regional and global destinations, such as Asiana, ANA, Japan Airlines, Korean Airlines and Singapore Airlines have continued to develop airline service as demand has increased, notwithstanding periods of economic slowdown and other negative events. In addition, LCCs such as AirAsia, Jeju Air and Jetstar have increased market share. In many cases, this has been through development of local subsidiaries, such as AirAsia Japan, AirAsia Philippines, Jetstar Japan, and Peach (a subsidiary of ANA). This could be a positive development for passenger traffic at the Airport, given the relevance of LCC service to tourism-focused markets such as Guam. As discussed earlier, Jeju Air and Jin Air, both South Korean LCCs, have developed service at the Airport.

Sustained industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity restraint to maintain airfare increases, and manageable fuel prices.

1.5.4 Airline Service and Routes

The Airport serves as a gateway to the Territory of Guam and locations in the Pacific Rim. The number of origin and destination passengers depends on the intrinsic attractiveness of Guam as a business and leisure destination to visitors and the propensity of its residents to travel. The number of connecting passengers, on the other hand, depends on the airline service provided at the Airport and at other airports.

Most mainline airlines have developed hub-and-spoke systems that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports.

As discussed earlier, the Airport is a connecting hub for United. In contrast to O&D passenger volumes, connecting traffic at the Airport derives from the route network and flight schedules of United rather than the economy of Guam. If United were to reduce connecting service at the Airport, such flights would not necessarily be replaced by other airlines.

1.5.5 Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for price-sensitive “discretionary” travel, of which leisure travel is a significant component at the Airport. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and at the Airport, will depend, in part, on the level of airfares. Additionally, given the leisure nature of the passenger market at Guam, the pricing of tour packages, of which airline fares and hotel accommodation costs are a significant component, is also important.

Overcapacity in the industry, the proliferation of services by low-cost airlines, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. From 2006 to 2012, airlines reduced capacity and were able to sustain fare increases. Also, beginning in 2006, ancillary charges were introduced by most airlines for services such as checked baggage, in-flight meals, and preferred seating, thereby increasing the effective price of airline travel.

In many airline travel markets, new entrant and other airlines with lower cost structures have provided price and service competition. On Guam, Jeju Air and Jin Air, both Korean LCCs, have introduced service at the Airport. As legacy network airlines have restructured their operations and reduced costs, these airlines have enhanced their ability to compete.

1.5.6 Airline Consolidation and Alliances

In response to competitive pressures, the global airline industry has consolidated. This consolidation can, on the one hand, benefit the financial condition of the consolidated airline industry, but, on the other hand, have implications for airline service at individual airports. In April 2001, American completed an acquisition of failing Trans World Airlines. In September 2005, US Airways and America West Airlines merged. In October 2008, Delta and Northwest merged. In October 2009, Republic Airways Holdings completed purchases of Frontier and Midwest airlines. In October 2010, United and Continental completed a merger, and they have since integrated most of their operations. In May 2011, Southwest completed its acquisition of AirTran, which now operates as a subsidiary of Southwest. In February 2013, American and US Airways announced a merger, and the merged entity's prospective management has indicated its intention to maintain all hubs of the predecessor airlines.

Alliances, joint ventures, and other marketing arrangements provide airlines with many of the advantages of mergers; most of the largest U.S. airlines are members of such alliances with foreign-flag airlines. Alliances typically involve marketing, code-sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. Joint ventures involve even closer cooperation and the sharing of costs and revenues on designated routes.

1.5.7 Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than in mid-2004 and represented the largest airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Fuel prices fell sharply in the second half of 2008 as demand declined worldwide, but they have since increased as global demand has increased and the U.S. dollar has weakened. In 2011 and 2012, political instability and conflicts in North Africa and the Middle East contributed to further volatility in fuel prices.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. However, there is widespread agreement that fuel prices are likely to remain high relative to historical levels and to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

Aviation fuel prices will continue to affect airfares, passenger volumes, and the ability of airlines to provide service. Airline operating economics will also be affected as regulatory costs are imposed on the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

1.5.8 Capacity of the Air Traffic Control System

Demands on the air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The U.S. FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures, and it is expected that improvements in technology and capacity will be pursued in other countries and regions as well. Given the Airport's location in the Pacific Ocean, air traffic control is not expected to be a significant concern except as it might affect flight arrivals and departures at airports at the other end of a Guam airline route.

1.5.9 Capacity of the Airport

Future growth in airline traffic at the Airport depends on the capacity of the Airport to accommodate the growth. It was assumed that the forecast increases in enplaned passengers could be accommodated by existing terminal and airfield capacity, taking into account the improvements provided by the 2013 Projects.

1.6 Airline Traffic Forecasts

Forecasts of enplaned passengers at the Airport for FY 2013 through FY 2019 are presented in Table 14. Historical and forecast enplaned passengers are shown graphically on Figure 7. The forecasts are presented for originating and connecting enplaned passengers.

Summarized below are (1) assumptions underlying the airline traffic forecasts; (2) estimated enplaned passengers in FY 2013; and (3) forecast enplaned passengers in FY 2013 through FY 2018.

1.6.1 Assumptions Underlying the Airline Traffic Forecasts

Forecasts of airline traffic were developed taking into account analyses of the economic basis for airline traffic, analyses of historical airline traffic, and an assessment of the key factors that may affect future airline traffic, as discussed in earlier sections. In general, it was assumed that, in the long term, changes in airline traffic at the Airport will occur largely as a function of the growth in the population and economy of the Asia-Pacific region, the U.S. and Guam, and changes in airline service. It was also assumed that continued development of airline service will not be constrained by the availability of aviation fuel, long-term limitations in airline fleet capacity, limitations in the capacity of the air traffic control system or the Guam Airport, or government policies or actions that restrict growth. Also considered were recent and potential developments in the air transportation industry as they have affected or may affect airline traffic at the Airport.

Beginning in FY 2013, and through the remainder of the forecast period to FY 2018, passenger numbers are forecast to increase gradually on the basis of the assumptions that:

1. The U.S. and Asia-Pacific economies would experience sustained growth in gross domestic product with growth rates similar to those summarized in Table 6, resulting in increases in annual visitors to Guam.
2. The tourism industry in Guam will continue to develop, commensurate with the expected increase in visitor demand.
3. A generally stable international political environment and safety and security precautions will ensure airline traveler confidence in aviation without imposing unreasonable inconveniences.
4. There will be no major disruption of airline service or airline travel behavior as a result of international hostilities or terrorist acts or threats.
5. The Airport will continue to be a connecting hub and international gateway for United Airlines.
6. The airlines serving the Airport will be financially viable and able to add the seating capacity required to accommodate additional demand.
7. Competition among airlines serving the Airport will ensure the continued availability of competitive airfares.

Table 14
HISTORICAL AND FORECAST ENPLANED PASSENGERS
A.B. Won Pat international Airport, Guam
FY 2010 – FY 2019

The forecasts presented in this table were prepared using the information and assumptions given in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

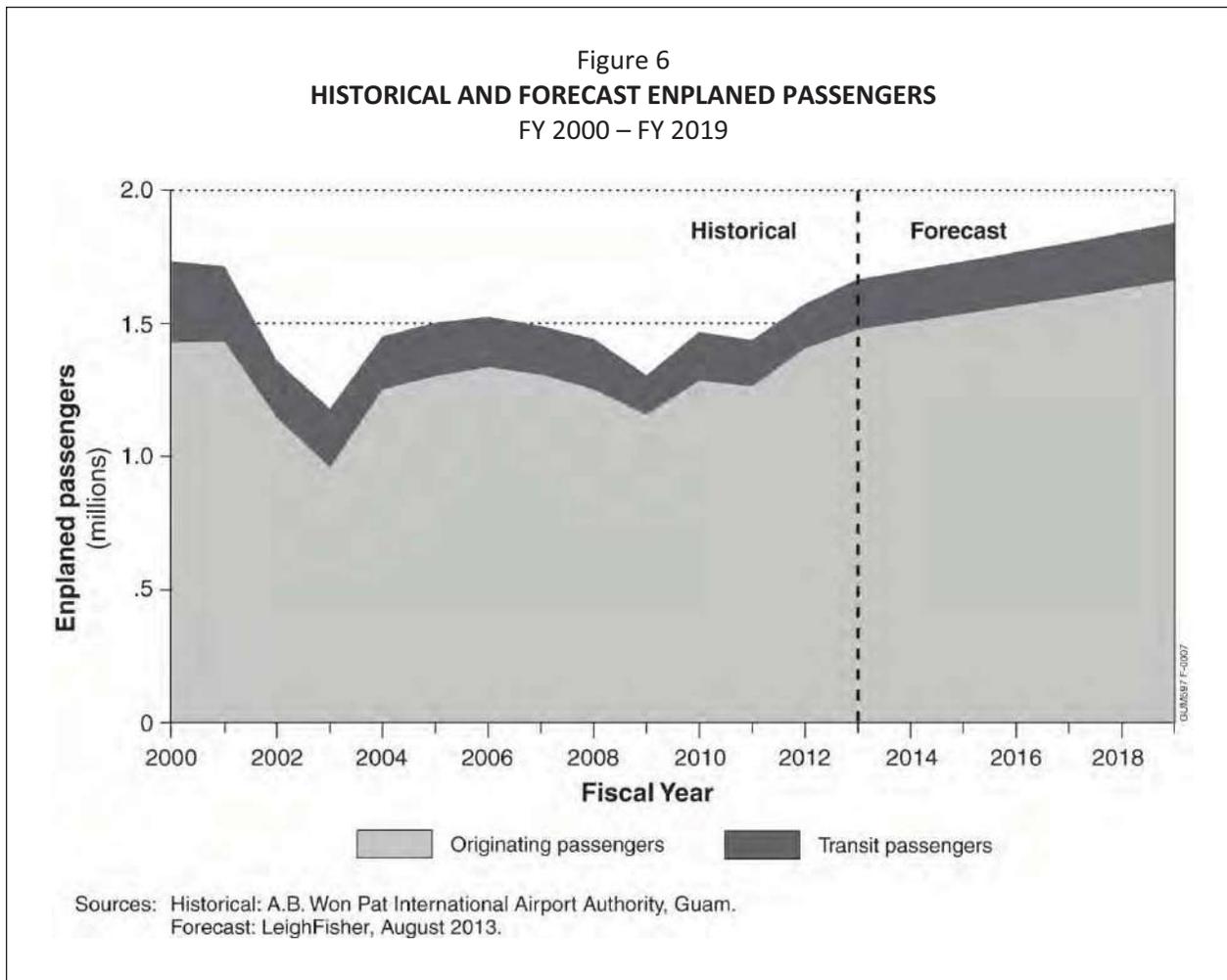
	Historical			Estimated	Forecast					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Originating	1,286,486	1,264,243	1,407,163	1,478,000	1,507,000	1,537,000	1,568,000	1,600,000	1,632,000	1,664,000
Connecting	<u>183,430</u>	<u>175,181</u>	<u>167,328</u>	<u>189,000</u>	<u>194,000</u>	<u>198,000</u>	<u>201,000</u>	<u>205,000</u>	<u>209,000</u>	<u>214,000</u>
Total	1,469,916	1,439,424	1,574,491	1,667,000	1,701,000	1,735,000	1,769,000	1,805,000	1,841,000	1,878,000
Percent increase (decrease)										
Originating		(1.7)%	11.3%	5.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Connecting		<u>(4.5)</u>	<u>(4.5)</u>	<u>13.0</u>	<u>2.6</u>	<u>2.1</u>	<u>1.5</u>	<u>2.0</u>	<u>2.0</u>	<u>2.4</u>
Total		(2.1)%	9.4%	5.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Notes: For Fiscal Years ended September 30.

FY 2013 estimate is based on 5 months (September 2012 through February 2013) of actual activity.

Sources: Historical: A.B. Won Pat International Airport Authority, Guam records.

Estimated and Forecast: LeighFisher, August 2013.



1.6.2 Estimated Enplaned Passengers—FY 2013

As shown in Table 14 and on Figure 6, the number of enplaned passengers at the Airport is forecast to increase 5.9% in FY 2013, based on actual activity through the first 5 months of FY 2013, and assumed continuation of trends through the remainder of FY 2013. This estimated increase in FY 2013 follows the 9.4% increase in FY 2012, and is further indication of market recovery from the downturn experienced from 2007 to 2011.

1.6.3 Forecast Enplaned Passengers—FY 2013 through FY 2019

As mentioned earlier, the long-term growth in airline traffic at the Airport is forecast to be consistent with the growth in the key Asian economies and the associated visitor industry.

Total enplaned passengers are forecast to increase from 1.67 million in 2013 to 1.88 million in 2019, at an average annual rate of about 2%. The share of connecting passengers is forecast to remain relatively constant at about 11% of the total.

2.0 FINANCIAL ANALYSIS

The purpose of this financial analysis is to evaluate the ability of the Airport to generate Revenues sufficient to satisfy the requirements of the Rate Covenant, taking into account the proposed refunding of Outstanding Bonds and the proposed 2013 Bonds that the Authority expects to issue to finance the costs of the 2013 Projects. The analysis covers the forecast period through FY 2019. Audited historical financial results are available through FY 2012. Financial data for FY 2013 through FY 2019 were forecast using FY 2012 audited financial results, FY 2013 budget and year-to-date actual results, and preliminary information regarding the FY 2014 budget. The financial structure of the Authority is largely governed by the Bond Indenture and the Airline Agreement. The financial structure is discussed below, followed by a discussion of historical and forecast financial results.

Capitalized terms not otherwise defined in this Report shall have the same meanings given in the Bond Indenture and the Airline Agreement.

2.1 Framework for Current Airport Financial Operations

The Authority is organized and exists under Chapter 1 of Title 12 of the Guam Code Annotated, as amended (the “Act”), and is an autonomous instrumentality of the Government of Guam (the “Government”) with authority to construct, operate and maintain airports for civil aviation purposes on Guam, including the Airport and related facilities. The seven members of its Board of Directors are appointed by the Governor of Guam, subject to confirmation by the Guam Legislature. The day-to-day operations of the Authority are managed by the Executive Manager and Deputy Executive Manager who are appointed by the Board of Directors.

2.1.1 Transfer of the Naval Air Station (“NAS”), Agana

On July 19, 1974, the Authority was granted use of the airfield at Naval Air Station (NAS), Agana, under a Joint Use Agreement (JUA) with the U.S. Navy. The JUA granted the Authority use of the runways and other airfield areas for commercial aircraft activities. In addition, the JUA conveyed 68 acres of Federal property that allowed for large scale improvement of Guam’s only commercial airport, and entitled the Authority to receive grants and funds for airport improvements from the FAA and other Federal agencies.

As a result of various actions associated with decommissioning of NAS, Agana, as of September 2000, the Authority received the deed to 1,417 acres on the former NAS through the Public Benefit Transfer (PBT) conveyance from the U.S. Federal Government. The execution of the PBT effectively terminated the JUA and transferred all ownership, responsibilities and liabilities of the identified parcels of land to the Authority. This additional land provides opportunities for the Authority to develop new sources of revenue through ground leases, building leases, and other commercial development.

2.1.2 The Bond Indenture

The Authority issues General Revenue Bonds to finance capital improvements to the Airport under the provisions of (1) laws of Guam providing for the issuance of revenue bonds, and (2) the 2003 Master Indenture and any Supplemental Indentures (together referred to as the Bond Indenture). The 2003 Master Indenture originally authorized issuance of the Series 2003 Bonds and will remain in force for the issuance of the 2013 Bonds, together with the 2013 Supplemental Indenture.

Key provisions of the Bond Indenture are discussed below.

Revenues. Under the Bond Indenture, the term “Revenues” include all gross income and revenue received by the Authority from the ownership or operation of the Airport, including all rents, fees and charges received by the Authority for the use of the Airport, all Payment Agreement Receipts, all proceeds

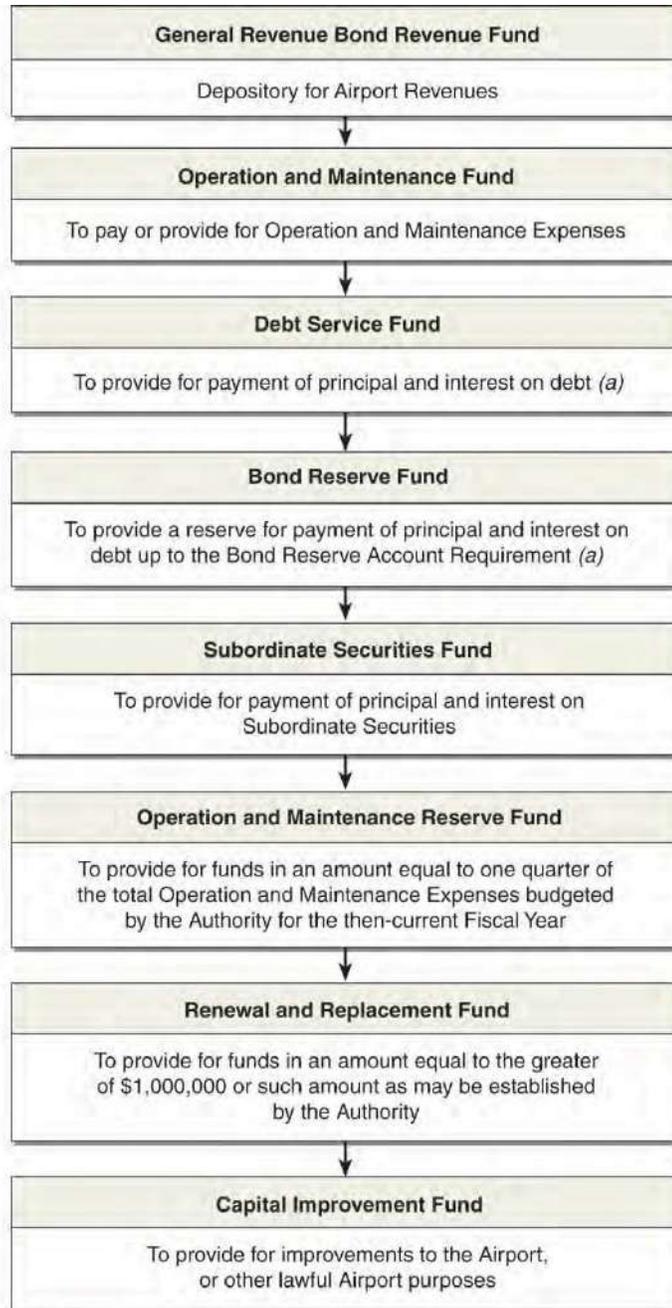
of insurance or grants covering business interruption loss (and related losses and expenses) relating to the Airport, and all investment income which is available for the purposes for which Revenues are used under the Bond Indenture (other than investment income from the Construction Accounts, the Capital Improvement Fund or the Rebate Fund), but do not include: (1) amounts received as insurance proceeds (except as described above) or from the sale, transfer or other disposition of, or upon the taking by or under the threat of eminent domain of, all or any part of the Airport (which moneys shall be received and disposed of pursuant to the Bond Indenture); (2) proceeds from any securities issued by the Authority or proceeds from loans obtained by the Authority; (3) amounts derived from any Special Facility and which are pledged or assigned as security for the payment of indebtedness incurred to finance such Special Facility; (4) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Authority; (5) amounts received by the Authority as gifts or as grants (except as described above), whether restricted or unrestricted; and (6) other amounts (except as described above), the use of which is restricted by the donor or grantor.

In addition, the Bond Indenture provides that the proceeds of any Passenger Facility Charge (PFC) are to be treated as Revenues for the purposes of the Bond Indenture, including the pledge of Revenues, but are required to be used under the Bond Indenture only to the extent and for the purposes that such proceeds are permitted to be used by federal law or regulation.

Application of Revenues. Section 5.02 of the Bond Indenture provides for the deposit and application of Revenues and collections of PFC proceeds in the Airport Revenue Fund in the following order of priority, as also shown on Figure 7:

1. Payment of all Revenues upon receipt in the General Revenue Bond Revenue Fund (the "Revenue Fund").
2. Payment into the Operation and Maintenance Fund, of an amount equal to the amount of Operation and Maintenance Expenses budgeted by the Authority.
3. Payment into the Debt Service Fund, an amount equal to the amount necessary to increase the amount in the Debt Service Fund to the aggregate amount for the payment of debt service on Bonds.
4. Payment into the Bond Reserve Fund, the amount, if any, needed to increase the amount in each Bond Reserve Account to its Bond Reserve Account Requirement.
5. Payment into the Subordinate Securities Fund, the amount needed to increase the amount in such Fund and each such account to its requirement (including any requirements for reasonable debt service reserves and requirements).
6. Payment into the Operation and Maintenance Reserve Fund, the amount, if any, needed to increase the amount in the Operation and Maintenance Reserve Fund to an amount equal to one-fourth (1/4) of the total Operation and Maintenance Expenses budgeted by the Authority for the then current Fiscal Year.
7. Payment into the Renewal and Replacement Fund, the amount, if any, needed to increase the amount in the Renewal and Replacement Fund to an amount equal to the greater of \$1,000,000 or such amount as may be established by Request of the Authority.
8. Payment into the Capital Improvement Fund, the balance remaining in the Revenue Fund after the foregoing deposits.

Figure 7
FLOW OF FUNDS PURSUANT TO THE INDENTURE



(a) Requirement may be reduced by PFC Revenues.

Source: A.B. Won Pat International Airport Authority, Guam, Indenture, September 1, 2003.

The Bond Indenture requires that moneys be transferred to the above accounts on a monthly basis. Principal payments on outstanding Bonds are made on an annual basis; interest payments on outstanding Bonds are made semi-annually.

Rate Covenant. Under the Bond Indenture, the Authority shall at all times fix, prescribe and collect rents, fees and charges in connection with the services and facilities furnished by the Airport which will be sufficient to yield the sum of Net Revenues plus Other Available Moneys during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required by the Bond Indenture for such Fiscal Year and as also summarized in the previous section, "Application of Revenues."

"Net Revenues" is defined in the Bond Indenture to mean, for any particular period, all of the Revenues (other than Payment Agreement Receipts) received during such period less all Operation and Maintenance Expenses of the Airport incurred during such period.

"Other Available Moneys" is defined in the Bond Indenture to mean for any Fiscal Year the amount designated by the Authority of unencumbered moneys on deposit in the Capital Improvement Fund at the end of the prior Fiscal Year, but in no event will such amount exceed 25% of the Aggregate Annual Debt Service for such Fiscal Year. For purposes of the Rate Covenant test, the Authority has additionally designated unencumbered funds in the Federal Grant Fund, which by such designation is a subaccount within the Capital Improvement Fund, as confirmed by the Authority's independent auditors.

