

Macquarie Infrastructure Co LLC  
Form 10-Q  
July 30, 2014

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended June 30, 2014**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-32384**

**MACQUARIE INFRASTRUCTURE COMPANY LLC**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

43-2052503  
(IRS Employer  
Identification No.)

**125 West 55<sup>th</sup> Street**  
**New York, New York 10019**

(Address of Principal Executive Offices) (Zip Code)

**(212) 231-1000**

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year if Changed Since Last Report): **N/A**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 70,001,348 LLC interests, or shares, without par value outstanding at July 29, 2014.

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**Macquarie Infrastructure Company LLC is not an authorized deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia) and its obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Infrastructure Company LLC.**



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**PART I**

**FINANCIAL INFORMATION**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of the financial condition and results of operations of Macquarie Infrastructure Company LLC should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties and are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, and similar expressions identify forward-looking statements. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and in this Form 10-Q Quarterly Report. Unless required by law, we can undertake no obligation to update forward-looking statements. Readers should also carefully review the risk factors set forth in other reports and documents filed from time to time with the Securities and Exchange Commission (the SEC).

Except as otherwise specified, Macquarie Infrastructure Company, MIC, we, us, and our refer to the Company and its subsidiaries. Macquarie Infrastructure Management (USA) Inc., which we refer to as our Manager, is part of the Macquarie Group, comprised of Macquarie Group Limited and its subsidiaries and affiliates worldwide.

We own, operate and invest in a diversified group of infrastructure businesses that provide basic services to businesses and individuals primarily in the U.S. The businesses we own and operate include:

**International Matex Tank Terminals or IMTT** : at June 30, 2014, consisted of a 50% interest in a bulk liquid terminals business which provides bulk liquid storage and handling services at ten marine terminals in the United States and two in Canada and is one of the largest participants in this industry in the U.S., based on storage capacity. On July 16, 2014, we completed the acquisition of the remaining 50% interest;

**Hawaii Gas**: a full-service gas energy company processing and distributing gas products and providing related services in Hawaii;

**Atlantic Aviation**: an airport services business providing products and services, including fuel and aircraft hangaring/parking, to owners and operators of general aviation aircraft at 68 airports in the U.S.; and

**Contracted Power and Energy ( CP&E ) segment**: at June 30, 2014, consisted of controlling interests in five contracted power generation facilities located in the southwest U.S. and a 50.01% controlling interest in a district energy business which operates one of the largest district cooling systems in the U.S. In July of 2014, we completed the acquisition of interests in wind power generation.

Our infrastructure businesses generally operate in sectors with limited direct competition and significant barriers to entry, including high initial development and construction costs, the existence of long-term contracts or the requirement to obtain government approvals and a lack of immediate cost-efficient alternatives to the services provided. Overall they tend to generate sustainable long-term cash flows.

## Overview

In analyzing the financial condition and results of operations of our businesses, we focus primarily on cash generation, and our ability to distribute cash to shareholders in particular. The capacity of our businesses to generate cash, broadly, is tied to their ability to effectively manage the volume of products sold or services provided and the margin earned on those transactions. Offsetting these are required payments on debt facilities, taxes, pension contributions and capital expenditures necessary to maintain the productivity of the fixed assets of the businesses, among others.

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At IMTT, we focus on the generation of terminal revenue and on making appropriate expenditures in maintaining fixed assets of the business. IMTT seeks to attract third party storage from customers who place a premium on ease of access, and operational flexibility. The substantial majority of IMTT’s revenue is generated pursuant to contracts with an average duration of approximately four years.

At Hawaii Gas, we look to grow the number of customers served, the volume of gas sold and the margins achieved on gas sales. Hawaii Gas has an active marketing program that seeks to develop new customers throughout Hawaii.

At Atlantic Aviation, our focus is on attracting and maintaining relationships with general aviation, or GA, aircraft owners and pilots and encouraging them to use our fixed base operations (FBO). Atlantic Aviation’s revenue is a function of the number of GA flight movements in the U.S. and the business’s ability to service a portion of the aircraft involved in those operations.

Within CP&E, revenue is generated pursuant to long-dated power purchase agreements (PPAs) with creditworthy off-takers.

**Dividends**

Since January 1, 2013, MIC has paid or declared the following dividends:

| Declared          | Period Covered      | \$ per Share | Record Date       | Payable Date      |
|-------------------|---------------------|--------------|-------------------|-------------------|
| July 3, 2014      | Second quarter 2014 | \$ 0.95      | August 11, 2014   | August 14, 2014   |
| April 28, 2014    | First quarter 2014  | \$ 0.9375    | May 12, 2014      | May 15, 2014      |
| February 18, 2014 | Fourth quarter 2013 | \$ 0.9125    | March 3, 2014     | March 6, 2014     |
| October 25, 2013  | Third quarter 2013  | \$ 0.875     | November 11, 2013 | November 14, 2013 |
| July 29, 2013     | Second quarter 2013 | \$ 0.875     | August 12, 2013   | August 15, 2013   |
| April 26, 2013    | First quarter 2013  | \$ 0.6875    | May 13, 2013      | May 16, 2013      |

We have previously expressed our intent to distribute a significant portion of the Free Cash Flow generated by our businesses in the form of a quarterly cash dividend to our shareholders. Free Cash Flow includes cash generated by our businesses after cash payments for interest, taxes, pension contributions and maintenance capital expenditures and excludes changes in working capital. The payment of a quarterly cash dividend of \$0.95 per share for the quarter ended June 30, 2014 is being paid out of Free Cash Flow generated by certain of our operating entities. Each of IMTT, Atlantic Aviation, Hawaii Gas and the contracted power generation businesses in our CP&E segment may distribute cash to MIC. Cash generated by our district energy business within CP&E is being used to reduce debt principal of that business.

In determining whether to adjust the amount of our quarterly dividend, our Board will take into account such matters as the state of the capital markets and general business conditions, the Company’s financial condition, results of operations, capital requirements, capital opportunities and any contractual, legal and regulatory restrictions on the payment of dividends by the Company to its shareholders or by its subsidiaries to the Company, and any other factors that it deems relevant. In particular, each of our businesses has debt commitments and restrictive covenants, which must be satisfied before any of them can make distributions to the Company. Any or all of these factors could affect both the timing and amount, if any, of future dividends.

We view MIC as a total return investment opportunity. Consistent with that view, we believe that our businesses are capable of generating growing amounts of Free Cash Flow over time and that we will distribute cash equal to approximately 80% to 85% of the Free Cash Flow (in proportion to our interest) generated, subject to their continued stable performance and prevailing economic conditions. In particular, we believe that the growth characteristics of our businesses will cause our distributable cash flow per share to grow at a high single-digit rate annually over the medium term. See Results of Operations *Consolidated: Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Free Cash Flow* and *Summary of Our Proportionately Combined Results* for further discussions on Free Cash Flow and our proportionately combined financial measures in Part I of this Form 10-Q.



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## Recent Developments

### District Energy Business Sale

In April of 2014, the Company signed a Stock Purchase Agreement to sell its interest in the district energy business. The sale is expected to conclude in the third quarter of 2014, subject to certain customary closing conditions, and the net proceeds are expected to be reinvested in our businesses.

### Atlantic Aviation Acquisitions

On April 30, 2014, Atlantic Aviation completed the acquisitions of the assets and liabilities of Galaxy Aviation and Boca Aviation (collectively the Galaxy Acquisitions). The Galaxy Acquisitions included substantially all of the assets of six FBOs and one new hangar then under construction at one of the six airports on which the FBOs operate. The aggregate purchase price of \$230.0 million was funded using cash that had been previously raised or generated and debt facilities that had been previously arranged.

### Equity Offering

On July 15, 2014, we completed an underwritten public offering of 11,500,000 new shares including the exercise of the underwriters' over-allotment option. The net proceeds from the offering of \$739.9 million were used to partially fund the IMTT Acquisition discussed below and for general corporate purposes.

### Convertible Senior Notes Offering

On July 15, 2014, we completed the offering of \$350.0 million aggregate principal amount of convertible senior notes including the exercise of the underwriters' over-allotment option. The net proceeds from the convertible senior notes offering of \$341.3 million were used to partially fund the IMTT Acquisition discussed below and for general corporate purposes.

The notes mature on July 15, 2019 and bear interest at a rate of 2.875% payable on January 15<sup>th</sup> and July 15<sup>th</sup> of each year, beginning January 15, 2015. The notes were issued at an initial conversion rate of 11.7942 per share (equal to an initial conversion price of approximately \$84.79 per share, subject to adjustment) and are convertible into shares of MIC at any time.

### IMTT Acquisition of Remaining Interest

On July 16, 2014, we acquired the remaining 50% interest of IMTT for a purchase price of \$1.025 billion, consisting of \$910.0 million in cash and \$115.0 million in our shares, excluding transaction costs. We funded the cash consideration for the acquisition using a portion of the proceeds from the July 15, 2014 equity and convertible senior notes offerings, and issued 1,729,323 shares to the seller in satisfaction of the equity consideration for the acquisition.

### MIC Revolver

In July of 2014, we entered into a senior secured revolving credit facility with a syndicate of banks. The senior secured revolving credit facility provides for a five-year, \$250.0 million senior secured first lien revolving credit facility that bears interest at LIBOR plus 1.75%. This facility is guaranteed by Macquarie Infrastructure Company Inc. (MIC Inc.), a direct wholly-owned subsidiary of the Company. At July 30, 2014, the senior secured revolving credit

facility remains undrawn. Along with undrawn amounts on facilities at our businesses and other liquid resources, drawings on the revolving credit facility are available to fund growth projects and acquisitions by our existing businesses.

### **CP&E Acquisition**

On July 3, 2014, the Company completed the acquisition of a 20 megawatt wind power generating facility located in eastern New Mexico for \$10.6 million including transaction costs. The facility commenced operations in February of 2014 and all power generated is being sold to a local utility. The acquisition has been accounted for as a business combination and will be part of our CP&E segment.

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**Transaction Costs**

We incurred a number of legal costs and transaction-driven expenses relating to the above transactions that effected EBITDA excluding non-cash items and Free Cash Flow, as defined in Results of Operations below, for the six months ended June 30, 2014 and will affect the quarter ending September 30, 2014. These costs for the six months ended June 30, 2014 were \$3.2 million and are expected to be approximately \$10.0 million for the quarter ending September 30, 2014. Additionally, pursuant to our obligations under the IMTT Stock Purchase Agreement, we expect to make a pension contribution to the IMTT defined benefit pension plan of \$20.0 million that will decrease Free Cash Flow for the quarter ending September 30, 2014. The \$20.0 million contribution to the IMTT Pension Plan is being made notwithstanding that the IMTT Plan continues to be well funded. Given the funding status of the plan, and this additional contribution, it is unlikely that contributions to the IMTT Plan will be required over the next several years.

**Results of Operations**

**Consolidated**

**Key Factors Affecting Operating Results:**

improved gross profit, partially offset by increased cash interest expense and acquisition related costs at Atlantic Aviation;

an increase in gross profit at IMTT;

increased gross profit contribution from a larger number of contracted power generation facilities in operation;

increased volume and margin per therm during the quarter ended June 30, 2014 at Hawaii Gas; and

lower performance fees.

TABLE OF CONTENTS**Results of Operations: Consolidated (continued)**

Our consolidated results of operations are as follows:

|   | Quarter Ended                 |           | Change        |         | Six Months Ended |           | Change        |         |
|---|-------------------------------|-----------|---------------|---------|------------------|-----------|---------------|---------|
|   | June 30,                      |           | (Unfavorable) |         | June 30,         |           | (Unfavorable) |         |
|   | 2014                          | 2013      | \$            | %       | 2014             | 2013      | \$            | %       |
|   | (\$ In Thousands) (Unaudited) |           |               |         |                  |           |               |         |
| Revenue   |                               |           |               |         |                  |           |               |         |
| Revenue from product sales                              | \$188,087                     | \$167,181 | 20,906        | 12.5    | \$371,888        | \$341,296 | 30,592        | 9.0     |
| Revenue from product sales utility                      | 37,117                        | 34,193    | 2,924         | 8.6     | 72,262           | 71,114    | 1,148         | 1.6     |
| Service revenue   | 55,029                        | 50,286    | 4,743         | 9.4     | 111,531          | 102,401   | 9,130         | 8.9     |
| Financing and equipment lease income                    | 710                           | 907       | (197 )        | (21.7 ) | 1,457            | 1,962     | (505 )        | (25.7 ) |
| Total revenue   | 280,943                       | 252,567   | 28,376        | 11.2    | 557,138          | 516,773   | 40,365        | 7.8     |
| Costs and expenses                                      |                               |           |               |         |                  |           |               |         |
| Cost of product sales                                   | 121,332                       | 109,594   | (11,738)      | (10.7 ) | 244,249          | 226,587   | (17,662)      | (7.8 )  |
| Cost of product sales utility                           | 31,926                        | 29,464    | (2,462 )      | (8.4 )  | 61,306           | 60,953    | (353 )        | (0.6 )  |
| Cost of services  | 12,836                        | 12,073    | (763 )        | (6.3 )  | 23,732           | 23,007    | (725 )        | (3.2 )  |
| Gross profit  | 114,849                       | 101,436   | 13,413        | 13.2    | 227,851          | 206,226   | 21,625        | 10.5    |
| Selling, general and administrative                     | 56,836                        | 52,120    | (4,716 )      | (9.0 )  | 112,300          | 101,329   | (10,971)      | (10.8 ) |
| Fees to manager-related party                           | 14,495                        | 32,493    | 17,998        | 55.4    | 23,489           | 61,670    | 38,181        | 61.9    |
| Depreciation  | 12,428                        | 9,436     | (2,992 )      | (31.7 ) | 24,582           | 18,691    | (5,891 )      | (31.5 ) |
| Amortization of intangibles                             | 9,456                         | 8,620     | (836 )        | (9.7 )  | 18,221           | 17,248    | (973 )        | (5.6 )  |
| Loss from customer contract termination                 |                               | 1,626     | 1,626         | 100.0   |                  | 1,626     | 1,626         | 100.0   |
| Loss on disposal of assets                              | 866                           | 3         | (863 )        | NM      | 866              | 176       | (690 )        | NM      |
| Total operating expenses                                | 94,081                        | 104,298   | 10,217        | 9.8     | 179,458          | 200,740   | 21,282        | 10.6    |
| Operating income (loss)                                 | 20,768                        | (2,862 )  | 23,630        | NM      | 48,393           | 5,486     | 42,907        | NM      |
| Other income (expense)                                  |                               |           |               |         |                  |           |               |         |
| Interest income   | 31                            | 49        | (18 )         | (36.7 ) | 95               | 143       | (48 )         | (33.6 ) |
| Interest expense <sup>(1)</sup>                         | (17,945 )                     | (7,737 )  | (10,208)      | (131.9) | (31,956 )        | (15,423 ) | (16,533)      | (107.2) |
| Loss on extinguishment of debt                          |                               | (2,472 )  | 2,472         | 100.0   |                  | (2,472 )  | 2,472         | 100.0   |
| Equity in earnings and amortization charges of investee | 10,799                        | 11,289    | (490 )        | (4.3 )  | 25,086           | 21,751    | 3,335         | 15.3    |
| Other income (expense), net                             | 1,576                         | (313 )    | 1,889         | NM      | 2,257            | (315 )    | 2,572         | NM      |
| Net income (loss) before income taxes                   | 15,229                        | (2,046 )  | 17,275        | NM      | 43,875           | 9,170     | 34,705        | NM      |
| (Provision) benefit for income taxes                    | (5,485 )                      | 1,090     | (6,575 )      | NM      | (13,971 )        | (3,412 )  | (10,559)      | NM      |
| Net income (loss)                                       | \$9,744                       | \$(956 )  | 10,700        | NM      | \$29,904         | \$5,758   | 24,146        | NM      |
| Less: net income (loss) attributable to noncontrolling  | 44                            | (108 )    | (152 )        | (140.7) | (162 )           | 735       | 897           | 122.0   |

|   |         |          |        |    |          |         |        |    |  |
|---|---------|----------|--------|----|----------|---------|--------|----|--|
| interests                                 |         |          |        |    |          |         |        |    |  |
| Net income (loss) attributable to MIC LLC | \$9,700 | \$(848 ) | 10,548 | NM | \$30,066 | \$5,023 | 25,043 | NM |  |

NM Not meaningful

Interest expense includes losses on derivative instruments of \$8.6 million and \$13.9 million for the quarter and six (1) months ended June 30, 2014, respectively. For the quarter and six months ended June 30, 2013, interest expense includes losses on derivative instruments of \$487,000 and \$1.5 million, respectively.

**Gross Profit**

Consolidated gross profit increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 reflecting improved results at Atlantic Aviation and increased contributions from both CP&E and Hawaii Gas during the quarter ended June 30, 2014.

TABLE OF CONTENTS**Results of Operations: Consolidated (continued)****Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily as a result of an increase in legal and transaction costs related to acquisition activities at Atlantic Aviation, CP&E and costs incurred in connection with the IMTT Acquisition. The increase was partially offset by a decrease in selling, general and administrative expenses at Hawaii Gas during 2014.

**Fees to Manager**

Our Manager is entitled to a monthly base management fee based primarily on our market capitalization, and potentially a quarterly performance fee, based on the performance of our stock relative to a U.S. utilities index. For the quarter and six months ended June 30, 2014, we incurred base management fees of \$9.5 million and \$18.5 million, respectively, and a performance fee of \$5.0 million for the quarter ended June 30, 2014. For the quarter and six months ended June 30, 2013, we incurred base management fees of \$8.1 million and \$15.2 million, respectively, and performance fees of \$24.5 million and \$46.5 million, respectively. In all of these periods, our Manager elected to reinvest the base management and performance fees in additional shares.

The unpaid portion of the base management fees and performance fees, if any, at the end of each reporting period is included in due to manager-related party in the consolidated condensed balance sheets. The following table shows our Manager's election to reinvest its base management fees and performance fees, if any, in additional shares:

| Period              | Base Management Fee Amount (\$ in thousands) | Performance Fee Amount (\$ in thousands) | Shares Issued          |
|---------------------|--|--|------------------------|
| 2014 Activities:    |  |  |                        |
| Second quarter 2014 | \$ 9,535                                     | \$ 4,960                                 | 243,329 <sup>(1)</sup> |
| First quarter 2014  | 8,994  |  | 164,546                |
| 2013 Activities:    |  |  |                        |
| Fourth quarter 2013 | \$ 8,455                                     | \$                                       | 155,943                |
| Third quarter 2013  | 8,336  | 6,906                                    | 278,480                |
| Second quarter 2013 | 8,053  | 24,440                                   | 603,936                |
| First quarter 2013  | 7,135  | 22,042                                   | 522,638                |

Our Manager elected to reinvest the second quarter of 2014 base management fees and performance fee in shares.

(1) We issued 243,329 shares, of which 135,565 shares were issued in July of 2014 for the June of 2014 base management fee and the performance fee for the quarter ended June 30, 2014.

**Depreciation**

Depreciation expense increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily as a result of the depreciation associated with solar power generation facilities that became operational during 2013. Depreciation expense was also higher at Atlantic Aviation due to growth capital expenditures for supply chain logistics and acquisitions in 2013 and the first half of 2014.

**Interest Expense and Loss on Derivative Instruments**

Interest expense includes losses on derivative instruments of \$8.6 million and \$13.9 million for the quarter and six months ended June 30, 2014, respectively, and losses of \$487,000 and \$1.5 million for the quarter and six months ended June 30, 2013. Losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments and include the reclassification of amounts from accumulated other comprehensive loss into earnings. Excluding the derivative adjustments, interest expense increased primarily due to a higher interest rate on Atlantic Aviation's term loan that was

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## Results of Operations: *Consolidated* (continued)

refinanced during the second quarter of 2013 and higher term loan balances in CP&E, partially offset by a lower average debt balance at Atlantic Aviation.

### Equity in Earnings and Amortization Charges of Investee

The decrease in equity in earnings for the quarter ended June 30, 2014 compared with the quarter ended June 30, 2013 reflects our share of derivative losses for the quarter ended June 30, 2014 compared to our share of derivative gains for the quarter ended June 30, 2013, partially offset by improved operating results at IMTT.

The increase in equity in earnings for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 reflects our share of the improved operating results from IMTT in the current period, primarily due to an increase in gross profit, partially offset by a higher current tax provision and derivative losses for the six months ended June 30, 2014 compared to derivative gains for the six months ended June 30, 2013.

### Income Taxes

We file a consolidated federal income tax return that includes the financial results for Hawaii Gas, Atlantic Aviation and our allocable share of the taxable income from our solar power generation facilities, within the CP&E segment, which are treated as partnerships for tax purposes. Prior to July 16, 2014, IMTT filed a separate federal income tax return and subsequent to that date will file as a part of our consolidated federal income tax return (see IMTT- *Income Taxes* below). Pursuant to tax sharing agreements, the individual businesses included in our consolidated federal income tax return pay MIC an amount equal to the federal income taxes each would have paid on a standalone basis as if they were not part of the MIC consolidated federal income tax return.

Prior to July 16, 2014, distributions received from IMTT were characterized as dividends, returns of capital or capital gains. 20% of any distribution characterized as dividend was included in our taxable income and subject to tax at our statutory rates. Distributions characterized as returns of capital were not subject to current tax. Distributions characterized as capital gain were subject to tax at statutory rates. Subsequent to July 16, 2014, distributions from IMTT will not be subject to tax.

For 2014, we expect any federal income taxes for our consolidated entities to be fully offset by our net operating loss, or NOL, carryforwards. At December 31, 2013, our federal NOL balance was \$198.6 million, which is available to offset future taxable income, if any, through 2033. As a result of having federal NOL carryforwards, together with other planned tax strategies, we do not expect to make regular federal tax payments until after 2015. However, we expect to pay an Alternative Minimum Tax of approximately \$1.0 million for 2014, which we expect will be available as a credit against regular federal income taxes in the future.

Absent the impact of transactions such as acquisitions and divestitures, we expect that our effective tax rate would be higher than the U.S. federal statutory rate of 35% primarily attributable to state and local income taxes. For 2014, we expect to pay \$10.7 million in state and local income taxes, of which \$3.8 million relates to IMTT for the period after July 16, 2014. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOL carryforwards, the utilization of which is not assured beyond a reasonable doubt. In addition, we expect to incur certain expenses that will not be deductible in determining state taxable income.

Accordingly, these expenses have also been excluded in determining our state income tax expense.



Our district energy business files separate federal income tax returns. In April of 2014, we signed a Stock Purchase Agreement to sell our interest in this business and the sale is expected to conclude during the third quarter of 2014, subject to certain customary closing conditions. See CP&E *Income Taxes* below for further discussion on this business.

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## **Results of Operations: *Consolidated* (continued)**

### **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Free Cash Flow**

We have disclosed EBITDA excluding non-cash items for our Company and each of our operating segments in Note 10, Reportable Segments, in our consolidated condensed financial statements, as a key performance metric relied on by management in evaluating our performance. EBITDA excluding non-cash items is defined as earnings before interest, taxes, depreciation and amortization and non-cash items, which includes impairments, derivative gains and losses and adjustments for other non-cash items reflected in the statements of operations. We believe EBITDA excluding non-cash items provides additional insight into the performance of our operating businesses relative to each other and to similar businesses without regard to their capital structure, and to their ability to service or reduce debt, fund capital expenditures and/or support distributions to the holding company.

We also disclose Free Cash Flow, as defined by us, as a means of assessing the amount of cash generated by our businesses and supplementing other information provided in accordance with GAAP. We define Free Cash Flow as cash from operating activities, which includes cash paid for interest, taxes, pension contributions, less maintenance capital expenditures and excludes changes in working capital.

We believe that reporting Free Cash Flow will provide additional insight into our ability to deploy cash, as GAAP metrics such as net income and cash from operating activities do not reflect all of the items that our management considers in estimating the amount of cash generated by our operating entities. In this Quarterly Report on Form 10-Q, we have disclosed Free Cash Flow on a consolidated basis and for each of our operating segments.

