

Macquarie Infrastructure Co LLC  
Form 10-Q  
October 29, 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 September 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 70,949,977 LLC interests, or shares, without par value outstanding at October 28, 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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## Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this quarterly report on Form 10-Q (the Quarterly Report ) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, and Section 21E of the Exchange Act. Forward-looking statements may appear throughout this Quarterly Report, including without limitation, the Management s Discussion and Analysis of Financial Condition and Results of Operations section. We use words such as believe, intend, expect, anticipate, plan, may, will, estimate, potential, project and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to the risks identified in our Annual Report on the Form 10-K for the year ended December 31, 2013, and in other reports we file from time to time with the Securities and Exchange Commission (the SEC ).

Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. Many of these factors are beyond our ability to control or predict. Our forward-looking statements speak only as of the date of this Quarterly Report. Other than as required by law, we undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

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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.

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, comprising 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** : 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 that we did not previously own;

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

**Atlantic Aviation**: a network of fixed-base operations (FBO) that provide fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) jet aircraft at 68 airports in the U.S. The network is the one of the largest in the U.S. air transportation industry.

**Contracted Power and Energy ( CP&E ) segment**: controlling interests in five contracted solar power generation facilities and one contracted wind power generation facility in the southwest U.S., and an equity interest in a wind power generation facility in Idaho. On August 21, 2014, we completed the sale of our controlling interest in the district energy business.

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 a growing level of cash flows over the long term.

## 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 generating terminal revenue and on efficiently maintaining its fixed assets. 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 terminal revenue is generated pursuant to contracts with an average duration of approximately four years.

At Hawaii Gas, we seek to grow our business by increasing the number of customers, the volume of gas sold and the margins achieved on gas sales. Hawaii Gas actively markets its products to develop new customers throughout Hawaii.

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At Atlantic Aviation, our focus is on attracting and maintaining relationships with GA aircraft owners and pilots and encouraging them to purchase refueling and other services from our FBO. Atlantic Aviation's revenue is correlated to 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.

The businesses that comprise our CP&E segment generate revenue pursuant to long-dated power purchase agreements (PPAs) with creditworthy off-takers, typically local and regional utilities.

## Dividends

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

Declared	Period Covered	\$ per Share	Record Date	Payable Date
October 27, 2014	Third quarter 2014	\$0.98	November 10, 2014	November 13, 2014
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

It remains 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 \$0.98 per share for the quarter ended September 30, 2014 is being paid out of the underlying Free Cash Flow generated by our operating entities. Each of IMTT, Atlantic Aviation, Hawaii Gas and the CP&E segment may distribute cash to MIC.

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. Although historically we have declared cash dividends on our shares, any of all of these factors could result in the modification of our dividend policy, or the reduction, modification or elimination of our dividend in the future.

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 generated, subject to the business's continued stable performance and prevailing economic conditions. In particular, we believe that the growth in Free Cash Flow generated by our businesses could result in our dividend per share growing 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**

### **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 ( IMTT Acquisition )**

On July 16, 2014, we acquired the remaining 50% interest of IMTT for a purchase price of \$1.029 billion, consisting of \$913.6 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 mentioned above, and issued 1,729,323 shares to the seller in satisfaction of the equity consideration for the acquisition.

In connection with this acquisition, each of the CEO, chairman and head of government relations of IMTT, all of whom were members of the founding family, retired. The CEO of MIC has assumed the role of interim CEO and chairman of IMTT. Two individuals formerly working with MIC have been named CFO and head of financial planning and analysis, respectively, at IMTT. The former CFO of IMTT assumed the role of chief banking officer of IMTT.

### **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 October 29, 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, we completed the acquisition of a 20 megawatt wind power generating facility located in eastern New Mexico for \$10.1 million. 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 is part of our CP&E segment.

On August 1, 2014, we completed the acquisition of a holding entity which owns a 10% equity interest in a 183 megawatt wind power generation facility located in Idaho for \$11.5 million through an LLC agreement with a co-investor. The facility commenced operation in February of 2011 and all power generated is being sold to a local utility. The 10% equity interest has been accounted for under equity method of accounting and is part of our CP&E segment.