Additional Bonds Test. The Bond Indenture authorizes the Authority to issue Additional Bonds secured on a parity with the Bonds, including the 2013 Bonds, if the following are provided:

1. A Certificate of the Authority setting forth for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the Additional Bonds issue, the Revenues, Other Available Moneys, Net Revenues, uses of Revenues and Aggregate Annual Debt Service for such Fiscal Year or 12-month period, and demonstrating that for such Fiscal Year or 12-month period (a) Revenues at least equaled all transfers required to be made pursuant to the provisions of the Bond Indenture described above under "Application of Revenues", and (b) the sum of Net Revenues plus Other Available Moneys equaled at least 1.25 times Aggregate Annual Debt Service.
2. A certificate setting forth (a) the projected Date of Beneficial Occupancy for the Project or Projects for which such Series of Bonds is being issued and for any other uncompleted Projects, and (b) an estimate of the cost of construction of such Projects.
3. A written report of the Airport Consultant setting forth for each Fiscal Year from the then current Fiscal Year through the later of (a) the first Fiscal Year commencing at least five years after the date of original issuance of such additional Series, or (b) the first Fiscal Year commencing at least three years after the Date of Beneficial Occupancy, estimates of Revenues, Operation and Maintenance Expenses, Other Available Moneys and Net Revenues.
4. A Certificate of the Authority (a) setting forth (i) the estimates of Revenues, Operation and Maintenance Expenses, Other Available Moneys and Net Revenues, as set forth in the written report of an Airport Consultant pursuant to the provisions of the General Indenture described in subparagraph (3) above, for each of the Fiscal Years covered by such report, and (ii) the Aggregate Annual Debt Service and Capitalized Interest for each of such Fiscal Years, including Annual Debt Service and Capitalized Interest on all future Series of Bonds, if any, which such Certificate of the Authority shall estimate (based on the estimate of the cost of construction of such Projects) are required to complete payment of the cost of construction of such Projects, and (b) demonstrating

that for each of such Fiscal Years (i) Revenues are projected to be at least equal to all transfers required to be made pursuant to the provisions of the Bond Indenture described above, and (ii) Net Revenues plus Other Available Moneys are projected to be at least equal to 1.25 times Aggregate Annual Debt Service.

In lieu of the certificates and reports described in subparagraphs (2), (3) and, (4) above, the Authority may deliver to the Trustee a Certificate of the Authority to the effect that for the last complete Fiscal Year or any period of 12 consecutive calendar months out of the 18 calendar months next preceding the original issuance of such Series of Bonds, Net Revenues plus Other Available Moneys for such Fiscal Year or 12-month period equaled at least 1.25 times the Maximum Annual Debt Service on all Bonds then Outstanding plus the Series of Bonds being issued.

Refunding Bonds Test. The Bond Indenture authorizes the Authority to issue Additional Bonds for the purpose of refunding Outstanding Bonds, if either of the following is provided:

1. A certificate of an Independent Certified Public Accountant that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such refunding, or
2. The certified information required for the Additional Bonds Test, as described above and in the Bond Indenture.

2.1.3 Airline Agreement

Signatory Airlines operate at the Airport under a facility use and lease agreement with the Authority (the Airline Agreement). Nonsignatory airlines operate in accordance with Airport rules and regulations.

On October 1, 2006, the Authority entered into the Airline Agreement with the Signatory Airlines to provide those airlines the nonexclusive right to use the Airport facilities, equipment, improvements, and services in addition to occupying certain premises and facilities. The Airline Agreement was originally set to expire on September 30, 2011, but contains an option to extend for 5 years, and by mutual agreement of the Authority and the Signatory Airlines the Airline Agreement was extended to September 30, 2016. Since the original execution of the Airline Agreement in 2006, certain airlines have become new Signatory Airlines and have signed the Airline Agreement, including Cape Air in FY 2009, Eva Air in FY 2012, Jeju Air in FY 2013 and Jin Air in FY 2010. For all Signatory Airlines, the Airline Agreement expires at the end of FY 2016; although the extension of the agreement with Cape Air is still in process, when executed it will have a term through FY 2016.

Signatory Airline Rentals and Fees. Signatory Airline rentals and fees established through the Airline Agreement include landing fees, terminal building space rentals, and various per-passenger and per-use fees. Airline rents and fees, except for the Landing Fee, are calculated based on a "cost center compensatory" methodology whereby airline user charges are calculated to recover the allocated operating and capital costs of the facilities they use. The calculation of the Airline Landing Fee is based on an "airport residual cost" methodology, which takes into consideration all Authority costs and all airline (except Airline Landing Fee revenue) and nonairline revenues. These fees are calculated as follows:

- **Landing Fee.** The landing fee is calculated by establishing the Airport Requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in the Authority's Annual Budget: (1) the total estimated Operation and Maintenance Expenses of the Authority; (2) an amount 1.25 times Airport Annual Debt Service, or such other amount as may be required by the Bond Indenture; (3) the estimated amount of the annual requirement of any subordinate security or other loans pertaining to the Airport; (4) the estimated amount, if any, for other

deposits required by the Bond Indenture or the Airline Agreements; (5) the annual amortization of the total amount of any Capital Improvements financed by the Authority from its own resources; (6) the estimated amount of any assessment, judgment, or charge (net of insurance proceeds) to become payable by the Authority relating directly to the Airport or its operation; and (7) any overpayment or underpayment estimated for operation of the Airport during the then current Fiscal Year, or any adjustment carried over from preceding Fiscal Years, to reflect any difference between actual versus estimated revenues or expenses.

The Landing Fee Requirement for the succeeding Fiscal year is then calculated by subtracting the following credits from the Airport Requirement: (1) the revenue estimated to be derived by the Authority from Airport concessions, rents, fees, and charges from other than Signatory Airlines, service fees (excluding PFCs and FAA grant in aid), and use fees; (2) the unrestricted investment income earned by the Authority from all funds and accounts except the Construction Fund and the Capital Improvement Fund; (3) the total of all Terminal Building rents, Arrival Fees, Immigration Inspection Fees, Loading Bridge Use Fees, and Apron Use Fees estimated to be paid by the Signatory Airlines during the Fiscal Year; and (4) a credit equal to the balance in the Other Available Moneys Subaccount from the prior fiscal year.

The Landing Fee rate for the succeeding Fiscal Year is then calculated by dividing the Airport Landing Fee Requirement computed above by the composite estimate of the Total Gross Takeoff Weight of all Signatory Airline Aircraft Arrivals at the Airport for the succeeding Fiscal Year as projected by the Executive Manager based in part on the estimates provided by the Signatory Airlines.

- **Terminal Building Rents.** Terminal Building Rents are established to recover the costs associated with the exclusive use space in the Terminal Building Cost Center, and are calculated as a per-square foot rental rate, based upon the usable space (gross Terminal Building space less mechanical and administration space) of the Terminal Building.
- **Enplanement Fee.** The Enplanement Fee is established to recover the costs associated with the joint use Departure Facilities space within the Terminal Building Cost Center, and is calculated by multiplying the terminal rental rate by the area of the Departure Facilities space, and then dividing by the number of signatory airline enplaned passengers.
- **Arrival Facilities Fee.** The Arrival Facilities Fee is established to recover the costs associated with the Arrival Facilities space within the Terminal Building Cost Center, and is calculated by multiplying the terminal rental rate by the area of the Arrival Facilities space, and then dividing by the number of signatory airline arriving passengers.
- **Immigration Inspection Facilities Fee.** The Immigration Inspection Facilities Fee is established to recover the costs associated with the Immigration Inspection Facilities space within the Terminal Building Cost Center, and is calculated by multiplying the terminal rental rate by the area of the Immigration Inspection Facilities space, and then dividing by the number of signatory airline international arriving passengers.
- **Loading Bridge Use Fees.** The Loading Bridge Use Fee is established to recover the costs associated with the Loading Bridge Cost Center, and is calculated by dividing the Loading Bridge Use Fee Requirement by the number of loading bridge uses.
- **Apron Use Fees.** The Apron Use Fee is established to recover the costs associated with the Apron Cost Center, and is calculated by dividing the Apron Use Fee Requirement by the level of Signatory Airline Gross Takeoff Weight.

Signatory Airline Approval of Capital Projects.

Article 5 of the Airline Agreement sets forth the process for Signatory Airlines to review proposed capital improvements at the Airport. The Signatory Airlines, following presentation of proposed projects, may disapprove projects and, with a deferral to the following Fiscal Year, the Authority can proceed with the projects notwithstanding such disapproval, with the exception of capital projects exceeding \$10 million. The process consists of the steps set forth below:

- On or before July 1 of each Fiscal Year, the Executive Manager shall report to the Signatory Airlines the purchase price, design and construction cost, or lease cost of Capital Improvements to be programmed and included in the Annual Budget for the ensuing Fiscal Year and the debt service and/or amortization, or lease payment schedule to be added to the rents and fees, for those Capital Improvements;
- The Executive Manager shall convene a meeting of the Signatory Airlines to discuss the proposed Capital Improvements and the preferred means of financing their costs. The proposed Capital Improvements are deemed accepted unless a majority of Signatory Airlines* withhold their concurrence in writing within 30 days following the meeting (or the date any supporting documentation for the proposed Capital Improvements is provided by the Authority);
- If a majority of the Signatory Airlines initially withhold concurrence, but a majority do not again withhold their concurrence in writing within 30 days of a second meeting (to be held no sooner than 30 days after the first meeting) with the Authority, then the Additional Capital Improvements are deemed accepted;
- If a majority of Signatory Airlines withhold concurrence in writing the initial and second times, then improvements can be undertaken in the following Fiscal Year; and
- If any proposed Capital Improvement is disapproved, the Authority may include the amortization, debt service (including coverage), or loan payments for such Capital Improvement in the calculation of Signatory Airline rents and fees if the Authority determines that such Capital Improvement is necessary or prudent to ensure compliance with a rule, regulation, or order of any governmental agency that has jurisdiction over the operation of the Airport.

2.2 2013 Projects and Plan of Finance

2.2.1 2013 Projects

The Authority has identified a list of capital improvements proposed to be implemented over the next 3 years, referred to as the 2013 Projects. These capital improvements represent desired improvements to the Airport, including improving the level of service provided to the passengers using the Airport. The total cost of the 2013 Projects is estimated to be about \$145 million, as shown in Table 15.

The Authority presented the 2013 Projects to the Signatory Airlines in May 2013. The Authority has received notice in writing that the Signatory Airlines will not disapprove the individual projects with cost estimates exceeding \$10 million, thereby permitting the Authority under the terms of the Airline Agreement to proceed with implementation of these individual projects. The Authority did not receive any written notice within 30 days regarding the individual projects with cost estimates less than \$10 million, and there will similarly be no further requirements associated with Signatory Airline agreement to implement these projects.

*Defined as at least 60% of the Signatory Airlines representing at least 60% of the total rents and fees paid in the prior 12-month period.

Table 15
2013 PROJECTS
A.B. Won Pat international Airport, Guam

Project description	Budget (millions)
Priority 1 Projects	
1. International Arrivals Corridor	\$ 31.9
2. Hold Bag Screening Relocation	21.0
3. ARFF Facility Replacement	11.6
4. Phase 3 Near-Fault Seismic Upgrade	11.3
5. Integrated PLB Replacement	8.2
6. Cargo Apron Relocation	7.7
7. Parking Expansion	7.4
8. Flight Information Display Systems (FIDS) Replacement	5.0
9. Replace Terminal Seating	3.5
10. SSCP Improvements	3.1
11. Interisland Passenger Facility	3.0
12. Common Use Check-In Facilities	2.8
13. Fuel System Improvements	<u>1.0</u>
Subtotal Priority 1 Projects	\$117.5
Priority 2 Projects	
1. Phase 4 Near-Fault Seismic Upgrade	\$ 10.7
2. Access Control and Security Improvements	4.0
3. Strengthen and Expand Curbside Canopies	2.8
4. Terminal Flooring Replacement	2.7
5. Replace Conveyance Systems	2.6
6. Upgrade Airport IT and FMS	2.0
7. Route 10A Landscape Component	1.7
8. Enclose Arrival Tunnels	<u>1.2</u>
Subtotal Priority 2 Projects	\$ 27.7
Total	\$145.2

Note: Totals may not add due to rounding.

Source: A.B. Won Pat international Airport Authority, Guam.

The major elements of the 2013 Projects (those with estimated cost of \$5 million or above) include:

- **International Arrivals Corridor.** This project involves construction of a new sterile corridor leading from the loading bridges to the Federal Inspection Service area for international arriving passengers, with an estimated cost of \$31.9 million.
- **Hold Bag Screening Relocation.** This project involves construction of an in-line bag screening system and baggage handling system, with an estimated cost of \$21.0 million.
- **ARFF Facility Replacement.** This project involves replacement of an aged U.S. Navy structure with a code compliant facility meeting FAA standards, with an estimated cost of \$11.6 million.

- **Near-Fault Seismic Upgrade.** This project comprises Phase 3 of the passenger terminal structural upgrade for the central terminal and east concourse, with an estimated cost of \$11.3 million, and a follow-on Phase 4 with an estimated cost of \$10.7 million.
- **Integrated Passenger Loading Bridge (PLB) Replacement.** This project involves the replacement of five PLBs and installation of 34 power and pre-conditioned air point of use units, with an estimated cost of \$8.2 million.
- **Cargo Apron Relocation.** This project involves construction of a new cargo aircraft apron, with hydrant fuel capability, adjacent to the integrated air cargo facility, with an estimated cost of \$7.7 million.
- **Parking Facility Expansion.** This project involves construction of a single level parking deck above the commercial vehicle area, to replace parking capacity lost due to access road expansion, at an estimated cost of \$7.4 million.
- **Flight Information Display Systems Replacement.** This project involves replacing an aging system with more up-to-date hardware and software, with an estimated cost of \$5.0 million.

The Authority will monitor demand for facilities as one of its key considerations in proceeding with major capital projects that are not among the 2013 Projects. Certain capital projects of a maintenance nature and funded from internally generated funds will be undertaken.

2.2.2 Plan of Finance

Exhibit A presents the sources and uses of funds for the 2013 Bonds, in the estimated amount of \$250 million in total proceeds.

The two primary uses of funds are the refunding of the outstanding 2003 Bonds (\$149 million) and the payment of project costs for the 2013 Projects (\$110 million).

The plan of finance and related schedule of annual debt service were provided by Citigroup Global Markets Inc., based on key assumptions such as the interest rates on the 2013 Bonds.

2.3 Annual Debt Service

Exhibit B presents the Annual Debt Service for the Outstanding Bonds and the proposed 2013 Bonds. Aggregate Annual Debt Service is forecast to increase from \$17.3 million in FY 2012 to approximately \$24 million during the forecast period through FY 2019, reflecting the refunding of the 2003 Bonds, and the issuance of 2013 Bonds to fund the 2013 Projects.

Exhibit B also shows the Authority's subordinate debt obligation—an outstanding loan with First Hawaiian Bank to fund energy savings capital improvements at the Airport. This subordinate loan was originally structured with a 5-year repayment schedule, and the Authority is in the process of converting the terms to a 10-year repayment schedule, which better aligns with the anticipated operating savings anticipated to be produced by the energy performance contract. The annual subordinate loan payments shown on Exhibit B correspond to the anticipated 10-year repayment schedule.

Other than the 2013 Bonds, the Authority does not have plans to issue any additional bonds during the forecast period presented in this Report.

2.4 Operations and Maintenance Expenses

The Authority provides most of the maintenance, operating functions, and utilities of the Airport using a combination of Authority staff and contract personnel.

Exhibit C presents historical and forecast Operations and Maintenance (O&M) expenses by expense category. O&M expenses are forecast to increase at an average rate of about 4% per year between FY 2013 and FY 2019 as a result of inflation, forecast increases in air traffic activity levels, and other specific assumptions noted below.

O&M expenses consist of the following categories:

Personnel services. Personnel services include salaries, wages and fringe benefits. Fringe benefits include retirement benefits, medicare, various types of insurance and annual leave earned. In FY 2012, there were 192 filled positions at the Airport, organized into Board, Administration, Property Management, Planning, Accounting, Engineering, Operations, Properties and Facilities Maintenance, Airport Police and ARFF departments. Personnel services made up about 39% of total O&M expenses in FY 2012, with salaries comprising 27% and fringe benefits comprising 12%. It was assumed that the cost of personnel services would increase at an average annual rate of 5%, to account for general inflation and wage increases, as well as increases in airport passenger activity, which results in increased levels of effort to operate and maintain Airport facilities. On this basis, it was forecast that personnel services expenses would increase from \$15.9 million in FY 2013 to \$21.4 million in FY 2019.

Contractual services. Contractual services include outsourced services such as repairs and maintenance, power, professional services, and insurance. Contractual services were the largest O&M expense category in FY 2012 (comprising about 53% of total O&M expenses), reflective of the emphasis placed on outsourcing by the Authority. It was assumed that the cost of most contractual services would increase at an average annual rate of 5%, to account for general inflation, increases in airport activity, and the impact of periodically re-negotiating individual contractual service agreements. In addition, it was assumed that the Authority would begin to realize the anticipated benefits of the energy savings contract in FY 2014, which is expected to average about \$1.6 million in energy cost savings annually over a 10-year period from FY 2014 to FY 2023. On the basis of these various assumptions, it was forecast that contractual services expenses in aggregate would remain relatively unchanged from \$20.6 million in FY 2013 to \$20.6 million in FY 2015, and then increase to \$24.9 million in FY 2019.

Materials and supplies. Materials and supplies include goods required for the ongoing operation of the Airport, such as equipment and motor vehicle parts, fuel, office supplies and building supplies. Materials and supplies expenses made up about 3% of total O&M expenses in FY 2012. This category of expense was forecast to increase at an average rate of 5% per year, increasing from \$1.3 million in FY 2013 to \$1.7 million in FY 2019.

Other. Other expenses include bad debts and retirement supplemental costs. Other expenses comprised about 5% of total O&M expenses in FY 2012 due to certain non-recurring retirement supplemental costs. In future years, other expenses are forecast to be a smaller share of total expenses.

2.5 Revenues

Exhibit D presents historical audited Airport Revenues for FY 2011 and FY 2012. Airport Revenues in FY 2012 (excluding PFCs) totaled \$53.9 million, including Signatory Airline rentals and fees of \$26.3 million (48.8% of the total), concession revenues of \$10.9 million (20.1%), other terminal building revenues of \$3.8 million (7.0%), rentals from other buildings and areas of \$5.2 million (9.7%) and terminal area parking and ground transportation revenues of \$5.0 million (9.4%). PFC revenues totaled \$6.1 million.

2.5.1 Signatory Airline Rentals and Fees

As explained earlier, Signatory Airline rentals and fees established through the Airline Agreement include landing fees, terminal building space rentals, and various per-passenger and per-use fees. Airline rents and fees, except for the Landing Fee, are calculated based on a "cost center compensatory" methodology whereby airline user charges are calculated to recover the allocated operating and capital costs of the facilities they use. The calculation of the Airline Landing Fee is based on an "airport residual cost" methodology, which takes into consideration all Authority costs and all airline (except Airline Landing Fee revenue) and nonairline revenues. Exhibit D presents historical and forecast Signatory Airline rentals and fees, or the revenues realized each year using the rate-making methodology in the Airline Agreement. As shown, Signatory Airline rentals and fees are forecast to decrease from an estimated \$29.2 million in FY 2013 to a projected \$27.7 million in FY 2015, primarily due to the increased nonairline concession revenue from the new duty free agreement. After FY 2015, Signatory Airline rentals and fees are forecast to increase annually to a level of \$34 million in FY 2019, due primarily to annual increases in O&M Expenses over the forecast period.

Signatory Airline Cost per Enplaned Passenger. Exhibit D also presents historical and forecast signatory airline cost per enplaned passenger. Cost per enplaned passenger is estimated at about \$17.60 in FY 2013, and in recent years has been between about \$16 and \$18. Cost per enplaned passenger is forecast to decrease to a level of about \$16 in FY 2015, primarily due to the forecast increase in concession revenues which offsets the higher level of Aggregate Annual Debt Service, and thereafter to increase somewhat to a level of about \$18 in FY 2019. Over the forecast period, cost per enplaned passenger is forecast to be in the range of about \$16 to \$18, consistent with the recent historical trend.

2.5.2 Revenues From Sources Other Than Signatory Airline Rentals and Fees

2.5.2.1 Passenger Facility Charges

Passenger Facility Charges (PFCs) are treated as Revenue under the Bond Indenture and are collected by the airlines at a rate of \$4.50 per enplaned passenger, of which \$4.39 is payable to the Authority and the remainder is a collection fee retained by the airline. The Authority was originally authorized by the FAA to impose and collect PFCs in 1992 at a \$3.00 rate, and in FY 2002 this rate was increased to \$4.50 and authorized for collection through March 1, 2025, based on the current collection rate. The current approved use of PFC Revenue is to pay Annual Debt Service for bonds issued to finance the 1993 terminal expansion project, which bonds were first issued in 1993, were then refunded in 2003 (2003 Bonds) and are planned to again be refunded in 2013 (2013 Bonds). PFCs are deposited into the PFC Capital Account that is part of the Capital Improvement Fund. PFCs are assumed to remain at the existing \$4.50 rate throughout the forecast period.

2.5.2.2 Passenger Terminal Building Concessions

Terminal building concession revenues as classified by the Authority are derived from duty free, food and beverage, rental cars, in-flight catering, and other concession operations located in the passenger terminal building. Under the terms of the concession agreements, concession fees payable to the Authority are the greater of a percentage of gross sales or an annual minimum annual guarantee (MAG) that has been specified in each concessions agreement.

Exhibit D presents historical and forecast revenues received by the Authority from terminal concessionaires. In addition to the minimum annual guarantee (MAG), where applicable, other factors driving terminal concession revenues include: (1) forecasts of enplaned passengers, (2) recent historical trends in concession sales revenues, (3) allowances for price escalation, and (4) assumptions regarding ongoing development.

Table 16 shows the primary sources of terminal building concession revenues in FY 2012.

As shown in Table 16, duty free revenues accounted for 68.4% of total passenger terminal building concession revenues at the Airport in FY 2012.

Table 16
FY 2012 PASSENGER TERMINAL BUILDING CONCESSION REVENUES
 A.B. Won Pat International Airport, Guam

	Amount (000s)	Percent	Per signatory enplaned passenger
Duty Free	\$ 7,421	68.4%	\$4.71
Food and Beverage	902	8.3	0.57
Rental Cars	935	8.6	0.59
In-flight Catering	755	7.0	0.48
Other Concession Revenue	<u>840</u>	<u>7.7</u>	<u>0.54</u>
Total	\$10,853	100.0%	\$6.89

Note: For Fiscal Year ended September 30.

Source: A.B. Won Pat International Airport Authority, Guam records.

A brief description of these revenue sources is provided below.

Duty Free Revenues. Historically, duty free revenues have been the largest single source of nonairline revenue for the Authority. In FY 2002, the Authority entered into an agreement with DFS Guam LP (DFS) to operate the duty free retail merchandise concession for a period of 10 years from January 2003 through January 2013 (DFS Concession Agreement). The DFS Concession Agreement contained a MAG of \$4.5 million, against a percentage rent of 20% to 22.5% of gross sales. In the most recent years, the percentage rent has produced rent to the Authority significantly in excess of the MAG (for example, \$7.4 million in percentage rent in FY 2012). Since January 2013, this agreement has been on month-to-month holdover while the Authority completed a procurement process in order to award a new concession contract, as discussed below. After FY 2002, the Authority and DFS also entered into two supplementary agreements for small amounts of additional retail space in the terminal building, one of which remains in place until September 2014. The majority of the concession revenue was generated through the primary DFS Concession Agreement.

In FY 2013 the Authority completed a competitive bid process for a new 10-year contract. In April 2013, the Authority announced that Lotte Duty Free Guam, LLC (Lotte) had been selected as the duty free concessionaire. On May 18, 2013, the Authority concluded an agreement with Lotte (the Lotte Concession Agreement), and Lotte took possession of the concession space in July 2013. The Lotte Concession Agreement includes a MAG that is significantly higher than the MAG under the existing DFS Concession Agreement. It is assumed for the purposes of this financial analysis that the increased revenue associated with the new concession agreement would take effect from the start of FY 2014, although it is likely that the Authority will realize some amount of higher revenue during the final 2-3 months of FY 2013. Key terms of the Lotte Concession Agreement include:

- A MAG of \$15.4 million.
- A percentage of gross sales of 30.1% for the main and future retail spaces and 25.0% for the additional space. The main space represents the area previously leased by DFS, and the future

retail space represents two fashion stores to be leased by Lotte in September 2014. The additional space represents an area not currently developed as a concession, located in the customs area of the Passenger Terminal Building, to be developed as an arrivals area duty free store.