We note that Free Cash Flow does not fully reflect our ability to freely deploy generated cash, as it does not reflect required payments to be made on our indebtedness and other fixed obligations or the other cash items excluded when calculating Free Cash Flow. We also note that Free Cash Flow may be calculated in a different manner by other companies, which limits its usefulness as a comparative measure. Therefore, our Free Cash Flow should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

TABLE OF CONTENTS**Results of Operations: Consolidated (continued)**

A reconciliation of net income (loss) attributable to MIC LLC to EBITDA excluding non-cash items and EBITDA excluding non-cash items to Free Cash Flow, on a consolidated basis, is provided below.

|   | Quarter Ended                 |          | Change                      |      | Six Months Ended |           | Change                      |      |
|---|-------------------------------|----------|-----------------------------|------|------------------|-----------|-----------------------------|------|
|   | June 30,                      |          | Favorable/<br>(Unfavorable) |      | June 30,         |           | Favorable/<br>(Unfavorable) |      |
|   | 2014                          | 2013     | \$                          | %    | 2014             | 2013      | \$                          | %    |
|   | (\$ In Thousands) (Unaudited) |          |                             |      |                  |           |                             |      |
| Net income (loss) attributable to MIC LLC <sup>(1)</sup>                          | \$9,700                       | \$(848 ) |                             |      | \$30,066         | \$5,023   |                             |      |
| Interest expense, net <sup>(2)</sup>  | 17,914                        | 7,688    |                             |      | 31,861           | 15,280    |                             |      |
| Provision (benefit) for income taxes  | 5,485                         | (1,090 ) |                             |      | 13,971           | 3,412     |                             |      |
| Depreciation <sup>(3)</sup>   | 12,428                        | 9,436    |                             |      | 24,582           | 18,691    |                             |      |
| Depreciation cost of service <sup>(3)</sup>                                       | 1,707                         | 1,703    |                             |      | 3,411            | 3,401     |                             |      |
| Amortization of intangibles <sup>(4)</sup>  | 9,456                         | 8,620    |                             |      | 18,221           | 17,248    |                             |      |
| Loss from customer contract termination   |                               | 1,626    |                             |      |                  | 1,626     |                             |      |
| Loss on extinguishment of debt  |                               | 2,434    |                             |      |                  | 2,434     |                             |      |
| Loss on disposal of assets  | 816                           |          |                             |      | 816              | 106       |                             |      |
| Equity in earnings and amortization charges of investee                           | (10,799)                      | (11,289) |                             |      | (25,086 )        | (21,751 ) |                             |      |
| Equity distributions from investee <sup>(5)</sup>                                 | 16,959                        | 7,879    |                             |      | 25,086           | 7,879     |                             |      |
| Base management fees to be settled/settled in shares                              | 9,535                         | 8,053    |                             |      | 18,529           | 15,188    |                             |      |
| Performance fees to be settled/settled in shares                                  | 4,960                         | 24,440   |                             |      | 4,960            | 46,482    |                             |      |
| Other non-cash (income) expense, net  | (828 )                        | 377      |                             |      | (292 )           | (629 )    |                             |      |
| EBITDA excluding non-cash items   | \$77,333                      | \$59,029 | 18,304                      | 31.0 | \$146,125        | \$114,390 | 31,735                      | 27.7 |
| EBITDA excluding non-cash items   | \$77,333                      | \$59,029 |                             |      | \$146,125        | \$114,390 |                             |      |
| Interest expense, net <sup>(2)</sup>  | (17,914)                      | (7,688 ) |                             |      | (31,861 )        | (15,280 ) |                             |      |
| Adjustments to derivative instruments recorded in interest expense <sup>(2)</sup> | 4,273                         | (1,950 ) |                             |      | 5,367            | (3,289 )  |                             |      |
| Amortization of debt financing costs <sup>(2)</sup>                               | 1,100                         | 950      |                             |      | 2,141            | 1,897     |                             |      |
| Equipment lease receivables, net  | 1,032                         | 1,107    |                             |      | 2,028            | 2,074     |                             |      |
| Provision/benefit for income taxes, net of changes in deferred                    | (1,894 )                      | (443 )   |                             |      | (3,941 )         | (1,875 )  |                             |      |

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|                                       |          |          |        |      |           |           |        |      |  |
|---------------------------------------|----------|----------|--------|------|-----------|-----------|--------|------|--|
| taxes                                 |          |          |        |      |           |           |        |      |  |
| Pension contribution <sup>(6)</sup>   | (825 )   |          |        |      | (1,135 )  |           |        |      |  |
| Changes in working capital            | 9,153    | (7,577 ) |        |      | 12,611    | (20,820 ) |        |      |  |
| Cash provided by operating activities | 72,258   | 43,428   |        |      | 131,335   | 77,097    |        |      |  |
| Changes in working capital            | (9,153 ) | 7,577    |        |      | (12,611 ) | 20,820    |        |      |  |
| Maintenance capital expenditures      | (3,638 ) | (5,954 ) |        |      | (6,463 )  | (8,571 )  |        |      |  |
| Free cash flow                        | \$59,467 | \$45,051 | 14,416 | 32.0 | \$112,261 | \$89,346  | 22,915 | 25.6 |  |

Net income (loss) attributable to MIC LLC excludes net income attributable to noncontrolling interests of \$44,000 and net loss attributable to noncontrolling interests of \$162,000 for the quarter and six months ended June 30, 2014, respectively, and net loss attributable to noncontrolling interests of \$108,000 and net income attributable to noncontrolling interests of \$735,000 for the quarter and six months ended June 30, 2013, respectively.

(1) Interest expense, net, includes adjustment to derivative instruments and non-cash amortization of deferred financing fees.

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TABLE OF CONTENTS**Results of Operations: Consolidated (continued)**

- Depreciation cost of services includes depreciation expense for our district energy business, a component of CP&E segment, which is reported in cost of services in our consolidated condensed statements of operations.
- (3) Depreciation and Depreciation - cost of services does not include acquisition-related step-up depreciation expense of \$2.0 million and \$3.9 million for each of the quarters and six months ended June 30, 2014 and 2013, respectively, in connection with our investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated condensed statements of operations.
- Amortization of intangibles does not include acquisition-related step-up amortization expense of \$85,000 and \$171,000 for each of the quarters and six months ended June 30, 2014 and 2013, respectively, in connection with
- (4) our investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated condensed statements of operations.
- (5) Equity distributions from investee in the above table includes distributions we received only up to our share of the earnings recorded in the calculation for EBITDA excluding non-cash items.
- (6) For the quarter and six months ended June 30, 2013, pension contributions of \$900,000 and \$1.4 million, respectively, were reported in changes in working capital for those periods.

**Reconciliation from Consolidated Free Cash Flow to Proportionately Combined Free Cash Flow**

The following table is a reconciliation from Free Cash Flow on a consolidated basis to Free Cash Flow on a proportionately combined basis (in proportion to our interests). See Results of Operations *Consolidated* above for a reconciliation of Free Cash Flow Consolidated basis to cash provided by operating activities, the most comparable GAAP measure. See Results of Operations below for each of our segments for a reconciliation of Free Cash Flow for each segment to cash provided by operating activities for such segment. See Results of Operations *Summary of Our Proportionately Combined Results* for further discussions on Free Cash Flow and our proportionately combined financial measures in Part I of this Form 10-Q.

|   | Quarter Ended |          | Change                      |      | Six Months Ended |           | Change                      |      |
|---|---------------|----------|-----------------------------|------|------------------|-----------|-----------------------------|------|
|   | June 30,      |          | Favorable/<br>(Unfavorable) |      | June 30,         |           | Favorable/<br>(Unfavorable) |      |
|   | 2014          | 2013     | \$                          | %    | 2014             | 2013      | \$                          | %    |
| Free Cash Flow Consolidated basis                                   | \$59,467      | \$45,051 | 14,416                      | 32.0 | \$112,261        | \$89,346  | 22,915                      | 25.6 |
| Equity distributions from investee <sup>(1)</sup>                   | (16,959)      | (7,879)  |                             |      | (25,086)         | (7,879)   |                             |      |
| 100% of CP&E Free Cash Flow included in consolidated Free Cash Flow | (4,048)       | (4,682)  |                             |      | (6,823)          | (7,410)   |                             |      |
| MIC's share of IMTT Free Cash Flow                                  | 16,111        | 12,145   |                             |      | 37,527           | 29,345    |                             |      |
| MIC's share of CP&E Free Cash Flow                                  | 2,128         | 2,343    |                             |      | 3,740            | 3,658     |                             |      |
| Free Cash Flow Proportionately Combined basis                       | \$56,699      | \$46,978 | 9,721                       | 20.7 | \$121,619        | \$107,060 | 14,559                      | 13.6 |

(1) Equity distributions from investee represents the portion of distributions received from IMTT that are recorded in cash from operating activities. The distribution for the fourth quarter of 2013 from IMTT was received in the first quarter of 2014, as customary. Conversely, the distribution for the fourth quarter of 2012 from IMTT was received in the same period.

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**Results of Operations: *IMTT***

Through June 30, 2014, we accounted for our 50% interest in IMTT using the equity method. To enable meaningful analysis of IMTT's performance across periods, IMTT's overall performance is discussed below, rather than IMTT's contribution to our consolidated results.

**Key Factors Affecting Operating Results:**

terminal gross profit increased principally due to:  
an increase in revenue from firm commitments; and  
weather related increase in heating gross profit; partially offset by  
higher costs primarily related to the reversal of casualty losses in the quarter ended June 30, 2013; and  
higher environmental response gross profit due to increased levels of spill response.

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TABLE OF CONTENTS**Results of Operations: *IMTT* (continued)**

|  | Quarter Ended    |           | Change                      |         | Six Months Ended |           | Change                      |         |
|--|------------------|-----------|-----------------------------|---------|------------------|-----------|-----------------------------|---------|
|  | June 30,<br>2014 | 2013      | Favorable/<br>(Unfavorable) |         | June 30,<br>2014 | 2013      | Favorable/<br>(Unfavorable) |         |
|  | \$               | \$        | \$                          | %       | \$               | \$        | \$                          | %       |
| (\$ In Thousands) (Unaudited)  |                  |           |                             |         |                  |           |                             |         |
| Revenue  |                  |           |                             |         |                  |           |                             |         |
| Terminal revenue   | 120,912          | 119,520   | 1,392                       | 1.2     | 254,602          | 240,852   | 13,750                      | 5.7     |
| Environmental response revenue   | 21,606           | 6,301     | 15,305                      | NM      | 35,994           | 16,454    | 19,540                      | 118.8   |
| Total revenue  | 142,518          | 125,821   | 16,697                      | 13.3    | 290,596          | 257,306   | 33,290                      | 12.9    |
| Costs and expenses   |                  |           |                             |         |                  |           |                             |         |
| Terminal operating costs <sup>(1)</sup>  | 49,790           | 44,906    | (4,884 )                    | (10.9 ) | 101,637          | 95,210    | (6,427 )                    | (6.8 )  |
| Environmental response operating costs   | 15,682           | 5,573     | (10,109)                    | (181.4) | 26,922           | 13,460    | (13,462)                    | (100.0) |
| Total operating costs  | 65,472           | 50,479    | (14,993)                    | (29.7 ) | 128,559          | 108,670   | (19,889)                    | (18.3 ) |
| Terminal gross profit  | 71,122           | 74,614    | (3,492 )                    | (4.7 )  | 152,965          | 145,642   | 7,323                       | 5.0     |
| Environmental response gross profit  | 5,924            | 728       | 5,196                       | NM      | 9,072            | 2,994     | 6,078                       | NM      |
| Gross profit   | 77,046           | 75,342    | 1,704                       | 2.3     | 162,037          | 148,636   | 13,401                      | 9.0     |
| General and administrative expenses  | 10,497           | 7,854     | (2,643 )                    | (33.7 ) | 18,363           | 16,336    | (2,027 )                    | (12.4 ) |
| Depreciation and amortization  | 19,646           | 18,636    | (1,010 )                    | (5.4 )  | 37,920           | 37,058    | (862 )                      | (2.3 )  |
| Casualty losses, net <sup>(1)</sup>  |                  | 6,500     | 6,500                       | 100.0   |                  | 6,500     | 6,500                       | 100.0   |
| Operating income   | 46,903           | 42,352    | 4,551                       | 10.7    | 105,754          | 88,742    | 17,012                      | 19.2    |
| Interest expense, net <sup>(2)</sup>   | (8,813 )         | (1,117 )  | (7,696 )                    | NM      | (15,946 )        | (7,723 )  | (8,223 )                    | (106.5) |
| Other income   | 1,377            | 442       | 935                         | NM      | 1,871            | 1,184     | 687                         | 58.0    |
| Provision for income taxes   | (15,455 )        | (16,592 ) | 1,137                       | 6.9     | (36,557 )        | (33,713 ) | (2,844 )                    | (8.4 )  |
| Noncontrolling interest  | (9 )             | (101 )    | 92                          | 91.1    | (138 )           | (176 )    | 38                          | 21.6    |
| Net income   | 24,003           | 24,984    | (981 )                      | (3.9 )  | 54,984           | 48,314    | 6,670                       | 13.8    |
| Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow: |                  |           |                             |         |                  |           |                             |         |
| Net income   | 24,003           | 24,984    |                             |         | 54,984           | 48,314    |                             |         |
| Interest expense, net <sup>(2)</sup>   | 8,813            | 1,117     |                             |         | 15,946           | 7,723     |                             |         |
| Provision for income taxes   | 15,455           | 16,592    |                             |         | 36,557           | 33,713    |                             |         |
| Depreciation and amortization  | 19,646           | 18,636    |                             |         | 37,920           | 37,058    |                             |         |
| Casualty losses, net <sup>(1)</sup>  |                  | 6,500     |                             |         |                  | 6,500     |                             |         |
| Other non-cash expenses <sup>(3)</sup>   | 1,518            | 101       |                             |         | 3,501            | 176       |                             |         |
| EBITDA excluding non-cash items  | 69,435           | 67,930    | 1,505                       | 2.2     | 148,908          | 133,484   | 15,424                      | 11.6    |
| EBITDA excluding non-cash items  | 69,435           | 67,930    |                             |         | 148,908          | 133,484   |                             |         |
| Interest expense, net <sup>(2)</sup>   | (8,813 )         | (1,117 )  |                             |         | (15,946 )        | (7,723 )  |                             |         |



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|   |           |           |       |      |           |           |        |      |
|---|-----------|-----------|-------|------|-----------|-----------|--------|------|
| Adjustments to derivative instruments recorded in interest expense <sup>(2)</sup> | (2,513 )  | (9,607 )  |       |      | (6,649 )  | (14,016 ) |        |      |
| Amortization of debt financing costs <sup>(2)</sup>                               | 843       | 500       |       |      | 1,687     | 1,166     |        |      |
| Provision for income taxes, net of changes in deferred taxes                      | (11,612 ) | (6,538 )  |       |      | (26,721 ) | (8,223 )  |        |      |
| Changes in working capital  | (10,189 ) | 18,803    |       |      | (4,941 )  | 1,416     |        |      |
| Cash provided by operating activities   | 37,151    | 69,971    |       |      | 96,338    | 106,104   |        |      |
| Changes in working capital  | 10,189    | (18,803 ) |       |      | 4,941     | (1,416 )  |        |      |
| Maintenance capital expenditures <sup>(4)</sup>                                   | (15,119 ) | (26,878 ) |       |      | (26,226 ) | (45,999 ) |        |      |
| Free cash flow  | 32,221    | 24,290    | 7,931 | 32.7 | 75,053    | 58,689    | 16,364 | 27.9 |

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**Results of Operations: *IMTT* (continued)**

NM Not meaningful

Casualty losses, net, includes \$2.5 million and \$1.5 million related to the quarters ended December 31, 2012 and (1) March 31, 2013, respectively, which were recorded in terminal operating costs in those periods. These amounts have been included in the quarter and six months ended June 30, 2013.

(2) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.

IMTT management's calculation of IMTT's EBITDA includes various non-cash items, unlike MIC's other businesses. In order to ensure IMTT's EBITDA excluding non-cash items does in fact exclude non-cash items, and to promote consistency across its reporting segments, MIC has excluded known non-cash items when calculating (3) IMTT's EBITDA excluding non-cash items including primarily the non-cash pension expense of \$1.5 million and \$3.3 million for the quarter and six months ended June 30, 2014, respectively. The non-cash pension expense of \$2.8 million and \$5.6 million was reported in changes in working capital for the quarter and six months ended June 30, 2013, respectively.

Maintenance capital expenditures includes a reclassification from growth capital expenditures in the quarters ended (4) December 31, 2012 and March 31, 2013 of \$1.2 million and \$509,000, respectively. These amounts have been included in the quarter and six months ended June 30, 2013.

**Revenue and Gross Profit**

As expected, terminal revenue increased 1.2% and 5.7%, respectively, during the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013. The increase for the quarter ended June 30, 2014 compared with the quarter ended June 30, 2013 was primarily attributable to an increase in firm commitments.

The increase for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 was primarily attributable to higher revenues from heating, firm commitments and other weather-related services.

Capacity utilization was 91.6% and 92.1% for the quarter and six months ended June 30, 2014, respectively, due to the continued scheduled cleaning and inspection of large tanks, as previously disclosed. There were more than 700,000 barrels of storage capacity out of service for cleaning and inspection during the quarter ended June 30, 2014. Firm-wide utilization rates are expected to rise as and when these barrels are returned to service, subject to all other capacity remaining in service. Offsetting this inspection-related decline in utilization, firm commitments increased primarily due to an increase in rates. The pricing environment for IMTT has not changed for the past four quarters.

The increase in heating and other weather-related services for the first quarter of 2014 was primarily due to higher activity levels resulting from the cold weather as well as higher natural gas prices, which were passed through to customers. Heating and other weather-related services were lower for the quarter ended June 30, 2014 compared with the quarter ended June 30, 2013.

Terminal operating costs were higher for the quarter ended June 30, 2014 as compared with the quarter ended June 30, 2013 primarily due to higher costs related to the reversal of casualty losses in the quarter ended June 30, 2013.

Terminal operating costs were higher for the six months ended June 30, 2014 as compared with the six months ended June 30, 2013, primarily due to increased repairs and maintenance costs and increased product heating costs which are typically passed through to customers.

Gross profit from environmental response services increased due to a higher level of spill response activity during the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013.

### **General and Administrative Expenses**

General and administrative expenses increased for the quarter and six months ended June 30, 2014 as compared with the quarter and six months ended June 30, 2013 primarily due to increased environmental response activities and higher legal costs.

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**Results of Operations: *IMTT* (continued)**

**Casualty Losses, Net**

During 2013, casualty losses, net, were recorded as a result of fixed asset write-offs associated with Hurricane Sandy, net of insurance recoveries. Casualty losses, net, includes \$2.5 million and \$1.5 million related to the quarters ended December 31, 2012 and March 31, 2013, respectively, which were recorded in terminal operating costs in those periods. These amounts have been included in the quarter and six months ended June 30, 2013.

**Interest Expense, Net**

Interest expense includes losses on derivative instruments of \$2.1 million and \$2.5 million for the quarter and six months ended June 30, 2014, respectively, and gains of \$5.0 million and \$5.1 million for the quarter and six months ended June 30, 2013, respectively. Excluding the derivative adjustments, interest expense increased due to higher debt balances.

Cash interest paid totaled \$10.3 million and \$20.5 million for the quarter and six months ended June 30, 2014, respectively, and \$9.3 million and \$18.1 million for the quarter and six months ended June 30, 2013, respectively. The increase in cash interest paid during the quarter and six months ended June 30, 2014 was due to higher debt balances.

**Income Taxes**

IMTT filed a consolidated federal income tax return for tax periods through and including July 16, 2014, the date of the IMTT Acquisition, and state income tax returns in the states in which it operates. Subsequent to July 16, 2014, IMTT will become part of the MIC consolidated federal taxpayer group.

The Provision for income taxes, net of changes in deferred taxes of \$26.7 million for the six months ended June 30, 2014 in the table above, includes \$21.5 million of federal income taxes and \$5.2 million of state income taxes. The increase in current income taxes payable is due to higher taxable income and changes in federal tax laws.

We expect IMTT's current federal income taxes for its short tax year ending July 16, 2014 to be approximately \$28.0 million, and its current state income taxes for that period to be approximately \$5.2 million. The increase in federal taxes from July 1, 2014 through July 16, 2014 as compared to the provision for income taxes for the six months ended June 30, 2014 is primarily attributable to disproportionate revenue in the pre-close period, and disproportionate expenses, including capital expenditures, in the post-close period. Subsequent to the IMTT Acquisition, we do not expect to have any 2014 current federal income taxes attributable to IMTT and we expect to incur approximately \$3.8 million in current state income taxes for the remaining period ending December 31, 2014. Any future current federal income taxes attributable to IMTT are eligible to be offset in consolidation by MIC NOLs. IMTT's actual federal tax liability could be higher or lower depending on the cost and timing of the capital assets placed in service during the year or tax legislation.

For the full year 2013, IMTT recorded \$48.8 million of federal income tax expense and \$12.3 million of state income tax expense. This includes \$13.8 million and \$4.7 million of current federal and state income taxes, respectively. The federal income tax expense exceeded the cash taxes primarily due to the benefit of accelerated tax depreciation.

## Hawaii Gas

Management believes that the presentation and analysis of contribution margin, a non-GAAP performance measure, is meaningful to understanding the business performance under both a utility rate structure and a non-utility unregulated pricing structure. Regulation of the utility portion of Hawaii Gas's operations provides for the pass through of increases or decreases in feedstock costs to customers. Changes in the cost of Liquefied Petroleum Gas, or LPG, distributed to non-utility customers can be recovered in pricing, subject to competitive conditions.

Contribution margin should not be considered an alternative to revenue, gross profit, operating income, or net income, as determined in accordance with U.S. GAAP. A reconciliation of contribution margin to gross profit is presented in the below table. The business calculates contribution margin as revenue less direct costs of revenue other than production and transmission and distribution costs. Other companies may calculate contribution margin differently or may use different metrics and, therefore, the contribution margin presented for Hawaii Gas is not necessarily comparable with metrics of other companies.