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### **District Energy Business Sale**

On August 21, 2014, we completed the previously disclosed sale of the district energy business that had been a part of our CP&E segment for approximately \$270.0 million. We previously held a 50.01% controlling interest in the business. Proceeds of the sale, after repayment of debt and customary closing costs, were divided between us and our co-investor in the business. We deployed our portion of the proceeds to fund a majority of the performance fee (payable to our Manager) generated by the Company over the third quarter of 2014.

As a result of sale of the district energy business, we deconsolidated its assets and liabilities from our consolidated financial statements effective August 21, 2014. We recorded a pre-tax gain of \$78.9 million in gain from acquisition/divestiture of businesses, which has been reflected in our consolidated condensed statement of operations for the third quarter of 2014.

### **Costs and Payments Affecting Reporting Metrics**

We incurred performance fees payable in cash, pension contributions and transaction-related expenses, including legal and professional costs. These affected EBITDA excluding non-cash items and Free Cash Flow, as defined in *Results of Operations Consolidated: Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Free Cash Flow*, for the quarter and nine months ended September 30, 2014.

We incurred a performance fee of \$116.6 million during the quarter ended September 30, 2014. Our Board requested, and our Manager agreed, that \$65.0 million of the performance fee be settled in cash using the proceeds from the sale of the district energy business in order to minimize dilution. The remainder of the fee of \$51.6 million was reinvested in additional shares of MIC.

We made contributions to the IMTT defined benefit pension plan and the Hawaii Gas defined benefit pension plan during the quarter ended September 30, 2014 of \$20.0 million and \$5.0 million, respectively. These contributions were voluntary and funded both plans to levels such that we do not believe any pension contributions will be required for several years. The contributions were funded from cash on hand from financing activities and are fully tax deductible.

We incurred acquisition-related expenses, including legal and professional costs, during the quarter and nine months ended September 30, 2014. These expenses totaled \$18.6 million.

### **Change in Presentation**

The acquisition of the 50% of IMTT we did not already own has simplified our reporting as we now consolidate IMTT's results with those of our other businesses. We have further simplified our reporting by condensing certain revenue and cost of revenue line items that are not required. For IMTT, we have combined terminal and environmental revenue, cost of revenue and the gross profit line items. For Hawaii Gas, we have combined utility revenue with non-utility revenue, cost of revenue including transmission, distribution and production costs, and have eliminated contribution margin. For Atlantic Aviation, we have concluded that items formerly reported as product revenue and cost of product sales are more appropriately reported as service revenue and cost of services, and have combined these items. Prior period amounts have been reclassified to conform to current period presentation.

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## **Results of Operations**

### **Consolidated**

#### **Key Factors Affecting Operating Results:**

consolidation of results of IMTT since July 16, 2014, the date of the IMTT Acquisition;  
improved gross profit, partially offset by increased cash interest expense and acquisition-related costs at Atlantic Aviation;  
increased gross profit contribution from a larger number of contracted power generation facilities in operation; and  
increased volume and gross profit per therm during the quarter ended September 30, 2014 at Hawaii Gas; partially offset by

higher performance fees; and  
increased costs primarily related to the acquisition of the remaining interest in IMTT.

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

Our consolidated results of operations are as follows:

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2014	2013	\$	%	2014	2013	\$	%
	(\$ In Thousands) (Unaudited)							
Revenue								
Service revenue	\$317,915	\$198,784	119,131	59.9	\$725,623	\$577,458	148,165	25.7
Product revenue	70,344	64,118	6,226	9.7	218,317	200,255	18,062	9.0
Financing and equipment lease income	379	817	(438 )	(53.6)	1,836	2,779	(943 )	(33.9)
Total revenue	388,638	263,719	124,919	47.4	945,776	780,492	165,284	21.2
Costs and expenses								