- A minimum investment amount of \$23.1 million, including an initial investment of \$17.6 million, a future retail space investment of \$0.8 million and a mid-term refurbishment investment of \$4.7 million.

The percentage fee, calculated based on annual gross receipts, is forecast to be lower than the MAG in all years of the new concession period (assumed to start in FY 2014) that fall within the forecast period through FY 2019. Therefore, the forecast of duty free concession revenues to the Authority is based on the MAG agreed upon in the Lotte Concession Agreement.

The award of the new agreement has been challenged by two of the unsuccessful proposers in differing administrative and judicial forums. Some of the challenges have been heard and acted upon, and others are pending. In connection with the challenges that have been acted upon, the Authority has maintained that the procurement and the resulting Lotte Concession Agreement are valid. However, the Authority is not legally permitted to comment on the challenges that remain pending.

On the basis of the representations made by the Authority with regard to the challenges already acted upon, it was assumed for the purposes of this Report that the Lotte Concession Agreement will stand, and therefore the concession revenue provided by the Lotte Concession Agreement has been included in the financial forecast presented in this Report.

However, this cannot be assured, and it is possible that an adverse determination in a future proceeding could result in a change in the operator and/or terms of the concession, which could impact the amount of revenue generated by the Authority from the agreement. The Authority believes, based on the strength of multiple offers received in 2012, that such an alternative outcome would produce concession revenue within the range of the offers received in 2012, or at a minimum about \$13 million per year. All else equal, this would increase the amount required to be recovered through airline rates and charges, but not unreasonably so in the context of (a) the historical range of airline cost per enplaned passenger, and (b) the actions available to the Authority to mitigate potential increases in airline rates and charges. For example, if in a given future year the Authority received \$13 million in duty free concession revenue instead of the \$15.4 million assumed for this Report, and with no other changes this resulted in a \$2.4 million increase in the Signatory airline requirement, the calculated airline cost per enplaned passenger would be about \$1.30 or \$1.40 higher than the forecast presented herein, depending on the particular year. Further, the Authority would undertake efforts to mitigate such impact on airline rates and charges by identifying other operational changes that might be possible. Thus, it is assumed that the Authority would be able to reasonably manage the financial impacts of such an alternative outcome.

However, the Authority cannot guarantee the results of the potential alternative outcome described above, and if the Authority was not able to receive this assumed alternative minimum level of concession revenue, the financial results would be correspondingly less favorable, and possibly materially so.

Food and Beverage. Food and beverage concessionaires lease terminal space throughout the Airport pursuant to specific concession agreements, which provide for payment to the Authority based upon a percentage of gross sales. The Authority may impose a minimum rent in the event that percentage rents are less than the minimum rents expressed as a square footage as charged to other Airport tenants. Under the terms of each contract, the Authority receives a specified percentage of gross receipts from the

sale of (1) food and non-alcoholic beverages, (2) alcoholic beverages, and (3) other items specified in the contract.

Food and beverage revenues increased from \$0.84 million in FY 2011 to \$0.90 million in FY 2012 and are forecast to increase in relation to the number of enplaned passengers.

Rental Car Revenues. The Authority collects rental car concession revenues from Airport rental car operations. Revenues identified in this category do not include leased space for rental car operations (Terminal Building Counter/Office Area, Ready/Return Parking Area and Staging/Storage Lot), which are included in the non-aeronautical rental revenue category. The rental car companies operate under the terms of competitively bid concession agreements. The current rental car agreements consist of five-year agreements established in FY 2006 with the option to extend for an additional five years; these agreements are planned to expire in FY 2016. Under the nonexclusive agreements, the rental car companies pay the greater of a percentage of gross receipts or a MAG that may vary for each rental car company. Rental car companies that operate at the Airport include Avis Rent A Car, Budget Car Rental, Dollar Rent A Car, Hertz Rent A Car, National Car Rental, and Nissan Rent-A-Car.

Rental car revenues are forecast to increase in relation to the number of enplaned passengers.

Other Terminal Concession Operations. In addition to the primary concession agreements described above, the Authority has contractual agreements with various other concessionaires to provide newsstand, money exchange, and advertising services. These revenues are forecast to increase in relation to the number of enplaned passengers, and it is assumed that any expiring agreements will be replaced with new agreements producing substantially similar per-passenger revenues to the Authority.

2.5.2.3 Terminal Area Parking and Ground Transportation Concessions

Parking Revenues. The Airport has a public parking facility, located at the main passenger terminal building, which includes a short-term lot and a long-term lot. Pac Air, Ltd. (Pac Air) operates the public parking facility under a concession and operating agreement with the Authority. The concession agreement was originally executed in 2006 for a five-year term with the option to extend for an additional five years; this option was extended by the Authority and is due to expire on October 31, 2016. Under this agreement, the Authority retains all rights to implement parking rate increases, among other things, and receives 17% of gross receipts from the parking operation, with an annual MAG of \$120,000.

Parking revenues are forecast to increase in relation to the number of enplaned passengers, based on the terms of the current parking agreement.

Ground Transportation Revenues. Ground transportation revenues include revenues generated from tour buses collecting visitors arriving on package vacation arrangements, airport shuttle services, taxicab operations, and other courtesy vehicle operations. In FY 2012, ground transportation revenues represented 30.9% of total concession revenues, reflective of the importance of tourist visitors to Guam. In FY 2013, the Authority had set a Tour Bus Facility Charge fee of \$5.00 per arriving passenger for permitted operators, and \$10.00 per arriving passenger for non-permitted operators.

Ground transportation revenues are forecast to increase in relation to the number of enplaned passengers.

2.5.2.4 Other Revenues

Other Revenues include rents and fees charged to non-signatory airlines, and nonaeronautical rental revenues, such as space leases by various Airport tenants.

The Authority has also developed significant air cargo related leases, given the market opportunities in this area. Cargo-related developers and operators such as Pac Air and Triple “B” Freight Forwarders lease space at the Airport, principally in the Tiyan Business Park, which includes space appropriate for office, hangar, warehouse, maintenance and ground leases, amongst others. The Airport Industrial Park also generates lease revenue for a range of uses including the MSA cargo facility and a gas station.

Other revenues also include federal grants as a reimbursement to costs included in the operating budget, and interest earnings from various funds and accounts under the Bond Indenture.

Other Considerations for Revenue

There are other considerations related to future Airport Revenues relating to potential legislation or other regulatory actions that could result in either reduced revenue from existing lease arrangements, or a constraint on the amount of leasing activity. It cannot be known at this time whether any such legislation or regulation will be enacted, and the potential impact on Airport Revenues. It was assumed that the Authority would act to preserve the revenue-producing facilities and lease arrangements.

2.6 Application of Revenues

Section 5.02 of the Indenture establishes the priority application of Revenues, as summarized on Exhibit E. The payment into the Operation and Maintenance Fund has the highest claim on Revenues, followed by the payment into the Debt Service Fund to provide for payment of the Annual Debt Service on Bonds. Transfers to the Bond Reserve Fund are applied after the first two priorities have been met. Payments are then made, in sequence, to the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, and the Capital Improvement Fund.

The Capital Improvement Fund has two accounts: the PFC Account for deposit of restricted-use PFC funds, and the Capital Improvement Account for deposit of retained earnings to be used for lawful Airport purposes. Within the Capital Improvement Account, there are two subaccounts in accordance with the terms of the Airline Agreement: the Other Available Moneys Coverage Subaccount and the Capital Improvement Subaccount. All moneys flowing to the Capital Improvement Account are first deposited to the Other Available Moneys Coverage Subaccount in an amount equal to the lesser of (a) 50% of the deposit to the Capital Improvement Account or (b) debt service coverage for such Fiscal Year. This amount remains in the Capital Improvement Fund, but is used in the succeeding Fiscal Year as a basis for determining credits to the rates and fees established pursuant to the Airline Agreement. All remaining amounts are then deposited in the Capital Improvement Subaccount.

2.7 Debt Service Coverage

Section 6.13 of the Indenture requires that the sum of the Net Revenues plus Other Available Moneys are equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year; and that Revenues during each Fiscal Year are equal to at least the aggregate amount of all transfers required by the Indenture for such Fiscal Year. As discussed earlier in Section 3.1.2 of this report, Other Available Moneys includes any unencumbered moneys on deposit in the Capital Improvement Fund at the end of the prior Fiscal Year. For purposes of the Rate Covenant test, the Authority has additionally designated unencumbered funds in the Federal Grant Fund, which by virtue of such designation is a subaccount in the Capital Improvement Fund, as confirmed by the Authority’s independent auditors.

As shown in Exhibit F, debt service coverage is forecast to meet or exceed the required 1.25 coverage ratio in each Fiscal Year of the forecast period.

Exhibit A

SOURCES AND USES OF BOND FUNDS

A.B. Won Pat International Airport Authority, Guam

Fiscal Years Ending September 30

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	<u>2013 Bonds</u>
Sources of funds	
Bond proceeds	\$250,172,116
Debt Service Fund	18,063,951
Bond Reserve Fund	<u>13,671,972</u>
Total sources of funds	\$281,908,039
Uses of funds	
Project costs	\$109,710,000
Refunding	149,266,846
Bond Reserve Fund	19,221,458
Costs of issuance and other	<u>3,709,735</u>
Total uses of funds	\$281,908,039

Source: Citigroup, August 14, 2013.

Exhibit B

ANNUAL DEBT SERVICE

A.B. Won Pat International Airport Authority, Guam
Fiscal Years Ending September 30

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Historical		Estimate	Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bonds									
Series 2003A (a)	\$2,117,588	\$2,117,188	\$2,114,413	\$0	\$0	\$0	\$0	\$0	\$0
Series 2003B (a)	3,012,975	3,014,975	3,012,975	-	-	-	-	-	-
Series 2003C (a)	12,087,356	12,137,356	12,186,556	-	-	-	-	-	-
Series 2013A	-	-	-	1,899,000	1,899,000	1,898,000	1,899,000	1,896,000	1,896,000
Series 2013B	-	-	-	3,553,000	3,505,000	3,507,000	3,505,000	3,508,000	1,511,000
Series 2013C	-	-	-	18,935,000	18,557,000	18,566,000	18,562,000	18,563,000	20,424,000
Aggregate Annual Debt Service	\$17,217,919	\$17,269,519	\$17,313,944	\$24,387,000	\$23,961,000	\$23,971,000	\$23,966,000	\$23,967,000	\$23,831,000
Subordinate Securities									
First Hawaiian Bank energy loan	\$0	\$0	\$0	\$1,436,000	\$1,436,000	\$1,436,000	\$1,436,000	\$1,436,000	\$1,436,000

Sources: Series 2003A-C: A.B. Won Pat International Airport Authority, Guam. Series 2013A-C: Citigroup, August 14, 2013.

(a) To be refunded by the 2013 Bonds.

Exhibit C

OPERATION AND MAINTENANCE EXPENSES
A.B. Won Pat International Airport Authority, Guam
Fiscal Years Ending September 30

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Historical		Estimate	Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Expense by type									
Personnel services	\$13,744,204	\$13,917,206	\$15,927,631	\$16,730,000	\$17,566,000	\$18,437,000	\$19,365,000	\$20,332,000	\$21,351,000
Contractual services (a)	18,662,427	18,950,053	20,585,137	20,328,000	20,564,000	21,243,000	22,393,000	23,591,000	24,853,000
Materials and supplies	825,621	1,178,486	1,253,725	1,317,000	1,383,000	1,452,000	1,525,000	1,601,000	1,681,000
Other (b)	1,138,740	1,555,657	589,849	619,000	650,000	682,000	716,000	752,000	790,000
Total	\$34,370,992	\$35,601,402	\$38,356,342	\$38,994,000	\$40,163,000	\$41,814,000	\$43,999,000	\$46,276,000	\$48,675,000
Annual % change		3.6%	7.7%	1.7%	3.0%	4.1%	5.2%	5.2%	5.2%

Sources: Historical and Estimate: A.B. Won Pat International Airport Authority, Guam. Forecast: LeighFisher, August 2013.

(a) Includes the assumed utility cost savings after FY 2013 as described in the accompanying text.

(b) Includes equipment, furnishings, bad debt, retirement supplemental, and other expenses.

Exhibit D

REVENUES

A.B. Won Pat International Airport Authority, Guam
Fiscal Years Ending September 30

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Historical		Estimate		Forecast				
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Signatory Airline rentals and fees									
Total Signatory Airline rents & fees	\$24,016,783	\$26,332,581	\$29,204,800	\$27,813,000	\$27,721,000	\$28,618,000	\$30,448,000	\$32,287,000	\$34,041,000
Signatory Airline enplaned passengers	1,416,873	1,566,356	1,658,000	1,692,000	1,726,000	1,760,000	1,796,000	1,831,000	1,868,000
Signatory Airline cost per enplaned passenger	\$16.95	\$16.81	\$17.61	\$16.44	\$16.06	\$16.26	\$16.95	\$17.63	\$18.22
Revenues from sources other than signatory rentals and fees									
Terminal Building									
Duty Free concession revenues	\$7,194,836	\$7,420,799	\$7,168,100	\$15,400,000	\$15,400,000	\$15,400,000	\$15,400,000	\$15,400,000	\$15,400,000
Other concession revenues	3,225,960	3,432,225	3,417,350	3,487,000	3,557,000	3,627,000	3,700,000	3,774,000	3,850,000
Rentals and other charges (a)	4,953,736	3,794,098	3,872,253	3,951,000	4,030,000	4,109,000	4,193,000	4,276,000	4,362,000
Terminal area auto parking	105,000	134,263	142,152	145,000	148,000	151,000	154,000	157,000	160,000
Terminal area ground transportation	4,237,161	4,911,893	5,251,050	5,358,000	5,465,000	5,572,000	5,686,000	5,799,000	5,916,000
Aircraft parking and landing fees for nonsignatory airlines	434,031	564,725	500,977	502,000	504,000	506,000	508,000	510,000	524,000
Other buildings and areas (b)	3,978,013	5,160,778	4,926,538	4,976,000	5,026,000	5,076,000	5,127,000	5,178,000	5,230,000
Miscellaneous revenues	1,062,982	726,569	550,357	550,000	550,000	550,000	550,000	550,000	550,000
Interest income	1,001,445	1,062,997	1,017,968	1,018,000	1,018,000	1,018,000	1,018,000	1,018,000	1,018,000
Federal reimbursement of operating expenses	581,938	408,686	265,300	400,000	400,000	400,000	400,000	400,000	400,000
Total revenues from sources other than Signatory Airlines	\$26,775,102	\$27,617,033	\$27,112,045	\$35,787,000	\$36,098,000	\$36,409,000	\$36,736,000	\$37,062,000	\$37,410,000
Total Airport Revenues	\$50,791,885	\$53,949,614	\$56,316,845	\$63,600,000	\$63,819,000	\$65,027,000	\$67,184,000	\$69,349,000	\$71,451,000
Passenger Facility Charge revenues	5,576,838	6,096,248	6,454,000	6,586,000	6,718,000	6,849,000	6,989,000	7,128,000	7,271,000
Total Airport Revenues including PFC revenues	\$56,368,723	\$60,045,862	\$62,770,845	\$70,186,000	\$70,537,000	\$71,876,000	\$74,173,000	\$76,477,000	\$78,722,000

Sources: Historical: A.B. Won Pat International Airport Authority, Guam. Estimate and Forecast: LeighFisher, August 2013.

(a) Includes arrival, departure, immigration, loading bridge, and utility recovery charges, and counter and office space rents, for users other than Signatory Airlines.

(b) Includes Tiyan Business Park, cargo building, commuter terminal building, industrial park, fuel system/storage, and other rentals and fees.

Exhibit E

APPLICATION OF REVENUES

A.B. Won Pat International Airport Authority, Guam
Fiscal Years Ending September 30

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Historical		Estimate		Forecast				
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues									
Signatory Airline rentals and fees	\$24,016,783	\$26,332,581	\$29,204,800	\$27,813,000	\$27,721,000	\$28,618,000	\$30,448,000	\$32,287,000	\$34,041,000
Revenue from sources other than Signatory Airlines	26,775,102	27,617,033	27,112,045	35,787,000	36,098,000	36,409,000	36,736,000	37,062,000	37,410,000
Total Revenues	\$50,791,885	\$53,949,614	\$56,316,845	\$63,600,000	\$63,819,000	\$65,027,000	\$67,184,000	\$69,349,000	\$71,451,000
Passenger Facility Charge revenue	5,576,838	6,096,248	6,454,000	6,586,000	6,718,000	6,849,000	6,989,000	7,128,000	7,271,000
Total Revenues including PFC revenues	\$56,368,723	\$60,045,862	\$62,770,845	\$70,186,000	\$70,537,000	\$71,876,000	\$74,173,000	\$76,477,000	\$78,722,000
Application of Revenues									
Operation and Maintenance Fund	\$34,371,174	\$35,601,403	\$38,351,767	\$38,994,000	\$40,163,000	\$41,814,000	\$43,999,000	\$46,277,000	\$48,675,000
Debt Service Fund									
Annual Debt Service funded by airline rentals and fees	\$11,641,081	\$11,173,271	\$10,859,944	\$17,801,000	\$17,243,000	\$17,122,000	\$16,977,000	\$16,839,000	\$16,560,000
PFC revenues applied to Annual Debt Service	5,576,838	6,096,248	6,454,000	6,586,000	6,718,000	6,849,000	6,989,000	7,128,000	7,271,000
Subtotal Debt Service Fund	\$17,217,919	\$17,269,519	\$17,313,944	\$24,387,000	\$23,961,000	\$23,971,000	\$23,966,000	\$23,967,000	\$23,831,000
Bond Reserve Fund	-	-	-	-	-	-	-	-	-
Subordinate Securities Fund	-	-	-	1,436,000	1,436,000	1,436,000	1,436,000	1,436,000	1,436,000
Operation and Maintenance Reserve Fund	686,846	788,962	1,621,084	160,000	293,000	412,000	547,000	569,000	600,000
Renewal and Replacement Fund	-	250,000	250,000	500,000	250,000	250,000	250,000	250,000	250,000
Capital Improvement Fund	4,092,784	6,135,978	5,234,050	4,709,000	4,434,000	3,993,000	3,975,000	3,978,000	3,930,000
Total application of Revenues	\$56,368,723	\$60,045,862	\$62,770,845	\$70,186,000	\$70,537,000	\$71,876,000	\$74,173,000	\$76,477,000	\$78,722,000

Sources: Historical: A.B. Won Pat International Airport Authority, Guam. Estimate and Forecast: LeighFisher, August 2013.

Exhibit F

ANNUAL DEBT SERVICE COVERAGE

A.B. Won Pat International Airport Authority, Guam
Fiscal Years Ending September 30

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Historical		Estimate		Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Revenues										
Airline and nonairline revenues	\$50,791,885	\$53,949,614	\$56,316,845	\$63,600,000	\$63,819,000	\$65,027,000	\$67,184,000	\$69,349,000	\$71,451,000	
PFC revenues	5,576,838	6,096,248	6,454,000	6,586,000	6,718,000	6,849,000	6,989,000	7,128,000	7,271,000	
Total Revenues	\$56,368,723	\$60,045,862	\$62,770,845	\$70,186,000	\$70,537,000	\$71,876,000	\$74,173,000	\$76,477,000	\$78,722,000	
Less: Operation and Maintenance Expenses	(34,371,174)	(35,601,403)	(38,351,767)	(38,994,000)	(40,163,000)	(41,814,000)	(43,999,000)	(46,277,000)	(48,675,000)	
Net Revenues	\$21,997,549	\$24,444,459	\$24,419,078	\$31,192,000	\$30,374,000	\$30,062,000	\$30,174,000	\$30,200,000	\$30,047,000	
Other Available Moneys (a)	4,304,480	4,317,380	4,328,486	6,097,000	5,990,000	5,993,000	5,992,000	5,992,000	5,958,000	
Net Revenues and Other Available Moneys	\$26,302,029	\$28,761,839	\$28,747,564	\$37,289,000	\$36,364,000	\$36,055,000	\$36,166,000	\$36,192,000	\$36,005,000	
Calculation of Annual Debt Service Coverage										
Net Revenues and Other Available Moneys	[A]	\$26,302,029	\$28,761,839	\$28,747,564	\$37,289,000	\$36,364,000	\$36,055,000	\$36,166,000	\$36,192,000	\$36,005,000
Total Annual Debt Service	[B]	17,217,919	17,269,519	17,313,944	24,387,000	23,961,000	23,971,000	23,966,000	23,967,000	23,831,000
Debt Service Coverage	[A/B]	1.53	1.67	1.66	1.53	1.52	1.50	1.51	1.51	1.51
Debt Service Coverage Requirement		1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25

Sources: Historical: A.B. Won Pat International Airport Authority, Guam. Estimate and Forecast: LeighFisher, August 2013.

(a) Per the Indenture, for purposes of calculating Debt Service coverage, Other Available Moneys means unencumbered moneys on deposit in the Capital Improvement Fund at the end of the prior Fiscal Year, up to 25% Annual Debt Service.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL INDENTURE AND THE 2013 SUPPLEMENTAL INDENTURE

Certain provisions of the General Indenture, as previously amended, and of the 2013 Supplemental Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the General Indenture and the 2013 Supplemental Indenture.

Certain Definitions

“2003 Bonds” means the 2003 Series A Bonds, the 2003 Series B Bonds, the 2003 Series C Bonds and the 2003 Series D Bonds, collectively.

“2003 Series A Bonds” means the \$25,810,000 original principal amount of A.B. Won Pat Guam International Airport Authority General Revenue Bonds, 2003 Series A, originally issued on September 30, 2003.

“2003 Series B Bonds” means the \$34,790,000 original principal amount of A.B. Won Pat Guam International Airport Authority General Revenue Bonds, 2003 Series B, originally issued on September 30, 2003.

“2003 Series C Bonds” means the \$151,305,000 original principal amount of A.B. Won Pat Guam International Airport Authority General Revenue Bonds, 2003 Series C, originally issued on September 30, 2003.

“2003 Series D Bonds” means the \$4,345,000 original principal amount of A.B. Won Pat Guam International Airport Authority General Revenue Bonds, 2003 Series D (Taxable), originally issued on September 30, 2003.

“2013 Bond Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“2013 Bond Reserve Account” means the Bond Reserve Account within the Bond Reserve Fund established with respect to the 2013 Bonds.

“2013 Bond Reserve Account Requirement” means the Bond Reserve Account Requirement in respect of the 2013 Bonds and any one or more subsequently issued Series of 2013 Bond Reserve Account Bonds.

“2013 Bond Reserve Account Bonds” means the 2013 Bonds and any one or more subsequently issued Series of Bonds designated in a Supplemental Indenture as such and having the same pooled Bond Reserve Account Requirement as the 2013 Bonds.

“2013 Bonds” means the 2013 Series A Bonds, the 2013 Series B Bonds and the 2013 Series C Bonds, collectively.

“2013 Series A and B Bonds” means the 2013 Series A Bonds and the 2013 Series B Bonds, collectively.

“2013 Series A Bonds” means the \$14,620,000 principal amount of A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series A.

“2013 Series B Bonds” means the \$33,675,000 principal amount of A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series B.

“2013 Series C Bonds” means the \$199,040,000 principal amount of A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series C.

“2013 Series B/C Projects” means and refers to the projects designated by the Board to be financed by the 2013 Bonds, selected from among those projects authorized to be financed with proceeds of the 2013 Bonds (other than the refunding of the Refunded Bonds) as set forth in Section 3(c) of P.L. 32-062, or any successor provision.

“2013 Insurance Policy” means the insurance policy issued by the 2013 Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Insured 2013 Bonds when due.