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TABLE OF CONTENTS**Results of Operations: *Hawaii Gas* (continued)****Key Factors Affecting Operating Results:**

an increase in the volume of non-utility therms sold;  
an increase in non-utility contribution margin per therm; and  
a decrease in operating costs.

|   | Quarter Ended    |          | Change                      |        | Six Months Ended |          | Change                      |        |
|---|------------------|----------|-----------------------------|--------|------------------|----------|-----------------------------|--------|
|   | June 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) |        | June 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) |        |
|   | \$               | \$       | \$                          | %      | \$               | \$       | \$                          | %      |
| (\$ In Thousands) (Unaudited)   |                  |          |                             |        |                  |          |                             |        |
| Contribution margin   |                  |          |                             |        |                  |          |                             |        |
| Revenue non-utility   | 32,017           | 28,420   | 3,597                       | 12.7   | 66,223           | 60,505   | 5,718                       | 9.5    |
| Cost of revenue non-utility   | 14,588           | 13,333   | (1,255)                     | (9.4 ) | 31,551           | 26,687   | (4,864)                     | (18.2) |
| Contribution margin non-utility   | 17,429           | 15,087   | 2,342                       | 15.5   | 34,672           | 33,818   | 854                         | 2.5    |
| Revenue utility   | 37,117           | 34,193   | 2,924                       | 8.6    | 72,262           | 71,114   | 1,148                       | 1.6    |
| Cost of revenue utility   | 27,469           | 24,726   | (2,743)                     | (11.1) | 52,698           | 51,380   | (1,318)                     | (2.6 ) |
| Contribution margin utility   | 9,648            | 9,467    | 181                         | 1.9    | 19,564           | 19,734   | (170 )                      | (0.9 ) |
| Total contribution margin   | 27,077           | 24,554   | 2,523                       | 10.3   | 54,236           | 53,552   | 684                         | 1.3    |
| Production  | 2,397            | 2,667    | 270                         | 10.1   | 4,781            | 5,382    | 601                         | 11.2   |
| Transmission and distribution <sup>(1)</sup>  | 5,280            | 4,740    | (540 )                      | (11.4) | 10,083           | 10,606   | 523                         | 4.9    |
| Gross profit  | 19,400           | 17,147   | 2,253                       | 13.1   | 39,372           | 37,564   | 1,808                       | 4.8    |
| Selling, general and administrative expenses  | 4,771            | 5,989    | 1,218                       | 20.3   | 10,394           | 11,321   | 927                         | 8.2    |
| Depreciation and amortization   | 2,295            | 2,190    | (105 )                      | (4.8 ) | 4,553            | 4,348    | (205 )                      | (4.7 ) |
| Operating income  | 12,334           | 8,968    | 3,366                       | 37.5   | 24,425           | 21,895   | 2,530                       | 11.6   |
| Interest expense, net <sup>(2)</sup>  | (1,891 )         | (1,238 ) | (653 )                      | (52.7) | (3,678 )         | (2,943 ) | (735 )                      | (25.0) |
| Other expense   | (57 )            | (73 )    | 16                          | 21.9   | (139 )           | (105 )   | (34 )                       | (32.4) |
| Provision for income taxes  | (4,092 )         | (2,995 ) | (1,097)                     | (36.6) | (8,119 )         | (7,478 ) | (641 )                      | (8.6 ) |
| Net income <sup>(3)</sup>   | 6,294            | 4,662    | 1,632                       | 35.0   | 12,489           | 11,369   | 1,120                       | 9.9    |
| Reconciliation of net income to EBITDA<br>excluding non-cash items and cash<br>provided by operating activities to Free<br>Cash Flow: |                  |          |                             |        |                  |          |                             |        |
| Net income <sup>(3)</sup>   | 6,294            | 4,662    |                             |        | 12,489           | 11,369   |                             |        |
| Interest expense, net <sup>(2)</sup>  | 1,891            | 1,238    |                             |        | 3,678            | 2,943    |                             |        |
| Provision for income taxes  | 4,092            | 2,995    |                             |        | 8,119            | 7,478    |                             |        |
| Depreciation and amortization   | 2,295            | 2,190    |                             |        | 4,553            | 4,348    |                             |        |
| Other non-cash expenses <sup>(1)</sup>  | 408              | 326      |                             |        | 1,132            | 988      |                             |        |
| EBITDA excluding non-cash items   | 14,980           | 11,411   | 3,569                       | 31.3   | 29,971           | 27,126   | 2,845                       | 10.5   |
| EBITDA excluding non-cash items   | 14,980           | 11,411   |                             |        | 29,971           | 27,126   |                             |        |
| Interest expense, net <sup>(2)</sup>  | (1,891 )         | (1,238 ) |                             |        | (3,678 )         | (2,943 ) |                             |        |
| Adjustments to derivative instruments<br>recorded in interest expense <sup>(2)</sup>  | 153              | (617 )   |                             |        | 146              | (695 )   |                             |        |

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|  |          |          |       |      |          |          |       |        |
|--|----------|----------|-------|------|----------|----------|-------|--------|
| Amortization of debt financing costs <sup>(2)</sup>          | 121      | 123      |       |      | 239      | 229      |       |        |
| Provision for income taxes, net of changes in deferred taxes | (2,625 ) | (775 )   |       |      | (5,336 ) | (3,867 ) |       |        |
| Pension contribution <sup>(4)</sup>                          | (825 )   |          |       |      | (1,135 ) |          |       |        |
| Changes in working capital                                   | 1,711    | 9,780    |       |      | (3,777 ) | (787 )   |       |        |
| Cash provided by operating activities                        | 11,624   | 18,684   |       |      | 16,430   | 19,063   |       |        |
| Changes in working capital                                   | (1,711 ) | (9,780 ) |       |      | 3,777    | 787      |       |        |
| Maintenance capital expenditures                             | (2,133 ) | (2,415 ) |       |      | (3,791 ) | (3,421 ) |       |        |
| Free cash flow   | 7,780    | 6,489    | 1,291 | 19.9 | 16,416   | 16,429   | (13 ) | (0.1 ) |

For the quarter and six months ended June 30, 2013, transmission and distribution includes non-cash income of (1) \$518,000 for asset retirement obligation credit that is not expected to recur. This non-cash income is excluded when calculating EBITDA excluding non-cash items.

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**Results of Operations: *Hawaii Gas* (continued)**

- (2) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.
- (3) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.
- (4) For the quarter and six months ended June 30, 2013, pension contributions of \$900,000 and \$1.4 million, respectively, were reported in changes in working capital for those periods.

**Contribution Margin and Operating Income**

Non-utility volume increased by 5.6% and 1.9% for the quarter and six months ended June 30, 2014, respectively, compared with the quarter and six months ended June 30, 2013, driven by new commercial customers and an increase in average customer inventory. Non-utility contribution margin increased during the quarter and six months ended June 30, 2014 as the result of volume gains and selected price increases implemented mid-way through the first quarter of 2014, offset partially by higher LPG costs. The volume of gas sold by the utility business decreased by 1.1% and 1.8% for the quarter and six months ended June 30, 2014, respectively, compared with the quarter and six months ended June 30, 2013 as a result of reduced demand from certain large commercial customers and overall lower residential consumption.

Hawaii Gas purchased approximately 63% and 66% of its LPG from off-island sources in the quarter and six months ended June 30, 2014, respectively, compared with 95% and 81% for the quarter and six months ended June 30, 2013, respectively. The significantly higher share of off-island LPG purchases in 2013 was attributable to the shut-down of operations at the local refineries in May and June of 2013. Local LPG production reliability improved in the second quarter of 2014, however long-term reliability remains uncertain and may continue to impact the sourcing of Hawaii Gas's LPG supplies. Hawaii Gas sources its naphtha feedstock for its synthetic natural gas plant from Hawaiian Independent Energy and on May 1, 2014, the naphtha feedstock agreement automatically extended for an additional 90 days through September 27, 2014. The business continues pursuing several initiatives to mitigate future volatility in naphtha and LPG prices and supply, including expanding storage and diversifying the supply base.

Production, transmission and distribution and selling, general and administrative expenses comprise primarily labor related expenses and professional fees. Collectively, these costs were lower for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 due to absence of severance costs and lower welfare and benefit costs.

On March 6, 2014, Hawaii Gas received approval from the Hawaii Public Utilities Commission ( HPUC ) to land containerized liquefied natural gas ( LNG ) in Hawaii as a back-up fuel for its synthetic natural gas distribution system on Oahu. Hawaii Gas is currently the only company with regulatory approval to land and utilize LNG in Hawaii. On April 2, 2014, Hawaii Gas received its first shipment of LNG which was subsequently re-gasified and injected into the utility pipeline network. Hawaii Gas continues to work with stakeholders throughout the state to pursue both a containerized LNG delivery program and a large-scale bulk storage and distribution program to supply multiple end markets including power generation, ground and marine transportation.

**Interest Expense, Net**

Interest expense includes losses on derivative instruments of \$695,000 and \$1.3 million for the quarter and six months ended June 30, 2014, respectively, and gains of \$13,000 and losses of \$516,000 for the quarter and six months ended June 30, 2013, respectively. Excluding the derivative adjustments, interest expense decreased during the quarter and



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six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily due to a lower average debt balance in the current periods.

Cash interest paid totaled \$585,000 and \$3.3 million for the quarter and six months ended June 30, 2014, respectively, and \$706,000 and \$3.4 million for the quarter and six months ended June 30, 2013, respectively.

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**Results of Operations: *Hawaii Gas* (continued)**

**Income Taxes**

Income from Hawaii Gas is included in our consolidated federal income tax return, and is subject to Hawaii state income taxes. The tax expense in the table above includes both state taxes and the portion of the consolidated federal tax liability attributable to the business. For the year ending December 31, 2014, the business expects to pay state income taxes of approximately \$1.5 million. The Provision for income taxes, net of changes in deferred taxes of \$5.3 million for the six months ended June 30, 2014 in the above table, includes \$4.6 million of federal income taxes payable to MIC and \$773,000 of state income taxes. Any current federal income tax liability is expected to be offset in consolidation by the application of NOLs.

**Atlantic Aviation**

**Key Factors Affecting Operating Results:**

contribution from acquired FBOs;  
increases in margin per gallon and volume of gallons sold; and  
increased rental and de-icing revenue; partially offset by  
higher selling, general and administrative expenses due to acquisition related expenses and weather; and  
higher cash interest expense driven by higher average cost of debt, partially offset by reduced average debt levels.

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TABLE OF CONTENTS**Results of Operations: *Atlantic Aviation* (continued)**

|  | Quarter Ended    |          | Change        |         | Six Months Ended |           | Change        |         |
|--|------------------|----------|---------------|---------|------------------|-----------|---------------|---------|
|  | June 30,<br>2014 | 2013     | (Unfavorable) |         | June 30,<br>2014 | 2013      | (Unfavorable) |         |
|  | \$               | \$       | \$            | %       | \$               | \$        | \$            | %       |
| (\$ In Thousands) (Unaudited)  |                  |          |               |         |                  |           |               |         |
| Revenue  |                  |          |               |         |                  |           |               |         |
| Fuel revenue   | 150,240          | 135,929  | 14,311        | 10.5    | 296,177          | 276,273   | 19,904        | 7.2     |
| Non-fuel revenue   | 42,972           | 38,573   | 4,399         | 11.4    | 90,996           | 82,369    | 8,627         | 10.5    |
| Total revenue  | 193,212          | 174,502  | 18,710        | 10.7    | 387,173          | 358,642   | 28,531        | 8.0     |
| Cost of revenue  |                  |          |               |         |                  |           |               |         |
| Cost of revenue-fuel   | 102,661          | 93,038   | (9,623 )      | (10.3 ) | 204,719          | 192,823   | (11,896)      | (6.2 )  |
| Cost of revenue-non-fuel   | 4,091            | 3,625    | (466 )        | (12.9 ) | 8,785            | 8,346     | (439 )        | (5.3 )  |
| Total cost of revenue  | 106,752          | 96,663   | (10,089)      | (10.4 ) | 213,504          | 201,169   | (12,335)      | (6.1 )  |
| Fuel gross profit  | 47,579           | 42,891   | 4,688         | 10.9    | 91,458           | 83,450    | 8,008         | 9.6     |
| Non-fuel gross profit  | 38,881           | 34,948   | 3,933         | 11.3    | 82,211           | 74,023    | 8,188         | 11.1    |
| Gross profit   | 86,460           | 77,839   | 8,621         | 11.1    | 173,669          | 157,473   | 16,196        | 10.3    |
| Selling, general and administrative expenses   | 47,067           | 42,910   | (4,157 )      | (9.7 )  | 94,310           | 86,387    | (7,923 )      | (9.2 )  |
| Depreciation and amortization  | 15,607           | 13,974   | (1,633 )      | (11.7 ) | 30,540           | 27,845    | (2,695 )      | (9.7 )  |
| Loss on disposal of assets   | 866              | 3        | (863 )        | NM      | 866              | 176       | (690 )        | NM      |
| Operating income   | 22,920           | 20,952   | 1,968         | 9.4     | 47,953           | 43,065    | 4,888         | 11.4    |
| Interest expense, net <sup>(1)</sup>   | (13,352 )        | (4,626 ) | (8,726 )      | (188.6) | (22,917 )        | (8,725 )  | (14,192)      | (162.7) |
| Loss on extinguishment of debt   |                  | (2,472 ) | 2,472         | 100.0   |                  | (2,472 )  | 2,472         | 100.0   |
| Other (expense) income   | (15 )            | 4        | (19 )         | NM      | (13 )            |           | (13 )         | NM      |
| Provision for income taxes   | (3,855 )         | (5,426 ) | 1,571         | 29.0    | (8,770 )         | (12,824 ) | 4,054         | 31.6    |
| Net income <sup>(2)</sup>  | 5,698            | 8,432    | (2,734 )      | (32.4 ) | 16,253           | 19,044    | (2,791 )      | (14.7 ) |
| Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow: |                  |          |               |         |                  |           |               |         |
| Net income <sup>(2)</sup>  | 5,698            | 8,432    |               |         | 16,253           | 19,044    |               |         |
| Interest expense, net <sup>(1)</sup>   | 13,352           | 4,626    |               |         | 22,917           | 8,725     |               |         |
| Provision for income taxes   | 3,855            | 5,426    |               |         | 8,770            | 12,824    |               |         |
| Depreciation and amortization  | 15,607           | 13,974   |               |         | 30,540           | 27,845    |               |         |
| Loss on extinguishment of debt   |                  | 2,434    |               |         |                  | 2,434     |               |         |
| Loss on disposal of assets   | 816              |          |               |         | 816              | 106       |               |         |
| Other non-cash expense (income)  | 88               | (47 )    |               |         | 156              | (115 )    |               |         |
| EBITDA excluding non-cash items  | 39,416           | 34,845   | 4,571         | 13.1    | 79,452           | 70,863    | 8,589         | 12.1    |
| EBITDA excluding non-cash items  | 39,416           | 34,845   |               |         | 79,452           | 70,863    |               |         |
| Interest expense, net <sup>(1)</sup>   | (13,352 )        | (4,626 ) |               |         | (22,917 )        | (8,725 )  |               |         |

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|   |          |          |       |      |          |          |       |      |
|---|----------|----------|-------|------|----------|----------|-------|------|
| Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup> | 5,679    | 28       |       |      | 8,305    | 53       |       |      |
| Amortization of debt financing costs <sup>(1)</sup>                               | 785      | 648      |       |      | 1,516    | 1,309    |       |      |
| Provision for income taxes, net of changes in deferred taxes                      | (882 )   | (1,127 ) |       |      | (2,126 ) | (5,175 ) |       |      |
| Changes in working capital  | (1,274 ) | 1,735    |       |      | (2,245 ) | 4,893    |       |      |
| Cash provided by operating activities   | 30,372   | 31,503   |       |      | 61,985   | 63,218   |       |      |
| Changes in working capital  | 1,274    | (1,735 ) |       |      | 2,245    | (4,893 ) |       |      |
| Maintenance capital expenditures  | (1,182 ) | (3,436 ) |       |      | (1,999 ) | (4,901 ) |       |      |
| Free cash flow  | 30,464   | 26,332   | 4,132 | 15.7 | 62,231   | 53,424   | 8,807 | 16.5 |

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**Results of Operations: *Atlantic Aviation* (continued)**

NM Not meaningful

- (1) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.
- (2) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.

**Revenue and Gross Profit**

The majority of the revenue and gross profit earned by Atlantic Aviation is generated through fueling GA aircraft at facilities located at 68 U.S. airports at which Atlantic Aviation operates. Revenue is categorized according to who owns the fuel used to service these aircraft. If Atlantic Aviation owns the fuel, it records the cost to purchase that fuel as cost of revenue-fuel. The business corresponding fuel revenue is its cost to purchase that fuel plus a margin. The business generally pursues a strategy of maintaining and, where appropriate, increasing dollar-based margins. Generally, fluctuations in the cost of fuel are passed through to the customer.

Atlantic Aviation also has into-plane arrangements whereby it fuels aircraft with fuel owned by another party. It collects a fee for this service that is recorded as non-fuel revenue. Non-fuel revenue also includes various services such as hangar rentals, de-icing, landing fees, tie-down fees and miscellaneous services.

The business fuel-related revenue and gross profit are driven by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales. This applies to revenue and gross profit generated through both fuel and into-plane sales. Purchases of fuel by individual customers may be from Atlantic Aviation directly, another party or both in a given period.

Atlantic Aviation completed the Galaxy Acquisitions on April 30, 2014. Together with the acquisition of Kansas City FBO in December of 2013, these acquisitions are performing in-line with or better than expectations and are the primary drivers in increases in revenue/gross profit and costs for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013.

The increase in total gross profit for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 was the result of increased fuel gross profit along with increased rental revenue and de-icing gross profit. On a same store basis, total gross profit increased 5.1% and 6.9% for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013, respectively.

Atlantic Aviation seeks to extend FBO leases prior to their maturity and to increase the portfolio's weighted average lease life. The weighted average lease life increased from 18.5 years at June 30, 2013 to 19.5 years at June 30, 2014, notwithstanding the passage of one year.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily due to transaction and legal costs primarily associated with previously announced acquisitions.

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On a same store basis, costs were 2.9% and 4.6% higher for the quarter and six months ended June 30, 2014, respectively, primarily due to costs associated with the colder weather in the Northeast U.S. during the first quarter of 2014 and increased employee benefit costs incurred during the six months ended June 30, 2014.

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**Results of Operations: *Atlantic Aviation* (continued)**

**Interest Expense, Net**

Interest expense includes losses on derivative instruments of \$7.6 million and \$12.1 million for the quarter and six months ended June 30, 2014, respectively, and losses of \$28,000 and \$53,000 for the quarter and six months ended June 30, 2013, respectively.

Excluding the derivative adjustments, interest expense increased due to the lower cost of debt in the prior comparable period, as the principal was unhedged until it was refinanced on May 31, 2013, partially offset by lower average debt levels in the current period. The weighted average interest rate of all outstanding debt facilities, including any interest rate swaps, was 4.63% and 4.70% for the quarters ended June 30, 2014 and 2013, respectively. Cash interest paid was \$7.0 million and \$13.2 million for the quarter and six months ended June 30, 2014, respectively, and \$4.0 million and \$7.3 million for the quarter and six months ended June 30, 2013, respectively.

**Income Taxes**

Income generated by Atlantic Aviation is included in our consolidated federal income tax return. The business files state income tax returns in the states in which it operates. The tax expense in the table above includes both state taxes and the portion of the consolidated federal tax liability attributable to the business.

During the first quarter of 2014, Atlantic Aviation completed a tax planning initiative which is expected to reduce state taxes by approximately \$2.0 million over the next several years. For 2014, the business expects to pay state income taxes of approximately \$3.7 million. The Provision for income taxes, net of changes in deferred taxes of \$2.1 million for the six months ended June 30, 2014 in the above table, includes \$635,000 of federal income taxes payable to MIC and \$1.5 million of state income taxes.

**Contracted Power and Energy**

**Key Factors Affecting Operating Results:**

revenue generated by the incremental increase in generating capacity; partially offset by legal and professional expenses primarily relating to transaction costs.

TABLE OF CONTENTS**Results of Operations: *Contracted Power and Energy* (continued)**

|   | Quarter Ended                 |          | Change                      |         | Six Months Ended |          | Change                      |         |
|---|-------------------------------|----------|-----------------------------|---------|------------------|----------|-----------------------------|---------|
|   | June 30,<br>2014              | 2013     | Favorable/<br>(Unfavorable) | %       | June 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) | %       |
|   | \$                            | \$       | \$                          | %       | \$               | \$       | \$                          | %       |
|   | (\$ In Thousands) (Unaudited) |          |                             |         |                  |          |                             |         |
| Product sales   | 5,830                         | 2,832    | 2,998                       | 105.9   | 9,488            | 4,518    | 4,970                       | 110.0   |
| Service revenue   | 12,057                        | 11,713   | 344                         | 2.9     | 20,535           | 20,032   | 503                         | 2.5     |
| Finance lease revenue   | 710                           | 907      | (197 )                      | (21.7 ) | 1,457            | 1,962    | (505 )                      | (25.7 ) |
| Total revenue   | 18,597                        | 15,452   | 3,145                       | 20.4    | 31,480           | 26,512   | 4,968                       | 18.7    |
| Cost of revenue product   | 863                           | 554      | (309 )                      | (55.8 ) | 1,723            | 662      | (1,061)                     | (160.3) |
| Cost of revenue service <sup>(d)</sup>  | 8,745                         | 8,448    | (297 )                      | (3.5 )  | 14,947           | 14,661   | (286 )                      | (2.0 )  |
| Cost of revenue total   | 9,608                         | 9,002    | (606 )                      | (6.7 )  | 16,670           | 15,323   | (1,347)                     | (8.8 )  |
| Gross profit  | 8,989                         | 6,450    | 2,539                       | 39.4    | 14,810           | 11,189   | 3,621                       | 32.4    |
| Selling, general and administrative expenses  | 2,765                         | 1,117    | (1,648)                     | (147.5) | 4,317            | 2,342    | (1,975)                     | (84.3 ) |
| Depreciation  | 3,656                         | 1,561    | (2,095)                     | (134.2) | 7,062            | 3,078    | (3,984)                     | (129.4) |
| Amortization of intangibles   | 326                           | 331      | 5                           | 1.5     | 648              | 668      | 20                          | 3.0     |
| Loss from customer contract termination   |                               | 1,626    | 1,626                       | 100.0   |                  | 1,626    | 1,626                       | 100.0   |
| Operating income  | 2,242                         | 1,815    | 427                         | 23.5    | 2,783            | 3,475    | (692 )                      | (19.9 ) |
| Interest expense, net <sup>(2)</sup>  | (2,690 )                      | (1,865 ) | (825 )                      | (44.2 ) | (5,335 )         | (3,742 ) | (1,593)                     | (42.6 ) |
| Other income (expense), net   | 1,648                         | (254 )   | 1,902                       | NM      | 2,409            | 2,236    | 173                         | 7.7     |
| (Provision) benefit for income taxes  | (616 )                        | 548      | (1,164)                     | NM      | (1,215 )         | (1,415 ) | 200                         | 14.1    |
| Noncontrolling interest   | 570                           | 172      | 398                         | NM      | 1,097            | (256 )   | 1,353                       | NM      |
| Net income (loss)   | 1,154                         | 416      | 738                         | 177.4   | (261 )           | 298      | (559 )                      | (187.6) |
| Reconciliation of net income (loss) to EBITDA excluding non-cash items and cash provided by (used in) operating activities to Free Cash Flow: |                               |          |                             |         |                  |          |                             |         |
| Net income (loss)   | 1,154                         | 416      |                             |         | (261 )           | 298      |                             |         |
| Interest expense, net <sup>(2)</sup>  | 2,690                         | 1,865    |                             |         | 5,335            | 3,742    |                             |         |
| Provision (benefit) for income taxes  | 616                           | (548 )   |                             |         | 1,215            | 1,415    |                             |         |
| Depreciation <sup>(1)</sup>   | 5,363                         | 3,264    |                             |         | 10,473           | 6,479    |                             |         |
| Amortization of intangibles   | 326                           | 331      |                             |         | 648              | 668      |                             |         |
| Loss from customer contract termination   |                               | 1,626    |                             |         |                  | 1,626    |                             |         |
| Other non-cash income   | (2,125 )                      | (156 )   |                             |         | (2,890 )         | (2,337 ) |                             |         |
| EBITDA excluding non-cash items   | 8,024                         | 6,798    | 1,226                       | 18.0    | 14,520           | 11,891   | 2,629                       | 22.1    |
|   | 8,024                         | 6,798    |                             |         | 14,520           | 11,891   |                             |         |



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|   |          |          |        |          |          |       |        |        |
|---|----------|----------|--------|----------|----------|-------|--------|--------|
| EBITDA excluding non-cash items   |          |          |        |          |          |       |        |        |
| Interest expense, net <sup>(2)</sup>  | (2,690 ) | (1,865 ) |        | (5,335 ) | (3,742 ) |       |        |        |
| Adjustments to derivative instruments recorded in interest expense <sup>(2)</sup> | (1,559 ) | (1,361 ) |        | (3,084 ) | (2,647 ) |       |        |        |
| Amortization of debt financing costs <sup>(2)</sup>                               | 194      | 179      |        | 386      | 359      |       |        |        |
| Equipment lease receivable, net   | 1,032    | 1,107    |        | 2,028    | 2,074    |       |        |        |
| Provision/benefit for income taxes, net of changes in deferred taxes              | (630 )   | (73 )    |        | (1,019 ) | (276 )   |       |        |        |
| Changes in working capital  | 9,698    | (18,126) |        | 22,121   | (17,252) |       |        |        |
| Cash provided by (used in) operating activities                                   | 14,069   | (13,341) |        | 29,617   | (9,593 ) |       |        |        |
| Changes in working capital  | (9,698 ) | 18,126   |        | (22,121) | 17,252   |       |        |        |
| Maintenance capital expenditures  | (323 )   | (103 )   |        | (673 )   | (249 )   |       |        |        |
| Free cash flow  | 4,048    | 4,682    | (634 ) | (13.5 )  | 6,823    | 7,410 | (587 ) | (7.9 ) |
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**Results of Operations: *Contracted Power and Energy* (continued)**

NM Not meaningful

- (1) Includes depreciation expense related to our district energy business of \$1.7 million and \$3.4 million for each of the quarters and six months ended June 30, 2014 and 2013, respectively.
- (2) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.