“2013 Supplemental Indenture” means the Supplemental Indenture, to be dated as of September 1, 2013, providing for the issuance of the 2013 Bonds.

“Account” means each account established and given a designation pursuant to the Indenture or any Supplemental Indenture.

“Accreted Value” means, with respect to any particular Bonds as of any given date of calculation, an amount equal to the sum of the principal amount of such Bonds plus accrued and unpaid interest on such Bonds as of such date, but not including interest payable on a current basis at least annually.

“Act” means Chapter 1 of Title 12 of the Guam Code Annotated, as amended, and as it may from time to time be amended or supplemented.

“Additional Bonds” means bonds, notes or other obligations of the Authority payable from Revenues and ranking on a parity with the Bonds then outstanding and authorized to be issued under and pursuant to the Indenture.

“Aggregate Annual Debt Service” means, for any year, Annual Debt Service for such year on all Bonds.

“Airport” or “Airports” means the Antonio B. Won Pat Guam International Air Terminal, together with all related facilities owned or operated by the Authority (including but not limited to, any industrial park owned and operated by the Authority in conjunction with the other airport facilities), together with any other airports owned or operated for civil aviation purposes by the Authority after the date of the General Indenture, whether as a replacement for the existing Antonio B. Won Pat Guam International Air Terminal, or otherwise, together with all related facilities, including all additions, betterments, extensions or improvements thereto.

“Airport Consultant” means an Independent person, firm or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation and management of airports of the approximate size and character as the Airport.

“Annual Debt Service” means, for any year, and with respect to any Bonds (A) the sum of (1) the interest falling due on such Bonds then Outstanding (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, plus (2) the principal amount of such Bonds then Outstanding that are Serial Bonds falling due by their terms, plus (3) the aggregate amount of all Mandatory Sinking Account Payments falling due with respect to such Bonds then Outstanding that are Term Bonds, plus (4) the aggregate amount of Payment Agreement Payments under Related Parity Payment Agreements then Outstanding falling due, minus (B) the aggregate amount of Payment Agreement Receipts under Related Payment Agreements then Outstanding falling due; all as calculated for said year and provided that for purposes of determining the interest payable on Variable Rate Bonds, any obligation of the Authority to make Payment Agreement Payments based on a variable rate under Parity Payment Agreements and any obligation of a Qualified Counterparty to make payments under a Payment Agreement to the Authority based on a variable rate, the following assumptions are to be made:

(i) for purposes of determining the interest payable on Variable Rate Bonds, the interest rate used in making such determination are to be (a) for periods for which such rate has been determined, the actual interest rate on such Bonds; (b) for purposes of filing certain certificates in connection with issuance of additional Series of Bonds for purposes of providing moneys for deposit in a Construction Account, for any other period, a rate equal to 1.1 times the highest rate of interest borne by such Bonds, or if such Bonds were not Outstanding during any portion

of any such period bonds with similar ratings and terms, during the next preceding twelve months; or (c) for any other period or purpose, the prevailing interest rate on such Bonds as of the date of such determination;

(ii) for purposes of determining the amount of Payment Agreement Payments based on a variable rate under Parity Payment Agreements, the rate used in making such determination are to be assumed to be (a) for periods for which such rate has been determined, the actual rate used to calculate such payments, (b) for purposes of filing certain certificates in connection with issuance of additional Series of Bonds for purposes of providing moneys for deposit in a Construction Account, for any other period, a rate equal to 1.1 times the highest such rate during the next preceding twelve months, and (c) for any other period or purpose, the prevailing rate being used to determine such payment obligation as of the date of such determination; in each such case without regard to the occurrence of any event that, under the provisions of such Payment Agreement, would permit or require the Authority to make payments on any basis other than such rates;

(iii) for purposes of determining the amount of payments by a Qualified Counterparty under a Payment Agreement to the Authority based on a variable rate, the rate used in making such determination are to be (a) if such Payment Agreement obligates a Qualified Counterparty to make payments to the Authority based on a variable rate that is equal to the actual rate on the Related Bonds, the actual rate on such Bonds; and (b) if such Payment Agreement obligates a Qualified Counterparty to make payments to the Authority based on a variable rate other than the actual rate on the Related Bonds (1) for periods for which such rate has been determined, the actual rate used to calculate such payments, (2) for purposes of filing certain certificates in connection with issuance of additional Series of Bonds for purposes of providing moneys for deposit in a Construction Account, for any other period, a rate equal to 1.1 times the highest such rate during the next preceding twelve months, and (3) for any other period or purpose, the prevailing rate being used to determine such payment obligation as of the date of such determination; in each such case without regard to the occurrence of any event that, under the provisions of such Payment Agreement, would permit or require the Qualified Counterparty to make payments on any basis other than such rates.

“Authority” means the A.B. Won Pat Guam International Airport Authority, a public corporation and autonomous instrumentality of the Government of Guam, or any successor to the rights, powers, functions and duties with respect to the management, administration and control of the Airport, which are vested in the Authority.

“Authorized Officer” of the Trustee means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, every trust officer and any other officer or assistant officer of the Trustee, other than those specifically above mentioned, designated by a certificate of an Authorized Officer of the Trustee as an Authorized Officer for purposes of the Indenture.

“Board” means the Board of Directors of the Authority or any other governing board of the Authority provided for pursuant to law.

“Bond Counsel” means an attorney or firm of attorneys having a national reputation for expertise in matters relating to governmental obligations the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the Code.

“Bond Reserve Account” means an account by that name established within the Bond Reserve Fund pursuant to the Indenture.

“Bond Reserve Account Requirement” means (upon the issuance of the 2013 Bonds and the concurrent defeasance of all of the Outstanding 2003 Bonds), as of any particular date of calculation, with respect to any Series of Bonds for which a Bond Reserve Account Requirement is established, an amount equal to the amount calculated for such date as specified by the Supplemental Indenture providing for the issuance of such Series of Bonds. See “—Summary of Certain Provisions of the 2013 Supplemental Indenture—Amendments to the General Indenture” below.

“Bond Year” means, generally, with respect to any Series, the period of twelve consecutive months ending on the day in each year specified in the Supplemental Indenture authorizing the issuance of such Series if Bonds are

or will be Outstanding in such twelve-month period, and with respect to the 2013 Bonds, the period of twelve consecutive months ending on October 1 of each year if 2013 Bonds are or will be Outstanding in such twelve-month period; provided that the first Bond Year shall commence on the date of delivery of the 2013 Bonds and end on October 1, 2014.

“Bondowner” or “Owner” or “Holder” means any person who is the registered owner of any Outstanding Bond, or, if such Outstanding Bond has a maturity of one year or less and has been issued in bearer form, means the bearer of such Bond.

“Bonds” means the A.B. Won Pat International Airport Authority, Guam General Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture and a Supplemental Indenture, including any Additional Bonds authorized by, and at any time Outstanding pursuant to, the Indenture and any Supplemental Indenture.

“Business Day” means any day other than a Saturday, Sunday or other day upon which banks in the cities in which the Principal Offices of the Trustee, each Depository, each Paying Agent and each Credit Provider are located are authorized or required to be closed.

“Capital Improvement” means any addition, betterment, improvement or extension of the Airport having costs in excess of \$100,000 and a useful life in excess of five years.

“Capital Improvement Fund” means the fund by that name established pursuant to the Indenture for the purposes described in “—Summary of Certain Provisions of the General Indenture—Funds and Accounts—Capital Improvement Fund.”

“Capitalized Interest” means interest to be paid from the original proceeds of Bonds (including proceeds constituting accrued interest on the Bonds) and from income derived from the investment of such proceeds.

“Certificate of the Authority” means an instrument in writing signed by the Chairman or by the Executive Manager or by any other officer of the Authority duly authorized by resolution of the Board for that purpose. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined are to be read and construed as a single instrument. If and to the extent required by the provisions of the Indenture, each Certificate of the Authority is to include the statements provided for in the Indenture.

“Certified Public Accountant” means (i) any nationally recognized U.S. certified public accountant or accounting firm or (ii) any other U.S. certified public accountant or accounting firm approved by each Credit Provider, if any, not then in default of the obligations under a Credit Facility.

“Chairman” means the Chairman of the Board of Directors of the Authority.

“Code” means the Internal Revenue Code of 1986 or any similar or successor federal law.

“Construction Account” means an account by that name established pursuant to the Indenture.

“Consulting Engineer” means an Independent architect, engineer or architectural or engineering firm experienced in airport design and construction, having a favorable reputation with respect thereto and retained by the Authority to perform the acts and carry out the duties of a Consulting Engineer under the Indenture.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising costs, Bond and official statement printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, the Co-Trustee and any Depository, Paying Agent and Registrar, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of

any Credit Provider, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

“Co-Trustee” means U.S. Bank National Association, appointed by the Authority as Co-Trustee in accordance with the Indenture and acting as an independent trustee with the duties and powers provided therein, its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in the Indenture.

“Credit Agreement” means any agreement between the Authority and a Credit Provider pursuant to which such Credit Provider agrees to provide a Credit Facility or pursuant to which the Authority agrees to reimburse a Credit Provider for draws or advances under or claims made against a Credit Facility.

“Credit Agreement Payments” means Credit Agreement Reimbursement Payments and Other Credit Agreement Payments.

“Credit Agreement Reimbursement Payments” means any payment obligation of the Authority pursuant to a Credit Agreement designated as such in a Supplemental Indenture.

“Credit Facility” means any letter of credit, insurance policy, surety bond or other instrument designated by a Supplemental Indenture as providing supplemental credit support for a Series of Bonds (including by substituting for a deposit in a Bond Reserve Account).

“Credit Provider” means any person, firm or entity designated in a Supplemental Indenture as providing a Credit Facility for a Series of Bonds, and any successor thereto.

“Date of Beneficial Occupancy” means, for any particular Project, the date on which such Project is projected to be available for use by the Authority for the purposes for which it is intended to be used.

“Debt Service Fund” means the fund by that name established pursuant to the Indenture.

“Depository” means, with respect to any particular fund or account, the bank or trust company or other financial institution with similar powers designated by a Supplemental Indenture or a Statement of the Authority to act as the Depository under the Indenture for such fund or account, its successors and assigns, and any other bank or trust company or financial institution which may at any time be substituted in its place, as provided in the Indenture.

“Escrow Agent” means U.S. Bank National Association, as Paying Agent for the Refunded Bonds and escrow agent appointed pursuant to the Escrow Agreement.

“Escrow Agreement” means that certain Escrow Agreement, to be dated as of September 1, 2013 by the Authority to the Escrow Agent relating to the establishment of an escrow fund for the purpose of the refunding of the Refunded Bonds.

“Escrow Fund” means the fund of that name to be established by the Escrow Agent pursuant to the Escrow Agreement.

“Event of Default” means an event of that name described in the provisions of the Indenture summarized under “—Summary of Certain Provisions of the General Indenture—Events of Default and Remedies of Bondowners—Events of the Default.”

“Executive Manager” means the person employed by the Board under the Act to supervise the administration of the Authority as its chief executive officer.

“Federal Securities” means (1) direct obligations of the United States of America for which the full faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of

America); (2) obligations for which the payment of principal and interest is guaranteed directly by the full faith and credit of the United States of America of the following types issued by the following agencies: U.S. Export Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration (certificates of beneficial ownership), Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures—U.S. government guaranteed debentures, or U.S. public housing notes and bonds U.S. government guaranteed public housing notes and bonds); (3) obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (collectively, “Municipal Obligations”) (a) which are fully secured as to principal and interest and redemption premium, if any, by an escrow or trust fund consisting only of cash or obligations of the character described in clauses (1) or (2) of this definition (“Government Obligations”), which fund may be applied only to the payment of interest on such municipal obligations when due and principal of and redemption premium, if any, on such municipal obligations on the maturity date or dates thereof or the redemption date or dates specified in an irrevocable notice, as appropriate, (b) as to which the cash and the principal of and interest on the Government Obligations in such escrow or trust fund will be sufficient to pay such interest, principal and redemption premium on such date or dates, and (c) which at the time of purchase are rated in the highest rating category by each Rating Agency; (4) certificates which evidence ownership of the right to the payment of any specified portion of the principal of and interest on obligations described in clause (1) of this definition, provided that such obligations have been stripped by the Treasury of the United States of America; and (5) the interest component of Resolution Funding Corp. stripped securities, which have been stripped by request to the Federal Reserve Bank of New York, in book entry form.

“Fiduciaries” means the Trustee, the Co-Trustee, each Depository, each Registrar and each Paying Agent.

“Financial Newspaper or Journal” means, collectively, *The Wall Street Journal*, *The Bond Buyer* or any one or more other newspapers or journals publishing financial news and selected by the Trustee, whose decision will be final and conclusive, printed in the English language, customarily published on each business day and circulated in New York, New York, San Francisco, California, and Hagatña, Guam.

“Fiscal Year” means the period beginning on October 1 of each year and ending on the next succeeding September 30, or such other fiscal year as may be adopted by the Authority.

“Fund” means each fund established and given a designation pursuant to the Indenture or any Supplemental Indenture.

“Government” means the Government of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

“Indenture” or “General Indenture” means the Indenture, dated as of September 1, 2003, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Independent” means, when used with respect to any given person, that such person (who may be selected and paid by the Authority or the Government) (1) is in fact independent and not under domination of the Authority or the Government; (2) does not have any substantial interest, direct or indirect, with the Authority or the Government; and (3) is not connected with the Authority or the Government as an officer or employee of the Authority or the Government, but who may be regularly retained to provide services to the Authority or the Government.

“Insured 2013 Bonds” means, individually or collectively, as the context shall require, the 2013 Series B Bonds maturing on October 1, 2033, the 2013 Series B Bonds on October 1, 2043, the 2013 Series C Bonds maturing on October 1, 2034 and bearing interest at a rate of 6.00% per annum, and the 2013 Series C Bonds maturing on October 1, 2043 and bearing interest at a rate of 6.125% per annum.

“Interest Accrual Period” means, for any particular Bond, each period between successive Interest Payment Dates for such Bond, including in each case in such period the concluding Interest Payment Date but not the

beginning Interest Payment Date, and treating the day prior to the date of original issuance of such Bond as if it were an Interest Payment Date for such Bond for such purpose.

“Interest Payment Date” means, for any particular Bond, each date specified as an Interest Payment Date for such Bond by the Supplemental Indenture authorizing the issuance of such Bond and, for all Bonds, all such dates.

“Investment Securities” means any of the following which at the time are legal investments under the laws of Guam for moneys held under the Indenture and then proposed to be invested therein:

(1) Federal Securities;

(2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Federal Housing Administration or Federal Home Loan Mortgage Corporation;

(3) interest-bearing demand or time deposits (including certificates of deposit) which are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund;

(4) obligations, including deposits, federal funds borrowings and banker’s acceptances, of any bank, or of the subsidiary lead bank of any bank holding company, which has an unsecured, uninsured and unguaranteed obligation of equivalent maturity rated at least the second highest major rating category by each Rating Agency;

(5) commercial paper rated at least the second highest rating category by each Rating Agency;

(6) money market funds which are (a) restricted to Federal Securities or (b) registered under the Investment Company Act of 1940 and the shares of which are registered under the Securities Act of 1933, and have a rating by S&P of AAa-m-G; AAA-m; or AA-m and Moody’s of Aaa, Aa1 or Aa2;

(7) repurchase agreements, the underlying securities of which are specifically designated and are obligations described in clause (1) or (2) of this definition, provided that, (a) the agreement is between the municipal entity and a dealer bank or securities firm; (b) such dealer bank or securities firm is either a primary dealers on the Federal Reserve reporting dealer list rated “A” or better by Standard & Poor’s and Moody’s, or a bank rated “A” or better by Standard & Poor’s and Moody’s; (c) the agreement provides that the securities be delivered to the Authority, the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before payment or on a delivery versus payment basis; (d) the securities must be valued weekly, marked-to-market at current market price plus accrued interest; (e) the value of collateral must be equal to 104% (or 105% if the collateral is comprised of obligations of Federal National Mortgage Association or Federal Home Loan Mortgage Corporation) of the amount of cash transferred to the dealer bank or security firm plus accrued interest; and (f) the Authority receives a legal opinion that the agreement is a legal investment under the laws of Guam;

(8) investment agreements (a) with corporations, associations or financial institutions which have general obligations, or whose holding companies have general obligations, rated at least the second highest rating category by each Rating Agency, or (b) which agreements are continuously secured by obligations described in clause (1) or (2) of this definition which have a market value (valued at least weekly) not less than 103% of the amount so invested; and

(9) any other investment approved in writing by each Credit Provider then providing a Credit Facility for Bonds not then in default of its obligations thereunder. None of the Trustee, the Co-Trustee nor any Depository will be deemed, by entering into the Indenture, to have agreed to make the valuation required by clauses (7) and (8) above, but such agreement by or on behalf of the Trustee, the Co-Trustee or a Depository will be a condition precedent to investment in obligations of the type described in such clauses.

“Legislature” means the Legislature of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

“Mandatory Sinking Account Payment” means, as of any date of calculation with respect to any Series of Bonds, the amount required by the Indenture and any Supplemental Indenture to be paid by the Authority on a given date for the retirement of Term Bonds of such Series.

“Maximum Annual Debt Service” means, for any particular Bonds as of any particular date of calculation, Annual Debt Service on such Bonds for the Bond Year including or commencing on or after such date for which such sum will be largest.

“Net Revenues” means, for any particular period, all of the Revenues (other than Payment Agreement Receipts) received during such period less all Operation and Maintenance Expenses of the Airport incurred during such period.

“Operation and Maintenance Expenses” means (i) the reasonable and necessary direct and indirect costs of providing the administration, operation and maintenance of the Airport, including, but not limited to, salaries and wages, costs of insurance or other provision for retirement of officers and employees of the Authority (to the extent that said costs are allocated to the expense account of the Airport, as opposed to the capital account of the Airport, in conformity with generally accepted accounting principles), fees for services, costs of materials, supplies and fuel, expenses of maintenance and repairs and other expenses necessary to maintain and preserve the Airport in good condition and working order, costs of administration, overhead, insurance (including self-insurance being maintained in accordance with the Indenture), taxes (if any) and other similar items, lawful refunds, judgments and assessments, costs of defending or settling litigation or threatened litigation, Costs of Issuance not paid from the proceeds of Bonds, and expenses of the Fiduciaries, Credit Providers, Independent Certified Public Accountants, Airport Consultants and Consulting Engineers and payments to the United States of America under Section 148(f) of the Code; but not including depreciation and obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, costs of Capital Improvements which are chargeable to a capital account or to a reserve for depreciation, and charges for the payment of principal and interest on any bonds or other obligations issued by the Authority prior to or after the date of the Indenture and (ii) to the extent not included in (i), Other Credit Agreement Payments.

“Operation and Maintenance Fund” means the fund of that name established pursuant to the Indenture.

“Operation and Maintenance Reserve Fund” means the fund of that name established pursuant to the Indenture.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) retained by the Authority. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel is to include the statements provided for in the Indenture.

“Order of the Authority,” “Request of the Authority,” “Requisition of the Authority,” or “Statement of the Authority” mean, respectively, a written order, request, requisition or statement signed by or on behalf of the Authority by the Chairman or the Executive Manager or by any person (whether or not an officer of the Authority) who is specifically authorized by resolution of the Board to sign or execute such a document on behalf of the Authority.

“Other Available Moneys” means for any Fiscal Year the amount designated by the Authority of unencumbered moneys on deposit in the Capital Improvement Fund at the end of the prior Fiscal Year, but in no event is such amount to exceed 25% of the Aggregate Annual Debt Service for such Fiscal Year.

“Other Credit Agreement Payments” means any payment obligation of the Authority pursuant to a Credit Agreement designated as such in a Supplemental Indenture.

“Outstanding,” when used as of any particular time with reference to

(A) Bonds, means (subject to the provisions of the Indenture relating to disqualified bonds) all Bonds theretofore executed, issued and delivered by the Authority under the Indenture except: (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds for the payment or redemption of which funds or securities in the necessary amount (as set forth in the provisions of the Indenture summarized in “— Summary of Certain Provisions of the General Indenture—Defeasance”) have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Bonds); provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; and (3) Bonds in lieu of or in substitution for which other Bonds have been executed, issued and delivered by the Authority pursuant to the Indenture;

(B) Payment Agreements, means all Payment Agreements which have not been paid or otherwise satisfied as provided in the proceedings and instruments pursuant to which such Payment Agreements have been incurred; provided that Payment Agreements are not to be deemed Outstanding if the Authority or the Qualified Counterparty with respect thereto is in default thereunder; and

(C) Credit Agreements, means all Credit Agreements which have not been paid or otherwise satisfied as provided in the proceedings and instruments pursuant to which such Credit Agreements have been incurred; provided that a Credit Agreement are not to be deemed Outstanding during any period in which the Credit Provider with respect thereto is in default on its payment obligations thereunder.

“Parity Payment Agreement” means a Payment Agreement which is designated as such in a Supplemental Indenture, the payment of which constitutes a charge and lien on Revenues equal to and on a parity with the charge and lien upon the Revenues for the payment of the Bonds.

“Parity Payment Agreement Payments” means Payment Agreement Payments under a Parity Payment Agreement.

“Passenger Facility Charge” means a charge of the type authorized by Federal Aviation Regulation 14 Code of Federal Regulations Part 158 and imposed by the Authority on passengers enplaned at the Airport.

“Paying Agent” means any paying agent appointed pursuant to a Supplemental Indenture, and its successors and assigns as provided in the Indenture.

“Payment Agreement” means any contract entered into by the Authority with a Qualified Counterparty in connection with, or incidental to, the issuance of Bonds, or the carrying of any investment or program of investment or entering into or maintaining any agreement which secures Bonds, which the Authority determines to be necessary or appropriate to place the obligation or investment of the Authority, as represented by such Bonds, investment, program of investment or agreement and the contract or contracts, in whole or in part, on the interest rate, currency, cash-flow, or other basis desired by the Authority, including, without limitation, contracts commonly known as interest rate swap agreements or contracts providing for payments based on levels of, or changes in, interest rates, or contracts to exchange cash flows or a series of payments, or contracts, including, without limitation, interest rate floors or caps, options, put or call to hedge payment, rate, spread, or similar exposure and which is designated as such and as Related to particular Bonds in a Supplemental Indenture.

“Payment Agreement Payment Accrual Period” means, for any Payment Agreement, each period between successive Payment Agreement Payment Dates for such Payment Agreement, including in each case in such period the concluding Payment Agreement Payment Date but not the beginning Payment Agreement Payment Date, and treating the day prior to the effective date of such Payment Agreement as if it were a Payment Agreement Payment Date for such Payment Agreement for such purpose.

“Payment Agreement Payment Date” means, for any particular Payment Agreement, each date specified as a payment date in such Payment Agreement.

“Payment Agreement Payments” means amounts required to be paid periodically by the Authority to any Qualified Counterparty pursuant to a Payment Agreement, but not including (i) Termination Payments or (ii) such other payments as may be specified in a Supplemental Indenture.

“Payment Agreement Receipts” means amounts required to be paid periodically by a Qualified Counterparty to the Authority pursuant to a Payment Agreement, but not including Termination Payments.

“Principal Office” means, with respect to the Trustee, the office of the Trustee in Hagatña, Guam; and with respect to any other Fiduciary the office of such Fiduciary designated in the Supplemental Indenture or Statement of the Authority appointing such Fiduciary; in each case at such address as the respective party may have designated for such purpose. The Principal Office of any Credit Provider will be as specified by such Credit Provider pursuant to its Credit Facility or Credit Agreement.

“Principal Payment Period” means, for any particular Bond, each period so designated by the Supplemental Indenture authorizing the issuance of such Bond.

“Project” means any particular additions, enlargements, betterments, extensions and other improvements to or related to, and the equipping of, the Airport, including, without limitation, the acquisition of land and furnishings therefor or the payment of any claims or judgments relating thereto, as specified and described by the Supplemental Indenture authorizing issuance of the first Series of Bonds for such Project, and as such specification and description may be modified in accordance with the Indenture.

“Project Costs” means, with respect to any given Project, all costs which are chargeable to the capital account of such Project, including, but not limited to, the following: (1) costs of the Authority and all contractors for land (including franchises, licenses or other interests in land), labor, materials, machinery, equipment and furnishings in connection with the acquisition, construction, reconstruction, installation and equipping of the Project or otherwise attributable to the Project; (2) the cost of relocation and installation of utilities, environmental cleanup and noise abatement; (3) the cost of contract bonds and insurance of all kinds that may be required or necessary during the construction of the Project; (4) all costs of architectural and engineering services, including the costs of test borings, surveys, estimates, plans and specifications and preliminary investigation therefor, and for inspecting and supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the Project; (5) relocation costs and any claims, awards or judgments relating to the Project; (6) Capitalized Interest; and (7) all amounts required to reimburse the Authority for advances made by it for any of the above items or for any other costs incurred and for work done, whether before or after the date of the Indenture, which are properly chargeable to the Project.

“Qualified Counterparty” means the party, other than the Authority, to a Payment Agreement; provided that any such party must satisfy the following requirements: (1) either (a) the obligations of such party under the Payment Agreement (or obligations of such type) must be rated in one of the three (3) highest rating categories of each of the Rating Agencies then rating the Bonds (without regard to any gradations within a rating category), or (b) the obligations of such party under the Payment Agreement are guaranteed by a bond insurer or other institution, in each case the obligations of such type of which must be rated in one of the three (3) highest rating categories of each of the Rating Agencies then rating the Bonds (without regard to any gradations within a rating category); and (2) such party must be otherwise qualified to act as the other party to a Payment Agreement with the Authority under any applicable laws.

“Rating Agency” means, as of any given date, each nationally recognized securities rating agency designated by the Indenture or any Supplemental Indenture as a Rating Agency under the Indenture and then rating any Series of Bonds.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Record Date” means, for any particular payment of principal of or interest or premium on particular Bonds, each date specified as a Record Date for such Bonds by the Supplemental Indenture authorizing the issuance of such Bonds.

“Redemption Price” means, with respect to any Bond (or portion thereof if less than all of a Bond is to be redeemed) the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Refunded Bonds” means all of the remaining Outstanding 2003 Bonds.

“Registrar” means any registrar appointed pursuant to a Supplemental Indenture, and its successors and assigns as provided in the Indenture.

“Related” means, with respect to any particular Payment Agreement, having been designated as such with respect to any particular Bonds pursuant to a Supplemental Indenture.

“Renewal and Replacement Fund” means the fund by that name established pursuant to the Indenture.

“Revenue Fund” means the General Revenue Bond Revenue Fund established pursuant to the Indenture.

“Revenues” means all gross income and revenue received by the Authority from the ownership or operation of the Airport, including all rents, fees and charges received by the Authority for the use of the Airport, all Payment Agreement Receipts, all proceeds of insurance or grants covering business interruption loss (and related losses and expenses) relating to the Airport, and all investment income which is available for the purposes for which Revenues are used under the Indenture (other than investment income from the Construction Accounts, the Capital Improvement Fund or the Rebate Fund), but not including:

(1) amounts received as insurance proceeds (except as provided in the provisions of the Indenture summarized above) or from the sale, transfer or other disposition of, or upon the taking by or under the threat of eminent domain of, all or any part of the Airport (which moneys are to be received and disposed of pursuant to provisions of the Indenture relating to sale or other disposition of property, insurance and eminent domain proceeds, as the case may be),

(2) proceeds from any securities issued by the Authority or proceeds from loans obtained by the Authority,

(3) amounts derived from any Special Facility and which are pledged or assigned as security for the payment of indebtedness incurred to finance such Special Facility,

(4) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Authority,

(5) amounts received by the Authority as gifts or as grants (except as provided in the provisions of the Indenture summarized above), whether restricted or unrestricted, and

(6) other amounts (except as provided in the provisions of the Indenture summarized above), the use of which is restricted by the donor or grantor.

The proceeds of any Passenger Facility Charge, for the purposes of the Indenture, including the pledge under the Indenture, are to be treated as Revenues, but are required to be used under the Indenture only to the extent and for the purposes that such proceeds are by federal law or regulation permitted to be used.

“Serial Bonds” means, generally, Bonds designated as Serial Bonds in the Supplemental Indenture providing for the issuance of such Series and for which no Mandatory Sinking Account Payments are provided, and with respect to the 2013 Bonds, the 2013 Bonds designated as such in the 2013 Supplemental Indenture, and for which no Mandatory Sinking Account Payments are provided.

“Series” or “Series of Bonds” means and refers to all Bonds of like designation and described as such in a Supplemental Indenture authenticated and delivered on original issuance at the same time pursuant to the Indenture, and any Bonds thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Indenture.

“Sinking Accounts” means any special account or accounts established by any Supplemental Indenture or Indentures in the Debt Service Fund for the payment of Term Bonds.

“Special Facility” means any property, real or personal, incident or related to the Airport, which is financed through the issuance of Special Facility Bonds and is subject to the provisions of the Indenture.

“Special Facility Bonds” means bonds or other obligations of the Authority issued in accordance with the provisions of the Indenture to finance Special Facilities.

“Special Facility Lease” has the meaning specified in the provisions of the Indenture summarized under “—Certain Provisions of the General Indenture—Certain Covenants—Special Facility Bonds and Special Facility Leases.”

“Subordinate Securities” means any obligations of the Authority payable from the Subordinate Securities Fund and having a lien, if any, on Revenues subordinate to the pledge and lien of the Indenture securing the payment of the Bonds.

“Subordinate Securities Fund” means the fund by that name established pursuant to the Indenture.

“Supplemental Indenture” means any indenture duly authorized under and in compliance with the Act, entered into by and between the Authority and the Trustee and accepted by each Depository, Paying Agent and Registrar the duties of which are affected thereby, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means a Certificate of the Authority concerning the calculation of any amount to be paid to the United States of America pursuant to Section 148(f) of the Code and any other matters relating to the exclusion of interest on Bonds from gross income for federal income tax purposes.

“Tax Maximum” means for any Series of Bonds, the lesser of: (i) maximum annual principal and interest required to be paid in any Fiscal Year on such Series; (ii) one hundred and twenty-five percent (125%) of average principal and interest required to be paid on such Series during all Fiscal Years in which such Series will be Outstanding; and (iii) ten percent of the principal amount of such Series (or ten percent of the issue price of the Series if the issue of Bonds of which the Series are a part is sold with more than a *de minimis* amount (2%) of original issue premium or discount).

“Term Bonds” means, generally, Bonds designated as Term Bonds in the Supplemental Indenture providing for the issuance of such Series and which are payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates, and with respect to the 2013 Bonds, the 2013 Bonds designated as such in the 2013 Supplemental Indenture, and for which Mandatory Sinking Account Payments are scheduled.

“Termination Payments” means amounts required to be paid by the Authority or a Qualified Counterparty pursuant to a Payment Agreement in connection with a termination of all or any portion thereof.

“Treasurer” means the Treasurer of the Authority.

“Trustee” means Bank of Guam, appointed by the Authority as Trustee in accordance with the Indenture and acting as an independent trustee with the duties and powers provided in the Indenture, its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in the Indenture.

Summary of Certain Provisions of the General Indenture

Equality of Security

In consideration of the acceptance of the Bonds by the Owners thereof from time to time, the Indenture is deemed to be and constitutes a contract between the Authority and the Owners from time to time of the Bonds; and the covenants and agreements set forth in the Indenture required to be performed on behalf of the Authority are to be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the Series, number or date thereof or the time of issue, sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided in such Bonds or in the Indenture.

Pledge and Assignment of Revenues

Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth therein, there are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of Credit Agreement Payments and Parity Payment Agreements in accordance with their terms, all of the Revenues. Said pledge constitutes a first lien on and security interest in such Revenues and attaches, is perfected and is valid and binding from and after delivery by the applicable Registrar of the first Series of Bonds under the Indenture, without any physical delivery of such Revenues or further act.

Funds and Accounts

Revenue Fund. The Depository designated by Order of the Authority is required to establish within the Guam Airport Authority Revenue Fund created by Section 1206 of the Act and maintain and hold in trust under the Indenture a separate fund designated as the “General Revenue Bond Revenue Fund.” The Authority is required to deposit all Revenues upon the receipt thereof in the Revenue Fund. The Trustee and the Depository will be entitled to and are required to collect and receive all of the Revenues, and any Revenues collected or received by the Authority are to be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and the Depository and are required to be paid forthwith by the Authority to the Depository.

Construction Accounts. With respect to each Project or Series, as determined by the Authority, the Depository for the Construction Account for such Project or Series will be required to establish within the Guam Airport Authority Construction Fund (created by Section 1205 of the Act) and maintain and hold in trust under the Indenture a separate account designated as the “_____ Construction Account” (inserting therein the Project or Series designation). Amounts in each Construction Account is to be used and withdrawn, as provided in the Indenture, solely for the payment of Project Costs of such Project (or of the Project or Projects for which such Series is being issued), including by (1) direct payment, (2) payment of any debt obligations issued by the Authority, or repayment of any advances made from any source, to finance temporarily such Project Costs, (3) payment of Capitalized Interest accruing on Bonds issued for such Project as specified in the Supplemental Indenture relating thereto, and (4) payment of Costs of Issuance of such Bonds. A Depository will be required to disburse moneys in a Construction Account only upon Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper and lawful charge against such account.

The Authority may modify the specifications or description of any Project or Projects by filing with the Trustee and each Depository for each Construction Account for such Project or Projects a Certificate of the Authority describing such modification, together with a written report of an Airport Consultant to the effect that such modification will have no material adverse effect on the Authority’s ability to comply with the provision of the Indenture summarized under “—Certain Covenants—Rate Covenant” and an opinion of Bond Counsel to the effect that such modification and the use of amounts in such Construction Accounts for such modified Project or Projects will not adversely affect the exclusion, if any, of interest on any Bonds from gross income for federal income tax purposes.

Upon receipt of a Certificate of the Authority that amounts in any Construction Account are no longer required for the purpose of such account, said amounts are to be transferred to the Capital Improvement Fund or any other fund or account designated by the Authority in such Certificate; provided, however, that any such transfer will be subject to receipt by the Trustee of an opinion of Bond Counsel to the effect that such transfer and the use of such amounts for the purposes intended by the Authority after such transfer will not adversely affect the exclusion, if any, of interest on any Bonds from gross income for federal income tax purposes.

All interest and other profits derived from the investment of moneys in each Construction Account are to be retained therein.

Operation and Maintenance Fund. All amounts in the Operation and Maintenance Fund are to be used and withdrawn by the Authority upon Requisition solely for the purpose of paying Operation and Maintenance Expenses; provided that any amounts deposited in the Operation and Maintenance Fund for the purpose of paying Other Credit Agreement Payments will be used and withdrawn only for the purpose for which they were deposited.

Debt Service Fund. All amounts in the Debt Service Fund are required to be used and withdrawn by the Trustee solely for the purpose of (1) paying interest on Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture), (2) paying the principal of Serial Bonds when due and payable, (3) purchasing or redeeming or paying at maturity Term Bonds as provided in the provisions of the Indenture summarized in this section, (4) paying Parity Payment Agreement Payments due and payable and (5) paying Credit Agreement Reimbursement Payments due and payable.

On each Mandatory Sinking Account Payment date, the Trustee is required to apply the Mandatory Sinking Account Payment or Payments required on that date to the redemption (or payment at maturity, as the case may be) of the applicable Term Bonds upon the notice and in the manner provided in the Indenture. At any time prior to giving such notice of such redemption, the Trustee, upon the Request of the Authority, is required to apply moneys in the Debt Service Fund, in an amount not in excess of such Mandatory Sinking Account Payment, to the purchase of the applicable Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges) as are specified in such Request, except that the purchase price (excluding accrued interest) are not to exceed the price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Account Payment.

If (1) during the twelve-month period immediately preceding a Mandatory Sinking Account Payment date the Trustee purchases the applicable Term Bonds with moneys in the Debt Service Fund, or (2) during said period and prior to giving notice of redemption the Authority otherwise deposits the applicable Term Bonds with the Trustee (together with a Request of the Authority to apply such Bonds so deposited to the Mandatory Sinking Account Payment due on said date), the amount of Bonds so purchased or deposited are to be credited at the time of such purchase or deposit, to the extent of the full principal amount thereof, to reduce such Mandatory Sinking Account Payment.

All Bonds purchased or deposited pursuant to the provisions of the Indenture summarized in this subsection are required to be cancelled and destroyed by the Trustee.

Bond Reserve Accounts. All amounts in each Bond Reserve Account are required to be used and withdrawn by the Trustee solely for the purpose of paying debt service on the Series of Bonds (including Payment Agreement Payments to the extent provided in any Supplemental Indenture) for which such Account was established in the event of a deficiency in the Debt Service Fund, in the manner and to the extent set forth in the Indenture. So long as the Authority is not in default under the Indenture, any amount in any Bond Reserve Account in excess of its Bond Reserve Account Requirement is required to be transferred to the Revenue Fund. A Supplemental Indenture providing for the issuance of a Series of Bonds may provide that income derived from the investment of the proceeds of such Series in the Bond Reserve Account for such Series prior to the completion of each Project for which such Bonds were issued are to be deposited in the Construction Account for such Project. Otherwise, such income is required to be deposited in the Revenue Fund.

Upon the issuance of the 2013 Bonds and the concurrent defeasance of all of the Outstanding 2003 Bonds, the General Indenture will provide that the Supplemental Indenture for any Series of Bonds may establish a pooled

Bond Reserve Account Requirement for the Series of Bonds to be issued under such Supplemental Indenture and any one or more subsequently issued Series of Bonds with the same pooled Bond Reserve Account Requirement, in which case the Bond Reserve Account Requirement for the initial such Series of Bonds shall be deposited in the applicable Bond Reserve Account in an account solely for the benefit of those Bonds and any Additional Bonds designated in a related Supplemental Indenture as having the same pooled Bond Reserve Account Requirement, and on the date of issuance of any such Additional Bonds, there shall be deposited in the aforementioned account the amount necessary to increase the balance in such account to an amount equal to the Bond Reserve Account Requirement for all Bonds secured by that account. See “—Summary of Certain Provisions of the 2013 Supplemental Indenture—Amendments to the General Indenture” below.

If and to the extent provided by a Supplemental Indenture authorizing the issuance of a Series of Bonds, the Bond Reserve Account Requirement for the Bond Reserve Account, if any, securing such Series may be wholly or partially satisfied by a Credit Facility. Notwithstanding anything to the contrary contained in the Indenture, such Supplemental Indenture may also provide that if a drawing or other claim on such Credit Facility is honored, amounts available for deposit pursuant to the provisions of the Indenture relating to allocation of Revenues to the Bond Reserve Fund, in the applicable Bond Reserve Account will be applied by the Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing or other claim, and the Trustee will give any notice of such reimbursement required by the applicable Credit Agreement.

Subordinate Securities Fund. All amounts in the Subordinate Securities Fund may be used and withdrawn, as directed by a Request of the Authority, for the purpose of paying debt service due on Subordinate Securities, amounts due pursuant to Payment Agreements (including Termination Payments), funding or replenishing reasonable reserves and meeting other requirements of the instrument pursuant to which such Subordinate Securities are issued.

Operation and Maintenance Reserve Fund. All amounts in the Operation and Maintenance Reserve Fund are required to be used and withdrawn upon requisition of the Authority solely for the purpose of paying Operation and Maintenance Expenses if and to the extent that amounts on deposit in the Operation and Maintenance Fund are insufficient for such purpose.

Renewal and Replacement Fund. All amounts in the Renewal and Replacement Fund are required to be used and withdrawn by the Authority upon Requisition solely for the purpose of paying the costs of unanticipated, unbudgeted or emergency repairs of and emergency replacements to the Airport.

Capital Improvement Fund. Except as may be otherwise set forth in a Supplemental Indenture, all amounts in the Capital Improvement Fund may be used and withdrawn by the Authority for any lawful Airport purpose of the Authority or may be transferred to the Revenue Fund, in each case upon Request of the Authority. In accordance with the provisions of the Indenture relating to the Revenue Fund, the Authority may direct the appropriate Depositary to establish accounts within the Capital Improvement Fund for the purpose of segregating the proceeds of any Passenger Facility Charge or for other appropriate purposes, and may restrict the purposes for which amounts in any such account may be used and withdrawn so long as such purposes are Airport purposes.

Rebate Fund. If and to the extent required by the Supplemental Indenture providing for the issuance of a Series of Bonds, the Trustee is required to establish and maintain within the Rebate Fund a separate Rebate Account for such Series. Pursuant to the Indenture, there shall be deposited in such Rebate Account from amounts in the Operation and Maintenance Fund or other lawfully available moneys such amounts as are required to be deposited therein pursuant to the Tax Certificate with respect to such Series of Bonds. All money at any time deposited in a Rebate Account are required to be held by the Trustee in trust, and to be governed exclusively by the provisions of the Indenture summarized in this section and by the Tax Certificate with respect to such Series of Bonds.

Notwithstanding any provisions of the Indenture summarized in this section, if the Authority provides to the Trustee an opinion of Bond Counsel that any specified action required under any provisions of the Indenture summarized in this Section is no longer required or that some further or different action is required to maintain the exclusion, if any, from gross income for federal income tax purposes of interest on any Series of Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of any provisions of the Indenture summarized in this Section, and, notwithstanding the provisions of the Indenture summarized in –

Modification or Amendment of the Indenture,” the covenants under the Indenture are to be deemed to be modified to that extent.

Allocation of Revenues

Pursuant to the Indenture, on or before the fifth day of each calendar month, the Depositary is required to transfer from the Revenue Fund (to the Trustee as necessary) for deposit into one or more of the following respective separate funds, the following amounts in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund or account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any transfer is made to any fund subordinate in priority:

(A) into the Operation and Maintenance Fund, an amount equal to the amount of Operation and Maintenance Expenses budgeted by the Authority, pursuant to the budget, as revised, filed in accordance with the provisions of the Indenture summarized in “—Certain Covenants—Authority Budgets,” to be paid from Revenues during the next succeeding calendar month (including any amount to be held as a reserve for transfer to the Rebate Fund) plus the amount of any Other Credit Agreement Payments then due and payable or to become due and payable during such month not otherwise included in such amount;

(B) into the Debt Service Fund, an amount equal to the amount necessary to increase the amount in the Debt Service Fund to the aggregate amount for all Outstanding Bonds of all unpaid interest, principal and Mandatory Sinking Account Payments and for all Outstanding Parity Payment Agreements of all Parity Payment Agreement Payments with respect thereto and for all Outstanding Credit Agreements of all Credit Agreement Reimbursement Payments due and payable to the extent not otherwise in such amount which are required to have been transferred to the Debt Service Fund on the basis of the following transfer requirement rules (after taking into account amounts transferred and to be transferred from any Construction Account to pay Capitalized Interest);

(1) an amount equal to the amount of interest payable on each Bond on a current uncompounded basis on any Interest Payment Date will be transferred in equal monthly amounts over the Interest Accrual Period for such Bond ending on such Interest Payment Date (or in the case of Variable Rate Bonds 110% of the amount of interest accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month); provided that to the extent that a Qualified Counterparty is obligated to make payments to the Authority on or prior to such Interest Payment Date pursuant to an Outstanding Payment Agreement Related to any Bonds, an amount equal to the amount of any such payment obligation is to be transferred from the Revenue Fund to the Debt Service Fund on the date such payment is due and the amount of each monthly transfer with respect to such Bonds required by the provisions of the Indenture summarized in this subparagraph (1) during the Interest Accrual Period (or portion thereof) over which such payment obligation accrues will be reduced by an amount equal to the amount of such Qualified Counterparty’s payment obligation accruing during the next preceding calendar month;

(2) the amount of interest payable on each Bond on a deferred compounded basis on any Interest Payment Date is required to be transferred in substantially equal monthly amounts over the period during which such interest accrues on such basis;

(3) the amount of the principal of each Bond is required to be transferred in equal monthly amounts over the Principal Payment Period for such Bond ending on the maturity date for such Bond;

(4) the amount of each Mandatory Sinking Account Payment for Bonds is required to be transferred in equal monthly amounts over the Principal Payment Period for such Bonds ending on the date such Mandatory Sinking Account Payment is due; and

(5) the amount of any Parity Payment Agreement Payment payable on any Payment Agreement Payment Date is required to be transferred (a) in the case of such payments calculated based on a fixed rate, in equal monthly installments over the Payment Agreement Payment Accrual Period for such Payment Agreement Payment ending on such Payment Agreement Payment Date and (b) in the case of such payments

calculated based on a variable rate, in monthly installments equal to 110% of the amount of such obligation accrued during the next preceding calendar month less any excess deposited for the next preceding calendar month; and

(6) to the extent not otherwise included in amounts described in subparagraphs (1) through (5) above, the amount of any Credit Agreement Reimbursement Payment due and payable is required to be transferred.

(C) into the Bond Reserve Fund (and into each Bond Reserve Account), the amount, if any, needed to increase the amount in each Bond Reserve Account to its Bond Reserve Account Requirement as of the date of such transfer; provided, however, that if the amount of the Bond Reserve Account Requirement relating to a Series of Additional Bonds is in excess of the amount that may be deposited in the Bond Reserve Fund from the proceeds of such Additional Bonds consistent with Section 148 of the Code (or any applicable successor or similar provision), the Supplemental Indenture providing for the issuance of such Additional Bonds may provide that the source of the amounts needed in excess of the amount of proceeds available for such purpose is to be Revenues deposited, after the deposits in proportion to deficiency, pursuant to the provisions of the Indenture summarized in this subsection in scheduled monthly amounts over the period from the date of issuance of such Additional Bonds through the Interest Payment Date for such Additional Bonds next succeeding the projected Date of Beneficial Occupancy of any Project financed by such Additional Bonds;

(D) into the Subordinate Securities Fund (and any accounts therein), the amount, if any, needed to increase the amount in such Fund and each such account to its requirement (including any requirements for reasonable debt service reserves and requirements related to Payment Agreements that constitute Subordinate Securities (including Termination Payments)) established by each resolution, indenture or other instrument pursuant to which Subordinate Securities are issued and outstanding;

(E) into the Operation and Maintenance Reserve Fund, the amount, if any, needed to increase the amount in the Operation and Maintenance Reserve Fund to an amount equal to one-fourth (1/4) of the total Operation and Maintenance Expenses budgeted by the Authority, pursuant to the budget, as revised, filed in accordance with filed in accordance with the provisions of the Indenture summarized in “—Certain Covenants— Authority Budgets,” for the then current Fiscal Year;

(F) into the Renewal and Replacement Fund, the amount, if any, needed to increase the amount in the Renewal and Replacement Fund to an amount equal to the greater of \$1,000,000 or such amount as may be established by Request of the Authority; and

(G) into the Capital Improvement Fund, the balance remaining in the Revenue Fund after the foregoing deposits.

In the event that the amount in any Fund or Account is insufficient for the purposes for which such Fund or Account was established, the Trustee, the Co-Trustee or the Depositary, or the Depositary upon the direction of the Trustee, will transfer to such Fund or Account the amount of such deficiency by withdrawing said amount from subordinate Funds and Accounts in reverse order of the priority described above and prior to any other claims upon such Funds and Accounts, subject only to the limitation that amounts in each Bond Reserve Account will only be used as provided in the Indenture. If after making all such transfers, the amount in the Debt Service Fund is insufficient, the Trustee will promptly notify each Credit Provider of the amount of such insufficiency.