**Revenue and Gross Profit**

The increase in revenue and gross profit for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily reflects operations of all solar facilities for the quarter and six months ended June 30, 2014 compared with only one operational solar facility for the majority of the quarter and six months ended June 30, 2013. This increase was partially offset by a decrease in finance lease revenue.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses are comprised primarily of transaction-related fees, legal and other professional fees and management and incentive costs. The increase in selling, general and administrative expenses primarily relates to legal and professional expenses incurred during the quarter and six months ended June 30, 2014. The increase in legal and professional expenses relates primarily to the wind power generation facility acquired during July of 2014.

**Depreciation**

Depreciation expense increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily as a result of the depreciation associated with solar power generation projects that became operational during 2013.

**Loss From Customer Contract Termination**

Effective April 30, 2013, the district energy business no longer provides site specific cooling and heating services to a customer outside downtown Chicago for which revenue, fees and lease payments were being received. The loss of this customer has reduced the business cash from operations.

**Interest Expense, Net**

Interest expense includes losses on derivative instruments of \$293,000 and \$580,000 for the quarter and six months ended June 30, 2014, respectively, and losses of \$473,000 and \$978,000 for the quarter and six months ended June 30, 2013, respectively.

Excluding the derivative adjustments, interest expense increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 due to higher term debt balance at the solar power generation facilities offset by a lower average debt balance at district energy business due to the repayment of principal balance. Cash interest paid was \$5.3 million and \$7.7 million for the quarter and six months ended June 30,

2014, respectively, and \$3.0 million and \$5.4 million for the quarter end six months ended June 30, 2013, respectively.

### **Income Taxes**

In 2013, our district energy business recorded a \$137,000 Federal Alternative Minimum Tax liability and did not generate a regular federal income tax liability due to the application of NOL carryforwards. For 2014, the district energy business is expected to generate federal and state income cash tax liabilities of approximately \$2.0 million and \$888,000, respectively. The district energy business is expected to utilize its remaining federal NOLs, of approximately \$2.9 million, to offset a portion of its federal taxable income for the year ending December 31, 2014.

The five solar projects within CP&E are held in various LLCs and treated as partnerships for income tax purposes. For 2014, MIC expects its allocated share of the taxable loss from the five solar projects currently in operations to be approximately \$257,000. The business federal taxable income differs from book income primarily as a result of differences in the depreciation of fixed assets.

TABLE OF CONTENTS**Results of Operations: *Corporate and Other***

The financial results below reflect Corporate and Other's performance during the periods below.

|  | Quarter Ended                 |          | Change                      |         | Six Months Ended |          | Change                      |         |
|--|-------------------------------|----------|-----------------------------|---------|------------------|----------|-----------------------------|---------|
|  | June 30,<br>2014              | 2013     | Favorable/<br>(Unfavorable) |         | June 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) |         |
|  | \$                            | \$       | \$                          | %       | \$               | \$       | \$                          | %       |
|  | (\$ In Thousands) (Unaudited) |          |                             |         |                  |          |                             |         |
| Base management fees   | 9,535                         | 8,053    | (1,482 )                    | (18.4 ) | 18,529           | 15,188   | (3,341 )                    | (22.0 ) |
| Performance fees   | 4,960                         | 24,440   | 19,480                      | 79.7    | 4,960            | 46,482   | 41,522                      | 89.3    |
| Selling, general and administrative expenses   | 2,233                         | 2,103    | (130 )                      | (6.2 )  | 3,279            | 3,709    | 430                         | 11.6    |
| Operating loss   | (16,728)                      | (34,596) | 17,868                      | 51.6    | (26,768)         | (65,379) | 38,611                      | 59.1    |
| Interest income  | 19                            | 41       | (22 )                       | (53.7 ) | 69               | 130      | (61 )                       | (46.9 ) |
| Other income (expense), net  |                               | 9        | (9 )                        | (100.0) |                  | (16 )    | 16                          | 100.0   |
| Benefit for income taxes   | 3,078                         | 8,963    | (5,885 )                    | (65.7 ) | 4,133            | 18,305   | (14,172)                    | (77.4 ) |
| Noncontrolling interest  | (614 )                        | (64 )    | (550 )                      | NM      | (935 )           | (479 )   | (456 )                      | (95.2 ) |
| Net loss <sup>(1)</sup>  | (14,245)                      | (25,647) | 11,402                      | 44.5    | (23,501)         | (47,439) | 23,938                      | 50.5    |
| Reconciliation of net loss to EBITDA excluding non-cash items and cash used in operating activities to Free Cash Flow: |                               |          |                             |         |                  |          |                             |         |
| Net loss <sup>(1)</sup>  | (14,245)                      | (25,647) |                             |         | (23,501)         | (47,439) |                             |         |
| Interest income  | (19 )                         | (41 )    |                             |         | (69 )            | (130 )   |                             |         |
| Benefit for income taxes   | (3,078 )                      | (8,963 ) |                             |         | (4,133 )         | (18,305) |                             |         |
| Base management fees to be settled/settled in shares   | 9,535                         | 8,053    |                             |         | 18,529           | 15,188   |                             |         |
| Performance fees to be settled/settled in shares   | 4,960                         | 24,440   |                             |         | 4,960            | 46,482   |                             |         |
| Other non-cash expense   | 801                           | 254      |                             |         | 1,310            | 835      |                             |         |
| EBITDA excluding non-cash items  | (2,046 )                      | (1,904 ) | (142 )                      | (7.5 )  | (2,904 )         | (3,369 ) | 465                         | 13.8    |
| EBITDA excluding non-cash items  | (2,046 )                      | (1,904 ) |                             |         | (2,904 )         | (3,369 ) |                             |         |
| Interest income  | 19                            | 41       |                             |         | 69               | 130      |                             |         |
| Benefit for income taxes, net of changes in deferred taxes   | 2,243                         | 1,532    |                             |         | 4,540            | 7,443    |                             |         |
| Changes in working capital   | (982 )                        | (966 )   |                             |         | (3,488 )         | (7,674 ) |                             |         |
| Cash used in operating activities  | (766 )                        | (1,297 ) |                             |         | (1,783 )         | (3,470 ) |                             |         |
| Changes in working capital   | 982                           | 966      |                             |         | 3,488            | 7,674    |                             |         |
| Free cash flow   | 216                           | (331 )   | 547                         | 165.3   | 1,705            | 4,204    | (2,499 )                    | (59.4 ) |

(1) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.



TABLE OF CONTENTS**Summary of Our Proportionately Combined Results**

We believe that our proportionately combined metrics, including proportionately combined gross profit, proportionately combined EBITDA excluding non-cash items, proportionately combined cash interest, proportionately combined cash taxes, proportionately combined maintenance capital expenditures, proportionately combined Free Cash Flow, proportionately combined Free Cash Flow per share, proportionately combined growth capital expenditures, and proportionately combined net debt, some of which are used in this Form 10-Q, provide our investors and management with additional insight into the financial results and cash generated as a result of our varied ownership interests in our businesses and investments. When we refer to the proportionately combined net debt and resultant leverage ratios, we exclude net debt associated with CP&E as the capital structure of that business is more project finance related and the size of that reporting segment, on a proportionately combined basis, is minimal. Given the nature of the businesses we own and our varied ownership levels of these businesses, management believes that GAAP measures such as net income and cash from operating activities do not fully reflect all of the items that our management considers in assessing the amount of cash generated by our ownership interest in our businesses and investments.

We note that proportionately combined metrics used by us may be calculated in a different manner by other companies, which may limit their usefulness as a comparative measure. Therefore, our proportionately combined metrics should be used as a supplement to, and not in lieu of, of our financial results reported under GAAP.

Our proportionately combined financial measures are those attributable to MIC's ownership interest in each of our operating businesses and MIC Corporate. The gross profit, EBITDA excluding non-cash items and Free Cash Flow are derived from the Results of Operations of our investments and businesses described above.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for further information for each of our businesses and Corporate and Other segment to see a reconciliation of EBITDA excluding non-cash to net income (loss), its closest comparable GAAP measure, and see reconciliation of Free Cash Flow to cash provided by (used in) operating activities, its closest comparable GAAP measure.

## For the Quarter Ended June 30, 2014

| (\$ in Thousands)<br>(Unaudited)   | IMTT<br>50% | Hawaii<br>Gas | Atlantic<br>Aviation | Contracted                            |                  | Proportionately<br>Combined <sup>(1)</sup> | IMTT<br>100% | Contracted<br>Power<br>and<br>Energy<br>100% |
|------------------------------------|-------------|---------------|----------------------|---------------------------------------|------------------|--|--------------|--|
|                                    |             |               |                      | Power<br>and<br>Energy <sup>(2)</sup> | MIC<br>Corporate |  |              |  |
| Gross profit                       | 38,523      | 19,400        | 86,460               | 5,681                                 | N/A              | <b>150,064</b>                             | 77,046       | 8,989  |
| EBITDA excluding<br>non-cash items | 34,718      | 14,980        | 39,416               | 4,544                                 | (2,046)          | <b>91,611</b>                              | 69,435       | 8,024  |
| Free cash flow                     | 16,111      | 7,780         | 30,464               | 2,128                                 | 216              | <b>56,699</b>                              | 32,221       | 4,048  |

## For the Quarter Ended June 30, 2013

| (\$ in Thousands)<br>(Unaudited) | IMTT<br>50% | Hawaii<br>Gas | Atlantic<br>Aviation | Contracted   |                  | Proportionately<br>Combined <sup>(1)</sup> | IMTT<br>100% | Contracted<br>Power<br>and |
|----------------------------------|-------------|---------------|----------------------|--------------|------------------|--|--------------|----------------------------|
|                                  |             |               |                      | Power<br>and | MIC<br>Corporate |  |              |                            |

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|                                    |        |        |        | Energy <sup>(2)</sup> |         |                |        | Energy<br>100% |  |
|------------------------------------|--------|--------|--------|-----------------------|---------|----------------|--------|----------------|--|
| Gross profit                       | 37,671 | 17,147 | 77,839 | 3,554                 | N/A     | <b>136,211</b> | 75,342 | 6,450          |  |
| EBITDA excluding<br>non-cash items | 33,965 | 11,411 | 34,845 | 3,463                 | (1,904) | <b>81,780</b>  | 67,930 | 6,798          |  |
| Free cash flow                     | 12,145 | 6,489  | 26,332 | 2,343                 | (331)   | <b>46,978</b>  | 24,290 | 4,682          |  |

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TABLE OF CONTENTS**Summary of Our Proportionately Combined Results (continued)**

For the Six Months Ended June 30, 2014

| (\$ in Thousands)<br>(Unaudited)   | IMTT<br>50% | Hawaii<br>Gas | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy <sup>(2)</sup> | MIC<br>Corporate | Proportionately<br>Combined <sup>(1)</sup> | IMTT<br>100% | Contracted<br>Power<br>and<br>Energy<br>100% |
|------------------------------------|-------------|---------------|----------------------|--|------------------|--|--------------|--|
| Gross profit                       | 81,019      | 39,372        | 173,669              | 9,248  | N/A              | <b>303,308</b>                             | 162,037      | 14,810                                       |
| EBITDA excluding<br>non-cash items | 74,454      | 29,971        | 79,452               | 8,422  | (2,904)          | <b>189,395</b>                             | 148,908      | 14,520                                       |
| Free cash flow                     | 37,527      | 16,416        | 62,231               | 3,740  | 1,705            | <b>121,619</b>                             | 75,053       | 6,823  |

For the Six Months Ended June 30, 2013

| (\$ in Thousands)<br>(Unaudited)   | IMTT<br>50% | Hawaii<br>Gas | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy <sup>(2)</sup> | MIC<br>Corporate | Proportionately<br>Combined <sup>(1)</sup> | IMTT<br>100% | Contracted<br>Power<br>and<br>Energy<br>100% |
|------------------------------------|-------------|---------------|----------------------|--|------------------|--|--------------|--|
| Gross profit                       | 74,318      | 37,564        | 157,473              | 6,043  | N/A              | <b>275,398</b>                             | 148,636      | 11,189                                       |
| EBITDA excluding<br>non-cash items | 66,742      | 27,126        | 70,863               | 6,004  | (3,369)          | <b>167,366</b>                             | 133,484      | 11,891                                       |
| Free cash flow                     | 29,345      | 16,429        | 53,424               | 3,658  | 4,204            | <b>107,060</b>                             | 58,689       | 7,410  |

N/A Not applicable.

(1) Proportionately combined Free Cash Flow is equal to the sum of Free Cash Flow attributable to MIC's ownership interest in each of its operating businesses and MIC Corporate.

(2) Proportionately combined Free Cash Flow for Contracted Power and Energy is equal to MIC's controlling ownership interest in its solar power generation and district energy businesses.

**Liquidity and Capital Resources****Consolidated**

Our primary cash requirements include normal operating expenses, debt service, debt principal payments, payments of dividends and capital expenditures. Our primary source of cash is operating activities, although we may draw on credit facilities for capital expenditures, issue additional shares or sell assets to generate cash. Cash raised during the July of 2014 public offerings of shares and convertible senior notes that were not used to fund the IMTT Acquisition is available for general corporate purposes.

We believe that our operating businesses will have sufficient liquidity and capital resources to meet future requirements, including servicing long-term debt obligations and making distributions to MIC. We base our assessment of the sufficiency of the liquidity and capital resources on the assumptions that:



our businesses and investments overall generate, and are expected to continue to generate, significant operating cash flow;

the ongoing capital expenditures associated with our businesses are readily funded from their respective operating cash flow or available debt facilities; and

we will be able to refinance, extend and/or repay the principal amount of maturing long-term debt on terms that can be supported by our businesses.

Historically, we have capitalized our businesses in large part using project-finance style debt. Project-finance style debt is generally limited-recourse, floating rate, non-amortizing bank debt with a medium term maturity of between five and seven years. In general, we have sought to ensure that the debt at each business was non-recourse to MIC and that there was no cross-collateralization or cross-guarantees of any debt between our businesses.

More recently, given the openness of the debt markets generally, we have also used slightly longer dated private placement debt as a component of the capital structure of our businesses. For example, in August of 2012, we included \$100.0 million of 10-year non-amortizing senior secured notes in the capital structure of Hawaii Gas in connection with the refinancing of its long-term debt. We may in the future consider other forms of capital, including bank, bond or hybrid debt instruments as a means of financing our businesses.

TABLE OF CONTENTS**Liquidity and Capital Resources: Consolidated (continued)**

On July 15, 2014, we completed an underwritten offering of 11,500,000 new shares. The public offering price for the shares was \$66.50 and substantially all of the proceeds, net of fees and expenses, were used to fund a portion of the acquisition of the remainder of IMTT.

On July 15, 2014, we completed an underwritten offering of \$350.0 million aggregate principal amount of convertible senior notes. The notes mature on July 15, 2019 and bear interest at a rate of 2.875% payable on January 15<sup>th</sup> and July 15<sup>th</sup> of each year, beginning January 15, 2015. The notes were issued at an initial conversion rate of 11.7942 per share (equal to an initial conversion price of approximately \$84.79 per share, subject to adjustment) and are convertible into shares of MIC at any time.

In July of 2014, we entered into a senior secured revolving credit facility with a syndicate of banks. The senior secured revolving credit facility provides for a five-year, \$250.0 million first lien revolving credit facility that bears interest at LIBOR plus 1.75% at July 30, 2014. The senior secured revolving credit facility contains customary covenants including, among others, a financial covenant based on a ratio of cash flow available for debt service to net cash interest expense. The Company's obligations under the senior secured credit facility are guaranteed by MIC Inc. The senior secured revolving credit facility was undrawn at July 30, 2014. Along with undrawn amounts on facilities at our businesses and other liquid resources, drawings on the revolving credit facility are available to fund growth projects and acquisitions by our existing businesses.

Our financing strategy involves ensuring that we and our businesses maintain appropriate liquidity and access to capital markets, managing our net exposure to floating interest rate volatility, and maintaining a balanced spectrum of debt maturities. Within these parameters, we seek to optimize our borrowing costs and the terms and covenants of our debt facilities.

The section below discusses the sources and uses of cash on a consolidated basis and for each of our businesses and investments. All intercompany activities such as corporate allocations, capital contributions to our businesses and distributions from our businesses have been excluded from the tables as these transactions are eliminated in consolidation.

**Analysis of Consolidated Historical Cash Flows from Operations**

|                                       | Six Months Ended |          | Change                  |      |
|---------------------------------------|------------------|----------|-------------------------|------|
|                                       | June 30,<br>2014 | 2013     | Favorable/(Unfavorable) |      |
| (\$ In Thousands)                     | \$               | \$       | \$                      | %    |
| Cash provided by operating activities | 131,335          | 77,097   | 54,238                  | 70.4 |
| Cash used in investing activities     | (256,657)        | (38,460) | (218,197)               | NM   |
| Cash used in financing activities     | (23,468)         | (73,245) | 49,777                  | 68.0 |

NM Not meaningful

## Operating Activities

Consolidated cash provided by operating activities comprises primarily the cash from operations of the businesses we own, as described in each of the business discussions below. The cash flow from our consolidated business operations is partially offset by expenses paid by the holding company, including base management fees and performance fees to the extent paid in cash, professional fees and costs associated with being a public company.

The increase in consolidated cash provided by operating activities for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 was primarily due to:

payments from a restricted cash account for the completion of construction for projects and a payment into restricted cash during 2013 at our CP&E segment; and increased cash distribution received and the timing of fourth quarter cash distributions received from IMTT classified as cash from operating activities.

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TABLE OF CONTENTS**Liquidity and Capital Resources: Consolidated (continued)**

At June 30, 2014, distributions from IMTT are reflected in our consolidated cash provided by operating activities only up to our cumulative 50% share of IMTT's earnings recorded since our investment in IMTT. Cumulative distributions in excess of this are reflected in our consolidated cash from investing activities as a return of investment in unconsolidated business.

**Investing Activities**

The increase in consolidated cash used in investing activities for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 was primarily due to the Galaxy Acquisitions that closed on April 30, 2014 and an increase in growth capital expenditures at Atlantic Aviation. The increase was offset by distributions received from IMTT classified as a return of investment in unconsolidated business and decreases in growth capital expenditures at CP&E and Hawaii Gas during the six months ended June 30, 2014.

**Financing Activities**

The decrease in cash used in financing activities for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 is primarily due to \$100.0 million of debt borrowed at Atlantic Aviation to partially fund the Galaxy Acquisitions in April of 2014. This was partially offset by the timing of the fourth quarter dividend for 2013 and 2012. The dividend for the fourth quarter of 2012 was paid during that quarter, whereas the dividend for the fourth quarter of 2013 was paid in the first quarter of 2014, as is customary. This resulted in a \$51.5 million increase in cash used in financing activities during the six months ended June 30, 2014.

See below for further description of the cash flows related to our businesses.

**IMTT**

The following analysis represents 100% of the cash flows of IMTT, rather than just the composition of cash flows that are included in our consolidated cash flows. We believe this is the most appropriate and meaningful approach to discussion of the historical cash flow trends of IMTT. At June 30, 2014, we accounted for our 50% ownership of this business using the equity method. As of July 16, 2014, the closing date of our acquisition of the remaining interest in IMTT, we will consolidate IMTT and the business will become a reportable segment.

|                                       | Six Months Ended |           | Change                  |        |
|---------------------------------------|------------------|-----------|-------------------------|--------|
|                                       | June 30,<br>2014 | 2013      | Favorable/(Unfavorable) |        |
| (\$ In Thousands)                     | \$               | \$        | \$                      | %      |
| Cash provided by operating activities | 96,338           | 106,104   | (9,766 )                | (9.2 ) |
| Cash used in investing activities     | (53,850)         | (97,152 ) | 43,302                  | 44.6   |
| Cash used in financing activities     | (46,681)         | (10,200 ) | (36,481 )               | NM     |

NM Not meaningful

### **Operating Activities**

Cash provided by operating activities at IMTT is generated primarily from firm commitments and ancillary services that are billed monthly, primarily in advance. Cash used in operating activities is mainly for payroll and benefits costs, maintenance and repair of fixed assets, utilities and professional services, interest payments and payments to tax jurisdictions.

Cash provided by operating activities decreased for the six months ended June 30, 2014 compared with the six months ended June 30, 2013, primarily as a result of:

increase in time and material payments in environmental response services, due to increased activity, for which the related revenue has not yet been fully collected; partially offset by improved operating results.

### **Investing Activities**

Cash used in investing activities primarily relates to capital expenditures which were lower for the six months ended June 30, 2014 compared with the six months ended June 30, 2013. Total cash capital expenditures decreased from \$90.5 million for the six months ended June 30, 2013 to \$53.9 million for the six months ended June 30, 2014. Total capital expenditures, on an accrual basis, decreased from \$71.5 million for the six months ended June 30, 2013 to \$47.6 million for the six months ended June 30, 2014.

TABLE OF CONTENTS**Liquidity and Capital Resources: *IMTT* (continued)****Maintenance and Environmental Capital Expenditure**

During the six months ended June 30, 2014 and 2013, IMTT incurred \$26.2 million and \$46.0 million, respectively, on maintenance and environmental capital expenditures. Of the \$46.0 million spent for the six months ended June 30, 2013, \$14.0 million was associated with repairs to the Bayonne terminal as a result of damage from Hurricane Sandy.

**Growth Capital Expenditure**

IMTT incurred growth capital expenditures of \$21.4 million and \$25.5 million for the six months ended June 30, 2014 and 2013, respectively.

At June 30, 2014, IMTT has growth projects with outstanding expenditures that are anticipated to have a total cost of \$93.5 million, including \$36.2 million of support infrastructure projects and some trailing costs from projects brought on line in the prior years. To date, \$38.4 million has been spent on these projects. These projects are anticipated to generate an additional \$12.8 million of annualized gross profit and EBITDA as outlined in the table below.

|      | Anticipated<br>Incremental<br>Gross<br>Profit/EBITDA | Anticipated<br>Cumulative Gross<br>Profit/EBITDA |
|------|--|--|
| 2013 | \$ 2.0 million                                       | \$ 2.0 million                                   |
| 2014 | 6.1 million  | 8.1 million                                      |
| 2015 | 4.7 million  | 12.8 million                                     |

IMTT management has been reviewing a significant pipeline of expansion projects of which it is actively considering projects of over \$100.0 million. Returns on these projects are anticipated to be in line with historical levels. The prudent deployment of growth capital in IMTT is a high priority for us.

**Financing Activities**

Cash used in financing activities for the six months ended June 30, 2014 compared with cash used in financing activities for the six months ended June 30, 2013 reflects a higher level of distributions to shareholders, partially offset by a higher level of net borrowings and debt refinancing costs incurred in 2013.

At June 30, 2014, the balance on IMTT's total debt facilities was \$997.3 million. This consisted of \$336.3 million in letter of credit backed tax-exempt bonds, \$176.9 million in bank owned tax-exempt bonds, \$461.9 million in revolving credit facilities and \$22.2 million in shareholder loans. The weighted average interest rate of the outstanding debt facilities, including any interest rate swaps and fees associated with outstanding letters of credit was 4.11%. Cash interest paid was \$20.5 million and \$18.1 million for the six months ended June 30, 2014 and 2013, respectively.

The financial covenant requirements under IMTT's revolving credit facility, and the calculation of these measures at June 30, 2014, were as follows:

Leverage Ratio < 5.00x (default threshold). The ratio at June 30, 2014 was 3.67x.  
Interest Coverage Ratio > 3.00x (default threshold). The ratio at June 30, 2014 was 6.14x.

For a description of the material terms of IMTT's credit facilities, see "Liquidity and Capital Resources" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## Hawaii Gas

| (\$ In Thousands)                     | Six Months Ended |          | Change                  |         |
|---------------------------------------|------------------|----------|-------------------------|---------|
|                                       | June 30,<br>2014 | 2013     | Favorable/(Unfavorable) |         |
|                                       | \$               | \$       | \$                      | %       |
| Cash provided by operating activities | 16,430           | 19,063   | (2,633 )                | (13.8 ) |
| Cash used in investing activities     | (7,960 )         | (10,077) | 2,117                   | 21.0    |
| Cash used in financing activities     |                  | (103 )   | 103                     | 100.0   |

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TABLE OF CONTENTS**Liquidity and Capital Resources: *Hawaii Gas* (continued)****Operating Activities**

The principal source of cash provided by operating activities is customer receipts. The business incurs payments for fuel, materials, pipeline repairs, vendor services and supplies, payroll and benefit costs, revenue based taxes and payment of administrative costs. Customers are generally billed monthly and make payments on account. Vendors and suppliers generally bill the business when services are rendered or when products are shipped.

The decrease in cash provided by operating activities for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 was driven primarily by lower accounts payable and a higher average accounts receivable balance due to increased naphtha feedstock costs that are part of the fuel adjustment clause passed through to utility customers.

**Investing Activities**

Cash used in investing activities is composed primarily of capital expenditures. Capital expenditures are funded by cash from operating activities as well as drawing on credit facilities.

The following table sets forth information about capital expenditures at Hawaii Gas (\$ in thousands):

|  | Maintenance | Growth   |
|--|-------------|----------|
| Six months ended June 30, 2014, accrual basis                        | \$ 3,791    | \$ 3,461 |
| Change in accrued capital expenditure balance from December 31, 2013 | 405         | 324      |
| Six months ended June 30, 2014, cash basis                           | \$ 4,196    | \$ 3,785 |
| Six months ended June 30, 2013, accrual basis                        | \$ 3,421    | \$ 5,718 |
| Change in accrued capital expenditure balance from December 31, 2012 | 480         | 426      |
| Six months ended June 30, 2013, cash basis                           | \$ 3,901    | \$ 6,144 |

**Maintenance Capital Expenditure**

Maintenance capital expenditures for the six months ended June 30, 2014 increased compared with the six months ended June 30, 2013 due to the timing of replacement vehicle purchases, partially offset by a reduction in facility projects.

**Growth Capital Expenditure**

Growth capital expenditures for the six months ended June 30, 2014 were lower compared with the six months ended June 30, 2013 driven mainly by the storage expansion projects in 2013.

**Financing Activities**

The main drivers of cash provided by financing activities are drawings on facilities for capital expenditures and working capital needs. At June 30, 2014, the balance on the business debt facilities consisted of \$180.0 million in term loan and senior secured note borrowings. During the first quarter of 2013, the business borrowed \$20.0 million from its revolving credit facility for working capital requirements related to imports of off-island LPG cargoes and to fund a portion of its capital expenditures. The full amount was repaid during the second quarter of 2013.



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The weighted average interest rate of the outstanding debt facilities, including the interest rate swap, was 3.63% at June 30, 2014. Cash interest paid was \$3.3 million and \$3.4 million for the six months ended June 30, 2014 and 2013, respectively.

The financial covenants precluding distributions under each of the business credit facilities discussed above are as follows:

12 month backward interest coverage ratio less than 3.0x; and

Leverage ratio (total indebtedness to capitalization ratio) for any fiscal quarter greater than 65.0%.

At June 30, 2014, the 12 month backward interest coverage ratio was 8.61x at the holding company and 13.81x at the operating company. The leverage ratio at June 30, 2014 was 57.26% at the holding company and 31.88% at the operating company.

Additionally, the HPUC requires the consolidated debt to total capital for the holding company to be less than 65% and that \$20.0 million in cash resources be readily available at Hawaii Gas or MIC. At June 30, 2014, the debt to total capital ratio was 57.26% and \$20.0 million in cash resources was readily available.

For a description of the material terms of Hawaii Gas's credit facilities, see Note 9 Long-Term Debt in Part II, Item 8, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

TABLE OF CONTENTS**Liquidity and Capital Resources: *Atlantic Aviation***

| (\$ In Thousands)  | Six Months Ended |           | Change                  |        |
|--|------------------|-----------|-------------------------|--------|
|  | June 30,<br>2014 | 2013      | Favorable/(Unfavorable) |        |
|  | \$               | \$        | \$                      | %      |
| Cash provided by operating activities                          | 61,985           | 63,218    | (1,233 )                | (2.0 ) |
| Cash used in investing activities                              | (247,940)        | (10,721 ) | (237,219 )              | NM     |
| Cash provided by (used in) financing activities <sup>(1)</sup> | 93,920           | (275,628) | 369,548                 | 134.1  |

NM Not meaningful

(1) During the quarter ended June 30, 2014, we provided Atlantic Aviation with a capital contribution of \$119.0 million to partially fund the Galaxy Acquisitions. For the quarter ended June 30, 2013, we provided Atlantic Aviation with a capital contribution of \$237.0 million to partially repay the term loan debt. These contributions have been excluded from the above table as they are eliminated in consolidation.

**Operating Activities**

Cash provided by operating activities at Atlantic Aviation is generated from sales transactions primarily paid for credit cards. Some customers are provided extended payment terms and are billed accordingly. Cash used in operating activities is mainly for payments to vendors of fuel and professional services, as well as payroll costs and payments to tax jurisdictions.

Cash provided by operating activities decreased during the six months ended June 30, 2014 compared with the six months ended June 30, 2013 primarily due to:

higher average cost of debt, partially offset by reduced average debt levels; partially offset by improved operating results including contribution from acquired FBOs; and lower taxes paid.

**Investing Activities**

Cash used in investing activities relates primarily to cash used for acquisitions and capital expenditures. Cash provided by investing activities relates primarily to proceeds from the sale of FBOs. Cash used in investing activities increased during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily due to the Galaxy Acquisitions.

The following table sets forth information about capital expenditures at Atlantic Aviation (\$ in thousands):

|  | Maintenance | Growth    |
|--|-------------|-----------|
| Six months ended June 30, 2014, accrual basis                        | \$ 1,999    | \$ 14,326 |
| Change in accrued capital expenditure balance from December 31, 2013 | 150         | 197       |
| Six months ended June 30, 2014, cash basis                           | \$ 2,149    | \$ 14,523 |
| Six months ended June 30, 2013, accrual basis                        | \$ 4,901    | \$ 5,368  |
| Change in accrued capital expenditure balance from December 31, 2012 | 368         | 107       |
| Six months ended June 30, 2013, cash basis                           | \$ 5,269    | \$ 5,475  |

**Maintenance Capital Expenditure**

Maintenance capital expenditures were lower for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 due to replacement of equipment at existing locations and increased investments in FBO and information technology incurred during the first quarter of 2013.

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TABLE OF CONTENTS**Liquidity and Capital Resources: *Atlantic Aviation* (continued)****Growth Capital Expenditure**

Growth capital expenditures incurred during the six months ended June 30, 2014 related primarily to facility upgrades that are intended to improve the capabilities and amenities of these facilities and investments in fuel supply chain logistics. Atlantic Aviation expects an increase in growth capital expenditures from 2013 to 2014, primarily due to the purchase of fuel supply chain logistics assets, the construction of hangars and remodels of certain facilities to upgrade their capabilities and attain lease extensions.

**Financing Activities**

Cash used in financing activities decreased primarily due to larger net payments on the principal balance of the term loan debt during the six months ended June 30, 2013 of \$260.8 million compared with net proceeds of \$97.2 million for the six months ended June 30, 2014. At June 30, 2014, Atlantic Aviation's had total debt outstanding of \$614.7 million composed of \$609.7 million of senior secured, first lien term loan facilities and \$5.0 million of stand-alone debt facilities used to fund construction of certain FBOs. Atlantic Aviation also has a \$70.0 million senior secured, first lien revolving credit facility which is currently undrawn. This revolving credit facility matures in May of 2018. The current weighted average interest rate of all outstanding debt facilities, including interest rate swaps, is 4.63%. Cash interest paid was \$13.2 million and \$7.3 million for the six months ended June 30, 2014 and 2013, respectively.

Atlantic Aviation's term loan facilities amortize 1.0% per year and bear interest at a rate of LIBOR plus a margin of 2.50% with a minimum LIBOR of 0.75% through the maturity of the term loans in June of 2020. Atlantic Aviation has hedged 100% of its LIBOR exposure on its term loan facilities through July 31, 2019 by entering into interest rate swaps where it will pay a weighted average fixed rate of 2.13% for one-month U.S. LIBOR. The interest rate swaps amortize at the same rate as the term loans.

At June 30, 2014, Atlantic Aviation's net debt to adjusted EBITDA was 3.36x (versus a covenant of 4.75x). For a description of the material terms of Atlantic Aviation's credit facilities, see Note 9, Long-Term Debt, in Part II, Item 8, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**Contracted Power and Energy**

The financial results discussed below reflect 100% of CP&E's performance during the periods presented below, rather than our interests in our solar power generation and district energy businesses.

|   | Six Months Ended |          | Change                  |          |
|---|------------------|----------|-------------------------|----------|
|   | June 30,<br>2014 | 2013     | Favorable/(Unfavorable) |          |
| (\$ In Thousands)                               | \$               | \$       | \$                      | %        |
| Cash provided by (used in) operating activities | 29,617           | (9,593 ) | 39,210                  | NM       |
| Cash used in investing activities               | (13,054)         | (17,662) | 4,608                   | 26.1     |
| Cash (used in) provided by financing activities | (12,999)         | 22,854   | (35,853 )               | (156.9 ) |

NM Not meaningful

### **Operating Activities**

Cash provided by operating activities is driven primarily by revenue collected from PPAs, customer contracts for products and services provided and leased equipment payments received (including non-revenue lease principal). The change in cash provided by operating activities is primarily a result of payments from a restricted cash account for the completion of construction for projects and a payment into restricted cash during 2013.

### **Investing Activities**

Cash used in investing activities is mainly comprised of growth capital expenditures to construct solar projects, which are generally funded by drawing on construction loans and equity contributions from MIC and/or its co-investor. After construction is complete, we do not expect to incur substantial capital expenditures at our solar sites as most upgrades, replenishments and repairs are covered under the operations and maintenance ( O&M ) contract.

TABLE OF CONTENTS**Liquidity and Capital Resources: *Contracted Power and Energy (continued)***

In April of 2014, the Company signed a Stock Purchase Agreement to sell its interest in the district energy business. The sale is expected to conclude in the third quarter of 2014, subject to certain customary closing conditions, and the net proceeds are expected to be reinvested in our businesses.

The following table sets forth information about capital expenditures at CP&E (\$ in thousands):

|  | Maintenance | Growth   |
|--|-------------|----------|
| Six months ended June 30, 2014, accrual basis                        | \$ 673      | \$3,031  |
| Change in accrued capital expenditure balance from December 31, 2013 | 51          | 7,645    |
| Six months ended June 30, 2014, cash basis                           | \$ 724      | \$10,676 |
| Six months ended June 30, 2013, accrual basis                        | \$ 249      | \$18,473 |
| Change in accrued capital expenditure balance from December 31, 2012 | 184         | (1,245 ) |
| Six months ended June 30, 2013, cash basis                           | \$ 433      | \$17,228 |

**Maintenance Capital Expenditure**

The business expects to spend approximately \$1.0 million per year on capital expenditures, predominately relating to the replacement of parts, system reliability, customer service and minor system modifications at our district energy facilities. Maintenance capital expenditures will be funded from available facilities and cash from operating activities.

These expenditures were higher during the six months ended June 30, 2014 due to the timing of spend on ordinary course maintenance projects.

**Growth Capital Expenditure**

The decrease in growth capital expenditures for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 is primarily due to the construction of solar projects and the timing of spend related to connecting new customers.

**Financing Activities**

The change from cash provided by financing activities for the six months ended June 30, 2013 to cash used in financing activities for the six months ended June 30, 2014 is primarily due to larger net repayments on debt and increased distribution to noncontrolling interest. For the six months ended June 30, 2013, the business received capital contribution from noncontrolling interest that did not recur this period.

Each of the five solar projects and the district energy business are financed individually with non-recourse debt. At June 30, 2014, the outstanding balance on term loan debt at the five combined solar projects was \$139.9 million with a weighted average interest rate of 4.67%. During the first quarter of 2014, three solar projects converted construction loans to term loans with fixed interest rates and maturities ranging from 20 to 23 years. The outstanding debt balance at our district energy business was \$147.7 million at June 30, 2014, all of which is classified as current portion of long-term debt on the consolidated condensed balance sheet, with a weighted average interest rate of 6.25%. In accordance with the debt agreements, 100% of excess free cash flows generated at the district cooling facility are being utilized to repay the debt facility. All of the CP&E credit facilities were compliant with their respective covenants at June 30, 2014. Cash interest paid at CP&E for the six months ended June 30, 2014 and 2013 was \$7.7

million and \$5.4 million, respectively.

For a description of the material terms of CP&E's credit facilities, see Note 9, Long-Term Debt, in Part II, Item 8, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## **Commitments and Contingencies**

During the six months ended June 30, 2014, Atlantic Aviation entered into an incremental joinder agreement that provided the business with an incremental term loan facility of \$100.0 million on the same terms as its existing term loan facility. The interest rate on this term loan facility floats at LIBOR plus 2.50%, with a minimum LIBOR of 0.75%. This term loan was fully drawn on April 30, 2014. Effective May 30, 2014, Atlantic Aviation entered into an interest rate swap that expires on July 31, 2019. This interest rate swap effectively fixes the interest rate on term loan at 4.399%.

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## **Commitments and Contingencies (continued)**

Except as noted above, at June 30, 2014, there had been no material changes in our commitments and contingencies compared with our commitments and contingencies at December 31, 2013. At June 30, 2014, we did not have any material purchase obligations. For a discussion of our other future obligations, due by period, under the various contractual obligations, off-balance sheet arrangements and commitments, please see *Liquidity and Capital Resources - Commitments and Contingencies* in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on February 19, 2014.

At June 30, 2014, we did not have any material reserves for contingencies. We have other contingencies occurring in the normal course of business, including pending legal and administrative proceedings that are not reflected at this time as they are not ascertainable.

Our sources of cash to meet these obligations include:

cash generated from our operations (see *Operating Activities* in *Liquidity and Capital Resources* );  
refinancing of our current credit facilities on or before maturity (see *Financing Activities* in *Liquidity and Capital Resources* ); and  
cash available from our undrawn credit facilities (see *Consolidated and Financing Activities* in *Liquidity and Capital Resources* ).

### **Recent Developments**

In July of 2014, the Company completed the offerings of 11,500,000 new shares and \$350.0 million aggregate principal amount of 2.875% convertible senior notes due July of 2019 and entered into a \$250.0 million, five-year senior secured revolving credit facility with a syndicate of banks. See *Consolidated - Liquidity and Capital Resources*.

## **Critical Accounting Policies and Estimates**

For critical accounting policies and estimates, see *Critical Accounting Policies and Estimates* in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Our critical accounting policies and estimates have not changed materially from the description contained in our Annual Report.

### **Business Combinations**

Our acquisitions of businesses that we control are accounted for under the purchase method of accounting. The amounts assigned to the identifiable assets acquired and liabilities assumed in connection with acquisitions are based on estimated fair values as of the date of the acquisition, with the remainder, if any, recorded as goodwill. The fair values are determined by our management, taking into consideration information supplied by the management of acquired entities and other relevant information. Such information includes valuations supplied by independent appraisal experts for significant business combinations. The valuations are generally based upon future cash flow projections for the acquired assets, discounted to present value. The determination of fair values require significant judgment both by management and outside experts engaged to assist in this process.

### **Goodwill, Intangible Assets and Property, Plant and Equipment**

Significant assets acquired in connection with our acquisition of businesses include contract rights, customer relationships, non-compete agreements, trademarks, property and equipment and goodwill.



Trademarks are generally considered to be indefinite life intangibles. Trademarks and goodwill are not amortized in most circumstances. It may be appropriate to amortize some trademarks. However, for unamortized intangible assets, we are required to perform annual impairment reviews and more frequently in certain circumstances.

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## **Critical Accounting Policies and Estimates (continued)**

ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test, as discussed below. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test.

If an entity concludes that it is more likely than not that the fair value of reporting unit is less than its carrying amount, it needs to perform the two-step impairment test. This requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with the carrying values, which included the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of a reporting unit's implied fair value of goodwill requires the allocation of the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is compared with its corresponding carrying value. Hawaii Gas, Atlantic Aviation and our district energy business, within the CP&E reporting segment, are separate reporting units for purposes of this analysis. The impairment test for trademarks, which are not amortized, requires the determination of the fair value of such assets. If the fair value of the trademarks are less than their carrying value, an impairment loss is recognized in an amount equal to the difference. We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and/or intangible assets. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, or material negative change in relationship with significant customers.

Property and equipment is initially stated at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the property and equipment after consideration of historical results and anticipated results based on our current plans. Our estimated useful lives represent the period the asset remains in service assuming normal routine maintenance. We review the estimated useful lives assigned to property and equipment when our business experience suggests that they do not properly reflect the consumption of economic benefits embodied in the property and equipment nor result in the appropriate matching of cost against revenue. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

Significant intangibles, including contract rights, customer relationships, non-compete agreements and technology are amortized using the straight-line method over the estimated useful lives of the intangible asset after consideration of historical results and anticipated results based on our current plans. With respect to contract rights in our Atlantic Aviation business, we take into consideration the history of contract right renewals in determining our assessment of useful life and the corresponding amortization period.

We perform impairment reviews of property and equipment and intangibles subject to amortization, when events or circumstances indicate that assets are less than their carrying amount and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. In this circumstance, the impairment charge is determined based upon the amount by which the net book value of the assets exceeds their fair market value. Any impairment is measured by comparing the fair value of the asset to its carrying value.

The implied fair value of reporting units and fair value of property and equipment and intangible assets is determined by our management and is generally based upon future cash flow projections for the acquired assets, discounted to present value. We use outside valuation experts when management considers that it is appropriate to do so.

We test for impairment of goodwill and indefinite-lived intangible assets annually as of October 1<sup>st</sup> or when there is an indicator of impairment.

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## **Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Our exposure to market risk has not changed materially since February 19, 2014, our 10-K filing date.

## **Controls and Procedures**

Under the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2014. There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## CONSOLIDATED CONDENSED BALANCE SHEETS

### (\$ in Thousands, Except Share Data)

|  | June 30,<br>2014<br>(Unaudited) | December<br>31, 2013 |
|--|---------------------------------|----------------------|
| <b>ASSETS</b>  |                                 |                      |
| Current assets:  |                                 |                      |
| Cash and cash equivalents  | \$84,583                        | \$233,373            |
| Restricted cash  | 29,036                          | 51,884               |
| Accounts receivable, less allowance for doubtful accounts of \$961 and \$953, respectively | 71,487                          | 60,823               |
| Inventories  | 26,942                          | 25,834               |
| Prepaid expenses   | 6,251                           | 10,132               |
| Deferred income taxes  | 4,567                           | 6,197                |
| Equipment lease receivables current  | 8,831                           | 8,515                |
| Other  | 13,179                          | 9,792                |
| Total current assets   | 244,876                         | 406,550              |
| Property, equipment, land and leasehold improvements, net                                  | 894,665                         | 854,169              |
| Equipment lease receivables non-current  | 13,840                          | 16,155               |
| Investment in unconsolidated business  | 71,434                          | 83,703               |
| Goodwill   | 596,627                         | 514,494              |
| Intangible assets, net   | 693,366                         | 592,850              |
| Deferred financing costs, net of accumulated amortization                                  | 22,843                          | 22,740               |
| Other  | 4,854                           | 10,204               |
| Total assets   | \$2,542,505                     | \$2,500,865          |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>   |                                 |                      |
| Current liabilities:   |                                 |                      |
| Due to manager-related party   | \$8,370                         | \$3,032              |
| Accounts payable   | 31,029                          | 28,850               |
| Accrued expenses   | 32,100                          | 42,713               |
| Current portion of long-term debt  | 158,687                         | 163,083              |
| Fair value of derivative instruments   | 10,542                          | 13,027               |
| Other  | 25,715                          | 20,747               |
| Total current liabilities  | 266,443                         | 271,452              |
| Long-term debt, net of current portion   | 923,581                         | 831,027              |
| Deferred income taxes  | 198,331                         | 189,719              |
| Other  | 58,014                          | 55,399               |
| Total liabilities  | 1,446,369                       | 1,347,597            |
| Commitments and contingencies  |                                 |                      |
| Members' equity:   |                                 |                      |

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|   |             |             |
|---|-------------|-------------|
| LLC interests, or shares, no par value; 500,000,000 authorized; 56,636,240 shares issued and outstanding at June 30, 2014 and 56,295,595 shares issued and outstanding at December 31, 2013 | 1,140,909   | 1,226,733   |
| Additional paid in capital  | 21,447      | 21,447      |
| Accumulated other comprehensive loss  | (8,273 )    | (8,445 )    |
| Accumulated deficit   | (167,441 )  | (197,507 )  |
| Total members' equity   | 986,642     | 1,042,228   |
| Noncontrolling interests  | 109,494     | 111,040     |
| Total equity  | 1,096,136   | 1,153,268   |
| Total liabilities and equity  | \$2,542,505 | \$2,500,865 |

*See accompanying notes to the consolidated condensed financial statements.*

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**CONSOLIDATED CONDENSED STATEMENTS OF  
OPERATIONS**

**(Unaudited)**

**(\$ in Thousands, Except Share and Per Share Data)**

Interest expense includes losses on derivative instruments of \$8.6 million and \$13.9 million for the quarter and six months ended June 30, 2014, respectively, of which net losses of \$269,000 and \$508,000, respectively, were (1) reclassified from accumulated other comprehensive loss. For the quarter and six months ended June 30, 2013, interest expense includes losses on derivative instruments of \$487,000 and \$1.5 million, respectively, of which net losses of \$423,000 and \$821,000, respectively, were reclassified from accumulated other comprehensive loss. Includes \$107,000 and \$202,000 of benefit for income taxes from accumulated other comprehensive loss reclassifications for the quarter and six months ended June 30, 2014, respectively. For the quarter and six months (2) ended June 30, 2013, benefit for income taxes includes \$168,000 and \$326,000 from accumulated other comprehensive loss reclassifications, respectively.

*See accompanying notes to the consolidated condensed financial statements.*

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**CONSOLIDATED CONDENSED STATEMENTS OF  
COMPREHENSIVE INCOME (LOSS)**

**(Unaudited)**

**(\$ in Thousands)**

|   | Quarter Ended    |                  | Six Months Ended |                  |
|---|------------------|------------------|------------------|------------------|
|   | June 30,<br>2014 | June 30,<br>2013 | June 30,<br>2014 | June 30,<br>2013 |
| Net income (loss)   | \$9,744          | \$ (956 )        | \$29,904         | \$ 5,758         |
| Other comprehensive income, net of taxes:                                       |                  |                  |                  |                  |
| Reclassification of realized losses of derivatives into earnings <sup>(1)</sup> | 171              | 266              | 321              | 516              |
| Translation adjustment <sup>(2)</sup>   | 289              |                  | 4                |                  |
| Other comprehensive income  | 460              | 266              | 325              | 516              |
| Comprehensive income (loss)   | \$10,204         | \$ (690 )        | \$30,229         | \$ 6,274         |
| Less: comprehensive income (loss) attributable to noncontrolling interests      | 125              | 19               | (9 )             | 982              |
| Comprehensive income (loss) attributable to MIC LLC                             | \$10,079         | \$ (709 )        | \$30,238         | \$ 5,292         |

Reclassification of realized losses of derivatives is composed of (i) pre-tax derivative losses into interest expense of \$269,000 and \$508,000, respectively, and the related tax benefit of \$107,000 and \$202,000, respectively, recorded in the consolidated condensed statements of operations; and (ii) pre-tax derivative losses of \$13,000 and \$23,000, respectively, as an adjustment to investment in unconsolidated business, and an adjustment to deferred taxes of \$4,000 and \$8,000, respectively, recorded in the consolidated condensed balance sheet for the quarter and six

(1) months ended June 30, 2014, respectively. For the quarter and six months ended June 30, 2013, reclassification of realized losses of derivatives is composed of (i) pre-tax derivative losses into interest expense of \$423,000 and \$821,000, respectively, and the related tax benefit of \$168,000 and \$326,000, respectively, recorded in the consolidated condensed statements of operations; and (ii) pre-tax derivative losses of \$17,000 and \$32,000, respectively, as an adjustment to investment in unconsolidated business, and an adjustment to deferred taxes of \$6,000 and \$11,000, respectively, recorded in the consolidated condensed balance sheet.

(2) Translation adjustment is presented net of taxes of \$156,000 and \$2,000, respectively, for the quarter and six months ended June 30, 2014, respectively.