Investment of Moneys in Funds

All Investment Securities and any other investments acquired with moneys held under the Indenture are to be acquired subject to the limitations of any covenant relating to the exclusion of interest on Bonds from gross income for federal income tax purposes, to the limitations as to maturities set forth in the Indenture and to such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority. Pursuant to the Indenture, no Investment Security which is subject to redemption at the option of the issuer may be purchased at a premium above the amount of the premium payable upon any such redemption.

Moneys in the Construction Accounts, the Rebate Fund, the Debt Service Fund and the Bond Reserve Accounts are required to be invested solely in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to a Request of the Authority as to such investment. In the absence of any different instruction, such moneys are required to be invested in Investment Securities described in clause (6) of the definition thereof.

Moneys in the Revenue Fund, the Operation and Maintenance Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Capital Improvement Fund may be invested in any investment designated by Request of the Authority.

Notwithstanding any other provision of the Indenture, moneys in the Revenue Fund and the Bond Reserve Fund are required to be invested only in Investment Securities having at least an investment grade rating from the Rating Agency.

Subject to the provisions of any Supplemental Indenture, moneys in all Funds and Accounts established under the Indenture will be invested in investments paying interest and maturing not later than the dates on which it is estimated that such moneys will be required by the Trustee, the Co-Trustee, the applicable Depositary or the Authority.

All interest and other profit derived from such investments are required to be deposited in the Revenue Fund when received, except that interest and other profit derived from the investment of moneys in the Construction Accounts, the Capital Improvement Fund and the Rebate Fund are required to be retained in such respective Fund or Account, and except that interest and other profit derived from the investment of moneys in each Bond Reserve Account are required to be deposited as provided in the provisions of the Indenture summarized under “—Funds and Accounts—Bond Reserve Accounts.” Investments acquired as an investment of moneys in any Fund or Account established under the Indenture are required to be credited to such Fund or Account.

The Indenture provides that, subject to the provisions of any Supplemental Indenture, for the purpose of determining the amount in any Fund or Account, except the Rebate Fund, the amount of any obligation allocable to such Fund or Account will be equal to the purchase price of such obligation (not including accrued interest, if any, paid on the purchase of such obligation) plus the amount of any discount below par accounting for any such discount ratably each year over the term of such obligation (i.e., by dividing the amount of such discount by the number of interest payments remaining to maturity and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase) (in this Section called “amortized value”); provided, however, that the amount of any accrued interest on any obligation may be credited to the Revenue Fund or to any Fund or Account to which such amount or any portion thereof may have been transferred from the Revenue Fund.

Pursuant to the Indenture, the Trustee, the Co-Trustee or the Depositary may sell at the best price obtainable, or present for redemption, any security purchased under the Indenture whenever necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such security is credited, and the Trustee, the Co-Trustee and the Depositary shall not be liable or responsible for any loss resulting from such investment.

Issuance of Additional Series of Bonds; Additional Parity Payment Agreements; Other Payment Agreements

Additional Bonds. Pursuant to the Indenture, in addition to the initial Series of Bonds, the Authority may by Supplemental Indenture establish one or more other Series of Bonds payable from Revenues on a parity with the initial Series of Bonds and Parity Payment Agreements and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the initial Series of Bonds and Parity Payment Agreements, and the Authority may issue Bonds of any Series so established, in such principal amount and for such lawful purpose or purposes (including refunding of any Bonds issued under the Indenture and then Outstanding) as is specified by the Authority in said Supplemental Indenture, but only upon compliance by the Authority with the provisions of the Indenture relating to proceedings for issuance of a Series of Bonds and any applicable provisions of any Supplemental Indenture, and subject to the specific conditions precedent to the issuance of any such additional Series of Bonds summarized below:

(1) No Event of Default has occurred and is then continuing.

(2) The Supplemental Indenture providing for the issuance of such additional Series of Bonds is to specify the purposes for which such Series is being issued, which will be one or more of the following (1) to provide moneys for deposit into a Construction Account and withdrawal therefrom in accordance with law for purposes other than the refunding of Bonds, or (2) to refund all or part of the Bonds of any one or more Series then Outstanding, by depositing with the Trustee, in trust, moneys or noncallable Federal Securities in the necessary amount to discharge all liability of the Authority with respect to the Bonds to be refunded as provided in the provisions of the Indenture summarized in “—Defeasance” and to make any payment necessary or desirable in connection with the termination of any Related Payment Agreement in connection with such refunding.

(3) The Supplemental Indenture providing for the issuance of such additional Series of Bonds is to require that the amount in the applicable Bond Reserve Account be increased, if and to the extent necessary, to an amount at least equal to the Bond Reserve Account Requirement for such Series. Said deposit may be made from such proceeds or any other source, as provided in the provisions of the Indenture relating to allocation of Revenues and application of Bond Reserve Accounts, and said Supplemental Indenture.

(4) The aggregate principal amount of Bonds issued under the Indenture is not to exceed any limitation imposed by law or by any Supplemental Indenture.

(5) The representations and estimates set forth in the certificates and written reports required by the provisions of Indenture relating to proceedings for issuance of a series of bonds and relating to parity payment agreements for such Series have been made by the parties required to give such certificates and written reports.

For a description of the certificates and written reports to be provided in connection with the issuance of a Series of Additional Bonds, see “SECURITY AND SOURCES OF PAYMENT—Additional Bonds” in the front part of this Official Statement.

Parity Payment Agreements. The Authority may enter into Parity Payment Agreements payable from Revenues on a parity with the Bonds and other Parity Payment Agreements and secured by a lien upon and pledge of Revenues equal to the lien and pledge securing the Bonds and other Parity Payment Agreements, but only upon compliance by the Authority with the provisions of the Indenture relating to proceedings relating to Parity Payment Agreements and any applicable provisions of any Supplemental Indenture, and subject to the specific conditions precedent to entering into by the Authority of any Parity Payment Agreement:

(1) No Event of Default has occurred and is then continuing.

(2) The representations and estimates set forth in the certificates and written reports required by the Indenture provisions relating to proceedings relating to Parity Payment Agreements have been made by the parties required to give such certificates and written reports.

(3) The Authority and the Trustee have executed and delivered a Supplemental Indenture designating such agreement as a Parity Payment Agreement and the Bonds to which such Parity Payment Agreement is Related.

The Indenture provides that if and to the extent that a Parity Payment Agreement, other than a Parity Payment Agreement all payments pursuant to which have been taken into account for purposes of determining that the requirements summarized above have been satisfied with respect to the issuance of the Related Bonds, is being entered into, either (i) a certificate of an Independent Certified Public Accountant that Aggregate Annual Debt Service for each Fiscal Year thereafter will be less than or equal to Aggregate Annual Debt Service for each such Fiscal Year in the absence of such Parity Payment Agreement, or (ii) the certificates and reports required by provisions of the Indenture with respect to the issuance of Additional Bonds are required to be provided, in each case treating such Payment Agreement as in effect for purposes of any calculations. For a description of such certificates and written reports, see “SECURITY AND SOURCES OF PAYMENT—Additional Bonds” in the front part of this Official Statement.

Other Payment Agreements. In addition to Parity Payment Agreements, the Authority may enter into Payment Agreements payable from Revenues after and subordinate to the payment from Revenues of payments with respect to the Bonds and Parity Payment Agreements, but only upon compliance by the Authority with any applicable provisions of any Supplemental Indenture and any such agreement is to constitute a Payment Agreement upon execution and delivery by the Authority and the Trustee of a Supplemental Indenture designating such agreement as a Payment Agreement and the Bonds to which such Payment Agreement is Related.

Certain Covenants

Payment of Principal and Interest. The Authority covenants in the Indenture to punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided therein and in the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but solely from Revenues and other moneys held in trust under the Indenture, as provided therein.

Against Encumbrances. The Authority covenants in the Indenture that, subject to any rights of the United States of America and except as otherwise set forth in the Indenture, the Authority will not mortgage or otherwise encumber, pledge or place any charge upon the Airport or any part thereof, or upon any of the Revenues, prior to or on a parity with the Bonds, the Parity Payment Agreements and Credit Agreement Payments.

So long as any Bonds are Outstanding, the Authority will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues prior to or on a parity with the Bonds, the Parity Payment Agreements and the Credit Agreement Payments, other than the Bonds, the Parity Payment Agreements and the Credit Agreement Payments.

Except as otherwise set forth in a Supplemental Indenture, nothing in the Indenture, and particularly nothing in the provisions of the Indenture summarized in the preceding two paragraphs, will prevent the Authority from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from Revenues after and subordinate to the payment from Revenues of the principal of and interest on the Bonds, the Parity Payment Agreement Payments and Credit Agreement Payments, or (2) are payable from moneys which are not Revenues as such term is defined in the Indenture.

Sale or Other Disposition of Property. Pursuant to the Indenture, the Authority and the Government will not sell or otherwise dispose of the Airport or any part thereof, or permit others to sell or otherwise dispose of the Airport or any part thereof, essential to the proper operation of the Airport or to the collection of Revenues sufficient to pay debt service on the Bonds, Parity Payment Agreement Payments and Credit Agreement Payments and otherwise comply with the provisions of the Indenture summarized below under “—Rate Covenant.” The Authority covenants in the Indenture that it will not enter into any lease or agreement which impairs the operation of the Airport or impedes the collection of Revenues sufficient to pay debt service on the Bonds, Parity Payment Agreement Payments and Credit Agreement Payments and otherwise comply with the Indenture.

Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Airport, or any material or equipment which has worn out, may be sold at a price not less than the fair market value thereof if such sale will not reduce Net Revenues and if the net proceeds of such sale are deposited in the Revenue Fund.

Operation and Maintenance of the Airport. The Authority covenants in the Indenture that it will maintain and preserve the Airport in good repair and working order at all times from the Revenues available for such purposes, in conformity with prudent management and standards customarily followed in the aviation industry for airports of like size and character. The Authority further covenants that it will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to the properties of the Airport, so that at all times business carried on in connection with the Airport shall and can be properly and advantageously conducted in an efficient manner and at reasonable cost. The Authority covenants in the Indenture to operate the Airport in an efficient and economical manner, consistent with the protection of the Owners of the Bonds and so as to assure that

the Airport will be financially self-sufficient and self-sustaining. The Authority further covenants that it will not commit or allow any waste with respect to the Airport.

Liens and Claims. Subject to any rights of the United States of America, the Authority covenants in the Indenture to keep the Airport and all parts thereof free from judgments, from mechanics' and materialmen's liens and from all liens and claims of whatsoever nature or character, to the end that the security provided pursuant to the Indenture may at all times be maintained and preserved, and to keep the Airport and the Revenues free from any liability which might hamper the Authority in conducting its business or operating the Airport. The Trustee or and Co-Trustee at its option (after first giving the Authority ten days' written notice to comply therewith and failure of the Authority to so comply within said ten-day period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against such actions or proceedings or in paying or compromising such claims or demands, the Trustee or the Co-Trustee will not in any event be deemed to have waived or released the Authority from liability for or on account of any of its covenants and warranties contained in the Indenture, or from its liability thereunder to defend the validity thereof and the pledge in the Indenture made and to perform such covenants and warranties.

The use agreements, operating agreements and terminal building leases between the Authority and any airline relating to the use by such airline of the Airport and all rights of any airline thereunder are required to be expressly subordinated and subject to the lien of the Indenture.

Insurance. The Authority covenants in the Indenture to maintain or to cause to be maintained insurance on the Airport with responsible insurers in such amounts and against such risks (including accident to or destruction of the Airport) as are usually maintained by prudent operators of airports similar and similarly situated to the Airport and which it will deem advisable or necessary to protect its interests and the interests of the Bondowners so long as such insurance is available to the Authority on the open market from responsible insurers at reasonable cost. In the event of any damage to or destruction of the Airport caused by the perils covered by such insurance, the proceeds of such insurance are to be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Airport; and the Authority is also required to cause such repair, reconstruction or replacement to begin promptly after such damage or destruction will occur and to continue and to be properly completed as expeditiously as possible. If the proceeds received by reason of any such loss will exceed the costs of such repair, reconstruction or replacement, the Authority is to deposit such excess in the Capital Improvement Fund. Notwithstanding the foregoing summarized provisions of the Indenture, if the proceeds of such insurance, together with other moneys available for such purpose, are sufficient to enable the Authority to retire all Outstanding Bonds, whether at maturity or on redemption prior to maturity or any combination thereof, and to pay the Parity Payment Agreement Payments and any Termination Amount payable by the Authority pursuant to Parity Payment Agreements in connection with a termination thereof, and to pay any Credit Agreement Payments then due and payable, the Authority may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Airport, and thereupon, the proceeds of such insurance are to be applied by the Authority and the Trustee to the payment when due of the interest to become due on all Outstanding Bonds on and prior to the maturity date or redemption date thereof, as the case may be, to the payment of the principal of and redemption premiums, if any, on all Outstanding Bonds at maturity or on redemption prior to maturity, as the case may be, and to the payment of such Parity Payment Agreement Payments and any such Termination Amounts, as the case may be, when due and to pay any Credit Agreement Payments then due and payable.

The Authority is required to maintain such other insurance which it will deem advisable or necessary to protect its interests and the interests of the Bondowners, which insurance is required to afford protection in such amounts and against such risks as are usually maintained by prudent operators of airports similar to the Airport.

Any insurance required under the Indenture may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner customarily maintained by prudent operators of airports similar to the Airport. The Authority covenants in the Indenture to, every third year, engage an insurance consultant to review the Authority's self-insurance program and to make recommendations for any necessary modifications, including, but not limited to, any modifications necessary to comply with the Indenture. Each such report is to be filed with the Trustee.

Books and Accounts; Financial Statements. The Authority covenants to keep proper books of record and accounts, separate from all other records and accounts, in which complete and correct entries will be made of all transactions relating to the Airport. Such books of record and accounts are at all times during business hours to be subject to the inspection of the Trustee or of any Owner of Bonds then Outstanding or their representatives authorized in writing, at reasonable hours and under reasonable conditions.

The Authority is required to prepare and file with the Trustee annually within five months after the close of each Fiscal Year so long as any of the Bonds are Outstanding --

(1) financial statements for the preceding Fiscal Year, prepared in accordance with (i) the accounting requirements of the Indenture and (ii) generally accepted accounting principles applied on a consistent basis from year to year, including a balance sheet, statement of income, statement of retained earnings, and statement of changes in financial position (including a statement of revenue, expenditures and fund balances for each of the Funds and Accounts established pursuant to the Indenture, including any accounts or subaccounts for Passenger Facility Charges), and including a reconciliation between the bases of accounting required under clauses (i) and (ii) above, which financial statements are required to be examined by and include the certificate or opinion of an Independent Certified Public Accountant, such certificate or opinion to include a statement as to the manner and extent to which the Authority has complied with the provisions of the Indenture as it relates to said financial statements; and

(2) a statement as to all insurance carried by the Authority as of the end of such Fiscal Year, including a brief description of the amount and coverage of each insurance policy and the name of the insuring company.

The Authority covenants to furnish a copy of the aforesaid statements to any Credit Provider and to any Bondowner upon request.

Authority Budgets. The Authority is required to prepare and adopt an annual budget for each Fiscal Year. Such budget is required to set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year including, without limitation, the amounts required to provide for the payment of the principal of, interest and redemption premium, if any, on the Bonds during such Fiscal Year, to pay or provide for Operation and Maintenance Expenses of the Airport for such Fiscal Year, to make up any deficiencies in any Fund or Account anticipated for the then current Fiscal Year, and to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and will show that Net Revenues will be at least adequate to satisfy the rate covenant requirements as set forth in the Indenture. The Authority is to supply to the Trustee, the Revenue Fund Depository, any Credit Provider and any Bondowners who will so request in writing a copy of the annual budget for the then current Fiscal Year. Such budget also is required to be open for inspection by any Owner during normal business hours. The Authority may at any time adopt a revised annual budget and will supply copies as aforesaid.

Maintenance of Revenues. The Authority covenants in the Indenture that it will promptly collect all rents and charges due for the occupancy or use of the Airport as the same become due, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The Authority also covenants that it will, in a prudent manner, maintain and vigorously enforce all of its rights under any leases and other agreements relating to any part of the Airport.

Payment of Taxes, Etc. The Authority covenants in the Indenture to pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may after the date of the Indenture be lawfully imposed upon the Authority on account of the Airport or any portion thereof or upon any Revenues and which, if unpaid, might impair the security of the Bonds, when the same will become due, but nothing contained in the Indenture will require the Authority to pay any such tax, assessment or charge so long as it will in good faith contest the validity thereof. The Authority will duly observe and conform to all valid requirements of any governmental authority having jurisdiction over the Authority or the Airport or any part thereof.

Acquisition and Construction of Improvements. The Authority will commence and will continue to completion the acquisition and construction of the improvements to the Airport proposed to be financed from any

Series of Bonds, and said improvements will be acquired, constructed and completed in a sound and economical manner and in conformity with law.

Eminent Domain Proceeds. If all or any part of the Airport shall be taken by or under threat of eminent domain proceedings, the net proceeds realized by the Authority therefrom (excluding any portion thereof payable to the United States of America or required by the United States of America to be deposited in a restricted fund) are required to be deposited by the Treasurer in a special fund in trust and applied and disbursed by the Treasurer subject to the following conditions:

(A) If such proceeds are sufficient to provide for the payment of the entire amount of principal due or to become due upon all of the Bonds, together with all of the interest due or to become due thereon and any redemption premiums, and all amounts payable under Parity Payment Agreements (including Termination Amounts) and all Credit Agreement Payments then due and payable so as to enable the Authority to retire all of the Bonds, either by redemption at the then current redemption prices or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, and terminate such Parity Payment Agreements and discharge such obligations with respect to such Credit Agreement Payments, the Treasurer is required to transfer such moneys to the Trustee who is required to apply such moneys to such retirement and to the payment of such amounts. The balance of such moneys, if any, are required to be transferred back to the Authority and to be deposited in the Capital Improvement Fund.

(B) If such proceeds are insufficient to provide the moneys required for the purposes set forth in the provisions of the Indenture summarized in foregoing subsection (A), the Authority by resolution is to determine to apply such proceeds for one of the following purposes, subject to the conditions set forth in the provisions of the Indenture summarized in this subsection (B):

(1) The Authority may determine to apply such proceeds to the purchase or redemption of Bonds then Outstanding and to the payment of Credit Agreement Payments then due and payable. In that event, the Treasurer will transfer such proceeds to the Trustee, who will apply such proceeds pro rata to the redemption or purchase of Bonds of each Series then Outstanding in the proportion which the principal amount of outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then Outstanding.

(2) The Authority may determine to apply such proceeds to the cost of additions or improvements to or extensions of the Airport if the Authority first secures and files with the Trustee a report of an Independent Airport Consultant (a) showing (i) the loss in annual Revenues, if any, suffered or to be suffered, by the Authority by reason of such eminent domain proceedings, (ii) a general description of the additions, improvements or extensions then proposed to be acquired by the Authority from such proceeds, and (iii) an estimate of the additional Revenues to be derived from such additions, improvements or extensions; and (b) determining that such eminent domain proceedings will not substantially impair the ability of the Authority to meet its obligations under rate covenant in the Indenture. The Authority is required then promptly to proceed with the construction of the additions, improvements or extensions substantially in accordance with such report. Payments for such construction will be made by the Authority from such proceeds. Any balance of such proceeds not required by the Authority for the purposes aforesaid will be deposited in the Capital Improvement Fund.

Rate Covenant. The Authority covenants in the Indenture to at all times fix, prescribe and collect rents, fees and charges in connection with the services and facilities furnished by the Airport which will be sufficient to yield the sum of Net Revenues plus Other Available Moneys during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required by the provisions of the Indenture summarized under “—Allocation of Revenues” for such Fiscal Year.

If the financial statements prepared pursuant to the Indenture reflect that (or if the Authority’s other books and records at the time such statements are due under the Indenture reflect that) at the end of a Fiscal Year the sum of Net Revenues plus Other Available Moneys have been less than 1.25 times Aggregate Annual Debt Service for such Fiscal Year, or if Revenues have been less than the aggregate amount of all transfers required by the Indenture for such Fiscal Year, the Authority will promptly employ an Airport Consultant to make recommendations as to a revision of such rates, fees and charges or the methods of operation of the Airport. The Authority is required,

promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Authority, the Owners and each Credit Provider, to revise such rates, fees and charges or methods of operation and will take such other actions as will be in conformity with such recommendations.

If the Authority complies in all material respects with the reasonable recommendations of the Airport Consultant with respect to said rents, fees, charges and methods of operation or collection, or makes a good faith determination that such recommendations are not in the best interests of the Authority, the Authority will be deemed to have complied with the provisions of the Indenture summarized in this subsection for such Fiscal Year; provided, that Net Revenues in no event have been less than Aggregate Annual Debt Service for such Fiscal Year.

The Authority is permitted under the Indenture to make adjustments from time to time in its rentals, rates, fees and charges and may make such classification thereof as it deems necessary, but may not reduce such rentals, rates, fees and charges below those then in effect unless the Revenues from such reduced rates will at all times be sufficient to meet the rate covenant requirements of the Indenture.

Observance of Laws and Regulations. The Authority covenants in the Indenture to comply promptly, fully and faithfully with and abide by any contract relating to or affecting the availability of any grant or other similar assistance and any statute, law, ordinance, order, rule, regulation, judgment, decree, direction or requirement now in force or after the date of the Indenture enacted, adopted or entered by any competent governmental authority or agency applicable or with respect to or affecting the acquisition, construction or reconstruction of the Airport or any part thereof or applicable or with respect to or affecting the operation, manner, use or condition of the Airport or any part or parcel thereof or adjoining public ways or relating to the imposition of charges or collection of Revenues; provided that the Authority need not comply with any such contract, statute, law, ordinance, rule, regulation, judgment, decree, direction or requirement if and so long as the Authority in good faith shall be contesting or permitting or causing to be contested the applicability or validity thereof by appropriate proceedings diligently prosecuted, even though such contest may result in the imposition of a lien or charge against the Airport or the Revenues, if (1) the Authority effectively prevents foreclosure or enforcement of any such lien or charge and (2) the foreclosure or enforcement of any such lien or charge is stayed, and if said stay thereafter expires, the Authority is required to forthwith discharge such lien or charge or cause the same to be discharged, so that pending such proceedings the Airport and the Revenues thereof will not be affected thereby, and the security of the Bonds will not be impaired.

Prosecution and Defense of Suits. The Authority covenants in the Indenture promptly from time to time to take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Airport developing after the date of the Indenture, and to prosecute all such suits, actions and other proceedings as may be appropriate for such purposes and, to the extent permitted by law, to indemnify and save the Trustee and every Bondowner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Retention of Airport Consultant. The Authority covenants in the Indenture to retain one or more Independent Airport Consultants for the following purposes, in addition to any other purposes for which an Airport Consultant is required under the Indenture: (A) to review and advise upon the budget adopted pursuant to the Indenture and any annual Capital Improvement program of the Authority; (B) to review and advise upon the rents, fees and charges established pursuant to the rate covenant provisions of the Indenture; (C) to prepare an annual management report upon the operations of the Airport and upon the Authority's compliance with the rate covenant provisions of the Indenture; and (D) otherwise to advise the Authority upon request with respect to any matter relating to the Airport.

Any Supplemental Indenture or Credit Agreement entered into in connection with Bonds may provide that the Credit Provider with respect thereto has the right to direct the Authority to remove the Airport Consultant and appoint a successor under the circumstances specified therein.