*See accompanying notes to the consolidated condensed financial statements.*



TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**CONSOLIDATED CONDENSED STATEMENTS OF  
CASH FLOWS  
(Unaudited)  
(\$ in Thousands)**

|   | Six Months Ended |                  |
|---|------------------|------------------|
|   | June 30,<br>2014 | June 30,<br>2013 |
| Operating activities  |                  |                  |
| Net income  | \$29,904         | \$ 5,758         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                  |
| Depreciation and amortization of property and equipment                           | 27,993           | 22,092           |
| Amortization of intangible assets   | 18,221           | 17,248           |
| Loss on disposal of assets  | 816              | 106              |
| Loss from customer contract termination   |                  | 1,626            |
| Equity in earnings and amortization charges of investee                           | (25,086 )        | (21,751 )        |
| Equity distributions from investee  | 25,086           | 7,879            |
| Amortization of debt financing costs  | 2,141            | 1,897            |
| Loss on extinguishment of debt  |                  | 2,434            |
| Adjustments to derivative instruments   | 5,367            | (3,289 )         |
| Base management fees to be settled/settled in shares                              | 18,529           | 15,188           |
| Performance fees to be settled/settled in shares                                  | 4,960            | 46,482           |
| Equipment lease receivable, net   | 2,028            | 2,074            |
| Deferred rent   | 189              | 128              |
| Deferred taxes  | 10,030           | 1,537            |
| Other non-cash income, net  | (319 )           | (1,492 )         |
| Changes in other assets and liabilities:  |                  |                  |
| Restricted cash   | 25,262           | (9,490 )         |
| Accounts receivable   | (10,851 )        | (6,865 )         |
| Inventories   | (1,227 )         | (2,338 )         |
| Prepaid expenses and other current assets   | 877              | 4,081            |
| Due to manager-related party  | (51 )            | 31               |
| Accounts payable and accrued expenses   | 270              | (2,960 )         |
| Income taxes payable  | (313 )           | (845 )           |
| Other, net  | (2,491 )         | (2,434 )         |
| Net cash provided by operating activities   | 131,335          | 77,097           |
| Investing activities  |                  |                  |
| Acquisitions of businesses and investments, net of cash acquired                  | (232,947)        |                  |
| Return of investment in unconsolidated business                                   | 12,297           |                  |

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|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Purchases of property and equipment   | (36,053 ) | (38,450 ) |
| Other, net                            | 46        | (10 )     |
| Net cash used in investing activities | (256,657) | (38,460 ) |

*See accompanying notes to the consolidated condensed financial statements.*

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**CONSOLIDATED CONDENSED STATEMENTS OF**

**CASH FLOWS (continued)**

**(Unaudited)**

**(\$ in Thousands)**

|   | Six Months Ended |               |
|---|------------------|---------------|
|   | June 30, 2014    | June 30, 2013 |
| Financing activities  |                  |               |
| Proceeds from long-term debt                                | \$ 104,884       | \$ 471,752    |
| Dividends paid to shareholders                              | (104,502 )       | (35,881 )     |
| Proceeds from the issuance of shares                        |                  | 227,558       |
| Offering and equity raise costs paid                        | (17 )            | (11,006 )     |
| Proceeds from the issuance of shares pursuant to MIC Direct | 130              |               |
| Contributions received from noncontrolling interests        |                  | 22,362        |
| Distributions paid to noncontrolling interests              | (1,406 )         | (1,189 )      |
| Payment of long-term debt                                   | (16,726 )        | (732,037 )    |
| Debt financing costs paid                                   | (2,317 )         | (18,906 )     |
| Change in restricted cash                                   | (2,599 )         | 5,009         |
| Payment of notes and capital lease obligations              | (915 )           | (907 )        |
| Net cash used in financing activities                       | (23,468 )        | (73,245 )     |
| Net change in cash and cash equivalents                     | (148,790 )       | (34,608 )     |
| Cash and cash equivalents, beginning of period              | 233,373          | 141,376       |
| Cash and cash equivalents, end of period                    | \$ 84,583        | \$ 106,768    |
| Supplemental disclosures of cash flow information           |                  |               |
| Non-cash investing and financing activities:                |                  |               |
| Accrued equity offering costs                               | \$ 286           | \$ 11         |
| Accrued financing costs                                     | \$ 322           | \$ 93         |
| Accrued purchases of property and equipment                 | \$ 2,501         | \$ 2,769      |
| Acquisition of equipment through capital leases             | \$               | \$ 1,135      |
| Issuance of shares to manager for performance fees          | \$               | \$ 65,862     |
| Issuance of shares to manager for base management fees      | \$ 18,100        | \$ 13,434     |
| Issuance of shares to independent directors                 | \$ 750           | \$ 640        |
| Conversion of construction loan to term loan                | \$ 60,360        | \$            |
| Distributions payable to noncontrolling interests           | \$ 406           | \$ 288        |
| Taxes paid  | \$ 4,254         | \$ 2,720      |
| Interest paid   | \$ 24,173        | \$ 16,184     |

*See accompanying notes to the consolidated condensed financial statements.*



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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

## 1. Organization and Description of Business

Macquarie Infrastructure Company LLC, a Delaware limited liability company, was formed on April 13, 2004.

Macquarie Infrastructure Company LLC, both on an individual entity basis and together with its consolidated subsidiaries, is referred to in these financial statements as the Company or MIC. The Company owns, operates and invests in a diversified group of infrastructure businesses in the United States. Macquarie Infrastructure Management (USA) Inc. is the Company's manager and is referred to in these financial statements as the Manager. The Manager is a wholly-owned subsidiary within the Macquarie Group of companies, which is comprised of Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Stock Exchange.

MIC is a non-operating holding company with a Board of Directors and other corporate governance responsibilities generally consistent with those of a Delaware corporation. MIC has made an election to be treated as a corporation for tax purposes.

The Company owns its businesses through its direct wholly-owned subsidiary, Macquarie Infrastructure Company Inc., or MIC Inc. The Company's businesses operate predominantly in the United States and consist of the following:

**International Matex Tank Terminals or IMTT** : at June 30, 2014, consisted of a 50% interest in a bulk liquid terminals business which provides bulk liquid storage and handling services at ten marine terminals in the United States and two in Canada and is one of the largest participants in this industry in the U.S., based on storage capacity. On July 16, 2014, we completed the acquisition of the remaining 50% interest;

**Hawaii Gas**: a full-service gas energy company processing and distributing gas products and providing related services in Hawaii;

**Atlantic Aviation**: an airport services business providing products and services, including fuel and aircraft hangaring/parking, to owners and operators of general aviation aircraft at 68 airports in the U.S.; and

**Contracted Power and Energy ( CP&E ) segment**: at June 30, 2014, consisted of controlling interests in five contracted power generation facilities located in the southwest U.S. and a 50.01% controlling interest in a district energy business which operates one of the largest district cooling systems in the U.S. In July of 2014, we completed the acquisition of interests in wind power generation.

In April of 2014, the Company signed a Stock Purchase Agreement to sell its interest in the district energy business. The sale is expected to conclude in the third quarter of 2014, subject to certain customary closing conditions, and the net proceeds are expected to be reinvested in its businesses.

## 2. Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The preparation of consolidated condensed financial statements in conformity with GAAP requires estimates and assumptions. Management evaluates these estimates and assumptions on an ongoing basis. Actual results may differ from the estimates and assumptions used in the financial statements and notes. Operating results for the quarter and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

## 2. Basis of Presentation (continued)

The consolidated balance sheet at December 31, 2013 has been derived from audited financial statements but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Certain reclassifications were made to the financial statements for the prior period to conform to current period presentation.

The interim financial information contained herein should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K, as filed with the SEC on February 19, 2014.

### *Recently Issued Accounting Standards*

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

On April 10, 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an entity. ASU 2014-08 is effective prospectively for new disposals (or classifications as held-for-sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. This guidance is not expected to have a material effect on the Company's consolidated financial statements.

## 3. Income per Share

Following is a reconciliation of the basic and diluted number of shares used in computing income per share:

|  | Quarter Ended June 30, |            | Six Months Ended June 30, |            |
|--|------------------------|------------|---------------------------|------------|
|  | 2014                   | 2013       | 2014                      | 2013       |
| Weighted average number of shares outstanding: basic   | 56,559,924             | 50,889,021 | 56,465,136                | 49,245,969 |
| Dilutive effect of restricted stock unit grants        | 12,595                 |            | 12,752                    | 17,414     |
| Weighted average number of shares outstanding: diluted | 56,572,519             | 50,889,021 | 56,477,888                | 49,263,383 |

The effect of potentially dilutive shares for the quarter and six months ended June 30, 2014 is calculated assuming that the 12,525 restricted stock unit grants provided to the independent directors on May 21, 2014, which will vest during the second quarter of 2015, and the 12,910 restricted stock unit grants provided to the independent directors on May 20, 2013, which vested during the second quarter of 2014, had been fully converted to shares on those grant dates.

The effect of potentially dilutive shares for the six months ended June 30, 2013 is calculated assuming that the 12,910 restricted stock unit grants provided to the independent directors on May 20, 2013, which vested during the second quarter of 2014, the 18,208 restricted stock unit grants provided to the independent



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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**3. Income per Share (continued)**

directors on May 31, 2012, which vested during the second quarter of 2013, and the 895 restricted stock unit grants on February 21, 2013, which vested during the second quarter of 2013, had been fully converted to shares on those grant dates. The restricted stock unit grants were anti-dilutive for the quarter ended June 30, 2013 due to the Company's net loss for the period.

**4. Acquisitions**

**Contracted Power and Energy Acquisitions**

The solar power generation businesses, within the Contracted Power and Energy segment, are held in LLCs with a co-investor. These projects' taxable income for the first five years is expected to be a loss due to accelerated depreciation, with 99% of the taxable loss, subject to certain adjustments that are not expected to be significant, allocated to the co-investor. Accordingly, these projects should have a nominal effect on MIC's consolidated current taxable income for at least the first five years of each project. The projects do not pay federal or state income taxes on a standalone basis, as the projects are treated as a partnership for tax purposes, with each member paying federal and state income taxes on their allocated taxable income.

The acquisition price on these projects can vary depending on, among other things, factors such as the size of the project, power purchase agreement (PPA) contract terms, eligibility for tax incentives, debt package, operating cost structure and development stage. A completed project takes out all of the construction risk, testing and costs associated with construction contracts.

The Company has certain rights to make decisions over the management and operations of the projects and the Company has determined that it is appropriate to consolidate the projects with the co-investor's interest reflected as a noncontrolling interest in the consolidated condensed financial statements.

**Acquisition of Davis Monthan Air Force Base (DMAFB), Arizona**

On July 19, 2013, the Company contributed \$7.9 million, as a capital investment, and completed the acquisition of the DMAFB Project for an initial purchase price of \$11.0 million subject to customary closing conditions described below. The Company entered into an LLC agreement with a noncontrolling interest co-investor who made a capital contribution of \$23.0 million during the fourth quarter of 2013. The purchase price was adjusted by \$1.5 million in the first quarter of 2014 in accordance with the purchase agreement, which includes provisions that adjusted the purchase price based on final construction costs, financing terms and other insignificant project-related costs. As a result, a final

payment of \$1.2 million was made during the first quarter of 2014, resulting in a final purchase price of \$9.5 million for this project. During June of 2014, the DMAFB Project made a \$5.8 million distribution to MIC classified as a return of capital, reducing MIC's investment in the project to \$2.1 million. This facility is expected to generate approximately 13 megawatts ( MWac ) of electricity.

In connection with the acquisition, the Company assumed \$22.4 million in construction financing. The DMAFB Project commenced operations during December of 2013. The construction loan was converted to term debt during February of 2014.

### **Acquisition of Valley Center, California**

On September 20, 2013, the Company contributed \$6.8 million, as a capital investment, and completed the acquisition of the Valley Center Project for a purchase price of \$5.6 million. The Company entered into an LLC agreement with a noncontrolling interest co-investor who made a capital contribution of \$14.5 million during the fourth quarter of 2013. This facility is expected to generate approximately 7 megawatts of electricity.

In connection with the acquisition, the Company entered into a construction loan agreement and drew down \$10.2 million. The Valley Center Project commenced operations during December of 2013. The construction loan was converted to term debt during February of 2014.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
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**4. Acquisitions (continued)**

**Acquisition of Ramona, California**

On October 8, 2013, the Company contributed \$6.1 million, as a capital investment, and completed the acquisition of the Ramona Project for a purchase price of \$4.9 million. The Company entered into an LLC agreement with a noncontrolling interest co-investor who made a capital contribution of \$13.8 million during the fourth quarter of 2013. This facility is expected to generate approximately 7 megawatts of electricity.

In connection with the acquisition, the Company entered into a construction loan agreement and drew down \$10.4 million. The Ramona Project commenced operations during December of 2013. The construction loan was converted to term debt during February of 2014.

Had the DMAFB Project, Valley Center Project and Ramona Project acquisitions occurred as of January 1, 2013, the Company's consolidated results of operations would not have been materially different. For the six months ended June 30, 2014 and the year ended December 31, 2013, the Company recorded transaction related costs of \$228,000 and \$2.2 million, respectively, in selling, general, and administrative expenses for these investments.

**Atlantic Aviation Acquisitions**

**Acquisition of Kansas City FBO**

On December 6, 2013, Atlantic Aviation completed the acquisition of the assets and liabilities of the fixed based operations ( FBO ) at Charles B. Wheeler Downtown Airport in Kansas City, Missouri, for \$8.1 million (referred to as MKC ). The acquisition will expand the business' network in the midwest and was funded from additional debt raised by the business during the fourth quarter of 2013.

The acquisition has been accounted for as a business combination. Accordingly, the results of operations of MKC are included in the consolidated condensed statement of operations, and as a component of the Company's Atlantic Aviation business segment, since December 6, 2013.

**Acquisition of Galaxy FBO**

On April 30, 2014, Atlantic Aviation completed the acquisitions of the assets and liabilities of Galaxy Aviation and Boca Aviation (collectively referred to as Galaxy Acquisitions ) for a purchase price of \$230.0 million, funded by cash that had previously been raised or generated and the \$100.0 million term loan facility that had previously been arranged. The acquisitions included substantially all of the assets of six FBOs and one new hangar then under

construction at one of the six airports on which the FBOs operate. The acquisition has expanded the business network into Florida.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****4. Acquisitions (continued)**

The acquisitions have been accounted for as a business combination. Accordingly, the results of operations of Galaxy are included in the consolidated condensed statement of operations, and as a component of the Company's Atlantic Aviation business segment, since April 30, 2014. The allocation of the purchase price for the Galaxy Acquisitions assets acquired and liabilities assumed was as follows (\$ in thousands):

|  |            |
|--|------------|
| Inventories  | \$ 474     |
| Other current assets                                 | 27         |
| Total current assets                                 | 501        |
| Property, equipment, land and leasehold improvements | 29,714     |
| Intangible assets:                                   |            |
| Trade names <sup>(1)</sup>                           | 100        |
| Customer relationships <sup>(2)</sup>                | 850        |
| Contractual arrangements <sup>(3)</sup>              | 118,500    |
| Goodwill <sup>(4)</sup>                              | 82,284     |
| Total assets acquired                                | \$ 231,949 |
| Current liabilities                                  | \$ 1,949   |
| Total liabilities assumed                            | \$ 1,949   |
| Net assets acquired                                  | \$ 230,000 |

(1) Trade names are indefinite in life.

(2) Customer relationships are being amortized over an eight year period.

(3) Contractual arrangements are being amortized over a weighted average life of twenty five years.

(4) Goodwill of \$82.3 million is deductible for tax purposes.

The fair value was determined using various valuation techniques, including the market approach, income approach and/or cost approach. Had the Galaxy Acquisitions occurred as of January 1, 2014 and MKC acquisition occurred as of January 1, 2013, the consolidated results of operations would not have been materially different. For the six months ended June 30, 2014 and year ended December 31, 2013, Atlantic Aviation recorded transaction related costs of \$792,000 and \$680,000, respectively, in selling, general and administrative expenses for these investments.

**IMTT Acquisition**

On July 16, 2014, the Company acquired the remaining interest in IMTT that it did not own. See Note 14, Subsequent Events .



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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 5. Property, Equipment, Land and Leasehold Improvements

Property, equipment, land and leasehold improvements at June 30, 2014 and December 31, 2013 consist of the following (\$ in thousands):

|   | June 30,<br>2014 | December<br>31, 2013 |
|---|------------------|----------------------|
| Land  | \$4,856          | \$4,854              |
| Easements   | 5,624            | 5,624                |
| Buildings   | 25,152           | 25,143               |
| Leasehold and land improvements                           | 380,864          | 357,903              |
| Machinery and equipment                                   | 705,972          | 674,839              |
| Furniture and fixtures                                    | 12,159           | 11,416               |
| Construction in progress                                  | 46,347           | 35,637               |
| Property held for future use                              | 1,975            | 1,975                |
|   | 1,182,949        | 1,117,391            |
| Less: accumulated depreciation                            | (288,284 )       | (263,222 )           |
| Property, equipment, land and leasehold improvements, net | \$894,665        | \$854,169            |

As discussed in Note 4, Acquisitions, the Company acquired \$29.7 million in property, equipment, land and leasehold improvements from the Galaxy Acquisitions during the second quarter of 2014. During 2013, the Company acquired \$45.3 million in construction in progress, which subsequently was reclassified to machinery and equipment, from the acquisitions of three solar facilities and \$13.8 million in property, equipment, land and leasehold improvements from the MKC acquisition.

#### 6. Intangible Assets

Intangible assets at June 30, 2014 and December 31, 2013 consist of the following (\$ in thousands):

|                          | June 30,<br>2014 | December<br>31, 2013 |
|--------------------------|------------------|----------------------|
| Contractual arrangements | \$ 863,276       | \$ 746,231           |
| Non-compete agreements   | 9,665            | 9,665                |
| Customer relationships   | 81,105           | 80,255               |
| Leasehold rights         | 2,121            | 2,121                |
| Trade names              | 15,771           | 15,671               |

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|                                |            |            |
|--------------------------------|------------|------------|
| Technology                     | 460        | 460        |
|                                | 972,398    | 854,403    |
| Less: accumulated amortization | (279,032 ) | (261,553 ) |
| Intangible assets, net         | \$ 693,366 | \$ 592,850 |

As discussed in Note 4, Acquisitions , the Company acquired \$119.5 million in intangible assets from the Galaxy Acquisitions during the second quarter of 2014. This consisted primarily of contractual arrangements and will be amortized over a weighted average life of twenty five years.



TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****6. Intangible Assets (continued)**

The goodwill balance as of June 30, 2014 is comprised of the following (\$ in thousands):

|  |           |
|--|-----------|
| Goodwill acquired in business combinations, net of disposals, at December 31, 2013 | \$637,694 |
| Add: goodwill acquired in 2014 acquisition   | 82,133    |
| Less: accumulated impairment charges   | (123,200) |
| Balance at June 30, 2014   | \$596,627 |

As discussed in Note 4, Acquisitions, the Company recorded \$82.3 million in goodwill from the Galaxy Acquisitions during the second quarter of 2014.

The Company tests for goodwill impairment at the reporting unit level on an annual basis on October 1<sup>st</sup> of each year and between annual tests if a triggering event indicates impairment. There were no triggering events indicating impairment for the six months ended June 30, 2014.

**7. Long-Term Debt**

At June 30, 2014 and December 31, 2013, the Company's consolidated long-term debt comprised the following (\$ in thousands):

|                             | June 30,<br>2014 | December<br>31, 2013 |
|-----------------------------|------------------|----------------------|
| Hawaii Gas                  | \$ 180,000       | \$ 180,000           |
| Atlantic Aviation           | 614,679          | 517,773              |
| Contracted Power and Energy | 287,589          | 296,337              |
| Total                       | 1,082,268        | 994,110              |
| Less: current portion       | (158,687 )       | (163,083 )           |
| Long-term portion           | \$ 923,581       | \$ 831,027           |

On May 31, 2013, Atlantic Aviation entered into a credit agreement (the AA Credit Agreement), that provides the business with a seven-year, \$465.0 million senior secured first lien term loan facility. On November 7, 2013 and January 22, 2014, the business entered into an incremental \$50.0 million and \$100.0 million, respectively, term loan under the AA Credit Agreement that provides the business with senior secured first lien term loan facility. The interest rate on these term loan facilities floats at LIBOR plus 2.50%, with minimum LIBOR of 0.75%, and these facilities mature in June of 2020. The floating rate has effectively been fixed for 6 years using interest rate swaps. At June 30,

2014, the outstanding balance on these term loan facilities totaled \$609.7 million. The AA Credit Agreement also provides for a five-year, \$70.0 million senior secured first lien revolving credit facility that bears interest at LIBOR plus 2.50%. This remains undrawn at June 30, 2014.

Atlantic Aviation also has stand-alone debt facilities used to fund construction at its FBOs. At June 30, 2014, the balances on the stand-alone facilities were \$5.0 million. The Company has classified \$557,000 relating to the stand-alone debt facilities in the current portion of long-term debt in the consolidated condensed balance sheet at June 30, 2014.

The Company classified \$147.7 million relating to its district energy business debt, within the CP&E segment, in the current portion of long-term debt in the consolidated condensed balance sheet at June 30, 2014, as its debt facilities mature in September of 2014. The Company intends to repay the outstanding debt of this business with a portion of the proceeds from the expected sale of the business in the third quarter of 2014. During the six months ended June 30, 2014 and in July of 2014, the district energy business repaid \$6.3 million and \$712,000, respectively, of its outstanding debt balance.

At June 30, 2014, the solar power generation businesses, within the CP&E segment, had \$139.9 million of amortizing term loan debt outstanding, of which \$4.2 million was recorded as current portion of long-term debt in the consolidated condensed balance sheet. During February of 2014, the construction loans for the

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**7. Long-Term Debt (continued)**

DMAFB Project, Valley Center Project and Ramona Project converted to term debt. The interest rate related to the DMAFB Project's term debt, of \$27.6 million, is fixed at 5.138% through maturity in December of 2033. The interest rate related to the Valley Center Project's term debt, of \$16.9 million, is fixed at 5.60% through maturity in September of 2036. The interest rate related to the Ramona Project's term debt, of \$15.9 million, is fixed at 5.47% through maturity in September of 2036.

In July of 2014, in connection with its acquisition of the remaining interest in IMTT that it did not own, the Company (i) entered into a new senior secured revolving credit facility of \$250.0 million and (ii) issued \$350.0 million aggregate principal amount of 2.875% convertible senior notes due July of 2019. See Note 14, Subsequent Events .

**8. Derivative Instruments and Hedging Activities**

The Company and certain of its businesses have in place variable-rate debt. Management believes that it is prudent to limit the variability of a portion of the business' interest payments. To meet this objective, the Company enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk on a portion of its debt with a variable-rate component. These swaps change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt for the portion of the debt that is swapped.

At June 30, 2014, the Company had \$1.1 billion of current and long-term debt, \$837.5 million of which was economically hedged with interest rate contracts and \$244.8 million of which was unhedged.

Effective February 25, 2009 for Atlantic Aviation and effective April 1, 2009 for the Company's other businesses, the Company elected to discontinue hedge accounting. In prior periods, when the Company applied hedge accounting, changes in the fair value of derivatives that effectively offset the variability of cash flows on the Company's debt interest obligations were recorded in other comprehensive income or loss. From the dates that hedge accounting was discontinued, all movements in the fair value of the interest rate swaps are recorded directly through earnings. As interest payments are made, a portion of the other comprehensive loss recorded under hedge accounting is also reclassified into earnings. The Company will reclassify into earnings \$349,000 of derivative losses, included in accumulated other comprehensive loss as of June 30, 2014, within the next 12 months.

Excess cash flow generated from the district energy business must be applied toward the principal balance of the term loan during the last two years before maturity. The district energy business is expected to record additional reclassifications from accumulated other comprehensive loss to interest expense when the business pays down its debt

more quickly than anticipated.

As discussed in Note 7, Long-Term Debt, Atlantic Aviation entered into a \$100.0 million senior secured first lien term loan facility credit agreement on January 22, 2014. The interest rate on this term loan facility floats at LIBOR plus 2.50%, with a minimum LIBOR of 0.75%. This term loan was fully drawn in April of 2014 in connection with the Galaxy Acquisitions. Effective May 30, 2014, Atlantic Aviation entered into an amortizing interest rate swap for \$96.3 million notional that expires on July 31, 2019. This interest rate swap effectively fixes the interest rate on the term loan at 4.40%. The amortization on this interest rate swap is scheduled to equal the total principal balance on all of the term loan facilities under the AA Credit Agreement, resulting in the total outstanding principal balance on the term loans to be 100% hedged. The weighted average of the interest rate from the outstanding swaps under the AA Credit Agreement are effectively fixed at 4.63%.

The Company measures derivative instruments at fair value using the income approach which discounts the future net cash settlements expected under the derivative contracts to a present value. These valuations

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 8. Derivative Instruments and Hedging Activities (continued)

utilize primarily observable ( level 2 ) inputs, including contractual terms, interest rates and yield curves observable at commonly quoted intervals.

The Company's fair value measurements of its derivative instruments and the related location of the assets and liabilities associated with the hedging instruments within the consolidated condensed balance sheets at June 30, 2014 and December 31, 2013 were as follows (\$ in thousands):

| Balance Sheet Location                   |                                      | Assets (Liabilities) at Fair Value <sup>(1)</sup> |                   |
|--|--------------------------------------|---|-------------------|
|  |                                      | June 30, 2014                                     | December 31, 2013 |
| Fair value of derivative instruments     | current asset <sup>(2)</sup>         | \$  | \$ 1              |
| Fair value of derivative instruments     | non-current asset <sup>(3)</sup>     | 947   | 6,880             |
| Total interest rate derivative contracts | asset <sup>(3)</sup>                 | \$ 947  | \$ 6,881          |
| Fair value of derivative instruments     | current liability <sup>(3)</sup>     | \$ (10,542 )                                      | \$ (13,027 )      |
| Fair value of derivative instruments     | non-current liability <sup>(3)</sup> | (1,410 )  |                   |
| Total interest rate derivative contracts | liability <sup>(3)</sup>             | \$ (11,952 )                                      | \$ (13,027 )      |

(1) Fair value measurements at reporting date were made using significant other observable inputs ( level 2 ).

(2) Derivative contracts represent interest rate caps.

(3) Derivative contracts represent interest rate swaps.

The Company's hedging activities for the quarters and six months ended June 30, 2014 and 2013 and the related location within the consolidated condensed statements of operations were as follows (\$ in thousands):

| Financial Statement Account | Derivatives Not Designated as Hedging Instruments  |  | Derivatives Not Designated as Hedging Instruments   |   |
|-----------------------------|--|--|---|---|
|                             | Amount of Loss Recognized in Interest Expense for the Quarter Ended June 30, 2014 <sup>(1)</sup> | Amount of Loss Recognized in Interest Expense for the Quarter Ended June 30, 2013 <sup>(2)</sup> | Amount of Loss Recognized in Interest Expense for the Six Months Ended June 30, 2014 <sup>(1)</sup> | Amount of Loss Recognized in Interest Expense for the Six Months Ended June 30, 2013 <sup>(2)</sup> |
|                             |  |  |   |   |

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|                  |                     |             |           |              |             |
|------------------|---------------------|-------------|-----------|--------------|-------------|
| Interest expense | Interest rate cap   | \$          | \$ (27 )  | \$ (1 )      | \$ (53 )    |
| Interest expense | Interest rate swaps | (8,618 )    | (460 )    | (13,950 )    | (1,494 )    |
| Total            |                     | \$ (8,618 ) | \$ (487 ) | \$ (13,951 ) | \$ (1,547 ) |

Net loss recognized in interest expense for the interest rate swap contracts for the quarter and six months ended June 30, 2014 includes \$8.3 million and \$13.4 million, respectively, of unrealized derivative losses and \$269,000 (1) and \$508,000, respectively, of derivative losses reclassified from accumulated other comprehensive loss. Net loss recognized in interest expense for the six months ended June 30, 2014 also includes \$1,000 of unrealized derivative losses from an interest rate cap contract.

Net loss recognized in interest expense for the interest rate swap contracts for the quarter and six months ended June 30, 2013 includes \$37,000 and \$673,000, respectively, of unrealized derivative losses and \$423,000 and (2)\$821,000, respectively, of derivative losses reclassified from accumulated other comprehensive loss. Net loss recognized in interest expense for the quarter and six months ended June 30, 2013 also includes \$27,000 and \$53,000, respectively, of unrealized derivative losses from an interest rate cap contract.

All of the Company's derivative instruments are collateralized by the assets of the respective businesses.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

### 9. Members Equity

#### LLC Interests, or Shares

The Company is authorized to issue 500,000,000 shares. Each outstanding share of the Company is entitled to one vote on any matter with respect to which holders of shares are entitled to vote.

#### Shelf Registration Statement and MIC Direct

On April 8, 2013, the Company filed an automatic shelf registration statement on Form S-3 ( shelf ) with the Securities and Exchange Commission to issue and sell an indeterminate amount of its shares and debt securities in one or more future offerings. Along with the shelf, the Company filed a prospectus supplement with respect to a dividend reinvestment/direct stock purchase program named MIC Direct . The prospectus supplement relates to the issuance of up to 1.0 million additional shares to participants in MIC Direct. At June 30, 2014, 997,262 shares remained unissued under MIC Direct. The Company may also choose to fill requests for reinvestment of dividends or share purchases through MIC Direct via open market purchases.

#### Equity Offerings

On May 8, 2013, the Company completed an underwritten public offering and sale of 3,756,500 shares pursuant to the shelf. On May 16, 2013, the Company sold an additional 133,375 shares in this offering pursuant to the exercise of the underwriters over-allotment option. The Manager, as selling stockholder, sold 3,182,625 shares as part of this offering. The proceeds from the offering were \$217.8 million and \$178.2 million, respectively, to the Company and to the Manager, net of underwriting fees and expenses. The Company used the proceeds of the offering to partially repay the existing term loan at Atlantic Aviation prior to the May 31, 2013 refinancing under the AA Credit Agreement.

On December 18, 2013, the Company completed an underwritten public offering and sale of 2,125,200 shares pursuant to the shelf and an additional 318,780 shares pursuant to the exercise of the underwriters over-allotment option. The Company received proceeds from the offering of \$123.2 million, net of underwriting fees and expenses.

The Company used the proceeds to fund, in part, the Galaxy Acquisitions during April of 2014.

On July 15, 2014, in connection with its acquisition of the remaining interest in IMTT that it did not own, the Company completed underwritten public offerings of (i) 11,500,000 shares and (ii) \$350.0 million aggregate principal of 2.875% convertible senior notes due July of 2019. See Note 14, Subsequent Events .

**Accumulated Other Comprehensive Loss**

The following represents the changes and balances to the components of accumulated other comprehensive loss for the six months ended June 30, 2014 and 2013 (\$ in thousands):

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(Unaudited)****9. Members Equity (continued)**

For the six months ended June 30, 2014 and 2013, reclassification of realized losses of derivatives is composed of (i) pre-tax derivative losses into interest expense of \$508,000 and \$821,000, respectively, and the related tax benefit of \$202,000 and \$326,000, respectively, recorded in the consolidated condensed statements of operations; and (ii) pre-tax derivative losses of \$23,000 and \$32,000, respectively, as an adjustment to investment in unconsolidated business, and an adjustment to deferred taxes of \$8,000 and \$11,000, respectively, recorded in the consolidated condensed balance sheet.

(2) Translation adjustment is presented net of taxes of \$2,000 for the six months ended June 30, 2014.

**10. Reportable Segments**

The Company's businesses consist of three reportable segments: Hawaii Gas, Atlantic Aviation and CP&E. At June 30, 2014, the Company also had a 50% investment in IMTT, which is accounted for under the equity method. On July 16, 2014, the Company completed the acquisition of the remaining 50% interest in IMTT that it did not own. From the acquisition date, the Company will consolidate the financial results of IMTT and IMTT will become a reportable segment.

Financial information for IMTT's business as a whole is presented below (\$ in thousands):

|   | As of, and for the Quarter<br>Ended, June 30, |           | As of, and for the Six<br>Months Ended, June 30, |           |
|---|---|-----------|--|-----------|
|   | 2014  | 2013      | 2014   | 2013      |
| Revenue   | \$142,518                                     | \$125,821 | \$290,596  | \$257,306 |
| Net income  | \$24,003                                      | \$24,984  | \$54,984   | \$48,314  |
| Interest expense, net                                     | 8,813   | 1,117     | 15,946   | 7,723     |
| Provision for income taxes                                | 15,455  | 16,592    | 36,557   | 33,713    |
| Depreciation and amortization                             | 19,646  | 18,636    | 37,920   | 37,058    |
| Casualty losses, net                                      |   | 6,500     |  | 6,500     |
| Other non-cash expenses                                   | 1,518   | 101       | 3,501  | 176       |
| EBITDA excluding non-cash items <sup>(1)</sup>            | \$69,435                                      | \$67,930  | \$148,908  | \$133,484 |
| Capital expenditures paid                                 | \$24,272                                      | \$39,724  | \$53,893   | \$90,498  |
| Property, equipment, land and leasehold improvements, net | 1,285,148                                     | 1,238,696 | 1,285,148  | 1,238,696 |
| Total assets  | 1,386,959                                     | 1,355,152 | 1,386,959  | 1,355,152 |

(1) EBITDA consists of earnings before interest, taxes, depreciation and amortization. Non-cash items that are excluded consist of impairments, derivative gains and losses and all other non-cash income and expense items. All of the business segments, including the businesses within Contracted Power and Energy, are managed separately and management has chosen to organize the Company around the distinct products and services offered.

IMTT provides bulk liquid terminal and handling services in North America through ten terminals located on the East, West, Gulf Coasts and the Great Lakes region of the United States and partially owned terminals in Quebec and Newfoundland, Canada. IMTT derives the majority of its revenue from storage and handling of petroleum products, various chemicals, renewable fuels, and vegetable and animal oils. Based on storage capacity, IMTT operates one of the largest third-party bulk liquid terminals businesses in the United States.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**  
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**10. Reportable Segments (continued)**

The revenue from the Hawaii Gas segment is included in revenue from product sales. Revenue is generated from the distribution and sales of synthetic natural gas, or SNG, and liquefied petroleum gas, or LPG. Revenue is primarily a function of the volume of SNG and LPG consumed by customers and the price per thermal unit or gallon charged to customers. Because both SNG and LPG are derived from petroleum, revenue levels, without organic growth, will generally track global oil prices. The utility revenue of Hawaii Gas reflects fuel adjustment clauses, or FACs, through which changes in fuel costs are passed through to customers.

The Atlantic Aviation business segment derives the majority of its revenues from fuel sales and from other airport services, including de-icing and aircraft hangarage. All of the revenue of Atlantic Aviation is generated at airports in the U.S., of which there were 68 at June 30, 2014. Revenues from Atlantic Aviation are included in revenue from product sales and service revenue.

At June 30, 2014, the Contracted Power and Energy business segment derives revenue from the solar power generation and district energy businesses. Revenues from the solar power generation businesses are included in revenue from product sales. As of June 30, 2014, the Company has invested in five utility-scale photovoltaic power generation facilities that are located in the southwest United States that are expected to have an aggregate generating capacity of 57 megawatts of wholesale electricity to utilities. Owners of solar photovoltaic power generation facilities sell substantially all of the electricity generated from these facilities, subject to agreed upon pricing formulas, to electric utilities pursuant to long-term (typically 20 – 25 years) PPAs.

Revenues from the district energy business are included in service revenue and financing and equipment lease income. Included in service revenue is capacity revenue, which relates to monthly fixed contract charges, and consumption revenue, which relates to contractual rates applied to actual usage. Financing and equipment lease income relates to direct financing lease transactions and equipment leases to the business' various customers. Finance lease revenue, recorded on the consolidated condensed statement of operations, is the interest portion of lease payments received from equipment leases with various customers primarily in Las Vegas. The principal portion of the cash receipts on these equipment leases are recorded in the operating activities of the consolidated condensed cash flow statements. The district energy business provides its services to buildings primarily in the downtown Chicago, Illinois area and to a casino and a shopping mall located in Las Vegas, Nevada.

Selected information by segment is presented in the following tables. The tables do not include financial data for the Company's equity investment in IMTT.



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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

### 10. Reportable Segments (continued)

Revenue from external customers for the Company's consolidated reportable segments was as follows (\$ in thousands):

|                               | Quarter Ended June 30, 2014 |                   |                             |                           |
|-------------------------------|-----------------------------|-------------------|-----------------------------|---------------------------|
|                               | Hawaii Gas                  | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Revenue from Product Sales    |                             |                   |                             |                           |
| Product sales                 | \$ 32,017                   | \$ 150,240        | \$ 5,830                    | \$ 188,087                |
| Product sales - utility       | 37,117                      |                   |                             | 37,117                    |
|                               | 69,134                      | 150,240           | 5,830                       | 225,204                   |
| Other Revenue                 |                             |                   |                             |                           |
| Service Revenue               |                             | 42,972            | 12,057                      | 55,029                    |
|                               |                             | 42,972            | 12,057                      | 55,029                    |
| Financing and Lease Income    |                             |                   |                             |                           |
| Financing and equipment lease |                             |                   | 710                         | 710                       |
|                               |                             |                   | 710                         | 710                       |
| Total Revenue                 | \$ 69,134                   | \$ 193,212        | \$ 18,597                   | \$ 280,943                |

|                               | Quarter Ended June 30, 2013 |                   |                             |                           |
|-------------------------------|-----------------------------|-------------------|-----------------------------|---------------------------|
|                               | Hawaii Gas                  | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Revenue from Product Sales    |                             |                   |                             |                           |
| Product sales                 | \$ 28,420                   | \$ 135,929        | \$ 2,832                    | \$ 167,181                |
| Product sales - utility       | 34,193                      |                   |                             | 34,193                    |
|                               | 62,613                      | 135,929           | 2,832                       | 201,374                   |
| Other Revenue                 |                             |                   |                             |                           |
| Service Revenue               |                             | 38,573            | 11,713                      | 50,286                    |
|                               |                             | 38,573            | 11,713                      | 50,286                    |
| Financing and Lease Income    |                             |                   |                             |                           |
| Financing and equipment lease |                             |                   | 907                         | 907                       |

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|               |           |            |           |            |
|---------------|-----------|------------|-----------|------------|
|               |           |            | 907       | 907        |
| Total Revenue | \$ 62,613 | \$ 174,502 | \$ 15,452 | \$ 252,567 |

|                               | Six Months Ended June 30, 2014 |                      |                                   |                                 |
|-------------------------------|--------------------------------|----------------------|-----------------------------------|---------------------------------|
|                               | Hawaii<br>Gas                  | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy | Total<br>Reportable<br>Segments |
| Revenue from Product Sales    |                                |                      |                                   |                                 |
| Product sales                 | \$ 66,223                      | \$ 296,177           | \$ 9,488                          | \$ 371,888                      |
| Product sales utility         | 72,262                         |                      |                                   | 72,262                          |
|                               | 138,485                        | 296,177              | 9,488                             | 444,150                         |
| Other Revenue                 |                                |                      |                                   |                                 |
| Service Revenue               |                                | 90,996               | 20,535                            | 111,531                         |
|                               |                                | 90,996               | 20,535                            | 111,531                         |
| Financing and Lease Income    |                                |                      |                                   |                                 |
| Financing and equipment lease |                                |                      | 1,457                             | 1,457                           |
|                               |                                |                      | 1,457                             | 1,457                           |
| Total Revenue                 | \$ 138,485                     | \$ 387,173           | \$ 31,480                         | \$ 557,138                      |

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TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****10. Reportable Segments (continued)**

|                               | Six Months Ended June 30, 2013 |                      |                                   |                                 |
|-------------------------------|--------------------------------|----------------------|-----------------------------------|---------------------------------|
|                               | Hawaii<br>Gas                  | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy | Total<br>Reportable<br>Segments |
| Revenue from Product Sales    |                                |                      |                                   |                                 |
| Product sales                 | \$ 60,505                      | \$ 276,273           | \$ 4,518                          | \$ 341,296                      |
| Product sales utility         | 71,114                         |                      |                                   | 71,114                          |
|                               | 131,619                        | 276,273              | 4,518                             | 412,410                         |
| Other Revenue                 |                                |                      |                                   |                                 |
| Service Revenue               |                                | 82,369               | 20,032                            | 102,401                         |
|                               |                                | 82,369               | 20,032                            | 102,401                         |
| Financing and Lease Income    |                                |                      |                                   |                                 |
| Financing and equipment lease |                                |                      | 1,962                             | 1,962                           |
|                               |                                |                      | 1,962                             | 1,962                           |
| Total Revenue                 | \$ 131,619                     | \$ 358,642           | \$ 26,512                         | \$ 516,773                      |

In accordance with FASB ASC 280 *Segment Reporting*, the Company has disclosed earnings before interest, taxes, depreciation and amortization ( EBITDA ) excluding non-cash items as a key performance metric relied on by management in the evaluation of the Company's performance. Non-cash items include impairments, derivative gains and losses and adjustments for other non-cash items reflected in the statements of operations. The Company believes EBITDA excluding non-cash items provides additional insight into the performance of the operating businesses relative to each other and similar businesses without regard to their capital structure, and their ability to service or reduce debt, fund capital expenditures and/or support distributions to the holding company. EBITDA excluding non-cash items is reconciled to net income or loss.

EBITDA excluding non-cash items for the Company's consolidated reportable segments is shown in the tables below (\$ in thousands). Allocations of corporate expenses, intercompany fees and the tax effect have been excluded as they are eliminated on consolidation.

|            | Quarter Ended June 30, 2014 |                      |                                   |                                 |
|------------|-----------------------------|----------------------|-----------------------------------|---------------------------------|
|            | Hawaii<br>Gas               | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy | Total<br>Reportable<br>Segments |
| Net income | \$ 6,294                    | \$ 5,698             | \$ 1,154                          | \$ 13,146                       |

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|                                 |           |           |          |           |
|---------------------------------|-----------|-----------|----------|-----------|
| Interest expense, net           | 1,891     | 13,352    | 2,690    | 17,933    |
| Provision for income taxes      | 4,092     | 3,855     | 616      | 8,563     |
| Depreciation <sup>(1)</sup>     | 1,983     | 6,789     | 5,363    | 14,135    |
| Amortization of intangibles     | 312       | 8,818     | 326      | 9,456     |
| Loss on disposal of assets      |           | 816       |          | 816       |
| Other non-cash expense (income) | 408       | 88        | (2,125 ) | (1,629 )  |
| EBITDA excluding non-cash items | \$ 14,980 | \$ 39,416 | \$ 8,024 | \$ 62,420 |

(1) Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment, which is reported in cost of services in the consolidated condensed statements of operations.

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(Unaudited)****10. Reportable Segments (continued)**

|   | Quarter Ended June 30, 2013 |                   |                             |                           |
|---|-----------------------------|-------------------|-----------------------------|---------------------------|
|   | Hawaii Gas                  | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Net income                              | \$ 4,662                    | \$ 8,432          | \$ 416                      | \$ 13,510                 |
| Interest expense, net                   | 1,238                       | 4,626             | 1,865                       | 7,729                     |
| Provision (benefit) for income taxes    | 2,995                       | 5,426             | (548 )                      | 7,873                     |
| Depreciation <sup>(1)</sup>             | 1,878                       | 5,997             | 3,264                       | 11,139                    |
| Amortization of intangibles             | 312                         | 7,977             | 331                         | 8,620                     |
| Loss on extinguishment of debt          |                             | 2,434             |                             | 2,434                     |
| Loss from customer contract termination |                             |                   | 1,626                       | 1,626                     |
| Other non-cash expense (income)         | 326                         | (47 )             | (156 )                      | 123                       |
| EBITDA excluding non-cash items         | \$ 11,411                   | \$ 34,845         | \$ 6,798                    | \$ 53,054                 |

(1) Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment, which is reported in cost of services in the consolidated condensed statements of operations.

|                                 | Six Months Ended June 30, 2014 |                   |                             |                           |
|---------------------------------|--------------------------------|-------------------|-----------------------------|---------------------------|
|                                 | Hawaii Gas                     | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Net income (loss)               | \$ 12,489                      | \$ 16,253         | \$ (261 )                   | \$ 28,481                 |
| Interest expense, net           | 3,678                          | 22,917            | 5,335                       | 31,930                    |
| Provision for income taxes      | 8,119                          | 8,770             | 1,215                       | 18,104                    |
| Depreciation <sup>(1)</sup>     | 3,929                          | 13,591            | 10,473                      | 27,993                    |
| Amortization of intangibles     | 624                            | 16,949            | 648                         | 18,221                    |
| Loss on disposal of assets      |                                | 816               |                             | 816                       |
| Other non-cash expense (income) | 1,132                          | 156               | (2,890 )                    | (1,602 )                  |
| EBITDA excluding non-cash items | \$ 29,971                      | \$ 79,452         | \$ 14,520                   | \$ 123,943                |

(1) Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment, which is reported in cost of services in the consolidated condensed statements of operations.

|   | Six Months Ended June 30, 2013 |                      |                                   |                                 |
|---|--------------------------------|----------------------|-----------------------------------|---------------------------------|
|   | Hawaii<br>Gas                  | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy | Total<br>Reportable<br>Segments |
| Net income                              | \$ 11,369                      | \$ 19,044            | \$ 298                            | \$ 30,711                       |
| Interest expense, net                   | 2,943                          | 8,725                | 3,742                             | 15,410                          |
| Provision for income taxes              | 7,478                          | 12,824               | 1,415                             | 21,717                          |
| Depreciation <sup>(1)</sup>             | 3,724                          | 11,889               | 6,479                             | 22,092                          |
| Amortization of intangibles             | 624                            | 15,956               | 668                               | 17,248                          |
| Loss on extinguishment of debt          |                                | 2,434                |                                   | 2,434                           |
| Loss from customer contract termination |                                |                      | 1,626                             | 1,626                           |
| Loss on disposal of assets              |                                | 106                  |                                   | 106                             |
| Other non-cash expense (income)         | 988                            | (115 )               | (2,337 )                          | (1,464 )                        |
| EBITDA excluding non-cash items         | \$ 27,126                      | \$ 70,863            | \$ 11,891                         | \$ 109,880                      |

<sup>(1)</sup> Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment, which is reported in cost of services in the consolidated condensed statements of operations.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

### 10. Reportable Segments (continued)

Reconciliation of total reportable segments EBITDA excluding non-cash items to consolidated net income (loss) before income taxes are as follows (\$ in thousands):

|   | Quarter Ended June 30, |            | Six Months Ended June 30, |           |
|---|------------------------|------------|---------------------------|-----------|
|   | 2014                   | 2013       | 2014                      | 2013      |
| Total reportable segments EBITDA excluding non-cash items | \$62,420               | \$53,054   | \$123,943                 | \$109,880 |
| Interest income   | 31                     | 49         | 95                        | 143       |
| Interest expense  | (17,945)               | (7,737 )   | (31,956 )                 | (15,423 ) |
| Depreciation <sup>(1)</sup>                               | (14,135)               | (11,139)   | (27,993 )                 | (22,092 ) |
| Amortization of intangibles                               | (9,456 )               | (8,620 )   | (18,221 )                 | (17,248 ) |
| Loss on extinguishment of debt                            |                        | (2,434 )   |                           | (2,434 )  |
| Loss from customer contract termination                   |                        | (1,626 )   |                           | (1,626 )  |
| Loss on disposal of assets                                | (816 )                 |            | (816 )                    | (106 )    |
| Selling, general and administrative corporate             | (2,233 )               | (2,103 )   | (3,279 )                  | (3,709 )  |
| Fees to manager   | (14,495)               | (32,493)   | (23,489 )                 | (61,670 ) |
| Equity in earnings and amortization charges of investee   | 10,799                 | 11,289     | 25,086                    | 21,751    |
| Other income (expense), net                               | 1,059                  | (286 )     | 505                       | 1,704     |
| Total consolidated net income (loss) before income taxes  | \$15,229               | \$(2,046 ) | \$43,875                  | \$9,170   |

<sup>(1)</sup> Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment, which is reported in cost of services in the consolidated condensed statements of operations.