Special Facility Bonds and Special Facility Leases. Anything in the Indenture to the contrary notwithstanding, the Authority may enter into contracts, leases, subleases or other agreements pursuant to which the Authority agrees to construct a Special Facility on land constituting part of the Airport or agrees to acquire or

construct a Special Facility on land not then constituting part of the Airport (which land if not then owned or leased by the Authority may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure or other facility (including the site thereof) for a Special Facility, and lease such Special Facility under the conditions summarized below:

(A) No Special Facility is to be constructed or acquired and leased for use or occupation under the Indenture: (1) if the Special Facility would provide services, facilities, commodities or supplies which then may be adequately made available through the Airport as then existing, and (2) if the result of the use or occupation of such Special Facility under the contract, lease, sublease or agreement therefor would result in a reduction of Revenues below the minimum amount of Revenues covenanted to be produced and maintained in accordance with the rate covenant provisions of the Indenture; and

(B) If a Special Facility is located on land included in the Airport, upon the retirement of the indebtedness evidenced by the Special Facility Bonds issued therefor or evidenced by refunding Special Facility Bonds (which may be issued to refund Special Facility Bonds), all rentals and other income thereafter received by the Authority from the Special Facility for which Special Facility Bonds were issued, to the extent permitted by law, are to constitute Revenues and to be paid into the Revenue Fund, to be used and applied as are other moneys deposited therein, and if such rentals and other income then constitute Revenues, such Special Facility, unless contrary to law, is to then constitute part of the Airport for all purposes of the Indenture.

Pledge and Agreement by Government. Pursuant to the Indenture the Government pledges to and agrees with the holders of all Bonds that the Government will not (A) limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with the Bondowners, (B) in any way impair the rights and remedies of the Bondowners, (C) acquire, operate or maintain or permit any instrumentality of the Government or any other public or private agency, entity or person to acquire, operate or maintain within the territory of Guam any airport facility competitive with the Airport, (D) do or (within its power) permit any act that would impair the capacity of the Airport or its airfield in any manner materially adverse to the interests of the Bondholders, or (E) transfer any additional non-Airport operating responsibilities to the Authority without providing for the payment of the costs of such additional responsibilities.

Events of Default and Remedies of Bondowners

Events of Default. Any one or more of the following events are Events of Default under the Indenture:

(1) if default is made in the due and punctual payment of the principal of, or the premium (if any) on, any Bond when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption, or otherwise, or if default is made in the redemption or payment at maturity from any Sinking Account of any Term Bonds in the amounts and at the times provided therefor;

(2) if default is made in the due and punctual payment of any installment of interest on any Bond or any Parity Payment Agreement Payment when and as such interest installment or Parity Payment Agreement Payment becomes due and payable;

(3) if default is made by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained or by the Government in the observance of its covenant in the Indenture, and such default shall have continued for a period of thirty (30) days after notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee or by a Credit Provider, or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(4) if the Authority files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction approves a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other

law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the Authority or of the whole or any substantial part of its property.

Remedies Upon Default. In each and every case during the continuance of an Event of Default, the Trustee in its own name and as Trustee of an express trust, on behalf and for the benefit and protection of the Bondowners, after notice to the Authority, and upon the request of the Owners of a majority in Accreted Value of the Bonds then Outstanding, is required to proceed to protect and enforce any rights of the Trustee and, to the full extent that the Bondowners themselves might do, the rights of such Bondowners under the Indenture and under the laws of the Government by such of the following remedies as such majority deems most effectual to protect and enforce such rights: (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondowners, including the right to require the Authority to charge, prescribe and collect Revenues adequate to comply with the covenants and agreements made in the Indenture, and to require the Authority to carry out any other covenant or agreement with the Bondowners and to perform its duties under the Act; (2) by bringing suit upon the Bonds; (3) by action or suit in equity, to require the Authority to account as if it were the trustee of an expressed trust for the Bondowners; (4) by realizing or causing to be realized through sale or otherwise upon the moneys, securities and other assets pledged under the Indenture; (5) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners; (6) by requiring the Authority to endorse all checks and other negotiable instruments representing Revenues to the order of the Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Trustee; (7) by notifying any or all account debtors of the Authority to pay any amounts representing Revenues, when due, directly to the Trustee as Trustee; and (8) by commencing proceedings for the appointment of a receiver or receivers of the Airport and of the Revenues, with such powers as the court making such appointment confers.

Application of Funds Upon Default. All of the Revenues, all amounts in all of the Funds and Accounts provided for in the Indenture (except any escrow fund established for the payment of any refunded obligations), upon the date of the declaration of an Event of Default as provided in the Indenture and all sums thereafter received by the Authority or the Trustee under the Indenture, if received by the Authority, are required to be transmitted to the Trustee and be applied by the Trustee as and in the order of priority provided in the provisions of the Indenture summarized under “—Allocation of Revenues” and “—Funds and Accounts—Bond Reserve Accounts”; provided, however, that (A) if amounts in the Debt Service Fund are insufficient to pay, when due, all interest on, principal of, and Mandatory Sinking Account Payments on all Bonds then Outstanding and all Parity Payment Agreement Payments pursuant to Parity Payment Agreements then Outstanding and all Credit Agreement Reimbursement Payments due and payable pursuant to Credit Agreements then Outstanding, then such amounts in the Debt Service Fund are required to be used first to pay all installments of interest then due and owing without preference or priority of any such installment of interest over any other installment of interest, then to pay installments of principal and Mandatory Sinking Account Payments then due and owing, without preference or priority of any installment of principal or Mandatory Sinking Account Payments over any other such installment, then to pay all Credit Agreement Reimbursement Payments then due and payable, and then to pay Parity Payment Agreement Payments then due and owing, without preference or priority of any Parity Payment Agreement Payment over any other such Parity Payment Agreement Payment; and (B) amounts in Construction Accounts may be used for the purposes for which such Construction Accounts were created and funded if the Trustee determines, in accordance with the Indenture, that such use is in the best interests of the Bondholders and the Credit Providers.

If any installment of interest, principal or Redemption Price is only partially paid, such payment is to occur only upon presentation of the several Bonds and the recording thereon of a record of such partial payment.

Representation of Bondowners by Trustee. In case one or more of the Events of Default will happen, then and in every such case the Owner of any Bond at the time Outstanding will be entitled to proceed to protect and enforce the rights vested in such Owner by the Indenture by such appropriate judicial proceeding as such Owner will deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the exercise of any power granted in the Indenture, or to enforce any other legal or equitable right vested in the Owners of Bonds by the Indenture or by law; provided, however, that no such Bondowner will have the right to institute any such judicial proceeding pursuant to the Indenture unless (A) such Owner will have previously given to the Trustee notice of the occurrence of an Event of Default under the Indenture; (B) the Owners of at least a majority in Accreted Value of the Bonds then Outstanding will have made request to the Trustee to exercise the powers granted in the Indenture or

to institute such action, suit or proceeding in its own name; (C) such Owner or said Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (D) the Trustee will have refused or omitted to comply with such request for a period of sixty days after such request will have been received by, and said tender of indemnity will have been made to, the Trustee. The provisions of the Indenture will constitute a contract with the Owners of the Bonds, and such contract and duties of the Authority and of the Authority members, officers and employees thereof will be enforceable by any Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

Nothing in the provisions of the Indenture summarized in this section will affect or impair the right of any Owner to enforce the payment of principal of and interest on such Owner's Bonds or the obligation of the Authority to pay the principal of and interest on each such Bond at the time and place specified in such Bond.

Nonwaiver. Nothing in the Indenture, or in the Bonds, will affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and the interest (and premium, if any) on the Bonds to the respective Owners of the Bonds at the respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues therein pledged for such payments, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default or breach of duty or contract by any Bondowner will not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on the subsequent default or breach. No delay or omission of the Trustee or of any Owner of any of the Bonds to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Act or the Indenture to the Trustee or to the Owners of Bonds or any Credit Provider may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners of Bonds or any such Credit Provider.

Actions by Trustee as Attorney-in-Fact. Pursuant to the Indenture, any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated (notwithstanding any conditions upon the bringing of any such action, suit or proceeding described above) and the Trustee is appointed in the Indenture (and the successive respective Owners of the Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of Bonds or to any Credit Provider in the Indenture is intended to be exclusive of any other remedy. Every such remedy is cumulative and is in addition to every other remedy given under the Indenture or existing, at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

The Fiduciaries

Appointment of Co-Trustees. The Authority may, with the consent of each Credit Provider, appoint one or more Co-Trustees in connection with the issuance of a Series of Bonds or under the circumstances described in the Indenture. Any Co-Trustee may be appointed for the purpose of receiving moneys which the Authority is required to deposit or cause to be deposited with the Trustee under the Indenture, to hold in trust, allocate, use and apply the same as provided in the Indenture and otherwise to hold any or all the offices and to perform any or all the functions and duties provided in the Indenture to be held and performed by the Trustee. Each Co-Trustee is to signify its acceptance of the duties and obligations imposed upon it by the Indenture by executing and delivering a written acceptance thereof, and by executing and delivering such a Supplemental Indenture, such Co-Trustee is deemed to have accepted such duties and obligations, but only upon the terms and conditions set forth in the Indenture.

The execution by any Co-Trustee of a Supplemental Indenture providing for the issuance of an additional Series of Bonds is not required, unless such Supplemental Indenture: (a) amends one or more provisions of the Indenture or in any way adds to, eliminates or alters any right, duty or obligation of such Co-Trustee under the Supplemental Indenture other than by providing for the issuance of an additional Series of Bonds; (b) appoints such Co-Trustee as a Paying Agent or Registrar; or (c) directs the Co-Trustee to hold all or any portion attributable to such Series of one or more of the funds or accounts created under or pursuant to the Indenture.

The Authority, the Trustee and each Co-Trustee are required to establish such accounting, notice and other relationships as are necessary to provide for the operation of the accounts created under or pursuant to the Indenture, and the handling of the Revenues credited thereto in accordance with the Indenture.

Duties, Immunities and Liabilities of Fiduciaries. (A) The Trustee and the Co-Trustee, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, are required to perform such duties and only such duties as are specifically set forth in the Indenture for each to perform. The Trustee and the Co-Trustee, during the existence of any Event of Default which has not been cured, are required to exercise such of the rights and powers vested in them by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(B) Each Depository, Registrar and Paying Agent will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and, during the existence of any Event of Default (which has not been cured), are required to follow the directions of the Trustee with respect to any of the Funds and Accounts held under the Indenture.

(C) The Authority may remove any Fiduciary at any time unless an Event of Default shall have occurred and then be continuing, and is required to remove a Fiduciary if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in Accreted Value of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time such Fiduciary will cease to be eligible in accordance with the provisions of the Indenture summarized below in subsection (F) below, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of such Fiduciary or its property is appointed, or any public officer takes control or charge of such Fiduciary or its property or affairs for the purpose of rehabilitation, conservation or liquidation; in each case by giving notice of such removal to such Fiduciary and thereupon will be required to appoint a successor Trustee, Co-Trustee, Depository, Registrar or Paying Agent, as the case may be, by an instrument in writing. Any Supplemental Indenture or Credit Agreement entered into in connection with Bonds may provide that the Credit Provider with respect thereto has the right to direct the Authority to remove any Fiduciary and appoint a successor under the circumstances specified therein.

(D) Any Fiduciary may at any time resign by giving notice of such resignation to the Authority the other Fiduciaries and each Credit Provider. Subject to the provisions of any Supplemental Indenture or Credit Agreement, upon receiving such notice of resignation, the Authority will be required to promptly appoint a successor Trustee, Co-Trustee, Depository, Registrar or Paying Agent, as the case may be, by an instrument in writing.

(E) Any such removal or resignation and appointment of a successor Fiduciary will become effective upon acceptance of appointment by the successor. Promptly upon such acceptance, the Authority will be required to give notice thereof to each Fiduciary, to each affected Credit Provider and to the affected Bondowners by mail in the manner provided by the Indenture. If no successor has been appointed and has accepted appointment within forty-five (45) days after giving notice of removal or notice of resignation as aforesaid, the resigning Fiduciary or any Bondowner (on behalf of such Bondowner and all other Bondowners) or any Credit Provider may petition any court of competent jurisdiction for the appointment of a successor, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor. Any such successor appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor a written acceptance thereof (which may be a Supplemental Indenture), and thereupon such successor, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor, with like effect as if originally named in the Indenture; but, nevertheless, at the Request of the Authority or the request of the successor, such predecessor will be required to execute and deliver

any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor all the right, title and interest of such predecessor in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor any money or other property subject to the trusts and conditions therein set forth. Upon request of the successor, the Authority will be required to execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor all such moneys, estates, properties, rights, powers, trusts, duties and obligations.

(F) The Trustee appointed under the provisions of the Indenture will be required to meet the requirements of any Supplemental Indenture and any Credit Agreement and will be a trust company or bank having the powers of a trust company doing business and having a corporate trust office in any State or territory and having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal, state or territorial authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the provisions of the Indenture summarized in this section the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of the Indenture summarized in this subsection, it will resign immediately in the manner and with the effect specified in the provisions of the Indenture this section.

The Co-Trustee, Registrar and Paying Agent appointed under the provisions of the Indenture summarized in this section will meet the requirements of any Supplemental Indenture and any Credit Agreement and will be a trust company or bank having trust powers doing business and having a corporate trust office in any State of the United States, and, in the case of the Co-Trustee, having a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the provisions of the Indenture summarized in this section the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Co-Trustee, any Registrar or any Paying Agent will cease to be eligible in accordance with the provisions of the Indenture summarized in this subsection, it will be required to resign immediately in the manner and with the effect specified in the Indenture.

Each Depositary appointed under the provisions of the Indenture summarized in this section will be a trust company or commercial bank having the powers of a trust company, having a combined capital and surplus of at least Ten Million Dollars (\$10,000,000), and subject to supervision or examination by federal or territorial authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the provisions of the Indenture summarized in this section the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Depositary will cease to be eligible in accordance with the provisions of the Indenture summarized in this subsection, the Depositary will be required to resign immediately in the manner and with the effect specified in with the provisions of the Indenture summarized in this section. The Authority may enter into a Supplemental Indenture from time to time to provide for a different or additional Depositary for any fund or account established under the Indenture.

(G) Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which such Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company will be eligible under the provisions of the Indenture summarized in subsection (F) of this section, will be the successor to such Fiduciary without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding. Any such successor will be required to give notice of such merger, conversion or consolidation to each other Fiduciary and to the Authority.

Liability of Fiduciaries. The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the Authority, and no Fiduciary assumes any responsibility or liability for the correctness of the same,

or makes any representations as to the validity or sufficiency of the Indenture, of the Bonds, of any Credit Facility or of the pledge and assignment of Revenues in the Indenture or any information or statements in any offering memorandum or other disclosure material prepared or distributed in connection with the issuance of Bonds or will incur any responsibility or liability in respect thereof, other than in connection with the duties or obligations therein or in the Bonds assigned to or imposed upon them, respectively.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended at any time by a Supplemental Indenture which will become binding when the consents of the Owners of at least sixty percent (60%) in Accreted Value of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture; provided that if such modification or amendment will, by its terms, not take effect so long as any bonds of any particular maturity or Series remain Outstanding, the consent of the Owners of Bonds of such maturity or Series will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Indenture; and provided further that the consent of a Credit Provider for any Bond will be deemed to be the consent of the Owner of such Bond if specified in the Supplemental Indenture pursuant to which such Credit Provider is designated as providing a Credit Facility for such Bond.

No such modification or amendment may (a) extend the fixed maturities of the Bonds, or extend the time for making any Mandatory Sinking Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Owners of Bonds whose consent is required for the execution of any amendment or modification of the Indenture or permit the creation of any lien on the Revenues prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture upon such Revenues, without in each case the consent of the Owners of all of the Bonds then Outstanding.

No such modification or amendment may modify any of the rights or obligations of any Fiduciary without its consent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which will become binding upon adoption, without the consent of any Bondowners, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or conferred upon the Authority; (2) to cure, correct or supplement any ambiguous or defective provision contained in the Indenture or in regard to questions arising under the Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Indenture, and which will not materially adversely affect the interests of the Owners of the Bonds or any Credit Provider; (3) to provide for the issuance of Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture; and (4) to provide for any other matters for which a Supplemental Indenture is expressly permitted or required under the Indenture.

Any Supplemental Indenture providing for the issuance of a Series of Bonds may require, in addition to or in lieu of any consents required by the provisions of the Indenture summarized in the this subsection, the consent of any Credit Provider for such Bonds in order for any amendment to the Indenture affecting such Bonds to be effective, and may set forth appropriate procedures for obtaining and evidencing such consent.

Procedure for Amendment with Consent of Bondowners. The Authority may at any time adopt a Supplemental Indenture amending the provisions of the Bonds or of the Indenture or any Supplemental Indenture, to the extent that such amendment is permitted by the provisions of the Indenture, to take effect when and as provided in the provisions of the Indenture summarized in this section. A copy of such Supplemental Indenture, together with a request to Bondowners for their consent thereto, is to be mailed by the Authority to each Owner of Bonds, but failure to receive any such copies of such Supplemental Indenture and request will not affect the validity of the Supplemental Indenture when assented to.

Such Supplemental Indenture will not become effective unless there is filed with the Trustee the consents of the Owners of sixty percent (60%) in Accreted Value of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and a notice has been published as provided in the Indenture. Each such consent will be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof will be such as is permitted by the Indenture. Any such consent will be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice provided for in the Indenture has been published.

After the Owners of the required percentage of Bonds have filed their consents to the Supplemental Indenture, the Authority is to mail a notice to the Bondowners in the manner provided in the Indenture for the mailing of the Supplemental Indenture and publication of the notice of adoption thereof, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in the Indenture (but failure to receive copies of said notice will not affect the validity of the Supplemental Indenture or consents thereto). A record, consisting of the papers required by the Indenture to be filed with the Trustee, will be proof of the matters therein stated until the contrary is proved.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondowners upon such notice and in accordance with such rules and regulations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Disqualified Bonds. Bonds owned or held by or for the account of the Authority (but excluding Bonds held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in the Indenture, and will not be entitled to consent to or take any other action provided for in the Indenture.

The Authority may adopt appropriate regulations to require each Bondowner, before his consent provided for in the Indenture will be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in the Indenture.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to the provisions of the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

Discharge of Indenture. If the Authority pays and discharges the entire indebtedness on all Bonds Outstanding in any one or more of the following ways:

(1) by well and truly paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all Bonds Outstanding, as and when the same become due and payable (but not including Bonds the principal of or interest on which has been paid by a Credit Provider until said principal and interest will have been paid by the Authority); or

(2) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Debt Service Fund and the Bond Reserve Accounts, is fully sufficient to pay or redeem all Bonds Outstanding, including all principal, interest and redemption premiums, if any; or

(3) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding; or

(4) by depositing with the Trustee, in trust, non-callable Federal Securities in such amount which, in the determination of an Independent Certified Public Accountant, who shall certify such determination to the Trustee and, if so provided in a Supplemental Indenture, any Credit Provider, shall, together with the income or increment to accrue thereon and any other moneys of the Authority made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if the Authority will also pay or cause to be paid all other sums payable under the Indenture by the Authority (including all Parity Payment Agreement Payments and any Termination Payments payable in connection with a termination of a Parity Payment Agreement and any Credit Agreement Payments then due and payable) and deliver or have delivered to the Trustee and each Credit Provider an Opinion of Counsel to the effect that upon satisfaction of the other requirements of the provision of the Indenture relating to discharge of Indenture all obligations of the Authority under the Indenture will cease, terminate and be completely discharged, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority signifying its intention to pay and discharge all such indebtedness and that the Indenture and all other obligations of the Authority under the Indenture will cease and terminate, which will be filed with the Trustee), and notwithstanding that any Bonds will not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Authority under the Indenture will cease, terminate and be completely discharged, and the Owners of the Bonds not so surrendered and paid will thereafter be entitled to payment only out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment; subject, however, to the provisions of the Indenture relating to payment of Bonds after the discharge of Indenture. The discharge of the obligations of the Authority under the Indenture will be without prejudice to the rights of the Trustee to charge for and be reimbursed by the Authority for any expenditures which it may thereafter incur in connection with the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, are to be deemed to be paid and retired.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or Federal Securities in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice, then all liability of the Authority in respect of such Bonds will cease, determine and be completely discharged and the Owners thereof will thereafter be entitled only to payment out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture relating to payment of Bonds after the discharge of Indenture.

Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys deposited with the Trustee in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for five years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture) are then to be repaid to the Authority upon its Request, and the Owners of such Bonds will thereafter be entitled to look only to the Authority for payment thereof, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) first publish at least once in a Financial Newspaper or Journal and in a newspaper of general circulation in Guam a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Authority as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited will thereafter be deemed to be general creditors of the Authority for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Authority (without interest thereon).

Liability of Authority Limited to Revenues

Notwithstanding anything in the Indenture contained, the Authority will not be required to advance any moneys derived from any source of income other than the Revenues, for the payment of the principal of or interest

on the Bonds, Payment Agreement Payments, Termination Payments and Credit Agreement Payments, for the operation and maintenance of the Airport, for the performance of any covenants contained in the Indenture or for the payment of any obligations under the Indenture, including indemnification. The Authority may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Authority for such purpose without incurring indebtedness.

The Bonds are revenue bonds, payable exclusively from the Revenues as in the Indenture provided. The principal of and interest on the Bonds and any premiums upon the redemption of any thereof are not be a debt of the Authority, nor a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues pledged to the payment thereof as in the Indenture provided.

Waiver of Personal Liability

No Board member, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal of or interest on the Bonds; but nothing contained in the Indenture will relieve any such Board member, officer, agent or employee from the performance of any official duty provided by law.

Credit Agreements and Credit Providers

Anything in the Indenture to the contrary notwithstanding, a Supplemental Indenture providing for the issuance of a Series of Bonds for which a Credit Facility provides supplemental credit support may, so long as such Credit Facility are Outstanding or any Credit Agreement Payments are due and payable with respect thereto, provide additional terms, provisions and limitations not inconsistent with the provisions of the Indenture for the protection and benefit of the related Credit Provider.

Summary of Certain Provisions of the 2013 Supplemental Indenture

Designation of Bond Reserve Account Requirement for 2013 Bonds

The Bond Reserve Account Requirement in respect of the 2013 Bonds (the “2013 Bond Reserve Account Requirement”) is established in the 2013 Supplemental Indenture as a pooled Bond Reserve Account Requirement to secure repayment of each Series of the 2013 Bonds and any one or more subsequently issued Series of Bonds designated in a Supplemental Indenture as having the same pooled Bond Reserve Account Requirement (collectively, the “2013 Bond Reserve Account Bonds”) and is to be an amount equal to the lesser of (i) Maximum Annual Debt Service on all Outstanding 2013 Bond Reserve Account Bonds, (ii) one hundred and twenty-five percent (125%) of average Annual Debt Service on all Outstanding 2013 Bond Reserve Account Bonds or (iii) the Bond Reserve Account Requirement for the 2013 Bond Reserve Account Bonds in effect immediately prior to the issuance of the most recently issued Series of 2013 Bond Reserve Account Bonds, plus the Tax Maximum calculated with respect to such Series of 2013 Bond Reserve Account Bonds. For the avoidance of doubt, when calculating the Bond Reserve Account Requirement to apply immediately following the issuance of an additional Series of 2013 Bond Reserve Account Bonds, the amount summarized in clause (iii) above is to be calculated using the Bond Reserve Account Requirement for the 2013 Bond Reserve Account Bonds in effect immediately prior to such issuance, plus the Tax Maximum calculated with respect to such additional Series of 2013 Bond Reserve Account Bonds.