Capital expenditures for the Company's reportable segments were as follows (\$ in thousands):

|                             | Quarter Ended June 30, |           | Six Months Ended June 30, |           |
|-----------------------------|------------------------|-----------|---------------------------|-----------|
|                             | 2014                   | 2013      | 2014                      | 2013      |
| Hawaii Gas                  | \$ 4,416               | \$ 6,582  | \$ 7,981                  | \$ 10,045 |
| Atlantic Aviation           | 7,947                  | 7,070     | 16,672                    | 10,744    |
| Contracted Power and Energy | 2,077                  | 9,964     | 11,400                    | 17,661    |
| Total                       | \$ 14,440              | \$ 23,616 | \$ 36,053                 | \$ 38,450 |

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Property, equipment, land and leasehold improvements, goodwill and total assets for the Company's reportable segments as of June 30<sup>th</sup> were as follows (\$ in thousands):

|                             | Property, Equipment,<br>Land and Leasehold<br>Improvements |            | Goodwill   |            | Total Assets |              |
|-----------------------------|--|------------|------------|------------|--------------|--------------|
|                             | 2014   | 2013       | 2014       | 2013       | 2014         | 2013         |
|                             | Hawaii Gas   | \$ 189,936 | \$ 175,880 | \$ 120,193 | \$ 120,193   | \$ 403,681   |
| Atlantic Aviation           | 314,628  | 257,318    | 458,488    | 375,800    | 1,575,588    | 1,318,700    |
| Contracted Power and Energy | 390,101  | 295,647    | 17,946     | 17,946     | 482,547      | 381,132      |
| Total                       | \$ 894,665   | \$ 728,845 | \$ 596,627 | \$ 513,939 | \$ 2,461,816 | \$ 2,084,655 |

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(Unaudited)****10. Reportable Segments (continued)**

Reconciliation of reportable segments' total assets to consolidated total assets (\$ in thousands):

|                                     | As of June 30, |              |
|-------------------------------------|----------------|--------------|
|                                     | 2014           | 2013         |
| Total assets of reportable segments | \$ 2,461,816   | \$ 2,084,655 |
| Investment in IMTT                  | 71,434         | 89,109       |
| Corporate and other                 | 9,255          | 54,567       |
| Total consolidated assets           | \$ 2,542,505   | \$ 2,228,331 |

**11. Related Party Transactions****Management Services**

At June 30, 2014 and December 31, 2013, the Manager held 3,445,606 shares and 3,120,187 shares, respectively, of the Company. Pursuant to the terms of the management services agreement, or Management Agreement, the Manager may sell these shares at any time. As discussed in Note 9, 'Members' Equity', as part of the Company's equity offering completed in May of 2013, the Manager sold 3,182,625 of its shares and received proceeds of \$178.2 million, net of underwriting fees and expenses. Under the Management Agreement, the Manager, at its option, may reinvest performance fees and base management fees in shares of the Company.

Since January 1, 2013, the Company paid the Manager cash dividends on shares held for the following periods:

| Declared          | Period Covered      | \$ per Share | Record Date     | Payable Date    | Amount Paid to Manager (in thousands) |
|-------------------|---------------------|--------------|-----------------|-----------------|---------------------------------------|
| July 3, 2014      | Second quarter 2014 | \$0.95       | August 11, 2014 | August 14, 2014 | \$ (1)                                |
| April 28, 2014    | First quarter 2014  | \$0.9375     | May 12, 2014    | May 15, 2014    | \$ 3,180                              |
| February 18, 2014 | Fourth quarter 2013 | \$0.9125     | March 3, 2014   | March 6, 2014   | \$ 2,945                              |
| October 25, 2013  | Third quarter 2013  | \$0.875      |                 |                 | \$ 2,442                              |

|                |                        |          |                      |                      |          |
|----------------|------------------------|----------|----------------------|----------------------|----------|
|                |                        |          | November 11,<br>2013 | November 14,<br>2013 |          |
| July 29, 2013  | Second quarter<br>2013 | \$0.875  | August 12, 2013      | August 15, 2013      | \$ 2,744 |
| April 26, 2013 | First quarter 2013     | \$0.6875 | May 13, 2013         | May 16, 2013         | \$ 1,872 |

(1) The amount of dividend payable to the Manager for the second quarter of 2014 will be determined on August 11, 2014, the record date.

Under the Management Agreement, the Manager manages the Company's day-to-day operations and oversees the management teams of the Company's operating businesses. In addition, the Manager has the right to appoint the Chairman of the Board of the Company and an alternate, subject to minimum equity ownership, and to assign, or second, to the Company, two of its employees to serve as chief executive officer and chief financial officer of the Company and second or makes other personnel available as required.

In accordance with the Management Agreement, the Manager is entitled to a monthly base management fee based primarily on the Company's market capitalization, and potentially a quarterly performance fee, based on the performance of the Company's stock relative to a U.S. utilities index. The Company recorded base management fees of \$9.5 million and \$18.5 million for the quarter and six months ended June 30, 2014, respectively, and a performance fee of \$5.0 million for the quarter ended June 30, 2014, payable to the Manager. For the quarter and six months ended June 30, 2013, the Company incurred base management fees of \$8.1 million and \$15.2 million, respectively, and performance fees of \$24.5 million and \$46.5 million, respectively, payable to the Manager. In all of these periods, the Manager elected to reinvest these fees in additional shares.

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(Unaudited)****11. Related Party Transactions (continued)**

The unpaid portion of the base management fees and performance fees, if any, at the end of each reporting period are included in due to manager-related party in the consolidated condensed balance sheets. The following table shows the Manager's election to reinvest its base management fees and performance fees, if any, in additional shares:

| Period              | Base Management Fee Amount (\$ in thousands) | Performance Fee Amount (\$ in thousands) | Shares Issued          |
|---------------------|--|--|------------------------|
| 2014 Activities:    |  |  |                        |
| Second quarter 2014 | \$ 9,535                                     | \$ 4,960                                 | 243,329 <sup>(1)</sup> |
| First quarter 2014  | 8,994  |  | 164,546                |
| 2013 Activities:    |  |  |                        |
| Fourth quarter 2013 | \$ 8,455                                     | \$                                       | 155,943                |
| Third quarter 2013  | 8,336  | 6,906                                    | 278,480                |
| Second quarter 2013 | 8,053  | 24,440                                   | 603,936                |
| First quarter 2013  | 7,135  | 22,042                                   | 522,638                |

The Manager elected to reinvest the second quarter of 2014 base management fees and performance fee in shares.

(1) The Company issued 243,329 shares, of which 135,565 shares were issued in July of 2014 for the June of 2014 base management fee and the performance fee for the quarter ended June 30, 2014.

The Manager is not entitled to any other compensation and all costs incurred by the Manager, including compensation of seconded staff, are paid by the Manager out of its base management fee. However, the Company is responsible for other direct costs including, but not limited to, expenses incurred in the administration or management of the Company and its subsidiaries and investments, income taxes, audit and legal fees, acquisitions and dispositions and its compliance with applicable laws and regulations. During the quarter and six months ended June 30, 2014, the Manager charged the Company \$136,000 and \$208,000, respectively, for reimbursement of out-of-pocket expenses compared with \$165,000 and \$289,000, for the quarter and six months ended June 30, 2013, respectively. The unpaid portion of the out-of-pocket expenses at the end of the reporting period is included in due to manager-related party in the consolidated condensed balance sheets.

**Other Services**

The Company utilizes the resources of the Macquarie Group with respect to a range of advisory, procurement, insurance, hedging, lending and other services. Engagements involving members of the Macquarie Group are

reviewed and approved by the Audit Committee of the Company's Board of Directors. Macquarie Group affiliates are engaged on an arm's length basis and frequently as a member of syndicate of providers whose other members establish the terms of the interaction.

### **Advisory Services**

The Macquarie Group, and wholly-owned subsidiaries within the Macquarie Group, including Macquarie Bank Limited, or MBL, and Macquarie Capital (USA) Inc., or MCUSA, have provided various advisory and other services and incurred expenses in connection with the Company's equity raising activities, acquisitions and debt structuring for the Company and its businesses. Underwriting fees are recorded in members' equity as a direct cost of equity offerings.

Advisory fees and out-of-pocket expenses relating to acquisitions are expensed as incurred. Debt arranging fees are deferred and amortized over the term of the credit facility.

MIC engaged MCUSA in connection with its ongoing initiative to bring Liquefied Natural Gas to the state of Hawaii. During the quarter and six months ended June 30, 2013, Hawaii Gas incurred \$50,000 and



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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**11. Related Party Transactions (continued)**

\$132,000, respectively, of which \$7,000 related to out-of-pocket expenses incurred in the first quarter of 2013, in fees to MCUSA for such services. No amounts were incurred during the six months ended June 30, 2014.

The district energy business credit facilities mature in September of 2014. During 2013, the Company engaged MCUSA to assist in identifying and analyzing various alternatives for paying these obligations prior to maturity and obtaining other credit facilities. At June 30, 2014, no amounts had been incurred under this arrangement.

The Company completed underwritten public offerings and sales of shares in December of 2013 and May of 2013. In both offerings, MCUSA served as a joint book-running manager and an underwriter and received \$2.6 million and \$2.4 million, respectively, from the Company for such services.

In July of 2014, the Company completed underwritten public offerings of 11,500,000 shares and \$350.0 million aggregate principal amount of convertible senior notes. In both transactions, MCUSA served as a joint book-running manager and an underwriter and received \$3.0 million and \$1.1 million, respectively, from the Company for such services.

During 2013, the Company engaged MCUSA as Joint Bookrunner, Joint Lead Arranger and Syndication Agent in connection with the refinancing of the long-term debt facilities of Atlantic Aviation. Atlantic Aviation closed the refinancing on May 31, 2013. Atlantic Aviation paid \$4.0 million to MCUSA for such services, of which \$12,000 related to out-of-pocket expenses.

In December of 2013, Atlantic Aviation entered into an equity bridge loan for \$70.0 million, of which \$35.0 million was provided by MIHI LLC, an entity within Macquarie Group. The Company engaged MCUSA as Joint Bookrunner and Joint Lead Arranger. This equity bridge loan was never drawn by the business and subsequently cancelled. During the quarter ended March 31, 2014, Atlantic Aviation incurred and paid \$88,000 in commitment fees to MCUSA related to this equity bridge loan.

On January 22, 2014, Atlantic Aviation entered into an incremental \$100.0 million term loan facility on the same terms as the AA Credit Agreement. The Company engaged MCUSA as Joint Bookrunner and paid \$16,000 in fees during January of 2014.

**Long-Term Debt**

As discussed in Note 7, Long-Term Debt, Atlantic Aviation entered into a credit agreement on May 31, 2013. The credit agreement provides for a seven-year, \$465.0 million senior secured first lien term loan facility and a five-year,

\$70.0 million senior secured first lien revolving credit facility. The \$70.0 million revolving credit facility is provided by various financial institutions, including MBL which provides \$15.7 million. At June 30, 2014 and December 31, 2013, the revolving credit facility remained undrawn. For the quarter and six months ended June 30, 2014 and quarter ended June 30, 2013, Atlantic Aviation incurred \$26,000, \$52,000 and \$9,000, respectively, in commitment fees related to MBL's portion of the revolving credit facility.

In July of 2014, the Company entered into a credit agreement that provides a five-year, \$250.0 million senior secured first lien revolving credit facility, of which \$50.0 million is committed by MIHI LLC. Upon closing, the Company paid MIHI LLC \$250,000 in fees.

### **Other Transactions**

Macquarie, through the Macquarie Insurance Facility ( MIF ), has an aggregated insurance buying program. By combining the insurance premiums of Macquarie owned and managed funds, MIF has been able to deliver competitive terms to businesses that participate in the facility. MIF earns a commission from the insurers. No payments were made to MIF by the Company during the six months ended June 30, 2014 and 2013. In February of 2014, the Company renewed its Directors and Officers liability insurance utilizing several of the MIF insurers.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 11. Related Party Transactions (continued)

Atlantic Aviation, Hawaii Gas and CP&E purchase and renew property and casualty insurance coverage on an ongoing basis from insurance underwriters who then pay commissions to MIF. For the six months ended June 30, 2014 and 2013, no payments were made directly to MIF for property and casualty insurance.

In July of 2014, in connection with the acquisition of the remaining interest of IMTT, the Company purchased insurance from an insurance underwriter who then paid commission to MIF. No payments were made directly to MIF for representations and warranties insurance.

Atlantic Aviation entered into a copiers lease agreement with Macquarie Equipment Finance, or MEF, an indirect subsidiary of Macquarie Group Limited. For the quarter and six months ended June 30, 2014, Atlantic Aviation incurred \$6,000 and \$12,000, respectively, in lease expense on these copiers as compared to \$6,000 and \$11,000 for the quarter and six months ended June 30, 2013, respectively. As of June 30, 2014 and 2013, Atlantic Aviation had prepaid the July monthly payment to MEF for \$2,000, which is included in prepaid expenses in the consolidated condensed balance sheets for respective periods.

Hawaii Gas entered into licensing agreements with Utility Service Partners, Inc. and America's Water Heater Rentals, LLC, both indirect subsidiaries of Macquarie Group Limited, to enable these entities to offer products and services to Hawaii Gas's customer base. No payments were made under these arrangements during the six months ended June 30, 2014 and 2013.

In addition, the Company and several of its subsidiaries have entered into a licensing agreement with the Macquarie Group related to the use of the Macquarie name and trademark. The Macquarie Group does not charge the Company any fees for this license.

#### 12. Income Taxes

The Company expects to incur federal consolidated taxable income for the year ending December 31, 2014, which will be fully offset by the Company's federal net operating loss, ( NOL ) carryforwards. The Company believes that it will be able to utilize its federal prior year NOLs, except for approximately \$7.8 million. During the six months ended June 30, 2014, the Company recorded a decrease of approximately \$365,000 to the valuation allowance for the realization of deferred tax assets attributable to certain state NOLs. At June 30, 2014, two of the Company's businesses, IMTT and the district energy business, a component of the Contracted Power and Energy segment, are less than 80% owned by the Company and those businesses file separate federal consolidated income tax returns.

## 13. Legal Proceedings and Contingencies

The subsidiaries of MIC Inc. are subject to legal proceedings arising in the ordinary course of business. In management's opinion, the Company has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions, and does not believe the outcome of any pending legal proceedings will be material to the Company's financial position or result of operations.

## 14. Subsequent Events

### *IMTT Acquisition of Remaining Interest*

On July 16, 2014, the Company completed the acquisition of the remaining 50% interest in IMTT for a purchase price of \$1.025 billion, consisting of \$910.0 million in cash and \$115.0 million in the Company's shares. The cash consideration for the IMTT acquisition was financed with the proceeds of underwritten public offerings of shares and convertible senior notes. In addition, the Company issued 1,729,323 shares to the seller in satisfaction of the equity consideration for the IMTT acquisition. Prior to this acquisition, the investment in IMTT was accounted for under the equity method of accounting. As of the closing date, the Company will consolidate IMTT and the business will become a reportable segment. The change in accounting method is

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)**

**14. Subsequent Events (continued)**

expected to result in a gain remeasuring to fair value of the Company's 50% ownership, previously accounted for under the equity method of accounting, and will be recorded during the third quarter of 2014.

The unaudited pro forma selected consolidated financial data set forth below gives effect to the IMTT Acquisition as if it had occurred as of January 1, 2013. The pro forma adjustments give effect to the IMTT Acquisition based upon the acquisition method of accounting in accordance with U.S. GAAP. The selected unaudited pro forma consolidated financial data is presented for illustrative purposes only and is not necessarily indicative of the results of operations of future periods or results of operations that actually would have been realized had the Company and IMTT been consolidated during the periods presented. The pro forma adjustments are preliminary.

|                                    | Six Months Ended<br>June 30, |            |
|------------------------------------|------------------------------|------------|
|                                    | 2014                         | 2013       |
| Revenues                           | \$ 847,734                   | \$ 774,079 |
| Net Income Attributable to MIC LLC | 56,592                       | 27,628     |

**MIC Revolver**

In July of 2014, the Company entered into a senior secured revolving credit facility with a syndicate of banks. The senior secured revolving credit facility provides for a five-year, \$250.0 million senior secured first lien revolving credit facility that bears interest at LIBOR plus 1.75%. This facility is guaranteed by MIC Inc. At July 30, 2014, the senior secured revolving credit facility remains undrawn.

**Equity Offering**

On July 15, 2014, the Company completed an underwritten public offering of 11,500,000 shares. The net proceeds from the offering of \$739.9 million were used to partially fund the IMTT acquisition discussed above and for general corporate purposes.

**Convertible Senior Notes Offering**

On July 15, 2014, the Company completed an underwritten public offering of \$350.0 million aggregate principal amount of convertible senior notes. The net proceeds of \$341.3 million were used to partially fund the IMTT acquisition discussed above and for general corporate purposes.

The notes mature on July 15, 2019 and bear interest at a rate of 2.875% payable on January 15<sup>th</sup> and July 15<sup>th</sup> of each year, beginning January 15, 2015. The notes were issued at an initial conversion rate of 11.7942 per share (equal to an initial conversion price of approximately \$84.79 per share, subject to adjustment) and are convertible into shares of MIC at any time.

### **Acquisition of Brahms Wind, New Mexico**

On July 3, 2014, the Company completed the acquisition of a 20 megawatt wind power generating facility located in eastern New Mexico for \$10.6 million including transaction costs. The facility commenced operations in February of 2014 and all power generated is being sold to a local utility. The acquisition has been accounted for as a business combination and will be part of our CP&E segment.

### **Dividend**

On July 3, 2014, the Board of Directors declared a dividend of \$0.95 per share for the quarter ended June 30, 2014, which is expected to be paid on August 14, 2014 to holders of record on August 11, 2014.

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**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

There have been no changes to legal proceedings set forth under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on February 19, 2014.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors set forth under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on February 19, 2014, except for the following:

**Risks Related to Our Business Operations**

**Our increased level of indebtedness at the holding company level could adversely affect our financial condition and results of operations, limit our operational and financing flexibility and negatively impact our business.**

We financed, in part, the cash consideration for our acquisition of the remaining interest in IMTT with the issuance of convertible senior notes. We also entered into a new senior secured revolving credit facility in connection with the IMTT acquisition.

This increased level of indebtedness will increase our interest payments and could have significant effects on our business, including the following:

we may be required to use a significant portion of our cash flow to pay interest on our indebtedness which will reduce the funds available for dividends to shareholders, additional acquisitions, pursuit of business opportunities or other business purposes;

our ability to obtain additional financing may be impaired;

it may be more difficult for us to satisfy our financial obligations under our contractual and commercial commitments; our increased level of indebtedness could place us at a competitive disadvantage compared to our competitors that may have proportionately less debt;

exposing us to risk of increased interest rates because any borrowings under the senior secured revolving credit facility are at variable rates of interest;

our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and

our indebtedness may make us more vulnerable to economic downturns and adverse developments in our business.

We expect to obtain the funds to pay our expenses and to repay our indebtedness primarily from our operating businesses and investments. Our ability to meet our expenses and make these payments therefore depends on the future performance of our businesses and investments, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our businesses and investments may not generate sufficient cash flow

from operations in the future, which could result in our being unable to repay indebtedness or to fund other liquidity needs. As a holding company with no operations, we are dependent on the ability of our businesses and investments to make distributions to us to pay our expenses and repay our indebtedness. In addition, the senior secured revolving credit facility is guaranteed by Macquarie Infrastructure Company Inc., or MIC Inc., our direct, wholly owned subsidiary. MIC Inc. is a holding company whose only material asset is the capital stock of our other subsidiaries. If we do not have enough funds, we may be required to refinance all or part of our then existing debt, sell assets or borrow more funds, which we may not be able to accomplish on terms acceptable to us, or at all. In addition, the terms of existing or future debt agreements may restrict us from pursuing any of these alternatives.



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**We and any of our existing or future subsidiaries may incur substantially more indebtedness in the future. This could further exacerbate the risks to our business as described above.**

We and any of our existing and future subsidiaries may incur substantial additional indebtedness in the future. Although the terms of our senior secured revolving credit facility contain limitations on our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions. In addition, we intend to keep IMTT's existing \$1.3 billion senior unsecured revolving credit facility in place following the IMTT acquisition. If we incur any additional indebtedness that ranks equally with the indebtedness under our senior secured revolving credit facility, the holders of that additional debt will be entitled to share ratably with the lenders or holders of the indebtedness under the senior secured revolving credit facility in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our Company. If new debt is added to our or any of our subsidiaries' current debt levels, the related risks that we now face could be exacerbated.

**The documents governing our new debt impose significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions.**

The senior secured revolving credit facility imposes, and future debt agreements may impose, operational and financial restrictions on us. These restrictions limit or prohibit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends, redeem subordinated debt or make other restricted payments;
- make certain investments or acquisitions;
- grant or permit certain liens on our assets;
- enter into certain transactions with affiliates;
- merge, consolidate or transfer substantially all of our assets; and
- transfer or sell assets, including capital stock of our subsidiaries.

These covenants could adversely affect our ability to finance our future operations or capital needs, withstand a future downturn in our business or the economy in general, engage in business activities, including future opportunities that may be in our interest, and plan for or react to market conditions or otherwise execute our business strategies. A breach of any of these covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders or holders of such indebtedness could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness. Acceleration of our other indebtedness could result in a default under the terms of the senior secured revolving credit facility or our convertible senior notes. There is no guarantee that we would be able to satisfy our obligations if any of our indebtedness is accelerated.

**Information about IMTT of which we are not currently aware could cause either or both of IMTT's and our performance in the future to be different than our current expectations and such differences could be material.**

We have had a non-controlling interest in IMTT since 2006. Our co-investor has had primary responsibility for the day to day operations of the business. As such, we have relied on the financial reporting of our co-investor, and related reviews conducted by independent auditors, with respect to the performance of the business. To the extent such

We and any of our existing or future subsidiaries may incur substantially more indebtedness in the future. This could

reporting has been in any way inaccurate or incomplete, correcting or completing the reporting could cause us to restate prior periods and may have an adverse impact on our results both historically and prospectively.

IMTT employs systems and technology to handle and track the movements of bulk liquid products. Weaknesses in or failures to those systems and technology could result in a need to implement more robust and potentially more expensive systems.

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IMTT also employs spill prevention, containment and clean up systems. However, such systems could fail and future spills or those that may have occurred in the past could result in our having liability for remediating these at an unknown cost. Any or all of these matters could have a material adverse effect on our results of operations.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The information required by this Item is set forth in the Company's Current Report on Form 8-K filed on July 18, 2014.

## **Item 3. Defaults Upon Senior Securities**

None.

## **Item 4. Mine Safety Disclosures**

Not Applicable.

## **Item 5. Other Information**

None.

## **Item 6. Exhibits**

An exhibit index has been filed as part of this Report on page E-1 and is incorporated herein by reference.

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## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MACQUARIE INFRASTRUCTURE COMPANY LLC**  
(Registrant)

By:

Dated: July 30, 2014

/s/ James Hooke

Name: James Hooke  
Title: Chief Executive Officer  
By:

Dated: July 30, 2014

/s/ Todd Weintraub

Name: Todd Weintraub  
Title: Chief Financial Officer

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**EXHIBIT INDEX**

| Number | Description   |
|--------|---|
| 2.1*** | Stock Purchase Agreement, dated July 7, 2014, by and among Macquarie Terminal Holdings LLC, MCT Holdings LLC, Macquarie Infrastructure Company LLC, IMTT Holdings Inc. and The Voting Trust of IMTT Holdings Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 7, 2014)  |
| 3.1    | Third Amended and Restated Operating Agreement of Macquarie Infrastructure Company LLC (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2007)  |
| 3.2    | Amended and Restated Certificate of Formation of Macquarie Infrastructure Assets LLC (incorporated by reference to Exhibit 3.8 of Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-116244))   |
| 31.1*  | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer   |
| 31.2*  | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer   |
| 32.1** | Section 1350 Certification of Chief Executive Officer   |
| 32.2** | Section 1350 Certification of Chief Financial Officer   |
| 101.0* | The following materials from the Quarterly Report on Form 10-Q of Macquarie Infrastructure Company LLC for the quarter ended June 30, 2014, filed on July 30, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets as of June 30, 2014 (Unaudited) and December 31, 2013, (ii) the Consolidated Condensed Statements of Operations for the quarters and six months ended June 30, 2014 and 2013 (Unaudited), (iii) the Consolidated Condensed Statements of Comprehensive Income (Loss) for the quarters and six months ended June 30, 2014 and 2013 (Unaudited), (iv) the Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2014 and 2013 (Unaudited) and (v) the Notes to Consolidated Condensed Financial Statements (Unaudited). |

\*

Filed herewith.

\*\*

Furnished herewith.

\*\*\* Pursuant to Item 601(b)(2) of Regulation S-K, the schedules to the Stock Purchase Agreement have been omitted. The Company will provide a copy of any omitted schedule to the SEC upon request.