The 2013 Supplemental Indenture provides further that moneys in the 2013 Bond Reserve Account are to be invested in Investment Securities paying interest and maturing, or subject to liquidation at the option of the Authority at a price equal to the par amount thereof plus accrued interest, not later than five (5) years from the date of such investment. The amount on deposit in the 2013 Bond Reserve Account (including any investments held therein) is to be determined by the Trustee, not less frequently than annually and upon Request of the Authority, as the fair market value thereof as of the date of such determination.

Establishment and Application of 2013 Costs of Issuance Account

Pursuant to the 2013 Supplemental Indenture, the Trustee is required to establish within the Guam Airport Authority Construction Fund and maintain and hold in trust under the Indenture a separate account designated as the “2013 Costs of Issuance Account.” Amounts in the 2013 Costs of Issuance Account are required to be used and withdrawn, as provided in the Indenture, solely for the payment of Costs of Issuance of the 2013 Bonds. Upon the earlier to occur of (i) receipt by the Trustee of a Certificate of the Authority to the effect that all Costs of Issuance for the 2013 Bonds have been paid and (ii) 180 days after the Date of Issuance, any moneys remaining on deposit in the 2013 Costs of Issuance Account are to be transferred to the Revenue Fund.

Establishment and Application of 2013 Series B/C Construction Account

Pursuant to the 2013 Supplemental Indenture, the Trustee is required to establish within the Guam Airport Authority Construction Fund one or more separate accounts (collectively, the “2013 Series B/C Construction Account”) to be applied for the purpose of paying, or reimbursing the Authority for the payment of, costs of the 2013 Series B/C Projects. The 2013 Supplemental Indenture provides that no transfers are to be made after the Interest Payment Date next succeeding the date of receipt by the Trustee and the Co-Trustee of a Certificate of the Authority to the effect that the 2013 Series B/C Projects have been completed.

Tax Covenants

2013 Rebate Account. Pursuant to the 2013 Supplemental Indenture, the Trustee will establish and maintain within the Rebate Fund a separate subaccount designated as the “2013 Rebate Account.” There are required to be deposited in the 2013 Rebate Account from amounts in the Operation and Maintenance Fund or other lawfully available moneys such amounts as are required to be deposited therein pursuant to the Tax Certificate delivered by the Authority in connection with the issuance of the 2013 Bonds. All money at any time deposited in the 2013 Rebate Account are to be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement for the 2013 Bonds, for payment to the United States of America, and pursuant to the Indenture the United States of America is granted a first lien on such money until such payment. All amounts required to be deposited into or on deposit in the 2013 Rebate Account will be governed exclusively by the 2013 Supplemental Indenture and by such Tax Certificate.

In the event that the amount in the 2013 Rebate Account exceeds the Rebate Requirement for the 2013 Bonds, upon the Request of the Authority, the Trustee will be required to transfer the excess from the 2013 Rebate Account to the Revenue Fund.

Notwithstanding any provisions of the 2013 Supplemental Indenture summarized in this section, if the Authority provides to the Trustee an opinion of Bond Counsel that any specified action required under the provisions of the 2013 Supplemental Indenture summarized in this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on any Series of Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of the provisions of the 2013 Supplemental Indenture summarized in this section, and, notwithstanding certain provisions of the Indenture, the covenants under the Indenture are to be deemed to be modified to that extent.

Tax Covenants for 2013 Bonds. The 2013 Supplemental Indenture provides that the Authority intends that, and shall at all times do and perform all acts and things permitted by law, the Indenture and the Tax Certificate to assure that, interest on the 2013 Bonds be excluded from gross income for federal income tax purposes, that the 2013 Bonds be exempt, as to principal and interest, from taxation by any state or territory of the United States or political subdivision thereof or by the District of Columbia and that interest on the 2013 Series A and B Bonds not be treated as a specific preference item for purposes of the federal individual or corporate alternative minimum taxes (subject, however, to being included in adjusted current earnings when calculating corporate alternative minimum taxable income). In the 2013 Supplemental Indenture, the Authority reserves the right to determine the desired tax status of any additional Series of Bonds.

The Authority covenants in the 2013 Supplemental Indenture that it will not use or permit the use of any proceeds of the 2013 Bonds or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not use or permit the use of any amounts received by the Authority in any manner, and will not take or permit to be taken any other action or actions, which would cause any such Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Designation of 2013 Bonds as “initial Bonds”

The 2013 Bonds are designated in the 2013 Supplemental Indenture as “initial Bonds” for purposes of the Indenture, as amended as described below.

Amendments to the General Indenture

The 2013 Supplemental Indenture includes amendments to certain provisions of the General Indenture. Upon the delivery of the 2013 Bonds and the concurrent defeasance of the all of the Outstanding 2003 Bonds, the General Indenture will be amended as described below:

(i) the definition of “Bond Reserve Account Requirement” will be amended and restated in its entirety (solely for convenience of the reader, insertions appear as **bold underlined** text and deletions appear as ~~*strikethrough italicized*~~ text) to read as follows:

“Bond Reserve Account Requirement” means, as of any particular date of calculation, with respect to any Series of Bonds **for which a Bond Reserve Account Requirement is established**, an amount equal to the amount calculated for such date as specified by the Supplemental Indenture providing for the issuance of such Series of Bonds, ~~*but not less than the least as of such date for such Series of (i) Maximum Annual Debt Service on all such Bonds, (ii) one hundred twenty five percent (125%) of average Annual Debt Service on all such Bonds, or (ii) ten percent (10%) of the original principal amount of such Series.*~~”

(ii) Section 3.05(A)(3) of the General Indenture will be amended and restated as follows (solely for convenience of the reader, insertions appear as **bold underlined** text and deletions appear as ~~*strikethrough italicized*~~ text):

“the amount of the Bond Reserve Account Requirement for such Series, **if any, and if so established, whether the Bond Reserve Account Requirement shall apply solely for such Series or on a pooled basis and, if on a pooled basis, the Series of Bonds which shall be secured by the related pooled Bond Reserve Account to which such Bond Reserve Account Requirement applies;**”

(iii) Section 3.05(B)(1)(c)(i)(B) of the General Indenture will be amended and restated as follows (solely for convenience of the reader, insertions appear as **bold underlined** text and deletions appear as ~~*strikethrough italicized*~~ text):

“A certificate of ~~*a Consulting Engineer*~~ **the Authority** setting forth (I) the projected Date of Beneficial Occupancy for the Project or Projects for which such Series of Bonds is being issued and for any other uncompleted Projects, and (II) an estimate of the cost of construction of such Projects;”

(iv) Section 3.05 of the General Indenture will be amended to add the following subsection (C):

“(C) Notwithstanding the foregoing, the requirements of Section 3.05(B) shall not apply to the issuance of one or more series of Additional Bonds if, not later than the date of issuance and delivery of such Additional Bonds (which shall be the same date for all

such Bonds), the Authority delivers a certificate to the Trustee stating that (i) on and as of such date, such Bonds are the only Bonds Outstanding under the Indenture, and (ii) no Parity Payment Agreements are then in effect. Such Additional Bonds shall be designated as “initial Bonds” in the related Supplemental Indenture.”

(v) Section 5.06 of the General Indenture will be amended and restated as follows (solely for convenience of the reader, insertions appear as **bold underlined** text and deletions appear as ~~striketrough~~ text):

“All amounts in each Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of paying debt service on the Series of Bonds (including Payment Agreement Payments to the extent provided in any Supplemental Indenture) for which such Account was established in the event of a deficiency in the Debt Service Fund, in the manner and to the extent set forth in Section 5.11. **The Supplemental Indenture for any Series of Bonds may establish a pooled Bond Reserve Account Requirement for the Series of Bonds to be issued under such Supplemental Indenture and any one or more subsequently issued Series of Bonds with the same pooled Bond Reserve Account Requirement, in which case the Bond Reserve Account Requirement for the initial such Series of Bonds shall be deposited in the applicable Bond Reserve Account in an account solely for the benefit of those Bonds and any Additional Bonds designated in a related Supplemental Indenture as having the same pooled Bond Reserve Account Requirement, and on the date of issuance of any such Additional Bonds, there shall be deposited in the aforementioned account the amount necessary to increase the balance in such account to an amount equal to the Bond Reserve Account Requirement for all Bonds secured by that account.** So long as the Authority is not in default hereunder, any amount in any Bond Reserve Account in excess of its Bond Reserve Account Requirement shall be transferred to the Revenue Fund. A Supplemental Indenture providing for the issuance of a Series of Bonds may provide that income derived from the investment of the proceeds of such Series in the Bond Reserve Account for such Series prior to the completion of each Project for which such Bonds were issued shall be deposited in the Construction Account for such Project. Otherwise, such income shall be deposited in the Revenue Fund.

“If and to the extent provided by a Supplemental Indenture authorizing the issuance of a Series of Bonds, the Bond Reserve Account Requirement for ~~such Series~~ **the Bond Reserve Account, if any, securing such Series** may be wholly or partially satisfied by a Credit Facility. Notwithstanding anything to the contrary contained hereinbefore in this Section or in Article IV, such Supplemental Indenture may also provide that if a drawing or other claim on such Credit Facility is honored, amounts available under Section 5.02(C) for deposit in the applicable Bond Reserve Account shall be applied by the Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing or other claim, and the Trustee shall give any notice of such reimbursement required by the applicable Credit Agreement.”

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Amendment of the General Indenture,” “—Bond Reserve Fund” and “—Additional Bonds” in the front part of this Official Statement.

The 2013 Bond Insurer Provisions

Pursuant to the Indenture, the covenants summarized below have been made for the benefit of and are subject to waiver in writing by and solely in the discretion of the 2013 Bond Insurer and such covenants are to be effective so long as (i) any Insured 2013 Bonds are Outstanding and (ii) the 2013 Bond Insurer is not in default of its payment obligations under the 2013 Insurance Policy and (iii) so long as the 2013 Insurance Policy remains in effect:

(a) The 2013 Insurance Policy is deemed to constitute a Credit Facility and the 2013 Bond Insurer shall constitute a Credit Provider under the Indenture.

(b) The prior written consent of the 2013 Bond Insurer will be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the 2013 Bond Reserve Account, if any.

(c) Pursuant to the Indenture, the 2013 Bond Insurer shall be deemed to be the sole holder of the Insured 2013 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured 2013 Bonds are entitled to take pursuant to the section or article of the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee and the Co-Trustee.

(d) No grace period for a covenant default is to exceed 30 days or be extended for more than 60 days, without the prior written consent of the 2013 Bond Insurer. No grace period is to be permitted for payment defaults.

(e) The 2013 Bond Insurer is included as a third party beneficiary to the Indenture.

(f) The exercise of any provision of the Indenture which permits the purchase of Insured 2013 Bonds in lieu of redemption will require the prior written approval of the 2013 Bond Insurer if any Insured 2013 Bond so purchased is not cancelled upon purchase.

(g) Any amendment, supplement, modification to, or waiver of, the Indenture, 2013 Bonds or the Escrow Agreement (each a "2013 Related Document"), that requires the consent of Bondowners or adversely affects the rights and interests of the 2013 Bond Insurer will be subject to the prior written consent of the 2013 Bond Insurer.

(h) The rights granted to the 2013 Bond Insurer under the Indenture or any other 2013 Related Document to request, consent to or direct any action are rights granted to the 2013 Bond Insurer in consideration of its issuance of the 2013 Insurance Policy. The Indenture provides that any exercise by the 2013 Bond Insurer of such rights is merely an exercise of the 2013 Bond Insurer's contractual rights and is not to be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and that such action does not evidence any position of the 2013 Bond Insurer, affirmative or negative, as to whether the consent of the Bondowners or any other person is required in addition to the consent of the 2013 Bond Insurer.

(i) Federal Securities are to be used to effect defeasance of the Insured 2013 Bonds unless the 2013 Bond Insurer otherwise approves. To accomplish defeasance, the Authority is required to cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the 2013 Bond Insurer verifying the sufficiency of the escrow established to pay the Insured 2013 Bonds in full on the maturity or redemption date (for purposes of this section "Verification"), (ii) an escrow deposit agreement (which is to be acceptable in form and substance to the 2013 Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Insured 2013 Bonds are no longer Outstanding under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the Insured 2013 Bonds; each Verification and defeasance opinion is required to be acceptable in form and substance, and addressed, to the Authority, Trustee and 2013 Bond Insurer. The 2013 Bond Insurer is to be provided with final drafts of the above referenced documentation not less than five business days prior to the funding of the escrow. Insured 2013 Bonds are to be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(j) Amounts paid by the 2013 Bond Insurer under the 2013 Insurance Policy are not to be deemed paid for purposes of the Indenture and the Insured 2013 Bonds relating to such payments will remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Indenture. The Indenture is not to be discharged unless all amounts due or to become due to the 2013 Bond Insurer have been paid in full or duly provided for.

(k) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Bonds or the rights of the Bondholders, the Trustee and the Co-Trustee are required to consider the effect of any such amendment, consent, waiver, action or inaction as if there were no 2013 Insurance Policy.

(l) Any interest rate exchange agreement (“Swap Agreement”) entered into by the Authority is required to meet the following conditions: (i) the Swap Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (iii) debt reasonably expected to be issued within the next twelve (12) months, and (ii) the Swap Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Pursuant to the Indenture, unless otherwise consented to in writing by the 2013 Bond Insurer, any uninsured net settlement, breakage or other termination amount then in effect is required to be subordinate to debt service on the 2013 Bonds and on any debt on parity with the 2013 Bonds. The Authority is not to terminate a Swap Agreement unless it demonstrates to the satisfaction of the 2013 Bond Insurer prior to the payment of any such termination amount that such payment will not cause the Authority to be in default under the 2013 Related Documents, including but not limited to, any monetary obligations thereunder. All counterparties or guarantors to any Swap Agreement will be required to have a rating of at least “A-” and “A3” by Standard & Poor’s (“S&P”) and Moody’s Investors Service (“Moody’s”). If the counterparty or guarantor’s rating falls below “A-” or “A3” by either S&P or Moody’s, the counterparty or guarantor will be required to execute a credit support annex to the Swap Agreement, which credit support annex is to be acceptable to the 2013 Bond Insurer. If the counterparty or the guarantor’s long term unsecured rating falls below “Baa1” or “BBB+” by either Moody’s or S&P, a replacement counterparty or guarantor, acceptable to the 2013 Bond Insurer, will be required.

APPENDIX F
PROPOSED FORM OF OPINION OF BOND COUNSEL

September 12, 2013

A.B. Won Pat International
Airport Authority, Guam
Tamuning, Guam

A.B. Won Pat International Airport Authority, Guam, General Revenue Bonds,
2013 Series A, 2013 Series B and 2013 Series C

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the A.B. Won Pat International Airport Authority, Guam (the “Authority”) in connection with the issuance of \$14,620,000 aggregate principal amount of A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series A (the “2013 Series A Bonds”), \$33,675,000 aggregate principal amount of A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series B (the “2013 Series B Bonds” and together with the 2013 Series A Bonds, the “2013 Series A and B Bonds”), and \$199,040,000 aggregate principal amount of A.B. Won Pat International Airport Authority, Guam General Revenue Bonds, 2013 Series C (the “2013 Series C Bonds” and together with the 2013 Series A and B Bonds, the “2013 Bonds”), issued pursuant to Chapter 1, Title 12, Guam Code Annotated, as amended, and Public Law No. 36-062 (collectively, the “Act”), Resolution No. 13-03, adopted by the Board of Directors of the Authority on August 9, 2013, and Resolution No. 13-046, adopted by the Board of Directors of the Guam Economic Development Authority (“GEDA”) on August 21, 2013 (together, the “Resolutions”), an indenture dated as of September 1, 2003, as amended and supplemented, and a supplemental indenture, dated as of September 1, 2013 (collectively, the “Indenture”), among the Authority, Bank of Guam, as successor trustee (the “Trustee”) and U.S. Bank National Association, as co-trustee (the “Co-Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Act, the Resolutions, the Indenture, the Tax Certificate of the Authority, dated the date hereof (the “Tax Certificate”), the Escrow Agreement, dated as of September 1, 2013 (the “Escrow Agreement”) between the Authority and U.S. Bank National Association, as escrow agent, certificates of the Authority, GEDA, the Governor of Guam, the Trustee, the Co-Trustee and others, opinions of counsel to the Authority, GEDA, the

Trustee and the Co-Trustee, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed, without undertaking to verify, the genuineness of such documents, certificates and opinions presented to us (whether as originals or copies) and of the signatures thereon, the accuracy of the factual matters represented, warranted or certified in such documents and certificates and of the legal conclusions contained in such opinions, and the due and legal execution thereof by, and validity against, any parties other than the Authority.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the 2013 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Escrow Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2013 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2013 Bonds, the Indenture, the Escrow Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against agencies and instrumentalities of the Government of Guam. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2013 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The 2013 Bonds constitute the valid and binding limited obligations of the Authority, payable solely from the Revenues pledged therefor under the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the 2013 Bonds and the payment of Credit Agreement Payments and Parity Payment Agreement Payments, of the Revenues, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), except that no opinion is expressed as to the status of interest on any 2013 Series A Bond for any period that such 2013 Series A Bond is held by a “substantial user” of facilities financed by the 2013 Series A Bonds or by any “related person” within the meaning of Section 147(a) of the Code, and no opinion is expressed as to the status of interest on any 2013 Series C Bond for any period that such 2013 Series C Bond is held by a “substantial user” of facilities financed by the 2013 Series C Bonds or by any “related person” within the meaning of Section 147(a) of the Code. Interest on the 2013 Series A and B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We also observe that interest on the 2013 Series C Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. The 2013 Bonds are exempt, as to principal and interest, from taxation by any state or territory of the United States or any political subdivision thereof, or by the District of Columbia. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

DTC AND ITS BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2013 Bonds. The 2013 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2013 Bond certificate will be issued for each maturity of each series of the 2013 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary The Depository Trust & Clearing Corporation (“DTCC”). DTCC is a holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned and operated by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2013 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2013 Bonds, except in the event that use of the book-entry system for the 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2013 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2013 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2013 Bond documents. Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the 2013 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative,

Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2013 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of, Redemption Price of and interest on the 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, Redemption Price or interest on the 2013 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such, payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2013 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, 2013 Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2013 Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

The preceding information in this APPENDIX G was provided by DTC for inclusion herein, and has not been independently verified by the Authority or the Underwriters. No representation is made by the Authority as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Authority cannot and does not give any assurances that DTC will distribute to the Participants, or that the Participants or others will distribute to the Beneficial Owners, payments of debt service on the 2013 Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2013 Bonds or any error or delay relating thereto.

Neither the Authority nor the Trustee shall have any responsibility or obligation to any DTC Participant, any beneficial owner or other persons claiming a beneficial ownership interest in the 2013 Bonds under or through DTC or any DTC Participant, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant with respect to the beneficial ownership interest in the 2013 Bonds; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and premium, if any, or interest on the 2013 Bonds to any beneficial owner or other person for the 2013 Bonds; or (iii) the delivery to any beneficial owner of the 2013 Bonds, or any other person of any notice which is permitted or required to be given to owners under the Indenture. Neither the Authority nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.

APPENDIX H

FORM OF CONTINUING DISCLOSURE AGREEMENT

**A.B. WON PAT
INTERNATIONAL AIRPORT AUTHORITY, GUAM**

\$14,620,000
General Revenue Bonds
2013 Series A (Non-AMT)

\$33,675,000
General Revenue Bonds
2013 Series B (Non-AMT)

\$199,040,000
General Revenue Bonds
2013 Series C (AMT)

This Continuing Disclosure Agreement, dated as of September __, 2013 (the “Disclosure Agreement”), is executed and delivered by the A.B. Won Pat International Airport Authority, Guam (the “Authority”), and Digital Assurance Certification, L.L.C., as dissemination agent (the “Dissemination Agent”), in connection with the issuance by the Authority of the above-captioned bonds (the “Bonds”). The Bonds are being issued pursuant to the Indenture, dated as of September 1, 2003 (the “General Indenture”), as amended and supplemented, including by a Supplemental Indenture, dated as of September 1, 2013 (the “2013 Supplemental Indenture”), by and between the Authority and Bank of Guam, as trustee as the successor in interest to the Bank of Hawaii (the “Trustee”), and U.S. Bank National Association (the “Co-Trustee”). The General Indenture, as amended and restated, including by the 2013 Supplemental Indenture, is referred to herein as the “Indenture.” The Authority and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission (“S.E.C.”) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” initially shall mean Digital Assurance Certification, L.L.C., or any successor Dissemination Agent designated in writing by the Authority (which may be the Authority) and which has filed with the Authority a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the official statement of the Authority, dated August 28, 2013, relating to the Bonds.

“Participating Underwriter” shall mean, collectively, the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Authority’s fiscal year (presently September 30) (such date, the “Annual Filing Date”), commencing with the report for the fiscal year ended September 30, 2013, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, subject to the requirement in Section 4(a) of this Disclosure Agreement to file the unaudited financial statements. If the Authority’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the Annual Filing Date, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If the Authority is acting as Dissemination Agent and the Authority is unable to provide to the MSRB an Annual Report by the Annual Filing Date required in subsection (a), the Authority shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) If the Dissemination Agent has not received an Annual Report by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a “failure to file event” shall have occurred and the Authority irrevocably directs the Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report.

(d) If the Annual Report is delivered to the Dissemination Agent for filing, the Dissemination Agent shall (if the Dissemination Agent is other than the Authority) file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. (a) The Authority’s Annual Report shall contain or include by reference the following:

(a) the audited financial statements of the Authority for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board; provided that if the Authority’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements for such entity in a format similar to the financial statements contained in the Official Statement relating to

the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

(b) information regarding the level of passenger traffic at the Airport (to the extent not included in the financial statements referred to in (a) above), to the extent that such information is historical and not projected and that similar information is included in the Official Statement; and

(c) information regarding passenger airline departures (to the extent not included in the financial statements referred to in (a) above), to the extent that such information is historical and not projected and that similar information is included in the Official Statement.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which have been made available to the public on the MSRB's website. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority

having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or co-trustee, or the change of name of a trustee or co-trustee.

(c) Whenever the Authority obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Authority shall determine if such event would be material under applicable federal securities laws.

(d) If the Authority learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Authority shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The obligations of the Authority and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in a filing with the MSRB.

SECTION 8. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or

report prepared by the Authority pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent. The initial Dissemination Agent shall be Digital Assurance Certification, L.L.C.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Authority), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Agreement, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the Authority or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed to be an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and, to the fullest extent permitted by applicable law, the Authority agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Authority under this Section shall survive resignation or removal of the Co-Trustee or the Dissemination Agent and payment of the Bonds.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. Governing Law. This Disclosure Agreement shall be governed by the laws of Guam.

[Signature page follows]

IN WITNESS WHEREOF, this Disclosure Agreement has been executed on behalf of the Authority and the Dissemination Agent by their duly authorized representatives as of the date first written above.

A.B. WON PAT INTERNATIONAL AIRPORT
AUTHORITY, GUAM

By _____
Authorized Officer

DIGITAL ASSURANCE CERTIFICATION, L.L.C.

By _____
Authorized Officer

CONTINUING DISCLOSURE EXHIBIT A

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: A.B. Won Pat International Airport Authority, Guam
Name of Bond Issue: A.B. Won Pat International Airport Authority, Guam 2013 General Revenue Bonds
Date of Issuance: September 12, 2013

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Agreement of the Authority, dated the Date of Issuance. [The Authority anticipates that the Annual Report will be filed by _____.]

Dated: _____

A.B. WON PAT INTERNATIONAL AIRPORT
AUTHORITY, GUAM

By _____ [to be signed only if filed]

APPENDIX I
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall remain unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the amount of principal of and interest on the Bond that is then Due for Payment but shall remain unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit a completed Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or a day on which banking institutions in the State of New York or the Insurer's Fiscal Office are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses would be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereon, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer