

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 |           | Change        |         | Nine Months Ended |           | Change        |         |
|---|---------------|-----------|---------------|---------|-------------------|-----------|---------------|---------|
|   | September 30, |           | (Unfavorable) |         | September 30,     |           | (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                                      |               |           |               |         |                   |           |               |         |
| Cost of services  | 158,476       | 111,074   | (47,402)      | (42.7)  | 386,927           | 326,904   | (60,023)      | (18.4)  |
| Cost of product sales                                   | 47,815        | 44,626    | (3,189)       | (7.1)   | 148,651           | 139,343   | (9,308)       | (6.7)   |
| Gross profit  | 182,347       | 108,019   | 74,328        | 68.8    | 410,198           | 314,245   | 95,953        | 30.5    |
| Selling, general and administrative                     | 77,497        | 53,669    | (23,828)      | (44.4)  | 189,797           | 154,998   | (34,799)      | (22.5)  |
| Fees to manager-related party                           | 130,501       | 15,242    | (115,259)     | NM      | 153,990           | 76,912    | (77,078)      | (100.2) |
| Depreciation  | 35,958        | 10,039    | (25,919)      | NM      | 60,540            | 28,730    | (31,810)      | (110.7) |
| Amortization of intangibles                             | 11,369        | 8,618     | (2,751)       | (31.9)  | 29,590            | 25,866    | (3,724)       | (14.4)  |
| Loss from customer contract termination                 | 1,269         |           | (1,269)       | NM      | 1,269             | 1,626     | 357           | 22.0    |
| Loss on disposal of assets                              | 20            | 50        | 30            | 60.0    | 886               | 226       | (660)         | NM      |
| Total operating expenses                                | 256,614       | 87,618    | (168,996)     | (192.9) | 436,072           | 288,358   | (147,714)     | (51.2)  |
| Operating (loss) income                                 | (74,267)      | 20,401    | (94,668)      | NM      | (25,874)          | 25,887    | (51,761)      | (199.9) |
| Other income (expense)                                  |               |           |               |         |                   |           |               |         |
| Dividend income   | 257           |           | 257           | NM      | 257               |           | 257           | NM      |
| Interest income   | 10            | 39        | (29)          | (74.4)  | 105               | 182       | (77)          | (42.3)  |
| Interest expense <sup>(1)</sup>                         | (16,566)      | (15,767)  | (799)         | (5.1)   | (48,522)          | (31,190)  | (17,332)      | (55.6)  |
| Loss on extinguishment of debt                          | (90)          |           | (90)          | NM      | (90)              | (2,472)   | 2,382         | 96.4    |
| Equity in earnings and amortization charges of investee | 993           | 8,576     | (7,583)       | (88.4)  | 26,079            | 30,327    | (4,248)       | (14.0)  |
| Gain from acquisition/divestiture of businesses         | 1,027,054     |           | 1,027,054     | NM      | 1,027,054         |           | 1,027,054     | NM      |
| Other income, net                                       | 821           | 829       | (8)           | (1.0)   | 3,078             | 514       | 2,564         | NM      |
| Net income before income taxes                          | 938,212       | 14,078    | 924,134       | NM      | 982,087           | 23,248    | 958,839       | NM      |
| Benefit (provision) for income taxes                    | 52,462        | (5,829)   | 58,291        | NM      | 38,491            | (9,241)   | 47,732        | NM      |
| Net income  | \$990,674     | \$8,249   | 982,425       | NM      | \$1,020,578       | \$14,007  | 1,006,571     | NM      |
| Less: net loss attributable to noncontrolling interests | (319)         | (2,158)   | (1,839)       | (85.2)  | (481)             | (1,423)   | (942)         | (66.2)  |
|   | \$990,993     | \$10,407  | 980,586       | NM      | \$1,021,059       | \$15,430  | 1,005,629     | NM      |

Net income attributable to MIC  
LLC

NM Not meaningful

Interest expense includes gains on derivative instruments of \$820,000 and losses of \$13.1 million for the quarter (1) and nine months ended September 30, 2014, respectively. For the quarter and nine months ended September 30, 2013, interest expense includes losses on derivative instruments of \$8.0 million and \$9.6 million, respectively.

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

Consolidated gross profit increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily reflecting the consolidation of IMTT's results, improved results at Atlantic Aviation and increased contributions from both CP&E and Hawaii Gas for the nine months ended September 30, 2014.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily as a result of the consolidation of IMTT's results, increases in legal and transaction costs primarily related to the IMTT Acquisition and the acquisition activities of Atlantic Aviation.

**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 nine months ended September 30, 2014, we incurred base management fees of \$13.9 million and \$32.4 million, respectively, and performance fees of \$116.6 million and \$121.5 million, respectively. 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. For the quarter and nine months ended September 30, 2013, we incurred base management fees of \$8.3 million and \$23.5 million, respectively, and performance fees of \$6.9 million and \$53.4 million, respectively. Except for the portion of the third quarter of 2014 performance fee that was paid in cash in October of 2014, in all of the other periods listed below, our Manager elected to reinvest the base management and any 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.

| Period              | Base Management Fee Amount (\$ in thousands) | Performance Fee Amount (\$ in thousands) | Shares Issued          |
|---------------------|--|--|------------------------|
| 2014 Activities:    |  |  |                        |
| Third quarter 2014  | \$ 13,915                                    | \$ 116,586                               | 947,583 <sup>(1)</sup> |
| Second quarter 2014 | 9,535  | 4,960                                    | 243,329                |
| 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                |

In October of 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 issued 947,583 shares, of which 816,053 shares were issued in October of 2014 for the September of 2014 base management fee and the portion of the third quarter of 2014 performance fee. We also paid the cash portion of the performance fee to our Manager during October of 2014.

### **Depreciation**

Depreciation expense increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily as a result of fixed assets acquired in conjunction with the IMTT Acquisition and the depreciation associated with solar and wind power generation facilities that became operational during 2013 and 2014. Depreciation expense was also higher at Atlantic Aviation due to acquisitions in 2013 and 2014.

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

**Interest Expense and Gain/Loss on Derivative Instruments**

Interest expense also includes gains on derivative instruments of \$820,000 and losses of \$13.1 million for the quarter and nine months ended September 30, 2014, respectively, and losses of \$8.0 million and \$9.6 million for the quarter and nine months ended September 30, 2013, respectively. Gains/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 the consolidation of IMTT, higher interest rate on Atlantic Aviation's term loan that was refinanced during the second quarter of 2013, and higher average term loan balances at both Atlantic Aviation and CP&E.

**Equity in Earnings and Amortization Charges of Investee**

The decrease in equity in earnings for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 is primarily due to the consolidation of IMTT's results from July 16, 2014 and thereafter compared with the equity method accounting for IMTT's results prior to the acquisition date.

**Gain From Acquisition/Divestiture of Businesses**

On August 21, 2014, we completed the previously disclosed sale of our 50.01% controlling interest in the district energy business, within CP&E, for approximately \$270.0 million. Proceeds of the sale were used to repay the outstanding debt balance. The remaining amounts were divided between us and our co-investor in the business. Our share of the remaining proceeds was \$59.6 million. As a result of this transaction, we deconsolidated the assets and liabilities of district energy business and recorded a pre-tax gain of \$78.9 million.

On July 16, 2014, we completed the acquisition of the remaining 50% of IMTT we did not already own for \$1.029 billion. Prior to this acquisition, our investment in IMTT was accounted for using the equity method of accounting. As of the closing date for the transaction we have consolidated IMTT's results and the business is considered a reportable segment. The acquisition of the remaining 50% interest in IMTT requires that all assets and liabilities of IMTT be recorded at fair value including our previous 50% ownership. This resulted in a pre-tax gain of \$948.1 million due to the remeasuring to fair value of our previous 50% ownership of IMTT.

**Income Taxes**

For 2014, we will file a consolidated federal income tax return that includes the financial results for IMTT, Hawaii Gas, Atlantic Aviation and our allocable share of the taxable income from our solar and wind 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 generally will not be subject to tax.

The change from income tax expense to income tax benefit for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 is primarily due to the income tax benefit associated with the performance fee recognized in the third quarter of 2014 and the write-off of the deferred tax liability associated with the investment in IMTT under the equity method of accounting. These benefits are partially offset by the capital gain generated on the sale of the district energy business. For tax purposes, a gain of \$30.4 million was recognized on the district energy sale, resulting in a capital gain tax of \$10.6 million. This amount is expected to be fully offset by our net operating loss, or NOLs.

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

For 2014, we expect any federal income taxes for our consolidated entities to be fully offset by our 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 2016. For the year ending December 31, 2014, we do not expect to pay any Alternative Minimum Tax.

Absent acquisitions and/or divestitures, we expect that our effective tax rate would be higher than the U.S. federal statutory rate of 35% primarily because of state and local income taxes. For 2014, we expect a state tax benefit of \$571,000 (net of minimum franchise taxes). 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.

**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, base management and performance fees, if any, 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 and 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 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<br>September 30, |          | Change<br>Favorable/<br>(Unfavorable) |      | Nine Months Ended<br>September 30, |           | Change<br>Favorable/<br>(Unfavorable) |      |
|---|--------------------------------|----------|---------------------------------------|------|------------------------------------|-----------|---------------------------------------|------|
|   | 2014                           | 2013     | \$                                    | %    | 2014                               | 2013      | \$                                    | %    |
|   | (\$ In Thousands) (Unaudited)  |          |                                       |      |                                    |           |                                       |      |
| Net income attributable to MIC LLC <sup>(1)</sup>                                 | \$990,993                      | \$10,407 |                                       |      | \$1,021,059                        | \$15,430  |                                       |      |
| Interest expense, net <sup>(2)</sup>  | 16,556                         | 15,728   |                                       |      | 48,417                             | 31,008    |                                       |      |
| (Benefit) provision for income taxes  | (52,462 )                      | 5,829    |                                       |      | (38,491 )                          | 9,241     |                                       |      |
| Depreciation <sup>(3)</sup>   | 35,958                         | 10,039   |                                       |      | 60,540                             | 28,730    |                                       |      |
| Depreciation cost of services <sup>(3)</sup>                                      | 963                            | 1,620    |                                       |      | 4,374                              | 5,021     |                                       |      |
| Amortization of intangibles <sup>(4)</sup>  | 11,369                         | 8,618    |                                       |      | 29,590                             | 25,866    |                                       |      |
| Loss from customer contract termination   | 1,269                          |          |                                       |      | 1,269                              | 1,626     |                                       |      |
| Loss on extinguishment of debt  | 90                             |          |                                       |      | 90                                 | 2,434     |                                       |      |
| Loss on disposal of assets  | 6                              |          |                                       |      | 822                                | 106       |                                       |      |
| Gain from acquisition/divestiture of businesses                                   | (1,027,181)                    |          |                                       |      | (1,027,181)                        |           |                                       |      |
| Equity in earnings and amortization charges of investee                           | (993 )                         | (8,576 ) |                                       |      | (26,079 )                          | (30,327 ) |                                       |      |
| Equity distributions from investee <sup>(5)</sup>                                 |                                | 11,146   |                                       |      | 25,086                             | 19,025    |                                       |      |
| Base management fees to be settled/settled in shares                              | 13,915                         | 8,336    |                                       |      | 32,444                             | 23,524    |                                       |      |
| Performance fees to be settled/settled in cash/shares <sup>(6)</sup>              | 116,586                        | 6,906    |                                       |      | 121,546                            | 53,388    |                                       |      |
| Other non-cash expense (income), net  | 1,988                          | (1,340 ) |                                       |      | 1,696                              | (1,969 )  |                                       |      |
| EBITDA excluding non-cash items   | \$109,057                      | \$68,713 | 40,344                                | 58.7 | \$255,182                          | \$183,103 | 72,079                                | 39.4 |
| EBITDA excluding non-cash items   | \$109,057                      | \$68,713 |                                       |      | \$255,182                          | \$183,103 |                                       |      |
| Interest expense, net <sup>(2)</sup>  | (16,556 )                      | (15,728) |                                       |      | (48,417 )                          | (31,008 ) |                                       |      |
| Adjustments to derivative instruments recorded in interest expense <sup>(2)</sup> | (9,304 )                       | 4,449    |                                       |      | (3,937 )                           | 1,160     |                                       |      |
| Amortization of debt financing costs <sup>(2)</sup>                               | 2,326                          | 995      |                                       |      | 4,467                              | 2,892     |                                       |      |
| Equipment lease receivables, net  | 777                            | 740      |                                       |      | 2,805                              | 2,814     |                                       |      |

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|   |           |          |       |     |           |           |        |      |
|---|-----------|----------|-------|-----|-----------|-----------|--------|------|
| Benefit/provision for income taxes,       | 3,620     | (799 )   |       |     | (321 )    | (2,674 )  |        |      |
| net of changes in deferred taxes          |           |          |       |     |           |           |        |      |
| Pension contribution <sup>(7)</sup>       | (25,825 ) |          |       |     | (26,960 ) |           |        |      |
| Changes in working capital <sup>(6)</sup> | (1,067 )  | (7,707 ) |       |     | 11,544    | (28,527 ) |        |      |
| Cash provided by operating activities     | 63,028    | 50,663   |       |     | 194,363   | 127,760   |        |      |
| Changes in working capital <sup>(6)</sup> | 1,067     | 7,707    |       |     | (11,544 ) | 28,527    |        |      |
| Maintenance capital expenditures          | (5,783 )  | (3,889 ) |       |     | (12,246 ) | (10,897 ) |        |      |
| Free cash flow                            | \$58,312  | \$54,481 | 3,831 | 7.0 | \$170,573 | \$145,390 | 25,183 | 17.3 |

Net income attributable to MIC LLC excludes net loss attributable to noncontrolling interests of \$319,000 and \$481,000 for the quarter and nine months ended September 30, 2014, respectively, and net loss attributable to noncontrolling interests of \$2.2 million and \$1.4 million for the quarter and nine months ended September 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 previously owned district energy business, a component of CP&E segment, which is reported in cost of services in our consolidated condensed statements of operations. Depreciation and Depreciation cost of services does not include acquisition-related step-up (3) depreciation expense of \$315,000 and \$4.2 million for the quarter and nine months ended September 30, 2014, respectively, compared with \$2.0 million and \$5.9 million for the quarter and nine months ended September 30, 2013, respectively, in connection with our previous 50% 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 \$14,000 and \$185,000 for the quarter and nine months ended September 30, 2014, respectively, compared with \$85,000 and (4) \$256,000 for the quarter and nine months ended September 30, 2013, respectively, in connection with our previous 50% 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.

In October of 2014, our Board requested, and our Manager agreed, that \$65.0 million of the performance fee be (6) 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. The impact of the cash settled portion has been excluded from the calculation of Free Cash Flow.

(7) For the quarter and nine months ended September 30, 2013, pension contributions of \$900,000 and \$2.3 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<br>September 30, |          | Change<br>Favorable/<br>(Unfavorable) |     | Nine Months Ended<br>September 30, |           | Change<br>Favorable/<br>(Unfavorable) |      |
|---|--------------------------------|----------|---------------------------------------|-----|------------------------------------|-----------|---------------------------------------|------|
|   | 2014                           | 2013     | \$                                    | %   | 2014                               | 2013      | \$                                    | %    |
| Free Cash Flow Consolidated basis                                   | \$58,312                       | \$54,481 | 3,831                                 | 7.0 | \$170,573                          | \$145,390 | 25,183                                | 17.3 |
| Equity distributions from investee <sup>(1)</sup>                   |                                | (11,146) |                                       |     | (25,086)                           | (19,025)  |                                       |      |
| 100% of CP&E Free Cash Flow included in consolidated Free Cash Flow | (4,645)                        | (4,261)  |                                       |     | (11,468)                           | (11,671)  |                                       |      |

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|   |          |          |         |        |           |           |       |     |
|---|----------|----------|---------|--------|-----------|-----------|-------|-----|
| MIC's share of IMTT Free Cash Flow <sup>(2)</sup> | (6,203 ) | 16,581   |         |        | 31,324    | 45,926    |       |     |
| MIC's share of CP&E Free Cash Flow                | 2,435    | 1,392    |         |        | 6,175     | 5,052     |       |     |
| Free Cash Flow Proportionately Combined basis     | \$49,899 | \$57,047 | (7,148) | (12.5) | \$171,518 | \$165,672 | 5,846 | 3.5 |

Equity distributions from investee represent 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.

(1) Represents our proportionate share of IMTT's Free Cash Flow prior to the IMTT Acquisition on July 16, 2014.

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**Results of Operations: *IMTT***

Prior to July 16, 2014, we accounted for our 50% interest in IMTT using the equity method of accounting. As of July 16, 2014, we have consolidated IMTT on 100% basis. 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:**

gross profit increased principally due to:  
increased levels of spill response;  
an increase in revenue from firm commitments; and  
a weather-related increase in heating gross profit in the first quarter of 2014; partially offset by  
higher costs primarily related to the IMTT Acquisition.

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

|  | Quarter Ended         |           | Change        |         | Nine Months Ended     |           | Change        |         |
|--|-----------------------|-----------|---------------|---------|-----------------------|-----------|---------------|---------|
|  | September 30,<br>2014 | 2013      | (Unfavorable) |         | September 30,<br>2014 | 2013      | (Unfavorable) |         |
|  | \$                    | \$        | \$            | %       | \$                    | \$        | \$            | %       |
| (\$ In Thousands) (Unaudited)  |                       |           |               |         |                       |           |               |         |
| Revenues   | 131,920               | 126,447   | 5,473         | 4.3     | 422,516               | 383,753   | 38,763        | 10.1    |
| Cost of services <sup>(1)</sup>  | 59,090                | 55,572    | (3,518 )      | (6.3 )  | 187,649               | 164,242   | (23,407 )     | (14.3 ) |
| Gross Profit   | 72,830                | 70,875    | 1,955         | 2.8     | 234,867               | 219,511   | 15,356        | 7.0     |
| General and administrative expenses <sup>(2)</sup>   | 13,619                | 8,084     | (5,535 )      | (68.5 ) | 31,982                | 24,420    | (7,562 )      | (31.0 ) |
| Depreciation and amortization  | 27,506                | 19,051    | (8,455 )      | (44.4 ) | 65,426                | 56,109    | (9,317 )      | (16.6 ) |
| Casualty losses, net <sup>(1)</sup>  |                       | 200       | 200           | 100.0   |                       | 6,700     | 6,700         | 100.0   |
| Operating income   | 31,705                | 43,540    | (11,835)      | (27.2 ) | 137,459               | 132,282   | 5,177         | 3.9     |
| Interest expense, net <sup>(3)</sup>   | (5,558 )              | (9,376 )  | 3,818         | 40.7    | (21,504 )             | (17,099 ) | (4,405 )      | (25.8 ) |
| Other (expense) income   | (188 )                | 620       | (808 )        | (130.3) | 1,683                 | 1,804     | (121 )        | (6.7 )  |
| Provision for income taxes   | (9,531 )              | (15,181 ) | 5,650         | 37.2    | (46,088 )             | (48,894 ) | 2,806         | 5.7     |
| Noncontrolling interest  | (190 )                | (44 )     | (146 )        | NM      | (328 )                | (220 )    | (108 )        | (49.1 ) |
| Net income <sup>(4)</sup>  | 16,238                | 19,559    | (3,321 )      | (17.0 ) | 71,222                | 67,873    | 3,349         | 4.9     |
| Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow: |                       |           |               |         |                       |           |               |         |
| Net income <sup>(4)</sup>  | 16,238                | 19,559    |               |         | 71,222                | 67,873    |               |         |
| Interest expense, net <sup>(3)</sup>   | 5,558                 | 9,376     |               |         | 21,504                | 17,099    |               |         |
| Provision for income taxes   | 9,531                 | 15,181    |               |         | 46,088                | 48,894    |               |         |
| Depreciation and amortization  | 27,506                | 19,051    |               |         | 65,426                | 56,109    |               |         |
| Casualty losses, net <sup>(1)</sup>  |                       | 200       |               |         |                       | 6,700     |               |         |
| Other non-cash expenses <sup>(5)</sup>   | 2,519                 | 253       |               |         | 6,020                 | 429       |               |         |
| EBITDA excluding non-cash items  | 61,352                | 63,620    | (2,268 )      | (3.6 )  | 210,260               | 197,104   | 13,156        | 6.7     |
| EBITDA excluding non-cash items  | 61,352                | 63,620    |               |         | 210,260               | 197,104   |               |         |
| Interest expense, net <sup>(3)</sup>   | (5,558 )              | (9,376 )  |               |         | (21,504 )             | (17,099 ) |               |         |
| Adjustments to derivative instruments recorded in interest expense <sup>(3)</sup>  | (5,518 )              | (1,768 )  |               |         | (12,167 )             | (15,784 ) |               |         |
| Amortization of debt financing costs <sup>(3)</sup>  | 956                   | 824       |               |         | 2,643                 | 1,990     |               |         |
| Provision for income taxes, net of changes in deferred taxes   | (6,101 )              | (5,624 )  |               |         | (32,822 )             | (13,847 ) |               |         |
| Pension contribution <sup>(6)</sup>  | (20,000 )             |           |               |         | (20,000 )             |           |               |         |
| Changes in working capital   | 2,219                 | 2,619     |               |         | (2,722 )              | 4,035     |               |         |
|  | 27,350                | 50,295    |               |         | 123,688               | 156,399   |               |         |

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|   |           |           |          |         |           |           |          |        |
|---|-----------|-----------|----------|---------|-----------|-----------|----------|--------|
| Cash provided by operating activities           |           |           |          |         |           |           |          |        |
| Changes in working capital                      | (2,219 )  | (2,619 )  |          |         | 2,722     | (4,035 )  |          |        |
| Maintenance capital expenditures <sup>(7)</sup> | (11,169 ) | (14,514 ) |          |         | (37,395 ) | (60,513 ) |          |        |
| Free cash flow                                  | 13,962    | 33,162    | (19,200) | (57.9 ) | 89,015    | 91,851    | (2,836 ) | (3.1 ) |

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 cost of services in those periods. These amounts have been included in the nine months ended September 30, 2013.

(2) General and administrative expenses for the quarter and nine months ended September 30, 2014 includes transactional costs in connection with the IMTT Acquisition.

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

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

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

IMTT management's calculation of IMTT's EBITDA prior to acquisition included 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

- (5) items when calculating IMTT's EBITDA excluding non-cash items including primarily the non-cash pension expense of \$2.3 million and \$5.6 million for the quarter and nine months ended September 30, 2014, respectively.

The non-cash pension expense of \$2.9 million and \$8.5 million was reported in changes in working capital for the quarter and nine months ended September 30, 2013, respectively.

- (6) Pension contribution of \$4.5 million for the quarter and nine months ended September 30, 2013 were reported in changes in working capital for those periods.

Maintenance capital expenditures includes a reclassification from growth capital expenditures in the quarters ended (7) December 31, 2012 and March 31, 2013 of \$1.2 million and \$509,000, respectively. These amounts have been included in the nine months ended September 30, 2013.

**Revenue and Gross Profit**

Revenue increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 predominately as a result of increased spill response activity and higher firm commitments, notwithstanding marginally lower tank utilization. In addition, the increase in revenue for the nine months ended September 30, 2014 also reflects the increase in weather-related heating revenue in the first quarter of 2014.

Capacity utilization increased to 92.5% for the quarter ended September 30, 2014 from 91.6% for the quarter ended June 30, 2014 as a large tank came back into service following its scheduled cleaning and inspection.

Operating costs were higher for the quarter ended September 30, 2014 compared with the quarter ended September 30, 2013 primarily as a result of higher spill response activity and higher costs associated with a ship colliding into our dock at Gretna (for which we will seek reimbursement from the parties responsible), partially offset by lower repairs and maintenance costs, property taxes and labor costs. Operating costs were higher for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 as a result of higher spill response activity, heating and insurance costs.

The increase in heating and other weather-related services for the nine months ended September 30, 2014 was primarily due to higher activity levels resulting from the colder weather during the first quarter of 2014 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 September 30, 2014 compared with the quarter ended September 30, 2013.

**General and Administrative Expenses**

General and administrative expenses increased for the quarter and nine months ended September 30, 2014 as compared with the quarter and nine months ended September 30, 2013 primarily due to costs associated with the IMTT Acquisition. IMTT anticipates that additional employee costs associated with the IMTT Acquisition will be incurred over the next five quarters.

### **Depreciation and amortization**

Depreciation and amortization expense increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily due to remeasuring to fair value of the fixed assets and intangibles in connection with the IMTT Acquisition.

### **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 cost of services in those periods. These amounts have been included in the nine months ended September 30, 2013.

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

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$894,000 and losses of \$1.6 million for the quarter and nine months ended September 30, 2014, respectively, and losses of \$2.9 million and gains of \$2.2 million for the quarter and nine months ended September 30, 2013, respectively. Excluding the derivative adjustments, interest expense decreased slightly during the quarter ended September 30, 2014 compared with the quarter ended September 30, 2013 and remained flat for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013.

Cash interest paid totaled \$10.0 million and \$30.5 million for the quarter and nine months ended September 30, 2014, respectively, and \$12.5 million and \$30.6 million for the quarter and nine months ended September 30, 2013, respectively. The decrease in cash interest paid during the quarter ended September 30, 2014 was primarily due to lower debt balances as a result of a net reduction of IMTT's revolving credit facility drawn balance.

**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 became part of the MIC consolidated federal taxpayer group. As a result, MIC inherited certain tax attributes of IMTT, including \$5.5 million of NOLs, which MIC currently believes it will not be able to utilize.

The Provision for income taxes, net of changes in deferred taxes of \$32.8 million for the nine months ended September 30, 2014 in the table above, includes \$30.0 million of federal income taxes and \$2.8 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 \$30.0 million. Subsequent to the IMTT Acquisition, we do not expect to have any 2014 current federal income taxes attributable to IMTT. Any future current federal income taxes attributable to IMTT are eligible to be offset in consolidation by MIC NOLs. We expect the business to incur approximately \$1.4 million in current state income taxes for the remaining period ending December 31, 2014.

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.

**Result of Operations: *Hawaii Gas***

**Key Factors Affecting Operating Results:**

increase in the gross profit margin per therm and a small increase in the volume of therms sold; and absence of severance costs incurred in 2013.



TABLE OF CONTENTS**Results of Operations: *Hawaii Gas* (continued)**

|  | Quarter Ended                 |                       | Change        |        | Nine Months Ended     |                       | Change        |        |
|--|-------------------------------|-----------------------|---------------|--------|-----------------------|-----------------------|---------------|--------|
|  | September 30,<br>2014         | September 30,<br>2013 | (Unfavorable) |        | September 30,<br>2014 | September 30,<br>2013 | (Unfavorable) |        |
|  | \$                            | \$                    | \$            | %      | \$                    | \$                    | \$            | %      |
|  | (\$ In Thousands) (Unaudited) |                       |               |        |                       |                       |               |        |
| Revenues   | 64,494                        | 61,469                | 3,025         | 4.9    | 202,979               | 193,088               | 9,891         | 5.1    |
| Cost of product sales <sup>(1)</sup>   | 46,746                        | 44,230                | (2,516)       | (5.7 ) | 145,859               | 138,285               | (7,574)       | (5.5 ) |
| Gross profit   | 17,748                        | 17,239                | 509           | 3.0    | 57,120                | 54,803                | 2,317         | 4.2    |
| Selling, general and administrative expenses   | 4,970                         | 4,818                 | (152 )        | (3.2 ) | 15,364                | 16,139                | 775           | 4.8    |
| Depreciation and amortization  | 2,308                         | 2,160                 | (148 )        | (6.9 ) | 6,861                 | 6,508                 | (353 )        | (5.4 ) |
| Operating income   | 10,470                        | 10,261                | 209           | 2.0    | 34,895                | 32,156                | 2,739         | 8.5    |
| Interest expense, net <sup>(2)</sup>   | (1,589 )                      | (2,097 )              | 508           | 24.2   | (5,267 )              | (5,040 )              | (227 )        | (4.5 ) |
| Other expense  | (42 )                         | (146 )                | 104           | 71.2   | (181 )                | (251 )                | 70            | 27.9   |
| Provision for income taxes   | (3,590 )                      | (3,191 )              | (399 )        | (12.5) | (11,709 )             | (10,669 )             | (1,040)       | (9.7 ) |
| Net income <sup>(3)</sup>  | 5,249                         | 4,827                 | 422           | 8.7    | 17,738                | 16,196                | 1,542         | 9.5    |
| Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow: |                               |                       |               |        |                       |                       |               |        |
| Net income <sup>(3)</sup>  | 5,249                         | 4,827                 |               |        | 17,738                | 16,196                |               |        |
| Interest expense, net <sup>(2)</sup>   | 1,589                         | 2,097                 |               |        | 5,267                 | 5,040                 |               |        |
| Provision for income taxes   | 3,590                         | 3,191                 |               |        | 11,709                | 10,669                |               |        |
| Depreciation and amortization  | 2,308                         | 2,160                 |               |        | 6,861                 | 6,508                 |               |        |
| Other non-cash expenses <sup>(1)</sup>   | 453                           | 604                   |               |        | 1,585                 | 1,592                 |               |        |
| EBITDA excluding non-cash items  | 13,189                        | 12,879                | 310           | 2.4    | 43,160                | 40,005                | 3,155         | 7.9    |
| EBITDA excluding non-cash items  | 13,189                        | 12,879                |               |        | 43,160                | 40,005                |               |        |
| Interest expense, net <sup>(2)</sup>   | (1,589 )                      | (2,097 )              |               |        | (5,267 )              | (5,040 )              |               |        |
| Adjustments to derivative instruments recorded in interest expense <sup>(2)</sup>  | (203 )                        | 269                   |               |        | (57 )                 | (426 )                |               |        |
| Amortization of debt financing costs <sup>(2)</sup>  | 121                           | 113                   |               |        | 360                   | 342                   |               |        |
| Provision for income taxes, net of changes in deferred taxes   | 4,674                         | (94 )                 |               |        | (662 )                | (3,961 )              |               |        |
| Pension contribution <sup>(4)</sup>  | (5,825 )                      |                       |               |        | (6,960 )              |                       |               |        |
| Changes in working capital   | 1,703                         | (3,023 )              |               |        | (2,074 )              | (3,810 )              |               |        |
| Cash provided by operating activities  | 12,070                        | 8,047                 |               |        | 28,500                | 27,110                |               |        |
| Changes in working capital   | (1,703 )                      | 3,023                 |               |        | 2,074                 | 3,810                 |               |        |
|  | (1,821 )                      | (1,916 )              |               |        | (5,612 )              | (5,337 )              |               |        |

Maintenance capital  
expenditures

|                |       |       |        |        |        |        |        |        |
|----------------|-------|-------|--------|--------|--------|--------|--------|--------|
| Free cash flow | 8,546 | 9,154 | (608 ) | (6.6 ) | 24,962 | 25,583 | (621 ) | (2.4 ) |
|----------------|-------|-------|--------|--------|--------|--------|--------|--------|

For the nine months ended September 30, 2013, cost of product sales includes non-cash income of \$489,000 for (1) asset retirement obligation credit that is not expected to recur. This non-cash income is excluded when calculating EBITDA excluding non-cash items.

(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 nine months ended September 30, 2013, pension contributions of \$900,000 and \$2.3 million, respectively, were reported in changes in working capital for those periods.

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

### Gross Profit and Operating Income

Volume increased by 1.1% and was flat for the quarter and nine months ended September 30, 2014, respectively, compared with the quarter and nine months ended September 30, 2013, driven by increased volumes at commercial customers, partially offset by lower residential consumption. Gross profit per therm increased during the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 as a result of lower inter-island transportation costs, partially offset by non-utility commodity margin compression and the timing of pipeline repairs for the quarter ended September 30, 2014.

Local liquefied petroleum gas, or LPG, production reliability improved in the second and third 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, or SNG, plant from Hawaii Independent Energy and, effective October 1, 2014, the naphtha feedstock agreement was extended through June 30, 2016. The business continues to implement several initiatives to mitigate volatility in naphtha and LPG prices and supply, including hedging, storage expansion and diversification of the supply base.

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 SNG 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. On October 16, 2014, Hawaii Gas filed an application with the HPUC indicating its intent to spend approximately \$12.8 million in its utility business for a smaller-scale containerized LNG import project to provide natural gas as a replacement for up to 30% of SNG gas demand. Regular deliveries of containerized LNG are expected to commence by late 2015. Hawaii Gas also continues to work with stakeholders throughout the state to pursue a larger-scale bulk import, storage and distribution program to supply multiple end markets including power generation and ground and marine transportation.

Selling, general and administrative expenses for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 included higher marketing expenses, which were offset by the absence of severance costs for the nine months ended September 30, 2014.

### Interest Expense, Net

Interest expense includes losses on derivative instruments of \$324,000 and \$1.6 million for the quarter and nine months ended September 30, 2014, respectively, and losses of \$875,000 and \$1.4 million for the quarter and nine months ended September 30, 2013, respectively. Excluding the derivative adjustments, interest expense decreased during the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013.

Cash interest paid totaled \$2.8 million and \$6.1 million for the quarter and nine months ended September 30, 2014, respectively, and \$2.8 million and \$6.2 million for the quarter and nine months ended September 30, 2013, respectively.

### **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 \$100,000 in state income taxes. The Provision for income taxes, net of changes in deferred taxes of \$662,000 for the nine months ended September 30, 2014 in the above table, includes \$625,000 of federal income taxes payable to MIC and \$37,000 of state income taxes. Any current federal income tax liability is expected to be offset in consolidation by the application of NOLs.

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**Results of Operations: *Atlantic Aviation***

**Key Factors Affecting Operating Results:**

contribution from acquired FBOs;

increases in gross profit primarily due to increase in volume of gallons sold and rental revenue for the quarter and nine months ended September 30, 2014 and de-icing revenue for the nine months ended September 30, 2014; partially offset by

higher selling, general and administrative expenses due to acquisition-related expenses, higher employee benefit costs and weather-related expenses; 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                      |        | Nine Months Ended     |                       | Change                      |        |
|--|-----------------------|-----------------------|-----------------------------|--------|-----------------------|-----------------------|-----------------------------|--------|
|  | September 30,<br>2014 | September 30,<br>2013 | Favorable/<br>(Unfavorable) |        | September 30,<br>2014 | September 30,<br>2013 | Favorable/<br>(Unfavorable) |        |
|  | \$                    | \$                    | \$                          | %      | \$                    | \$                    | \$                          | %      |
| (\$ In Thousands) (Unaudited)  |                       |                       |                             |        |                       |                       |                             |        |
| Revenues   | 197,980               | 183,198               | 14,782                      | 8.1    | 585,153               | 541,840               | 43,313                      | 8.0    |
| Cost of services   | 104,543               | 100,553               | (3,990)                     | (4.0)  | 318,047               | 301,722               | (16,325)                    | (5.4)  |
| Gross Profit   | 93,437                | 82,645                | 10,792                      | 13.1   | 267,106               | 240,118               | 26,988                      | 11.2   |
| Selling, general and administrative expenses   | 49,288                | 44,342                | (4,946)                     | (11.2) | 143,598               | 130,729               | (12,869)                    | (9.8)  |
| Depreciation and amortization  | 16,493                | 14,072                | (2,421)                     | (17.2) | 47,033                | 41,917                | (5,116)                     | (12.2) |
| Loss on disposal of assets   | 20                    | 50                    | 30                          | 60.0   | 886                   | 226                   | (660)                       | NM     |
| Operating income   | 27,636                | 24,181                | 3,455                       | 14.3   | 75,589                | 67,246                | 8,343                       | 12.4   |
| Interest expense, net <sup>(1)</sup>   | (4,689)               | (11,481)              | 6,792                       | 59.2   | (27,606)              | (20,206)              | (7,400)                     | (36.6) |
| Loss on extinguishment of debt   |                       |                       |                             |        |                       | (2,472)               | 2,472                       | 100.0  |
| Other income   | 35                    | 54                    | (19)                        | (35.2) | 22                    | 54                    | (32)                        | (59.3) |
| Provision for income taxes   | (9,231)               | (5,185)               | (4,046)                     | (78.0) | (18,001)              | (18,009)              | 8                           |        |
| Net income <sup>(2)</sup>  | 13,751                | 7,569                 | 6,182                       | 81.7   | 30,004                | 26,613                | 3,391                       | 12.7   |
| 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>  | 13,751                | 7,569                 |                             |        | 30,004                | 26,613                |                             |        |
| Interest expense, net <sup>(1)</sup>   | 4,689                 | 11,481                |                             |        | 27,606                | 20,206                |                             |        |
| Provision for income taxes   | 9,231                 | 5,185                 |                             |        | 18,001                | 18,009                |                             |        |
| Depreciation and amortization  | 16,493                | 14,072                |                             |        | 47,033                | 41,917                |                             |        |
| Loss on extinguishment of debt   |                       |                       |                             |        |                       | 2,434                 |                             |        |
| Loss on disposal of assets   | 6                     |                       |                             |        | 822                   | 106                   |                             |        |
| Other non-cash expense (income)  | 115                   | (1)                   |                             |        | 271                   | (116)                 |                             |        |
| EBITDA excluding non-cash items  | 44,285                | 38,306                | 5,979                       | 15.6   | 123,737               | 109,169               | 14,568                      | 13.3   |
| EBITDA excluding non-cash items  | 44,285                | 38,306                |                             |        | 123,737               | 109,169               |                             |        |
| Interest expense, net <sup>(1)</sup>   | (4,689)               | (11,481)              |                             |        | (27,606)              | (20,206)              |                             |        |
| Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>  | (3,593)               | 5,551                 |                             |        | 4,712                 | 5,604                 |                             |        |
| Amortization of debt financing costs <sup>(1)</sup>  | 812                   | 702                   |                             |        | 2,328                 | 2,011                 |                             |        |
| Provision for income taxes, net of changes in deferred taxes   | (442)                 | (394)                 |                             |        | (2,568)               | (5,569)               |                             |        |
| Changes in working capital   | 5,170                 | (3,609)               |                             |        | 2,925                 | 1,284                 |                             |        |

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|                                       |          |          |       |     |          |          |        |      |
|---------------------------------------|----------|----------|-------|-----|----------|----------|--------|------|
| Cash provided by operating activities | 41,543   | 29,075   |       |     | 103,528  | 92,293   |        |      |
| Changes in working capital            | (5,170 ) | 3,609    |       |     | (2,925 ) | (1,284 ) |        |      |
| Maintenance capital expenditures      | (2,611 ) | (1,910 ) |       |     | (4,610 ) | (5,248 ) |        |      |
| Free cash flow                        | 33,762   | 30,774   | 2,988 | 9.7 | 95,993   | 85,761   | 10,232 | 11.9 |

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.

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

**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. 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. Revenue and gross profit are driven by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales.

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 contributed to the increases in revenue, gross profit and costs for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013. On a same store basis, gross profit increased 5.4% and 6.4% for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013, respectively, driven by increases in fuel gross profit, rental revenue and de-icing revenue.

On September 23, 2014, we were issued a certificate of occupancy for the new hangar at our West Palm Beach FBO, which was acquired as part of the Galaxy Acquisitions. The issuance of the certificate of occupancy represented a delay of approximately five months from when we originally anticipated receiving such certification. Since commencing operations, occupancy at the hangar is in-line with our expectations.

At the FBOs acquired in the Galaxy Acquisitions, historically FAA GA activity for May through September period, which corresponds to our period of ownership, has represented on average 26.9% of annual GA activity over a period of fourteen years. We expect this historical trend to continue and expect an annualized EBITDA contribution from these FBOs of approximately \$21.3 million.

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 18.3 years at September 30, 2013 to 19.3 years at September 30, 2014, notwithstanding the passage of one year.

**Selling, General and Administrative Expenses**

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

On a same store basis, costs were 2.3% and 3.8% higher for the quarter and nine months ended September 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 nine months ended September 30, 2014.

**Interest Expense, Net**

Interest expense includes gains of \$1.5 million and losses of \$10.6 million on derivative instruments for the quarter and nine months ended September 30, 2014, respectively, and losses of \$6.7 million for both the quarter and nine months ended September 30, 2013.

Excluding the derivative adjustments, interest expense increased due to the lower cost of debt in the prior comparable period, as the principal amount was unhedged until it was refinanced on May 31, 2013, partially offset by lower average debt levels in the current period. Cash interest paid was \$7.4 million and \$20.6 million for the quarter and nine months ended September 30, 2014, respectively, and \$5.4 million and \$12.7 million for the quarter and nine months ended September 30, 2013, respectively.

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

**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 \$2.8 million. The Provision for income taxes, net of changes in deferred taxes of \$2.6 million for the nine months ended September 30, 2014 in the above table, includes \$829,000 of federal income taxes payable to MIC and \$1.8 million of state income taxes.

**Result of Operations: *Contracted Power and Energy***

**Key Factors Affecting Operating Results:**

revenue generated by the incremental increase in generating capacity, including investments in wind power generation facilities during the third quarter of 2014; partially offset by sale of our controlling interest in the district energy business; and legal and professional expenses primarily relating to transaction costs during the nine months ended September 30, 2014.

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

|   | Quarter Ended         |          | Change                      |         | Nine Months Ended     |          | Change                      |         |
|---|-----------------------|----------|-----------------------------|---------|-----------------------|----------|-----------------------------|---------|
|   | September 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) | %       | September 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) | %       |
|   | \$                    | \$       | \$                          | %       | \$                    | \$       | \$                          | %       |
| (\$ In Thousands) (Unaudited)   |                       |          |                             |         |                       |          |                             |         |
| Service revenues  | 8,952                 | 15,586   | (6,634)                     | (42.6 ) | 29,487                | 35,618   | (6,131)                     | (17.2 ) |
| Product revenues  | 5,850                 | 2,649    | 3,201                       | 120.8   | 15,338                | 7,167    | 8,171                       | 114.0   |
| Finance lease revenues  | 379                   | 817      | (438 )                      | (53.6 ) | 1,836                 | 2,779    | (943 )                      | (33.9 ) |
| Total revenues  | 15,181                | 19,052   | (3,871)                     | (20.3 ) | 46,661                | 45,564   | 1,097                       | 2.4     |
| Cost of revenue service <sup>(d)</sup>  | 6,364                 | 10,520   | 4,156                       | 39.5    | 21,311                | 25,181   | 3,870                       | 15.4    |
| Cost of revenue product   | 1,069                 | 396      | (673 )                      | (169.9) | 2,792                 | 1,058    | (1,734)                     | (163.9) |
| Cost of revenue total   | 7,433                 | 10,916   | 3,483                       | 31.9    | 24,103                | 26,239   | 2,136                       | 8.1     |
| Gross profit  | 7,748                 | 8,136    | (388 )                      | (4.8 )  | 22,558                | 19,325   | 3,233                       | 16.7    |
| Selling, general and administrative expenses  | 2,541                 | 3,231    | 690                         | 21.4    | 6,858                 | 5,573    | (1,285)                     | (23.1 ) |
| Depreciation  | 3,832                 | 2,096    | (1,736)                     | (82.8 ) | 10,894                | 5,174    | (5,720)                     | (110.6) |
| Amortization of intangibles   | 190                   | 329      | 139                         | 42.2    | 838                   | 997      | 159                         | 15.9    |
| Loss from customer contract termination   | 1,269                 |          | (1,269)                     | NM      | 1,269                 | 1,626    | 357                         | 22.0    |
| Operating (loss) income   | (84 )                 | 2,480    | (2,564)                     | (103.4) | 2,699                 | 5,955    | (3,256)                     | (54.7 ) |
| Interest expense, net <sup>(2)</sup>  | (2,422 )              | (2,172 ) | (250 )                      | (11.5 ) | (7,757 )              | (5,914 ) | (1,843)                     | (31.2 ) |
| Loss on extinguishment of debt  | (90 )                 |          | (90 )                       | NM      | (90 )                 |          | (90 )                       | NM      |
| Equity in loss of investee  | (68 )                 |          | (68 )                       | NM      | (68 )                 |          | (68 )                       | NM      |
| Other income  | 1,380                 | 920      | 460                         | 50.0    | 3,789                 | 3,156    | 633                         | 20.1    |
| Provision for income taxes  | (199 )                | (1,557 ) | 1,358                       | 87.2    | (1,414 )              | (2,972 ) | 1,558                       | 52.4    |
| Noncontrolling interest   | 911                   | 3,836    | (2,925)                     | (76.3 ) | 2,008                 | 3,580    | (1,572)                     | (43.9 ) |
| Net (loss) income   | (572 )                | 3,507    | (4,079)                     | (116.3) | (833 )                | 3,805    | (4,638)                     | (121.9) |
| Reconciliation of net (loss) income to EBITDA excluding non-cash items and cash provided by (used in) operating activities to Free Cash Flow: |                       |          |                             |         |                       |          |                             |         |
| Net (loss) income   | (572 )                | 3,507    |                             |         | (833 )                | 3,805    |                             |         |
| Interest expense, net <sup>(2)</sup>  | 2,422                 | 2,172    |                             |         | 7,757                 | 5,914    |                             |         |
| Provision for income taxes  | 199                   | 1,557    |                             |         | 1,414                 | 2,972    |                             |         |
| Depreciation <sup>(1)</sup>   | 4,795                 | 3,716    |                             |         | 15,268                | 10,195   |                             |         |
| Amortization of intangibles   | 190                   | 329      |                             |         | 838                   | 997      |                             |         |
| Loss on extinguishment of debt  | 90                    |          |                             |         | 90                    |          |                             |         |
| Loss from customer contract termination   | 1,269                 |          |                             |         | 1,269                 | 1,626    |                             |         |
| Equity in loss of investee  | 68                    |          |                             |         | 68                    |          |                             |         |
| Other non-cash income   | (915 )                | (3,805 ) |                             |         | (3,805 )              | (6,142 ) |                             |         |
|   | 7,546                 | 7,476    | 70                          | 0.9     | 22,066                | 19,367   | 2,699                       | 13.9    |

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|   |          |          |     |     |          |          |        |        |
|---|----------|----------|-----|-----|----------|----------|--------|--------|
| EBITDA excluding non-cash items   |          |          |     |     |          |          |        |        |
| EBITDA excluding non-cash items   | 7,546    | 7,476    |     |     | 22,066   | 19,367   |        |        |
| Interest expense, net <sup>(2)</sup>  | (2,422 ) | (2,172 ) |     |     | (7,757 ) | (5,914 ) |        |        |
| Adjustments to derivative instruments recorded in interest expense <sup>(2)</sup> | (1,425 ) | (1,371 ) |     |     | (4,509 ) | (4,018 ) |        |        |
| Amortization of debt financing costs <sup>(2)</sup>                               | 116      | 180      |     |     | 502      | 539      |        |        |
| Equipment lease receivable, net   | 777      | 740      |     |     | 2,805    | 2,814    |        |        |
| Provision for income taxes, net of changes in deferred taxes                      | 116      | (529 )   |     |     | (903 )   | (805 )   |        |        |
| Changes in working capital  | 1,865    | (1,081 ) |     |     | 23,986   | (18,333) |        |        |
| Cash provided by (used in) operating activities                                   | 6,573    | 3,243    |     |     | 36,190   | (6,350 ) |        |        |
| Changes in working capital  | (1,865 ) | 1,081    |     |     | (23,986) | 18,333   |        |        |
| Maintenance capital expenditures  | (63 )    | (63 )    |     |     | (736 )   | (312 )   |        |        |
| Free cash flow  | 4,645    | 4,261    | 384 | 9.0 | 11,468   | 11,671   | (203 ) | (1.7 ) |

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

NM Not meaningful

Includes depreciation expense of \$1.0 million and \$4.4 million for the quarter and nine months ended September (1)30, 2014, respectively, and depreciation expense of \$1.6 million and \$5.0 million for the quarter and nine months ended September 30, 2013, respectively.

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

**Revenue and Gross Profit**

Total revenue and gross profit decreased for the quarter ended September 30, 2014 compared with the quarter ended September 30, 2013, due to the sale of the district energy business on August 21, 2014. Total revenue and gross profit increased for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 reflecting full year operations of all solar power generation facilities and partial year results from the wind power facilities acquired during the third quarter of 2014, partially offset by the sale of the district energy business in the third quarter of 2014.

**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 decrease in selling, general and administrative expenses for the quarter ended September 30, 2014 compared with the quarter ended September 30, 2013 was primarily related to legal and professional expenses incurred for the three solar power generation facilities acquired in 2013.

The increase in selling, general and administrative expenses for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 was driven by the increase in legal and professional expenses for the acquisitions of wind power generation facilities and the sale of our interest in the district energy business during the third quarter of 2014.

**Depreciation**

Depreciation expense increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily as a result of the depreciation associated with solar power generation projects that became operational during 2013 and the wind power generation project acquired during July of 2014.

**Loss From Customer Contract Termination**

Effective April 30, 2013, the district energy business no longer provided site specific cooling and heating services to a customer outside downtown Chicago for which revenue, fees and lease payments were previously being received. The loss of this customer reduced the business cash from operations. During the quarter and nine months ended September 30, 2014, the business wrote-off the remaining receivable balance related to this customer.

**Interest Expense, Net**

Interest expense includes losses on derivative instruments of \$431,000 and \$1.0 million for the quarter and nine months ended September 30, 2014, respectively, and losses of \$469,000 and \$1.4 million for the quarter and nine months ended September 30, 2013, respectively.

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

Excluding the derivative adjustments, interest expense increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 due to higher term debt balance at the solar power generation facilities, partially offset by the sale of the district energy business on August 21, 2014. Cash interest paid was \$2.2 million and \$9.9 million for the quarter and nine months ended September 30, 2014, respectively, and \$3.8 million and \$9.2 million for the quarter end nine months ended September 30, 2013, respectively.

**Income Taxes**

Our interest in District Energy was sold on August 21, 2014. For tax purposes, a gain of \$30.4 million will be recognized, yielding a federal capital gain tax of \$10.6 million, which will be fully offset by our NOLs.

The solar and wind power generation facilities 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 these projects currently in operations to be approximately \$948,000. 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                      |        | Nine Months Ended     |          | Change                      |         |
|---|-----------------------|----------|-----------------------------|--------|-----------------------|----------|-----------------------------|---------|
|   | September 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) | %      | September 30,<br>2014 | 2013     | Favorable/<br>(Unfavorable) | %       |
|   | \$                    | \$       | \$                          | %      | \$                    | \$       | \$                          | %       |
| (\$ In Thousands) (Unaudited)   |                       |          |                             |        |                       |          |                             |         |
| Base management fees  | 13,915                | 8,336    | (5,579 )                    | (66.9) | 32,444                | 23,524   | (8,920 )                    | (37.9 ) |
| Performance fees  | 116,586               | 6,906    | (109,680 )                  | NM     | 121,546               | 53,388   | (68,158 )                   | (127.7) |
| Selling, general and administrative expenses  | 8,860                 | 1,278    | (7,582 )                    | NM     | 12,139                | 4,987    | (7,152 )                    | (143.4) |
| Operating loss  | (139,361 )            | (16,520) | (122,841 )                  | NM     | (166,129 )            | (81,899) | (84,230 )                   | (102.8) |
| Interest (expense) income, net <sup>(1)</sup>   | (2,727 )              | 22       | (2,749 )                    | NM     | (2,658 )              | 152      | (2,810 )                    | NM      |
| Gain from acquisition/divestiture of businesses <sup>(2)</sup>  | 1,027,054             |          | 1,027,054                   | NM     | 1,027,054             |          | 1,027,054                   | NM      |
| Other expense   |                       |          |                             |        |                       | (16 )    | 16                          | 100.0   |
| Benefit for income taxes  | 73,305                | 4,104    | 69,201                      | NM     | 77,438                | 22,409   | 55,029                      | NM      |
| Noncontrolling interest   | (493 )                | (1,678 ) | 1,185                       | 70.6   | (1,428 )              | (2,157 ) | 729                         | 33.8    |
| Net income (loss) <sup>(3)</sup>  | 957,778               | (14,072) | 971,850                     | NM     | 934,277               | (61,511) | 995,788                     | NM      |
| Reconciliation of net income (loss) to EBITDA excluding non-cash items and cash used in operating activities to Free Cash Flow: |                       |          |                             |        |                       |          |                             |         |
| Net income (loss) <sup>(3)</sup>  | 957,778               | (14,072) |                             |        | 934,277               | (61,511) |                             |         |
| Interest expense (income), net <sup>(1)</sup>   | 2,727                 | (22 )    |                             |        | 2,658                 | (152 )   |                             |         |
| Benefit for income taxes  | (73,305 )             | (4,104 ) |                             |        | (77,438 )             | (22,409) |                             |         |
| Base management fees to be settled/settled in shares  | 13,915                | 8,336    |                             |        | 32,444                | 23,524   |                             |         |
| Performance fees to be settled/settled in cash/shares   | 116,586               | 6,906    |                             |        | 121,546               | 53,388   |                             |         |
| Gain from acquisition/divestiture of businesses <sup>(2)</sup>  | (1,027,181)           |          |                             |        | (1,027,181)           |          |                             |         |
| Other non-cash expense  | 681                   | 1,862    |                             |        | 1,991                 | 2,697    |                             |         |
| EBITDA excluding non-cash items   | (8,799 )              | (1,094 ) | (7,705 )                    | NM     | (11,703 )             | (4,463 ) | (7,240 )                    | (162.2) |
| EBITDA excluding non-cash items   | (8,799 )              | (1,094 ) |                             |        | (11,703 )             | (4,463 ) |                             |         |
| Interest (expense) income, net <sup>(1)</sup>   | (2,727 )              | 22       |                             |        | (2,658 )              | 152      |                             |         |
| Amortization of debt financing costs <sup>(1)</sup>   | 457                   |          |                             |        | 457                   |          |                             |         |
| Benefit for income taxes, net of changes in deferred taxes  | (3,939 )              | 218      |                             |        | 601                   | 7,661    |                             |         |
| Changes in working capital  | 6,478                 | 6        |                             |        | 2,990                 | (7,668 ) |                             |         |

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|                                   |           |        |           |    |           |          |           |    |
|-----------------------------------|-----------|--------|-----------|----|-----------|----------|-----------|----|
| Cash used in operating activities | (8,530 )  | (848 ) |           |    | (10,313 ) | (4,318 ) |           |    |
| Changes in working capital        | (6,478 )  | (6 )   |           |    | (2,990 )  | 7,668    |           |    |
| Free cash flow                    | (15,008 ) | (854 ) | (14,154 ) | NM | (13,303 ) | 3,350    | (16,653 ) | NM |

NM Not meaningful

- (1) Interest (expense) income, net, includes adjustments to non-cash amortization of deferred financing fees. Represents the gain from the remeasuring to fair value of our previous 50% ownership of IMTT and the gain (2) recognized on the sale of the district energy business. See Results of Operations *Consolidated* for further discussions.
- (3) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.

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

As a result of our acquisition in July of the 50% of IMTT that we did not previously own, we intend to discuss the performance of our businesses on a consolidated basis in this and subsequent periods. Until such time as we are able to report exclusively on a consolidated basis however, we will continue to rely on proportionately combined metrics including, gross profit, EBITDA excluding non-cash items, cash interest, cash taxes, maintenance capital expenditures, Free Cash Flow, Free Cash Flow per share, growth capital expenditures and net debt, some of which are used in this Form 10-Q, that we believe provide our investors and management with additional insight into our financial results and the cash generated as a function of our varied ownership interest 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 (\$ in thousands) (unaudited).

|                | For the Quarter Ended September 30, 2014 |                     |        |          |                       |           |                         |                     | Contracted |
|----------------|--|---------------------|--------|----------|-----------------------|-----------|-------------------------|---------------------|------------|
|                | IMTT                                     | IMTT                | Hawaii | Atlantic | Contracted            | MIC       | Proportionately         | IMTT                | Power      |
|                | 50% <sup>(1)</sup>                       | 100% <sup>(2)</sup> | Gas    | Aviation | Power                 | Corporate | Combined <sup>(4)</sup> | 100% <sup>(5)</sup> | and        |
|                |  |                     |        |          | Energy <sup>(3)</sup> |           |                         |                     | Energy     |
| Gross profit   | 4,708                                    | 63,414              | 17,748 | 93,437   | 4,998                 | N/A       | <b>184,305</b>          | 72,830              | 7,748      |
| EBITDA         |  |                     |        |          |                       |           |                         |                     |            |
| excluding      | 4,258                                    | 52,836              | 13,189 | 44,285   | 4,316                 | (8,799)   | <b>110,085</b>          | 61,352              | 7,546      |
| non-cash items |  |                     |        |          |                       |           |                         |                     |            |
| Free cash flow | (6,203)                                  | 26,367              | 8,546  | 33,762   | 2,435                 | (15,008)  | <b>49,899</b>           | 13,962              | 4,645      |

|  | For the Quarter Ended September 30, 2013 |        |          |            |           |                         |                     | IMTT   | Contracted |
|--|--|--------|----------|------------|-----------|-------------------------|---------------------|--------|------------|
|  | IMTT                                     | Hawaii | Atlantic | Contracted | MIC       | Proportionately         | 100% <sup>(5)</sup> | Power  |            |
|  | 50% <sup>(1)</sup>                       | Gas    | Aviation | Power      | Corporate | Combined <sup>(4)</sup> |                     | and    |            |
|  |  |        |          | and        |           |                         |                     | Energy |            |

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|                                    |        |        |        |                       |         |                |        |       |
|------------------------------------|--------|--------|--------|-----------------------|---------|----------------|--------|-------|
|                                    |        |        |        | Energy <sup>(3)</sup> |         |                |        | 100%  |
| Gross profit                       | 35,438 | 17,239 | 82,645 | 4,430                 | N/A     | <b>139,752</b> | 70,875 | 8,136 |
| EBITDA excluding<br>non-cash items | 31,810 | 12,879 | 38,306 | 3,166                 | (1,094) | <b>85,067</b>  | 63,620 | 7,476 |
| Free cash flow                     | 16,581 | 9,154  | 30,774 | 1,392                 | (854 )  | <b>57,047</b>  | 33,162 | 4,261 |

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

|                                       | For the Nine Months Ended September 30, 2014 |                             |               |                      |   |                  |  | IMTT<br>100% <sup>(5)</sup> | Contracted<br>Power<br>and<br>Energy<br>100% |
|---------------------------------------|--|-----------------------------|---------------|----------------------|---|------------------|--|-----------------------------|--|
|                                       | IMTT<br>50% <sup>(1)</sup>                   | IMTT<br>100% <sup>(2)</sup> | Hawaii<br>Gas | Atlantic<br>Aviation | Contracted<br>Power<br>and<br>Energy <sup>(3)</sup> | MIC<br>Corporate | Proportionately<br>Combined <sup>(4)</sup> |                             |  |
| Gross profit                          | 85,727                                       | 63,414                      | 57,120        | 267,106              | 14,245  | N/A              | <b>487,612</b>                             | 234,867                     | 22,558                                       |
| EBITDA<br>excluding<br>non-cash items | 78,712                                       | 52,836                      | 43,160        | 123,737              | 12,738  | (11,703)         | <b>299,480</b>                             | 210,260                     | 22,066                                       |
| Free cash flow                        | 31,324                                       | 26,367                      | 24,962        | 95,993               | 6,175   | (13,303)         | <b>171,518</b>                             | 89,015                      | 11,468                                       |

  

|                                    | For the Nine Months Ended September 30, 2013 |               |                      |   |                  |  |                | IMTT<br>100% <sup>(5)</sup> | Contracted<br>Power<br>and<br>Energy<br>100% |
|------------------------------------|--|---------------|----------------------|---|------------------|--|----------------|-----------------------------|--|
|                                    | IMTT<br>50% <sup>(1)</sup>                   | Hawaii<br>Gas | Atlantic<br>Aviation | Contracted<br>Power<br>and<br>Energy <sup>(3)</sup> | MIC<br>Corporate | Proportionately<br>Combined <sup>(4)</sup> |                |                             |  |
| Gross profit                       |  | 109,756       | 54,803               | 240,118   | 10,473           | N/A  | <b>415,150</b> | 219,511                     | 19,325                                       |
| EBITDA excluding<br>non-cash items |  | 98,552        | 40,005               | 109,169   | 9,172            | (4,463)                                    | <b>252,435</b> | 197,104                     | 19,367                                       |
| Free cash flow                     |  | 45,926        | 25,583               | 85,761  | 5,052            | 3,350                                      | <b>165,672</b> | 91,851                      | 11,671                                       |

N/A Not applicable.

(1) Our proportionate interest in IMTT prior to the acquisition of the remaining 50% interest on July 16, 2014.

(2) Represents our 100% ownership interest in IMTT subsequent to July 16, 2014.

(3) Proportionately combined Free Cash Flow for Contracted Power and Energy is equal to MIC's controlling ownership interest in its solar and wind power generation businesses and the district energy business, up to August 21, 2014, date of sale.

(4) 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.

(5) Represents 100% of IMTT as a stand-alone business.

**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 was not used to fund the IMTT Acquisition is available for general corporate purposes.

We use revolving credit facilities at each of our operating companies and the holding company as cash management

tools thereby reducing both our cash balances and cash interest expense while maintaining access to sufficient liquidity 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.

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

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.

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 October 29, 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 October 29, 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 our holding company and our operating 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 our 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**

| (\$ In Thousands)                               | Nine Months Ended     |                       | Change                      |      |
|---|-----------------------|-----------------------|-----------------------------|------|
|   | September 30,<br>2014 | September 30,<br>2013 | Favorable/<br>(Unfavorable) |      |
|   | \$                    | \$                    | \$                          | %    |
| Cash provided by operating activities           | 194,363               | 127,760               | 66,603                      | 52.1 |
| Cash used in investing activities               | (945,690)             | (66,037)              | (879,653)                   | NM   |
| Cash provided by (used in) financing activities | 555,374               | (120,056)             | 675,430                     | NM   |

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.

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## **Liquidity and Capital Resources: *Consolidated* (continued)**

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

the consolidation of IMTT on July 16, 2014;  
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;  
improved operating results offset by higher cash interest paid at Atlantic Aviation; and  
increased cash distribution received and the timing of fourth quarter cash distributions received from IMTT classified as cash from operating activities.

Through July 15, 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. After the IMTT Acquisition on July 16, 2014, distributions from IMTT are eliminated upon consolidation, as IMTT is part of the consolidated results.

### **Investing Activities**

The increase in consolidated cash used in investing activities for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 was primarily due to:

IMTT Acquisition that closed on July 16, 2014;  
Galaxy Acquisitions that closed on April 30, 2014;  
investments in interests in two wind power generation facilities during the third quarter of 2014;  
increase in capital expenditures, primarily due to the consolidation of IMTT and increase in growth capital expenditures at Atlantic Aviation; partially offset by  
proceeds from the sale of district energy business; and  
distributions received from IMTT classified as a return of investment in unconsolidated business prior to the IMTT Acquisition.

### **Growth Capital Expenditure Outlook**

We continuously evaluate opportunities to deploy growth capital in our existing businesses and in new lines of business. Some of these opportunities are organic in nature, such as building new storage tanks, investing in supply-chain logistics such as fuel and feedstock storage or building or improving aircraft hangars.

We also evaluate opportunities to acquire additional businesses or assets that we believe could enhance our existing businesses. These opportunities may be relatively significant, such as our recent acquisition of the 50% of IMTT we did not already own and our acquisition of the Galaxy FBO chain or they may be important but not individually significant.

Additionally, we evaluate opportunities to acquire businesses or assets that would comprise a new line of business for us.

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**Liquidity and Capital Resources: *Consolidated* (continued)**

We have a backlog of growth capital projects that we are completing and/or intend to complete. We consider growth capital projects to be part of our backlog when we have committed to the deployment of capital for the underlying project, and have, where relevant, received all requisite approvals/authorizations for the deployment of such capital. The inclusion of a project in our backlog of growth capital projects does not guarantee that the project will commence, be completed or ultimately generate revenues. Our backlog as of September 30, 2014, consists of projects involving total incremental capital expenditures of approximately \$125.0 million. We anticipate deploying approximately \$55.0 million in calendar 2014 and have deployed approximately \$47.0 million through September 30, 2014.

**Financing Activities**

The change from consolidated cash used in financing activities for the nine months ended September 30, 2013 compared to cash provided by financing activities for the nine months ended September 30, 2014 is primarily due to:

increase in cash proceeds, net of fees, from the July of 2014 equity offering and convertible senior notes offering to partially fund the IMTT Acquisition, compared with the May of 2013 equity offering to refinance the term loan at Atlantic Aviation; partially offset by  
increase in dividends paid to shareholders and the timing of the fourth quarter dividend for 2013 and 2012. The payment of the dividend for the fourth quarter of 2012 was accelerated and made during that quarter, whereas the dividend payment for the fourth quarter of 2013 was made in the first quarter of 2014, as is customary;  
increase distributions paid to noncontrolling interest, primarily from the proceeds from the district energy business sale;

net increase in debt repayments during 2014; and  
contribution from noncontrolling interests for our solar power generation facilities during 2013.

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

TABLE OF CONTENTS**Liquidity and Capital Resources: *IMTT***

The following analysis represents 100% of the cash flows of IMTT. We believe this is the most appropriate and meaningful approach to discussion of the historical cash flow trends of IMTT. Subsequent to our acquisition of the remaining interest in IMTT on July 16, 2014, we consolidate IMTT and the business is considered a reportable segment. Prior to July 16, 2014, we accounted for our 50% ownership of IMTT using the equity method of accounting.

| (\$ In Thousands)                     | Nine Months Ended     |            | Change                      |         |
|---------------------------------------|-----------------------|------------|-----------------------------|---------|
|                                       | September 30,<br>2014 | 2013       | Favorable/<br>(Unfavorable) | %       |
| Cash provided by operating activities | \$ 123,688            | \$ 156,399 | (32,711 )                   | (20.9 ) |
| Cash used in investing activities     | (87,549 )             | (120,065 ) | 32,516                      | 27.1    |
| Cash used in financing activities     | (220,664 )            | (37,737 )  | (182,927 )                  | 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 nine months ended September 30, 2014 compared with the nine months ended September 30, 2013, primarily as a result of:

a \$20.0 million contribution to the IMTT pension fund made in the quarter ended September 30, 2014 as a condition of the IMTT Acquisition; and

higher taxes paid; partially offset by improved operating results.

**Investing Activities**

Cash used in investing activities primarily relates to capital expenditures which were lower for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013. Total cash capital expenditures decreased from \$119.7 million for the nine months ended September 30, 2013 to \$87.2 million for the nine months ended September 30, 2014. Total capital expenditures, on an accrual basis, decreased from \$98.2 million for the nine months ended September 30, 2013 to \$76.9 million for the nine months ended September 30, 2014.

**Capital Expenditures**

During the nine months ended September 30, 2014 and 2013, IMTT incurred \$37.4 million and \$60.5 million, respectively, on maintenance and environmental capital expenditures. Of the \$60.5 million spent for the nine months ended September 30, 2013, \$16.4 million was associated with repairs to the Bayonne terminal as a result of damage from Hurricane Sandy.



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

IMTT incurred growth capital expenditures of \$39.5 million and \$37.7 million for the nine months ended September 30, 2014 and 2013, respectively. At September 30, 2014, IMTT has growth projects underway with a total cost of \$98.0 million including \$27.3 million of support infrastructure projects. To date, \$36.2 million has been spent on these projects. These projects are anticipated to generate \$12.9 million of annualized gross profit and EBITDA of which \$2.8 million is already being generated. The anticipated gross profit and EBITDA generation is outlined below, excluding the amount already being generated.

|      | Anticipated<br>Incremental<br>Gross<br>Profit/EBITDA | Anticipated<br>Cumulative<br>Gross<br>Profit/EBITDA |
|------|--|---|
| 2014 | \$ 1.5 million                                       | \$ 1.5 million                                      |
| 2015 | 5.9 million  | 7.4 million   |
| 2016 | 1.8 million  | 9.2 million   |
| 2017 | 0.9 million  | 10.1 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 nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 reflects a temporarily lower average drawn balance under the revolving credit agreement with cash from MIC as a part of its revised cash management process.

At September 30, 2014, the balance on IMTT's total debt facilities was \$797.9 million. This consisted of \$336.3 million in letter of credit backed tax-exempt bonds, \$175.7 million in bank owned tax-exempt bonds, \$264.3 million in revolving credit facilities and \$21.6 million in the Coleman Family Voting Trust 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 4.56%. Cash interest paid was \$30.5 million and \$30.6 million for the nine months ended September 30, 2014 and 2013, respectively.

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

Leverage Ratio < 5.00x (default threshold). The ratio at September 30, 2014 was 2.88x.

Interest Coverage Ratio > 3.00x (default threshold). The ratio at September 30, 2014 was 6.17x.

Excess cash at MIC has been used to pay down IMTT's revolving credit facility as mentioned above. At September 30, 2014, IMTT's leverage ratio, as defined by the IMTT revolving credit agreement, was below 3.00x resulting in the applicable margin on IMTT's debt interest declining 0.25% to 1.75%. This reduced margin will not take effect until after September 30, 2014 and will be reviewed again at the end of the quarter ending December 31, 2014.

For a description of the material terms of IMTT's credit facilities, see Note 7, Long-Term Debt, in our consolidated condensed financial statements in Financial Information in Part I of this Quarterly Report on Form 10-Q.

## Liquidity and Capital Resources: *Hawaii Gas*

| (\$ In Thousands)                     | Nine Months Ended<br>September 30, |            | Change<br>Favorable/<br>(Unfavorable) |       |
|---------------------------------------|------------------------------------|------------|---------------------------------------|-------|
|                                       | 2014<br>\$                         | 2013<br>\$ | \$                                    | %     |
| Cash provided by operating activities | 28,500                             | 27,110     | 1,390                                 | 5.1   |
| Cash used in investing activities     | (12,331 )                          | (15,389 )  | 3,058                                 | 19.9  |
| 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 increase in cash provided by operating activities for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 was driven primarily by the timing of shipments of LPG, partially offset by a discretionary pension contribution.

**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   |
|--|-------------|----------|
| Nine months ended September 30, 2014, accrual basis                  | \$ 5,612    | \$ 5,907 |
| Change in accrued capital expenditure balance from December 31, 2013 | 1,370       | (536 )   |
| Nine months ended September 30, 2014, cash basis                     | \$ 6,982    | \$ 5,371 |
| Nine months ended September 30, 2013, accrual basis                  | \$ 5,337    | \$ 9,093 |
| Change in accrued capital expenditure balance from December 31, 2012 | 671         | 301      |
| Nine months ended September 30, 2013, cash basis                     | \$ 6,008    | \$ 9,394 |

**Capital Expenditures**

Maintenance capital expenditures for the nine months ended September 30, 2014 increased compared with the nine months ended September 30, 2013 due to the timing of replacement vehicle purchases, partially offset by a reduction in facility projects. Growth capital expenditures for the nine months ended September 30, 2014 decreased compared with the nine months ended September 30, 2013 driven mainly by storage expansion projects in 2013.

On October 16, 2014, Hawaii Gas filed an application with the HPUC indicating its intent to spend approximately \$12.8 million in its utility business for a smaller-scale containerized LNG import project to provide natural gas as a replacement for up to 30% of SNG demand. Regular deliveries of containerized LNG are expected to commence by late 2015.

**Financing Activities**

The main drivers of cash provided by financing activities are drawings on facilities for capital expenditures and working capital needs. At September 30, 2014, the balance on the business debt facilities consisted of \$180.0 million in term loan and senior secured note borrowings. The revolving credit facility remained undrawn at September 30, 2014. During the first quarter of 2013, the business borrowed \$20.0 million from its revolving credit facility for

working capital requirements related to imports on foreign LPG cargos and to fund a portion of its capital expenditures. The full amount was repaid during the second quarter of 2013.

The weighted average interest rate of the outstanding debt facilities, including the interest rate swap, was 3.63% at September 30, 2014. Cash interest paid was \$6.1 million and \$6.2 million for the nine months ended September 30, 2014 and 2013, respectively.

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

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 September 30, 2014, the 12 month backward interest coverage ratio was 8.73x at the holding company and 13.11x at the operating company. The leverage ratio at September 30, 2014 was 61.99% at the holding company and 34.56% 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 September 30, 2014, the debt to total capital ratio was 61.99% 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.

**Liquidity and Capital Resources: *Atlantic Aviation***

| (\$ In Thousands)  | Nine Months Ended     |                       | Change                      |       |
|--|-----------------------|-----------------------|-----------------------------|-------|
|  | September 30,<br>2014 | September 30,<br>2013 | Favorable/<br>(Unfavorable) |       |
|  | \$                    | \$                    | \$                          | %     |
| Cash provided by operating activities                          | 103,528               | 92,293                | 11,235                      | 12.2  |
| Cash used in investing activities                              | (258,039)             | (16,204)              | (241,835)                   | NM    |
| Cash provided by (used in) financing activities <sup>(1)</sup> | 91,680                | (277,450)             | 369,130                     | 133.0 |

NM Not meaningful

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 with 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 increased during the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 primarily due to:

improved operating results including contribution from acquired FBOs; and

lower state taxes paid; partially offset by  
higher average cost of debt.

## **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 nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily due to the Galaxy Acquisitions.

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

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

|  | Maintenance | Growth    |
|--|-------------|-----------|
| Nine months ended September 30, 2014, accrual basis                  | \$ 4,610    | \$ 24,509 |
| Change in accrued capital expenditure balance from December 31, 2013 | (230 )      | (1,832 )  |
| Nine months ended September 30, 2014, cash basis                     | \$ 4,380    | \$ 22,677 |
| Nine months ended September 30, 2013, accrual basis                  | \$ 5,248    | \$ 11,371 |
| Change in accrued capital expenditure balance from December 31, 2012 | 250         | (614 )    |
| Nine months ended September 30, 2013, cash basis                     | \$ 5,498    | \$ 10,757 |

**Capital Expenditures**

Maintenance capital expenditures were lower for the nine months ended September 30, 2014 compared with the nine months ended September 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.

Growth capital expenditures incurred during the nine months ended September 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 remodeling of certain facilities to upgrade their capabilities and attain lease extensions.

**Financing Activities**

The change from cash used in financing activities for the nine months ended September 30, 2013 to cash provided by financing activities for the nine months ended September 30, 2014 is primarily due to larger net payments on the principal balance of the term loan debt during the nine months ended September 30, 2013 of \$262.0 million compared with net proceeds of \$95.6 million for the nine months ended September 30, 2014. At September 30, 2014, Atlantic Aviation's had total debt outstanding of \$613.0 million composed of \$608.2 million of senior secured, first lien term loan facilities and \$4.8 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 \$20.6 million and \$12.7 million for the nine months ended September 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 September 30, 2014, Atlantic Aviation's net debt to adjusted EBITDA was 3.48x (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.



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

The financial results discussed below reflect 100% of our solar and wind power generation performance during the periods presented below, rather than our interests in these projects. The financial results discussed below also reflect 100% of the district energy business performance through August 21, 2014, the date when we completed the sale of the business.

| (\$ In Thousands)                               | Nine Months Ended     |                       | Change                      |    |
|---|-----------------------|-----------------------|-----------------------------|----|
|   | September 30,<br>2014 | September 30,<br>2013 | Favorable/<br>(Unfavorable) |    |
|   | \$                    | \$                    | \$                          | %  |
| Cash provided by (used in) operating activities | 36,190                | (6,350 )              | 42,540                      | NM |
| Cash provided by (used in) investing activities | 227,688               | (34,444 )             | 262,132                     | NM |
| Cash (used in) provided by financing activities | (159,626 )            | 24,157                | (183,783 )                  | NM |

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 and increase in results from full year operations of all solar power generation facilities and partial year results from wind power generation facilities acquired during the third quarter of 2014.

**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. We do not expect to incur substantial capital expenditures at our solar sites following construction as most upgrades, replenishments and repairs are covered under the operations and maintenance ( O&M ) contract.

The change from cash used in investing activities for the nine months ended September 30, 2013 to cash provided by investing activities for the nine months ended September 30, 2014 is primarily due to the net proceeds from sale of district energy business during August of 2014 and the decrease in growth capital expenditures to construct solar projects for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013. This is offset by cash used in investing activities for the acquisition of interest in wind generation facilities during the quarter ended September 30, 2014.

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

|  | Maintenance | Growth  |
|--|-------------|---------|
| Nine months ended September 30, 2014, accrual basis                  | \$ 736      | \$2,356 |
| Change in accrued capital expenditure balance from December 31, 2013 | 220         | 11,850  |

|  |        |          |
|--|--------|----------|
| Nine months ended September 30, 2014, cash basis                     | \$ 956 | \$14,206 |
| Nine months ended September 30, 2013, accrual basis                  | \$ 312 | \$28,388 |
| Change in accrued capital expenditure balance from December 31, 2012 | 147    | (9,069 ) |
| Nine months ended September 30, 2013, cash basis                     | \$ 459 | \$19,319 |

### **Financing Activities**

The change from cash provided by financing activities for the nine months ended September 30, 2013 to cash used in financing activities for the nine months ended September 30, 2014 is primarily due to the repayment of the outstanding debt balance at the district energy business using the proceeds from the sale and increased distributions to noncontrolling interest. For the nine months ended September 30, 2013, the solar power generation business received capital contribution from noncontrolling interest that did not recur this period.

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## **Liquidity and Capital Resources: *Contracted Power and Energy (continued)***

Each of the five solar projects is financed individually with non-recourse debt. At September 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 wind power generation facility acquired during July of 2014 does not have debt outstanding. All of the CP&E credit facilities were compliant with their respective covenants at September 30, 2014. Cash interest paid at CP&E for the nine months ended September 30, 2014 and 2013 was \$9.9 million and \$9.2 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 nine months ended September 30, 2014, Atlantic Aviation entered into a 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 LIBOR floor of 0.75%. The incremental 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 the incremental term loan facility at 4.399%.

Except as noted above, at September 30, 2014, there had been no material changes in our commitments and contingencies compared with our commitments and contingencies at December 31, 2013. At September 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 September 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").

## **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.



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

### **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.

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 IMTT 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.

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

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.

## **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, the filing date for our Annual Report on Form 10-K.

## **Controls and Procedures**

### **Evaluation of Disclosure 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) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. The purpose of disclosure controls is to ensure that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2014.

### **Changes in Internal Control Over Financial Reporting**

On July 16, 2014, we completed the acquisition of the remaining 50% interest in IMTT that we did not previously own and consolidated the financial results of IMTT effective as of such date. Prior to the acquisition, we had a 50%

investment in IMTT, which was accounted for under the equity method, and we did not directly manage the day to day operations of IMTT. The Company is evaluating changes to processes, information technology systems and other components of internal controls over financial reporting as part of its ongoing integration activities, and as a result, controls will be periodically changed. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 4 Acquisitions and Disposition, in our consolidated condensed financial statements, for a discussion of the acquisition and related financial data. There have not been any other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2014 that have materially affected, or are 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)

|  | September<br>30, 2014<br>(Unaudited) | December<br>31, 2013 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$37,344                             | \$233,373            |
| Restricted cash  | 24,209                               | 51,884               |
| Accounts receivable, less allowance for doubtful accounts of \$1,188 and \$953, respectively | 98,048                               | 60,823               |
| Inventories  | 32,476                               | 25,834               |
| Prepaid expenses   | 8,895                                | 10,132               |
| Deferred income taxes  | 13,437                               | 6,197                |
| Equipment lease receivables current  |                                      | 8,515                |
| Other  | 42,898                               | 9,792                |
| Total current assets   | 257,307                              | 406,550              |
| Property, equipment, land and leasehold improvements, net                                    | 3,216,061                            | 854,169              |
| Equipment lease receivables non-current  |                                      | 16,155               |
| Investment in unconsolidated business  | 21,306                               | 83,703               |
| Goodwill   | 1,929,220                            | 514,494              |
| Intangible assets, net   | 890,113                              | 592,850              |
| Deferred financing costs, net of accumulated amortization                                    | 46,304                               | 22,740               |
| Other  | 17,287                               | 10,204               |
| Total assets   | \$6,377,598                          | \$2,500,865          |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>   |                                      |                      |
| Current liabilities:   |                                      |                      |
| Due to manager-related party   | \$121,505                            | \$3,032              |
| Accounts payable   | 52,530                               | 28,850               |
| Accrued expenses   | 87,329                               | 42,713               |
| Current portion of long-term debt  | 19,954                               | 163,083              |
| Fair value of derivative instruments   | 26,734                               | 13,027               |
| Other  | 29,681                               | 20,747               |
| Total current liabilities  | 337,733                              | 271,452              |
| Long-term debt, net of current portion   | 2,060,817                            | 831,027              |
| Deferred income taxes  | 916,889                              | 189,719              |
| Fair value of derivative instruments   | 20,349                               |                      |
| Other  | 99,702                               | 55,399               |
| Total liabilities  | 3,435,490                            | 1,347,597            |

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Commitments and contingencies

Members' equity:

|  |             |             |
|--|-------------|-------------|
| LLC interests, or shares, no par value; 500,000,000 authorized; 70,133,479 shares issued and outstanding at September 30, 2014 and 56,295,595 shares issued and outstanding at December 31, 2013 | 1,946,331   | 1,226,733   |
| Additional paid in capital   | 21,447      | 21,447      |
| Accumulated other comprehensive loss   | (4,475 )    | (8,445 )    |
| Retained earnings (accumulated deficit)  | 823,552     | (197,507 )  |
| Total members' equity  | 2,786,855   | 1,042,228   |
| Noncontrolling interests   | 155,253     | 111,040     |
| Total equity   | 2,942,108   | 1,153,268   |
| Total liabilities and equity   | \$6,377,598 | \$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)**

|  | Quarter Ended         |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2014 | September 30,<br>2013 | September 30,<br>2014 | September 30,<br>2013 |
| Revenue  |                       |                       |                       |                       |
| Service revenue  | \$317,915             | \$198,784             | \$725,623             | \$577,458             |
| Product revenue  | 70,344                | 64,118                | 218,317               | 200,255               |
| Financing and equipment lease income                           | 379                   | 817                   | 1,836                 | 2,779                 |
| Total revenue  | 388,638               | 263,719               | 945,776               | 780,492               |
| Costs and expenses   |                       |                       |                       |                       |
| Cost of services   | 158,476               | 111,074               | 386,927               | 326,904               |
| Cost of product sales  | 47,815                | 44,626                | 148,651               | 139,343               |
| Selling, general and administrative                            | 77,497                | 53,669                | 189,797               | 154,998               |
| Fees to manager-related party                                  | 130,501               | 15,242                | 153,990               | 76,912                |
| Depreciation   | 35,958                | 10,039                | 60,540                | 28,730                |
| Amortization of intangibles                                    | 11,369                | 8,618                 | 29,590                | 25,866                |
| Loss from customer contract termination                        | 1,269                 |                       | 1,269                 | 1,626                 |
| Loss on disposal of assets                                     | 20                    | 50                    | 886                   | 226                   |
| Total operating expenses                                       | 462,905               | 243,318               | 971,650               | 754,605               |
| Operating (loss) income  | (74,267 )             | 20,401                | (25,874 )             | 25,887                |
| Other income (expense)   |                       |                       |                       |                       |
| Dividend income  | 257                   |                       | 257                   |                       |
| Interest income  | 10                    | 39                    | 105                   | 182                   |
| Interest expense <sup>(1)</sup>                                | (16,566 )             | (15,767 )             | (48,522 )             | (31,190 )             |
| Loss on extinguishment of debt                                 | (90 )                 |                       | (90 )                 | (2,472 )              |
| Equity in earnings and amortization charges of investee        | 993                   | 8,576                 | 26,079                | 30,327                |
| Gain from acquisition/divestiture of businesses <sup>(2)</sup> | 1,027,054             |                       | 1,027,054             |                       |
| Other income, net  | 821                   | 829                   | 3,078                 | 514                   |
| Net income before income taxes                                 | 938,212               | 14,078                | 982,087               | 23,248                |
| Benefit (provision) for income taxes <sup>(3)</sup>            | 52,462                | (5,829 )              | 38,491                | (9,241 )              |
| Net income   | \$990,674             | \$8,249               | \$1,020,578           | \$14,007              |
| Less: net loss attributable to noncontrolling interests        | (319 )                | (2,158 )              | (481 )                | (1,423 )              |
| Net income attributable to MIC LLC                             | \$990,993             | \$10,407              | \$1,021,059           | \$15,430              |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Basic income per share attributable to MIC LLC            | \$ 14.57   | \$0.20     | \$ 16.92   | \$0.31     |
| Weighted average number of shares outstanding:<br>basic   | 68,005,171 | 53,043,185 | 60,354,086 | 50,525,617 |
| Diluted income per share attributable to<br>MIC LLC       | \$ 13.87   | \$0.20     | \$ 16.61   | \$0.31     |
| Weighted average number of shares outstanding:<br>diluted | 71,517,497 | 53,056,095 | 61,546,181 | 50,541,513 |
| Cash dividends declared per share                         | \$0.98     | \$0.875    | \$2.8675   | \$2.4375   |

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

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**CONSOLIDATED CONDENSED STATEMENTS OF  
OPERATIONS (continued)**

**(Unaudited)**

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

(1) Interest expense includes gains on derivative instruments of \$820,000 and losses of \$13.1 million for the quarter and nine months ended September 30, 2014, respectively, of which net losses of \$348,000 and \$856,000, respectively, were reclassified from accumulated other comprehensive loss. For the quarter and nine months ended September 30, 2013, interest expense includes losses on derivative instruments of \$8.0 million and \$9.6 million, respectively, of which net losses of \$344,000 and \$1.2 million, respectively, were reclassified from accumulated other comprehensive loss.

(2) Gain from acquisition/divestiture of businesses represents the gain of \$948.1 million from IMTT Acquisition from the remeasuring to fair value of the Company's previous 50% ownership interest and the gain of \$78.9 million from the sale of the Company's interest in the district energy business. See Note 4, Acquisitions and Disposition for further discussion.

(3) Includes \$138,000 and \$340,000 of benefit for income taxes from accumulated other comprehensive loss reclassifications for the quarter and nine months ended September 30, 2014, respectively. For the quarter and nine months ended September 30, 2013, benefit for income taxes includes \$137,000 and \$463,000 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**

**(Unaudited)**

**(\$ in Thousands)**

|   | Quarter Ended            |                          | Nine Months Ended        |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
|   | September<br>30,<br>2014 | September<br>30,<br>2013 | September<br>30,<br>2014 | September<br>30,<br>2013 |
| Net income  | \$990,674                | \$8,249                  | \$1,020,578              | \$14,007                 |
| Other comprehensive income, net of taxes:                                       |                          |                          |                          |                          |
| Reclassification of realized losses of derivatives into earnings <sup>(1)</sup> | 315                      | 217                      | 636                      | 733                      |
| Change in post-retirement benefit plans <sup>(2)</sup>                          | 4,219                    |                          | 4,219                    |                          |
| Translation adjustment <sup>(3)</sup>   | (991 )                   |                          | (987 )                   |                          |
| Other comprehensive income  | 3,543                    | 217                      | 3,868                    | 733                      |
| Comprehensive income  | \$994,217                | \$8,466                  | \$1,024,446              | \$14,740                 |
| Less: comprehensive loss attributable to noncontrolling interests               | (574 )                   | (2,054 )                 | (583 )                   | (1,072 )                 |
| Comprehensive income attributable to MIC LLC                                    | \$994,791                | \$10,520                 | \$1,025,029              | \$15,812                 |

- Reclassification of realized losses of derivatives is composed of (i) pre-tax derivative losses into interest expense of \$348,000 and \$856,000, respectively, and the related tax benefit of \$138,000 and \$340,000, respectively, recorded in the consolidated condensed statements of operations; and (ii) pre-tax derivative losses of \$162,000 and \$185,000, respectively, as an adjustment to investment in unconsolidated business, and an adjustment to deferred taxes of \$57,000 and \$65,000, respectively, recorded in the consolidated condensed balance sheet for the quarter and nine months ended September 30, 2014, respectively. For the quarter and nine months ended September 30, 2013, reclassification of realized losses of derivatives is composed of (i) pre-tax derivative losses into interest expense of \$344,000 and \$1.2 million, respectively, and the related tax benefit of \$137,000 and \$463,000, respectively, recorded in the consolidated condensed statements of operations; and (ii) pre-tax derivative losses of \$15,000 and \$47,000, respectively, as an adjustment to investment in unconsolidated business, and an adjustment to deferred taxes of \$5,000 and \$16,000, respectively, recorded in the consolidated condensed balance sheet. See Note 9, *Members' Equity* for further discussions.
- (2) Change in post-retirement benefit plans is presented net of taxes of \$2.3 million for the quarter and nine months ended September 30, 2014. See Note 9, *Members' Equity* for further discussions.
- (3) Translation adjustment is presented net of taxes of \$407,000 and \$405,000 for the quarter and nine months ended September 30, 2014, respectively. See Note 9, *Members' Equity* for further discussions.

*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)**

|   | Nine Months Ended     |                          |
|---|-----------------------|--------------------------|
|   | September 30,<br>2014 | September<br>30,<br>2013 |
| Operating activities  |                       |                          |
| Net income  | \$1,020,578           | \$ 14,007                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                          |
| Depreciation and amortization of property and equipment                           | 64,914                | 33,751                   |
| Amortization of intangible assets   | 29,590                | 25,866                   |
| Loss on disposal of assets  | 822                   | 106                      |
| Loss from customer contract termination   | 1,269                 | 1,626                    |
| Equity in earnings and amortization charges of investee                           | (26,079 )             | (30,327 )                |
| Equity distributions from investee  | 25,086                | 19,025                   |
| Gain from acquisition/divestiture of businesses                                   | (1,027,181)           |                          |
| Amortization of debt financing costs  | 4,467                 | 2,892                    |
| Loss on extinguishment of debt  | 90                    | 2,434                    |
| Adjustments to derivative instruments   | (3,937 )              | 1,160                    |
| Base management fees to be settled/settled in shares                              | 32,444                | 23,524                   |
| Performance fees to be settled/settled in shares                                  | 56,546                | 53,388                   |
| Equipment lease receivable, net   | 2,805                 | 2,814                    |
| Deferred rent   | 293                   | 197                      |
| Deferred taxes  | (38,812 )             | 6,567                    |
| Other non-cash expenses (income), net   | 1,884                 | (743 )                   |
| Changes in other assets and liabilities, net of acquisitions:                     |                       |                          |
| Restricted cash   | 28,481                | (465 )                   |
| Accounts receivable   | (4,182 )              | (8,524 )                 |
| Inventories   | 1,006                 | (3,535 )                 |
| Prepaid expenses and other current assets   | (3,089 )              | 1,026                    |
| Due to manager-related party  | 64,998                | 2                        |
| Accounts payable and accrued expenses   | 14,933                | (13,794 )                |
| Income taxes payable  | (17,633 )             | (819 )                   |
| Pension contribution  | (26,960 )             | (2,250 )                 |
| Other, net  | (7,970 )              | (168 )                   |

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|  |             |           |
|--|-------------|-----------|
| Net cash provided by operating activities                        | 194,363     | 127,760   |
| Investing activities   |             |           |
| Acquisitions of businesses and investments, net of cash acquired | (1,141,306) | (14,666 ) |
| Proceeds from sale of business, net of cash divested             | 265,295     |           |
| Return of investment in unconsolidated business                  | 12,564      |           |
| Purchases of property and equipment                              | (81,912 )   | (51,435 ) |
| Other, net   | (331 )      | 64        |
| Net cash used in investing activities                            | (945,690 )  | (66,037 ) |

*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)**

|  | Nine Months Ended        |                       |
|--|--------------------------|-----------------------|
|  | September<br>30,<br>2014 | September 30,<br>2013 |
| Financing activities   |                          |                       |
| Proceeds from long-term debt                                 | \$ 196,884               | \$ 481,917            |
| Dividends paid to shareholders                               | (171,003 )               | (82,139 )             |
| Proceeds from the issuance of shares                         | 764,750                  | 227,558               |
| Offering and equity raise costs paid                         | (25,588 )                | (11,041 )             |
| Proceeds from the issuance of convertible senior notes       | 350,000                  |                       |
| Proceeds from the issuance of shares pursuant to MIC Direct  | 187                      |                       |
| Contributions received from noncontrolling interests         |                          | 22,362                |
| Distributions paid to noncontrolling interests               | (61,397 )                | (1,652 )              |
| Payment of long-term debt                                    | (480,863 )               | (740,752 )            |
| Debt financing costs paid                                    | (15,124 )                | (18,973 )             |
| Change in restricted cash                                    | (991 )                   | 4,036                 |
| Payment of notes and capital lease obligations               | (1,481 )                 | (1,372 )              |
| Net cash provided by (used in) financing activities          | 555,374                  | (120,056 )            |
| Effect of exchange rate changes on cash and cash equivalents | (76 )                    |                       |
| Net change in cash and cash equivalents                      | (196,029 )               | (58,333 )             |
| Cash and cash equivalents, beginning of period               | 233,373                  | 141,376               |
| Cash and cash equivalents, end of period                     | \$ 37,344                | \$ 83,043             |
| Supplemental disclosures of cash flow information            |                          |                       |
| Non-cash investing and financing activities:                 |                          |                       |
| Accrued equity offering costs                                | \$ 12                    | \$                    |
| Accrued financing costs                                      | \$ 7                     | \$                    |
| Accrued purchases of property and equipment                  | \$ 10,585                | \$ 12,331             |
| Acquisition of equipment through capital leases              | \$ 732                   | \$ 1,320              |
| Issuance of shares to manager for performance fees           | \$ 4,960                 | \$ 90,302             |
| Issuance of shares to manager for base management fees       | \$ 30,555                | \$ 21,487             |
| Issuance of shares to independent directors                  | \$ 750                   | \$ 640                |
| Issuance of shares for acquisition of business               | \$ 115,000               | \$                    |
| Conversion of construction loan to term loan                 | \$ 60,360                | \$ 24,749             |
| Distributions payable to noncontrolling interests            | \$ 387                   | \$ 281                |
| Taxes paid   | \$ 17,955                | \$ 3,493              |

|               |           |           |
|---------------|-----------|-----------|
| Interest paid | \$ 45,399 | \$ 28,090 |
|---------------|-----------|-----------|

*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, comprising 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*** : 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, the Company completed the sale of its controlling interest in the district energy business.

## 2. Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the

rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP 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 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 GAAP for complete financial statements. Certain reclassifications were made to the financial statements for the prior period to conform to current period presentation.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**2. Basis of Presentation (continued)**

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. Operating results for the quarter and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or for any future interim periods.

**Use of Estimates**

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure related thereto at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited interim condensed consolidated financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from estimates.

**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. The Company has early adopted this guidance, which resulted in the district energy business not meeting the definition of a discontinued operation.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****3. Income per Share**

Following is a reconciliation of the basic and diluted income per share computations:

|   | Quarter Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|--------------------------------|------------|------------------------------------|------------|
|   | 2014                           | 2013       | 2014                               | 2013       |
| Numerator:  |                                |            |                                    |            |
| Net income attributable to MIC LLC                                      | \$990,993                      | \$10,407   | \$1,021,059                        | \$15,430   |
| Interest expense attributable to convertible senior notes, net of taxes | 1,169                          |            | 1,169                              |            |
| Diluted net income attributable to MIC LLC                              | \$992,162                      | \$10,407   | \$1,022,228                        | \$15,430   |
| Denominator:  |                                |            |                                    |            |
| Weighted average number of shares outstanding: basic                    | 68,005,171                     | 53,043,185 | 60,354,086                         | 50,525,617 |
| Dilutive effect of restricted stock unit grants                         | 12,525                         | 12,910     | 12,675                             | 15,896     |
| Dilutive effect of convertible senior notes                             | 3,499,801                      |            | 1,179,420                          |            |
| Weighted average number of shares outstanding: diluted                  | 71,517,497                     | 53,056,095 | 61,546,181                         | 50,541,513 |
| Income per share:   |                                |            |                                    |            |
| Basic income per share attributable to MIC LLC                          | \$14.57                        | \$0.20     | \$16.92                            | \$0.31     |
| Diluted income per share attributable to MIC LLC                        | \$13.87                        | \$0.20     | \$16.61                            | \$0.31     |

The effect of potentially dilutive shares for the quarter and nine months ended September 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, had been fully converted to shares on the grant date. In addition, the convertible senior notes that were issued on July 15, 2014 are assumed to have been fully converted into shares on that date. The effect of potentially dilutive shares for the nine months ended September 30, 2014 is calculated also 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, had been fully converted to shares on the grant date.

The effect of potentially dilutive shares for the quarter and nine months ended September 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, had been fully converted to shares on that grant date. The effect of potentially dilutive shares for the nine months ended September 30, 2013 is calculated also assuming that the 18,208 restricted stock unit grants provided to the independent 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.

## **4. Acquisitions and Disposition**

### **IMTT Acquisition ( IMTT Acquisition )**

On July 16, 2014, the Company completed the acquisition of the remaining 50% interest in IMTT for a purchase price of \$1.029 billion, consisting of \$913.6 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. Since the closing date, the Company has consolidated IMTT and the business is considered a reportable segment.

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

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.

The acquisition of the remaining 50% interest in IMTT requires that all assets and liabilities of IMTT be recorded at fair value including the Company's previous 50% ownership. This resulted in a pre-tax gain due to the remeasuring to fair value of the Company's previous 50% ownership. For the quarter ended September 30, 2014, the Company recorded a pre-tax gain of \$948.1 million in the consolidated condensed statements of operations. The preliminary allocation of the purchase price for the IMTT Acquisition was as follows (\$ in thousands):

|  |              |
|--|--------------|
| Cash and cash equivalents                            | \$ 26,094    |
| Accounts receivable                                  | 38,350       |
| Inventories  | 7,054        |
| Other current assets                                 | 43,664       |
| Total current assets                                 | 115,162      |
| Property, equipment, land and leasehold improvements | 2,415,716    |
| Intangible assets:                                   |              |
| Software <sup>(1)</sup>                              | 8,300        |
| Customer relationships <sup>(2)</sup>                | 203,200      |
| Goodwill <sup>(3)</sup>                              | 1,350,361    |
| Other noncurrent assets                              | 28,898       |
| Total assets acquired                                | \$ 4,121,637 |
| Accounts payable                                     | \$ 26,072    |
| Accrued expenses                                     | 48,512       |
| Current portion of long-term debt                    | 7,237        |
| Other current liabilities                            | 43,960       |
| Total current liabilities                            | 125,781      |
| Long-term debt, net of current portion               | 1,013,731    |
| Deferred income taxes                                | 813,183      |
| Other noncurrent liabilities                         | 100,595      |
| Total liabilities assumed                            | 2,053,290    |
| Noncontrolling interest                              | 14,723       |

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|  |              |
|--|--------------|
| Net assets acquired  | \$ 2,053,624 |
| Less: Write-off of equity method investment                          | (72,495 )    |
| Less: Write-off of accumulated other comprehensive loss              | (4,367 )     |
| Less: Gain on remeasuring the equity method investment to fair value | (948,138 )   |
| Net assets paid  | \$ 1,028,624 |

- (1) Software is being amortized over a five year period.
- (2) Customer relationships are being amortized over a weighted average life of twenty eight years.
- (3) Goodwill is not deductible for tax purposes.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 4. Acquisitions and Disposition (continued)

The preliminary fair value was determined using various valuation techniques, including the market approach, income approach and/or cost approach. The Company is still in the process of reviewing the valuation of the assets and liabilities acquired and expects such process to be substantially complete by December 31, 2014. For the nine months ended September 30, 2014, the Company incurred acquisition costs of approximately \$5.9 million in connection with the IMTT Acquisition which are included in selling, general, and administrative expense.

From January 1, 2014 through July 15, 2014, the results of IMTT have been accounted for under the equity method of accounting. The Company recorded equity in earnings and amortization charge of investee of \$1.1 million and \$26.1 million for the fifteen days ended July 15, 2014 and from January 1, 2014 through July 15, 2014, respectively. This comprises the Company's 50% share of IMTT's net income offset by step-up depreciation and amortization charges in connection with the initial 50% investment in IMTT in May of 2006. From July 16, 2014 through September 30, 2014, the Company consolidated the results of IMTT.

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.

|   | Quarter Ended |            | Nine Months Ended |              |
|---|---------------|------------|-------------------|--------------|
|   | September 30, |            | September 30,     |              |
|   | 2014          | 2013       | 2014              | 2013         |
| Revenues  | \$ 409,576    | \$ 390,166 | \$ 1,257,310      | \$ 1,164,245 |
| Net income attributable to MIC LLC <sup>(1)</sup> | 1,649         | 16,481     | 44,530            | 37,643       |

(1) The effective tax rate used to calculate net income attributable to MIC LLC was 44.99% and 39.12% for 2014 and 2013 periods, respectively.

#### 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.

### **Acquisitions 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 acquisitions have expanded the business network into Florida.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****4. Acquisitions and Disposition (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 | 29,328     |
| Intangible assets:                                   |            |
| Trade names <sup>(1)</sup>                           | 100        |
| Customer relationships <sup>(2)</sup>                | 900        |
| Contractual arrangements <sup>(3)</sup>              | 118,500    |
| Goodwill <sup>(4)</sup>                              | 82,463     |
| Total assets acquired                                | \$ 231,792 |
| Current liabilities                                  | \$ 1,792   |
| Total liabilities assumed                            | \$ 1,792   |
| 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 \$82.5 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 nine months ended September 30, 2014 and year ended December 31, 2013, Atlantic Aviation recorded transaction related costs of \$923,000 and \$680,000, respectively, in selling, general and administrative expenses for these investments.

**Contracted Power and Energy Acquisitions**

The contracted power generation businesses are held in LLCs with a co-investor. The taxable income for the Company's current five solar projects and its current wind project in New Mexico for the first five and nine years, respectively, of such projects are 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. These projects should have a nominal effect on MIC's consolidated current taxable income over these periods. The taxable income from the Company's 10% equity investment in a wind power generation facility located in Idaho will be allocated 1% till 2015, 95% from 2016 to 2027 and 1% thereafter to the co-investor. These solar and wind 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.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**4. Acquisitions and Disposition (continued)**

The Company has certain rights to make decisions over the management and operations of the five solar power generation facilities and the wind power generation facility located in New Mexico. The Company has determined that it is appropriate to consolidate these 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. During September of 2014, the Valley Center Project made a \$3.5 million distribution to MIC classified as a return of capital, reducing MIC's investment in the project to \$3.3 million. 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.

**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.

During September of 2014, the Ramona Project made a \$1.6 million distribution to MIC classified as a return of capital, reducing MIC's investment in the project to \$4.5 million. 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.

**Acquisition of Brahms Wind, New Mexico**

On July 3, 2014, the Company contributed \$10.1 million, as a capital investment, and completed the acquisition of the Brahms wind project ( Brahms Project ) for a purchase price of the same amount. The Company entered into an LLC agreement with a noncontrolling interest co-investor who made a capital contribution of \$23.0 million in May of 2014 prior to the Company's acquisition. The Brahms Project is a

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
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**(Unaudited)**

**4. Acquisitions and Disposition (continued)**

wind farm with 12 turbines located in New Mexico. There is no debt in place for the Brahms Project, and substantially all of the purchase price has preliminary been allocated to the turbines, which have a fair value of \$32.6 million, which is offset by an acquired noncontrolling interest of \$23.0 million. The project commenced operations during December of 2010 and is expected to generate approximately 20 megawatts of electricity.

The acquisition has been accounted for as a business combination. Accordingly, the results of operations of the Brahms Project are included in the consolidated condensed statement of operations since July 3, 2014.

**Acquisition of Equity Investment in Idaho Wind Partners, Idaho**

On August 1, 2014, the Company contributed \$11.5 million, as a capital investment, and completed the acquisition of 99% interest of Exergy Idaho Holdings through an LLC agreement with a co-investor. Exergy Idaho Holdings holds a 10% equity interest in the Idaho Wind Partners project ( IWP Project ). IWP Project is a wind power project comprised of 11 operating wind farms near Twin Falls, Idaho. The project has been in operation since February of 2011 and has a wind power generation capacity of 183 megawatts of electricity.

The Company accounts for its 10% equity interest in IWP Project under the equity method of accounting and has recorded its share of the investment in this project in investment in unconsolidated business on the consolidated condensed balance sheet and its 10% interest in income (loss) in the equity in earnings of investee on the consolidated condensed statement of operations since August 1, 2014. The portion related to the co-investor's interest in Exergy Idaho Holdings is reflected in noncontrolling interest in the consolidated condensed financial statements.

Had the Brahms Project acquisition and IWP Project investment occurred as of January 1, 2014 and 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 nine months ended September 30, 2014 and the year ended December 31, 2013, the Company recorded transaction related costs of \$1.8 million and \$2.2 million, respectively, in selling, general, and administrative expenses for these investments.

**Sale of 50.01% Interest in District Energy Business**

On August 21, 2014, the Company completed the previously disclosed sale of its 50.01% controlling interest in the district energy business, within Contracted Power and Energy, for approximately \$270.0 million. Proceeds of the sale were used to repay the outstanding debt balance. The remaining amounts were divided between the Company and its co-investor in the business. The Company's share of the remaining proceeds was \$59.6 million.

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

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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 September 30, 2014 and December 31, 2013 consist of the following (\$ in thousands):

|   | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
| Land  | \$ 271,500            | \$ 4,854             |
| Easements   | 131                   | 5,624                |
| Buildings   | 39,261                | 25,143               |
| Leasehold and land improvements                           | 430,825               | 357,903              |
| Machinery and equipment                                   | 2,594,001             | 674,839              |
| Furniture and fixtures                                    | 23,697                | 11,416               |
| Construction in progress                                  | 117,927               | 35,637               |
| Property held for future use                              |                       | 1,975                |
|   | 3,477,342             | 1,117,391            |
| Less: accumulated depreciation                            | (261,281 )            | (263,222 )           |
| Property, equipment, land and leasehold improvements, net | \$ 3,216,061          | \$ 854,169           |

As discussed in Note 4, Acquisitions and Disposition, the Company acquired \$2.4 billion and \$29.3 million in property, equipment, land and leasehold improvements from the IMTT Acquisition during the third quarter of 2014 and Galaxy Acquisitions during the second quarter of 2014, respectively. 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.

During the third quarter of 2014, the Company sold \$128.5 million, net in property, equipment, land and leasehold improvements in connection with the sale of the district energy business.

#### 6. Intangible Assets

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

|                          | September 30,<br>2014 | December 31,<br>2013 |
|--------------------------|-----------------------|----------------------|
| Contractual arrangements | \$ 863,476            | \$ 746,231           |

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|                                |            |            |
|--------------------------------|------------|------------|
| Non-compete agreements         | 9,665      | 9,665      |
| Customer relationships         | 269,906    | 80,255     |
| Leasehold rights               | 350        | 2,121      |
| Trade names                    | 15,771     | 15,671     |
| Technology                     | 8,760      | 460        |
|                                | 1,167,928  | 854,403    |
| Less: accumulated amortization | (277,815 ) | (261,553 ) |
| Intangible assets, net         | \$ 890,113 | \$ 592,850 |

As discussed in Note 4, Acquisitions and Disposition , the Company acquired \$211.5 million and \$119.5 million in intangible assets from the IMTT Acquisition during the third quarter of 2014 and Galaxy Acquisitions during the second quarter of 2014, respectively.

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

The goodwill balance as of September 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 related to acquisitions  | 1,432,672    |
| Less: goodwill associated with sold business                                       | (17,946 )    |
| Less: accumulated impairment charges   | (123,200 )   |
| Balance at September 30, 2014  | \$ 1,929,220 |

As discussed in Note 4, Acquisitions and Disposition, the Company recorded \$1.4 billion and \$82.5 million in goodwill from the IMTT Acquisition during the third quarter of 2014 and Galaxy Acquisitions during the second quarter of 2014, respectively.

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 nine months ended September 30, 2014.

**7. Long-Term Debt**

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

|                             | September 30,<br>2014 | December 31,<br>2013 |
|-----------------------------|-----------------------|----------------------|
| Hawaii Gas                  | \$ 180,000            | \$ 180,000           |
| IMTT                        | 797,908               |                      |
| Atlantic Aviation           | 613,005               | 517,773              |
| Contracted Power and Energy | 139,858               | 296,337              |
| MIC Corporate               | 350,000               |                      |
| Total                       | 2,080,771             | 994,110              |
| Less: current portion       | (19,954 )             | (163,083 )           |
| Long-term portion           | \$ 2,060,817          | \$ 831,027           |

## MIC Corporate

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 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 are convertible, at the holder's option, into the Company's shares, initially at a conversion rate of 11.7942 shares per \$1,000 principal amount (equivalent to an initial conversion price of approximately \$84.79 per share, subject to adjustment), at any time on or prior to the close of business on the second scheduled trading day immediately preceding the maturity date. The notes are the Company's unsecured obligations and rank equal in right of payment with all of the Company's existing and future senior unsecured indebtedness.

In July of 2014, the Company also 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% at September 30, 2014. This facility is guaranteed by MIC Inc. At September 30, 2014, the senior secured revolving credit facility remains undrawn.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

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

#### IMTT

As discussed in Note 4, Acquisitions and Disposition, on July 16, 2014, the Company acquired the remaining 50% interest of IMTT that it did not previously own. Prior to this transaction, the investment in IMTT was accounted for under the equity method of accounting. As of the closing date, IMTT became consolidated into the Company's consolidated condensed balance sheet. The \$1.0 billion of IMTT's debt as of the closing date was comprised of \$512.8 million tax-exempt bonds, \$486.0 million drawn on its revolving credit facilities and a \$22.2 million loan from its previous shareholder, the Coleman Trust. In addition, \$293.0 million of the revolving credit facility was used to back letters of credit. At September 30, 2014, the undrawn portion on the revolving credit facility was \$745.2 million.

#### Revolving Credit Facility

The revolving credit facilities have been used primarily to fund IMTT's growth capital expenditures in the U.S. and Canada. The revolving credit facilities are unsecured, except for a pledge of 65% share in IMTT's two Canadian affiliates. The terms of IMTT's U.S. dollar and Canadian dollar denominated revolving credit facilities at September 30, 2014 are summarized in the table below.

|  | USD Revolving Credit Facility          | CAD Revolving Credit Facility                                   |
|--|--|---|
| Total Committed Amount                   | \$1,252.5 million                      | \$50.0 million  |
| Amount outstanding at September 30, 2014 | \$258.0 million                        | \$6.3 million   |
| Maturity                                 | February 15, 2018                      | February 15, 2018   |
| Amortization                             | Revolving, payable at maturity         | Revolving, payable at maturity                                  |
| Interest Rate                            | LIBOR plus 2.00% at September 30, 2014 | Bankers' Acceptances (BA) Rate plus 2.00% at September 30, 2014 |
| Commitment Fees                          | 0.375% at September 30, 2014           | 0.375% at September 30, 2014                                    |

To partially hedge the interest rate risk associated with IMTT's current floating rate borrowings under the revolving credit agreement, IMTT entered into a 10 year fixed quarterly LIBOR swap, maturing in March of 2017, with a notional amount of \$200.0 million as of September 30, 2014, that fixes the floating rate at 5.507%.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

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

##### Gulf Opportunity Zone Bonds ( GO Zone Bonds )

The key terms of the GO Zone Bonds at September 30, 2014 are summarized in the table below:

| Facility Term                            | Gulf Opportunity Zone Bonds I   | Gulf Opportunity Zone Bonds II  | Gulf Opportunity Zone Bonds III                        | Gulf Opportunity Zone Bonds IV                         |
|--|---|---|--|--|
| Amount outstanding at September 30, 2014 | \$215.0 million   | \$85.0 million  | \$92.5 million   | \$83.2 million   |
| Maturity                                 | July 2043   | August 2046   | December 2040  | December 2040  |
| Amortization                             | Payable at maturity   | Payable at maturity   | Amortizes over life of bond, subject to tender in 2018 | Amortizes over life of bond, subject to tender in 2018 |
| Interest Rate                            | Floating at tax-exempt bond weekly tender rates   | Floating at tax-exempt bond weekly tender rates   | 68% of 30 day LIBOR plus 1.39% at September 30, 2014   | 68% of 30 day LIBOR plus 1.39% at September 30, 2014   |
| Security                                 | Secured (required to be supported at all times by bank letter of credit issued under the revolving credit facility) | Secured (required to be supported at all times by bank letter of credit issued under the revolving credit facility) | Unsecured  | Unsecured  |

To partially hedge the interest rate risk associated with IMTT's current floating rate borrowings under the Gulf Opportunity Zone Bonds, IMTT entered into a 10 year fixed quarterly LIBOR swap, maturing in June of 2017, with a notional amount of \$215.0 million as of September 30, 2014, that fixes the floating rate at 3.662%.

##### New Jersey Economic Development Authority Bonds ( NJEDA Bonds )

The key terms of the NJEDA Bonds issued are summarized in the table below:

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|  |   |   |
|--|---|---|
| Facility Term                            | New Jersey Economic Development Authority Dock Facility Revenue Refund Bonds  | New Jersey Economic Development Authority Variable-Rate Demand Revenue Refunding Bond                               |
| Amount outstanding at September 30, 2014 | \$30.0 million  | \$6.3 million   |
| Maturity                                 | December 2027   | December 2021   |
| Amortization                             | Payable at maturity   | Payable at maturity   |
| Interest Rate                            | Floating at tax-exempt bond daily tender rates  | Floating at tax-exempt bond daily tender rates  |
| Security                                 | Secured (required to be supported at all times by bank letter of credit issued under the revolving credit facility) | Secured (required to be supported at all times by bank letter of credit issued under the revolving credit facility) |

**Letter of Credit Facility**

IMTT entered into a letter of credit agreement, which will allow IMTT to write letters of credit without utilizing availability under its revolving credit facilities. The letter of credit facility has \$50.7 million of capacity which was fully utilized at September 30, 2014.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

The key terms of the Letter of Credit Facility are summarized in the table below:

|  |                           |
|--|---------------------------|
| Facility Term                                | Letter of Credit Facility |
| Total Committed Amount at September 30, 2014 | \$50.7 million            |
| Maturity                                     | December 4, 2014          |
| Fees   | 2.25%                     |

In addition to the debt facilities discussed above, IMTT Holdings Inc. received loans from its previous shareholders, other than MIC, from 2006 to 2008. The shareholder loans have a fixed interest rate of 5.5% and will be repaid over 15 years by IMTT Holdings Inc. with equal quarterly amortization that commenced March 31, 2008. Shareholder loans of \$21.6 million were outstanding as of September 30, 2014.

#### Atlantic Aviation

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 September 30, 2014, the outstanding balance on these term loan facilities totaled \$608.2 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 September 30, 2014.

Atlantic Aviation also has stand-alone debt facilities used to fund construction at its FBOs. At September 30, 2014, the balances on the stand-alone facilities were \$4.8 million. The Company has classified \$563,000 relating to the stand-alone debt facilities in the current portion of long-term debt in the consolidated condensed balance sheet at September 30, 2014.

#### Contracted Power and Energy

As discussed in Note 4, Acquisitions and Disposition, on August 21, 2014, the Company completed the previously disclosed sale of its district energy business, within CP&E. Proceeds of the sale were partially used to repay the business' entire outstanding debt facility of \$147.0 million prior to maturity in September of 2014.

At September 30, 2014, the contracted power generation businesses had \$139.9 million of amortizing term loan debt outstanding, of which \$6.0 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 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. The Brahms project acquired during July of 2014 does not have any debt outstanding at September 30, 2014.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 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 September 30, 2014, the Company had \$2.1 billion of current and long-term debt, \$1.1 billion of which was economically hedged with interest rate contracts and \$977.6 million of which was unhedged.

As of July 16, 2014, the Company consolidates the financial statements of IMTT. The interest rate on IMTT's borrowings under the tax-exempt bonds and the revolving credit facility floats at LIBOR plus a fixed margin. At September 30, 2014, IMTT has two interest rate swap contracts that fix the floating rates on these facilities. The interest rate swap related to the tax-exempt bond has a \$215.0 million notional value that expires in June of 2017 and fixes the floating rate at 3.662%. The interest rate swap related to the revolving credit facility has a \$200.0 million notional value that expires in March of 2017 and fixes the floating rate at 5.507%. The fair value of the interest rate swaps for current and non-current liabilities at the date of acquisition were \$17.2 million and \$25.6 million, respectively. The fair value of the interest rate swaps for current and non-current liabilities at September 30, 2014 were \$18.4 million and \$20.3 million, respectively. See Note 7, Long-Term Debt, for further discussions.

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



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(Unaudited)****8. Derivative Instruments and Hedging Activities (continued)**

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 September 30, 2014 and December 31, 2013 were as follows (\$ in thousands):

| Balance Sheet Location                   |                                       | Assets (Liabilities) at Fair Value <sup>(1)</sup> |                   |
|--|---------------------------------------|---|-------------------|
|  |                                       | September 30, 2014                                | December 31, 2013 |
|  | Interest Rate Contracts               |   |                   |
|  | Not Designated as Hedging Instruments |   |                   |
| Fair value of derivative instruments     | current asset <sup>(2)(3)</sup>       | \$ 50   | \$ 1              |
| Fair value of derivative instruments     | non-current asset <sup>(3)</sup>      | 2,882   | 6,880             |
| Total interest rate derivative contracts | asset <sup>(2)(3)</sup>               | \$ 2,932  | \$ 6,881          |
| Fair value of derivative instruments     | current liability <sup>(3)</sup>      | \$ (26,734 )                                      | \$ (13,027 )      |
| Fair value of derivative instruments     | non-current liability <sup>(3)</sup>  | (20,349 )   |                   |
| Total interest rate derivative contracts | liability <sup>(3)</sup>              | \$ (47,083 )                                      | \$ (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 at December 31, 2013.

(3) Derivative contracts represent interest rate swaps.

The Company's hedging activities for the quarters and nine months ended September 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  |                     |   |                     |
|--------------------------------------|--|---------------------|---|---------------------|
|                                      | Amount of Gain (Loss) Recognized in Interest Expense for the Quarter Ended September 30, |                     | Amount of Loss Recognized in Interest Expense for the Nine Months Ended September 30, |                     |
|                                      | 2014 <sup>(1)</sup>  | 2013 <sup>(2)</sup> | 2014 <sup>(1)</sup>   | 2013 <sup>(2)</sup> |
| Interest expense Interest rate cap   | \$   | \$ (38 )            | \$ (1 )   | \$ (91 )            |
| Interest expense Interest rate swaps | 820  | (7,998 )            | (13,130 )   | (9,492 )            |



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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 September 30, 2014, 996,441 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, the Company completed an underwritten public offering of 11,500,000 shares pursuant to the shelf. The net proceeds from the offering of \$739.9 million were used to partially fund the IMTT Acquisition discussed in Note 4, Acquisitions and Disposition , and for general corporate purposes.

**Accumulated Other Comprehensive Loss**

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

|  | Cash<br>Flow<br>Hedges,<br>net of<br>taxes <sup>(1)</sup> | Post-Retirement<br>Benefit<br>Plans,<br>net of<br>taxes <sup>(2)</sup> | Translation<br>Adjustment<br>net of<br>taxes <sup>(3)</sup> | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss, net of<br>taxes | Noncontrolling<br>Interests | Total<br>Members'<br>Accumulated<br>Other<br>Comprehensive<br>Loss, net of<br>taxes |
|--|---|--|---|---|-----------------------------|---|
| Balance at December 31, 2012   | \$(1,538)   | \$(20,466 )  | \$ 514  | \$(21,490 )   | \$ 689                      | \$(20,801 )   |
| Reclassification of realized<br>losses of derivatives into<br>earnings | 733   |  |   | 733   | (351 )                      | 382   |
| Balance at September 30, 2013  | \$(805 )  | \$(20,466 )  | \$ 514  | \$(20,757 )   | \$ 338                      | \$(20,419 )   |
| Balance at December 31, 2013   | \$(636 )  | \$(8,021 )   | \$(46 )   | \$(8,703 )  | \$ 258                      | \$(8,445 )  |
| Reclassification of realized<br>losses of derivatives into<br>earnings | 636   |  |   | 636   | (258 )                      | 378   |
| Change in post-retirement<br>benefit plan                              |   | 4,219  |   | 4,219   |                             | 4,219   |
| Translation adjustment   |   |  | (987 )  | (987 )  | 360                         | (627 )  |
| Balance at September 30, 2014  | \$  | \$(3,802 )   | \$(1,033 )  | \$(4,835 )  | \$ 360                      | \$(4,475 )  |

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

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

**9. Members Equity (continued)**

For the nine months ended September 30, 2014 and 2013, reclassification of realized losses of derivatives is composed of (i) pre-tax derivative losses into interest expense of \$856,000 and \$1.2 million, respectively, and the related tax benefit of \$340,000 and \$463,000, respectively, recorded in the consolidated condensed statements of operations; (ii) pre-tax derivative losses of \$185,000 and \$47,000, respectively, as an adjustment to investment in unconsolidated business, and an adjustment to deferred taxes of \$65,000 and \$16,000, respectively, recorded in the consolidated condensed balance sheet. For the quarter ended September 30, 2014, the Company wrote-off \$162,000 for the amount related to the investment in unconsolidated business and related taxes of \$57,000, previously accounted for under the equity method of accounting in conjunction to the IMTT Acquisition. This write-off is recorded in gain from acquisition/divestiture of businesses in the consolidated condensed statement of operations. See Note 4, *Acquisitions and Disposition* for further discussions.

Change in post-retirement benefit plans represents write-off of the remaining balance of \$6.5 million and the related taxes of \$2.3 million previously accounted for under the equity method of accounting during the third quarter of 2014 related to the IMTT Acquisition. This write-off is recorded in gain from acquisition/divestiture of businesses in the consolidated condensed statement of operations. See Note 4, *Acquisitions and Disposition* for further discussions.

Translation adjustment of \$1.4 million and its related taxes of \$405,000 for the nine months ended September 30, 2014 includes a write-off of the remaining balance of \$66,000 and the related taxes of \$23,000 previously accounted for under the equity method of accounting during the third quarter of 2014 related to the IMTT Acquisition. This write-off is recorded in gain from acquisition/divestiture of businesses in the consolidated condensed statement of operations. See Note 4, *Acquisitions and Disposition* for further discussions.

**10. Reportable Segments**

At September 30, 2014, the Company's businesses consist of four reportable segments: IMTT, Hawaii Gas, Atlantic Aviation and CP&E. Prior to July 16, 2014, the Company had a 50% investment in IMTT, which was accounted for under the equity method of accounting. Effective the acquisition date, the Company consolidates the financial results of IMTT and IMTT became a reportable segment.

Financial information for IMTT's business as a whole is presented below for periods prior to July 16, 2014, where the Company accounted for the investment in IMTT under the equity method of accounting (\$ in thousands):

| As of, and for the<br>Fifteen<br>Days | Quarter<br>Ended | As of, and for the<br>Period<br>From | Nine<br>Months |
|---------------------------------------|------------------|--------------------------------------|----------------|
|---------------------------------------|------------------|--------------------------------------|----------------|

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|  | Ended July<br>15,<br>2014 <sup>(1)</sup> | September<br>30,<br>2013 | January 1,<br>2014<br>through<br>July 15,<br>2014 <sup>(1)</sup> | Ended<br>September<br>30,<br>2013 |
|--|--|--------------------------|--|-----------------------------------|
| Revenue  | \$20,937                                 | \$126,447                | \$311,533  | \$383,753                         |
| Net income   | \$2,512                                  | \$19,559                 | \$57,496   | \$67,873                          |
| Interest expense, net  | 429                                      | 9,376                    | 16,375   | 17,099                            |
| Provision for income taxes                                   | 1,708                                    | 15,181                   | 38,265   | 48,894                            |
| Depreciation and amortization                                | 3,002                                    | 19,051                   | 40,922   | 56,109                            |
| Casualty losses, net   |  | 200                      |  | 6,700                             |
| Other non-cash expenses                                      | 865                                      | 253                      | 4,366  | 429                               |
| EBITDA excluding non-cash items <sup>(2)</sup>               | \$8,516                                  | \$63,620                 | \$157,424  | \$197,104                         |
| Capital expenditures paid                                    | \$5,975                                  | \$29,154                 | \$59,868   | \$119,652                         |
| Property, equipment, land and leasehold<br>improvements, net | 1,289,245                                | 1,256,643                | 1,289,245  | 1,256,643                         |
| Total assets   | 1,415,370                                | 1,349,708                | 1,415,370  | 1,349,708                         |

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

(1) Amounts represents financial position of IMTT business prior to July 16, 2014, the date of the IMTT Acquisition.

(2) 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 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 regions of the United States and partially owns 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. Revenue from the IMTT segment is included in service revenue.

The revenue from the Hawaii Gas segment is included in product revenues. 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 portion of revenues 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 delivery 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 September 30, 2014. Revenues from Atlantic Aviation are included in service revenue.

The Contracted Power and Energy business segment derives revenue from the contracted power generation and, through the date it was sold, the district energy businesses. Revenues from the contracted power generation businesses are included in product revenue. As of September 30, 2014, the Company has invested in five utility-scale solar photovoltaic power generation facilities and one wind power generation facility that are located in the southwest United States. The facilities that the Company consolidates have an aggregate generating capacity of 77 megawatts of wholesale electricity to utilities. The Company also has a 10% equity method investment in the IWP Project. This project has a generating capacity of 183 megawatts of electricity. Owners of these 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.

Selected information by segment is presented in the following tables. The tables include financial data of IMTT since July 16, 2014.

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

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

|                                      | Quarter Ended September 30, 2014 |            |                   |                             |                           |
|--------------------------------------|----------------------------------|------------|-------------------|-----------------------------|---------------------------|
|                                      | IMTT <sup>(1)</sup>              | Hawaii Gas | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Service revenue                      | \$ 110,983                       | \$         | \$ 197,980        | \$ 8,952                    | \$ 317,915                |
| Product revenue                      |                                  | 64,494     |                   | 5,850                       | 70,344                    |
| Financing and equipment lease income |                                  |            |                   | 379                         | 379                       |
| Total revenue                        | \$ 110,983                       | \$ 64,494  | \$ 197,980        | \$ 15,181                   | \$ 388,638                |

(1) Represents IMTT results subsequent to July 16, 2014, the date of the IMTT Acquisition.

|                                      | Quarter Ended September 30, 2013 |            |                   |                             |                           |
|--------------------------------------|----------------------------------|------------|-------------------|-----------------------------|---------------------------|
|                                      |                                  | Hawaii Gas | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Service revenue                      |                                  | \$         | \$ 183,198        | \$ 15,586                   | \$ 198,784                |
| Product revenue                      |                                  | 61,469     |                   | 2,649                       | 64,118                    |
| Financing and equipment lease income |                                  |            |                   | 817                         | 817                       |
| Total revenue                        |                                  | \$ 61,469  | \$ 183,198        | \$ 19,052                   | \$ 263,719                |

|                                      | Nine Months Ended September 30, 2014 |            |                   |                             |                           |
|--------------------------------------|--------------------------------------|------------|-------------------|-----------------------------|---------------------------|
|                                      | IMTT <sup>(1)</sup>                  | Hawaii Gas | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Service revenue                      | \$ 110,983                           | \$         | \$ 585,153        | \$ 29,487                   | \$ 725,623                |
| Product revenue                      |                                      | 202,979    |                   | 15,338                      | 218,317                   |
| Financing and equipment lease income |                                      |            |                   | 1,836                       | 1,836                     |
| Total revenue                        | \$ 110,983                           | \$ 202,979 | \$ 585,153        | \$ 46,661                   | \$ 945,776                |

- (1) Represents IMTT results subsequent to July 16, 2014, the date of the IMTT Acquisition.

|                                      | Nine Months Ended September 30, 2013 |                      |                                   |                                 |
|--------------------------------------|--------------------------------------|----------------------|-----------------------------------|---------------------------------|
|                                      | Hawaii<br>Gas                        | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy | Total<br>Reportable<br>Segments |
| Service revenue                      | \$                                   | \$ 541,840           | \$ 35,618                         | \$ 577,458                      |
| Product revenue                      | 193,088                              |                      | 7,167                             | 200,255                         |
| Financing and equipment lease income |                                      |                      | 2,779                             | 2,779                           |
| Total revenue                        | \$ 193,088                           | \$ 541,840           | \$ 45,564                         | \$ 780,492                      |

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, base management and performance fees, if any, 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

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

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 September 30, 2014 |               |                      |                                   |                                 |
|---|----------------------------------|---------------|----------------------|-----------------------------------|---------------------------------|
|   | IMTT <sup>(1)</sup>              | Hawaii<br>Gas | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy | Total<br>Reportable<br>Segments |
| Net income (loss)                       | \$ 13,726                        | \$ 5,249      | \$ 13,751            | \$ (572 )                         | \$ 32,154                       |
| Interest expense, net                   | 5,129                            | 1,589         | 4,689                | 2,422                             | 13,829                          |
| Provision for income taxes              | 7,823                            | 3,590         | 9,231                | 199                               | 20,843                          |
| Depreciation <sup>(2)</sup>             | 22,926                           | 1,997         | 7,203                | 4,795                             | 36,921                          |
| Amortization of intangibles             | 1,578                            | 311           | 9,290                | 190                               | 11,369                          |
| Loss on extinguishment of debt          |                                  |               |                      | 90                                | 90                              |
| Loss on disposal of assets              |                                  |               | 6                    |                                   | 6                               |
| Loss from customer contract termination |                                  |               |                      | 1,269                             | 1,269                           |
| Equity in loss of investee              |                                  |               |                      | 68                                | 68                              |
| Other non-cash expense (income)         | 1,654                            | 453           | 115                  | (915 )                            | 1,307                           |
| EBITDA excluding non-cash items         | \$ 52,836                        | \$ 13,189     | \$ 44,285            | \$ 7,546                          | \$ 117,856                      |

(1) Represents IMTT results subsequent to July 16, 2014, the date of the IMTT Acquisition.

Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment (2) prior to the Company's divestiture of the business on August 21, 2014, which was reported in cost of services in the consolidated condensed statements of operations.

|            | Quarter Ended September 30, 2013 |                      |                                   |                                 |  |
|------------|----------------------------------|----------------------|-----------------------------------|---------------------------------|--|
|            | Hawaii<br>Gas                    | Atlantic<br>Aviation | Contracted<br>Power and<br>Energy | Total<br>Reportable<br>Segments |  |
| Net income | \$ 4,827                         | \$ 7,569             | \$ 3,507                          | \$ 15,903                       |  |

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|                                 |           |           |          |           |
|---------------------------------|-----------|-----------|----------|-----------|
| Interest expense, net           | 2,097     | 11,481    | 2,172    | 15,750    |
| Provision for income taxes      | 3,191     | 5,185     | 1,557    | 9,933     |
| Depreciation <sup>(1)</sup>     | 1,849     | 6,094     | 3,716    | 11,659    |
| Amortization of intangibles     | 311       | 7,978     | 329      | 8,618     |
| Other non-cash expense (income) | 604       | (1 )      | (3,805 ) | (3,202 )  |
| EBITDA excluding non-cash items | \$ 12,879 | \$ 38,306 | \$ 7,476 | \$ 58,661 |

Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment (1) prior to the Company's divestiture of the business on August 21, 2014, which was 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)

|   | Nine Months Ended September 30, 2014 |            |                   |                             |                           |
|---|--------------------------------------|------------|-------------------|-----------------------------|---------------------------|
|   | IMTT <sup>(1)</sup>                  | Hawaii Gas | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Net income (loss)                       | \$ 13,726                            | \$ 17,738  | \$ 30,004         | \$ (833 )                   | \$ 60,635                 |
| Interest expense, net                   | 5,129                                | 5,267      | 27,606            | 7,757                       | 45,759                    |
| Provision for income taxes              | 7,823                                | 11,709     | 18,001            | 1,414                       | 38,947                    |
| Depreciation <sup>(2)</sup>             | 22,926                               | 5,926      | 20,794            | 15,268                      | 64,914                    |
| Amortization of intangibles             | 1,578                                | 935        | 26,239            | 838                         | 29,590                    |
| Loss on extinguishment of debt          |                                      |            |                   | 90                          | 90                        |
| Loss on disposal of assets              |                                      |            | 822               |                             | 822                       |
| Loss from customer contract termination |                                      |            |                   | 1,269                       | 1,269                     |
| Equity in loss of investee              |                                      |            |                   | 68                          | 68                        |
| Other non-cash expense (income)         | 1,654                                | 1,585      | 271               | (3,805 )                    | (295 )                    |
| EBITDA excluding non-cash items         | \$ 52,836                            | \$ 43,160  | \$ 123,737        | \$ 22,066                   | \$ 241,799                |

(1) Represents IMTT results subsequent to July 16, 2014, the date of the IMTT Acquisition.

Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment (2) prior to the Company's divestiture of the business on August 21, 2014, which was reported in cost of services in the consolidated condensed statements of operations.

|   | Nine Months Ended September 30, 2013 |                   |                             |                           |
|---|--------------------------------------|-------------------|-----------------------------|---------------------------|
|   | Hawaii Gas                           | Atlantic Aviation | Contracted Power and Energy | Total Reportable Segments |
| Net income                              | \$ 16,196                            | \$ 26,613         | \$ 3,805                    | \$ 46,614                 |
| Interest expense, net                   | 5,040                                | 20,206            | 5,914                       | 31,160                    |
| Provision for income taxes              | 10,669                               | 18,009            | 2,972                       | 31,650                    |
| Depreciation <sup>(1)</sup>             | 5,573                                | 17,983            | 10,195                      | 33,751                    |
| Amortization of intangibles             | 935                                  | 23,934            | 997                         | 25,866                    |
| 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                       |

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|                                 |           |            |           |            |
|---------------------------------|-----------|------------|-----------|------------|
| Other non-cash expense (income) | 1,592     | (116 )     | (6,142 )  | (4,666 )   |
| EBITDA excluding non-cash items | \$ 40,005 | \$ 109,169 | \$ 19,367 | \$ 168,541 |

Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment (1) prior to the Company's divestiture of the business on August 21, 2014, which was reported in cost of services in the consolidated condensed statements of operations.

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

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

|   | Quarter Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---|--------------------------------|-----------|------------------------------------|------------|
|   | 2014                           | 2013      | 2014                               | 2013       |
| Total reportable segments EBITDA excluding non-cash items | \$ 117,856                     | \$ 58,661 | \$ 241,799                         | \$ 168,541 |
| Interest income   | 10                             | 39        | 105                                | 182        |
| Interest expense  | (16,566 )                      | (15,767 ) | (48,522 )                          | (31,190 )  |
| Depreciation <sup>(1)</sup>                               | (36,921 )                      | (11,659 ) | (64,914 )                          | (33,751 )  |
| Amortization of intangibles                               | (11,369 )                      | (8,618 )  | (29,590 )                          | (25,866 )  |
| Loss on extinguishment of debt                            | (90 )                          |           | (90 )                              | (2,434 )   |
| Loss from customer contract termination                   | (1,269 )                       |           | (1,269 )                           | (1,626 )   |
| Loss on disposal of assets                                | (6 )                           |           | (822 )                             | (106 )     |
| Selling, general and administrative corporate             | (8,860 )                       | (1,278 )  | (12,139 )                          | (4,987 )   |
| Fees to manager   | (130,501 )                     | (15,242 ) | (153,990 )                         | (76,912 )  |
| Gain from acquisition/divestiture of businesses           | 1,027,054                      |           | 1,027,054                          |            |
| Equity in earnings and amortization charges of investees  | 993                            | 8,576     | 26,079                             | 30,327     |
| Other (expense) income, net                               | (2,119 )                       | (634 )    | (1,614 )                           | 1,070      |
| Total consolidated net income before income taxes         | \$ 938,212                     | \$ 14,078 | \$ 982,087                         | \$ 23,248  |

Depreciation includes depreciation expense for the district energy business, a component of the CP&E segment (1) prior to the Company's divestiture of the business on August 21, 2014, which was 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<br>September 30, |       | Nine Months Ended<br>September 30, |        |
|---------------------|--------------------------------|-------|------------------------------------|--------|
|                     | 2014                           | 2013  | 2014                               | 2013   |
| IMTT <sup>(1)</sup> | \$ 27,340                      | \$    | \$ 27,340                          | \$     |
| Hawaii Gas          | 4,372                          | 5,357 | 12,353                             | 15,402 |
| Atlantic Aviation   | 10,385                         | 5,511 | 27,057                             | 16,255 |

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|                             |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|
| Contracted Power and Energy | 3,762     | 2,116     | 15,162    | 19,778    |
| Total                       | \$ 45,859 | \$ 12,984 | \$ 81,912 | \$ 51,435 |

(1) Represents IMTT's capital expenditures subsequent to July 16, 2014, the date of the IMTT Acquisition. Property, equipment, land and leasehold improvements, goodwill and total assets for the Company's reportable segments as of September 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        |
|                             | \$   | \$        | \$          | \$        | \$           | \$          |
| IMTT                        | \$2,411,641  | \$        | \$1,350,361 | \$        | \$4,094,385  | \$          |
| Hawaii Gas                  | 194,562  | 178,954   | 120,193     | 120,193   | 383,098      | 380,933     |
| Atlantic Aviation           | 320,527  | 259,010   | 458,666     | 375,800   | 1,541,020    | 1,315,977   |
| Contracted Power and Energy | 289,331  | 339,103   |             | 17,946    | 336,651      | 430,421     |
| Total                       | \$3,216,061  | \$777,067 | \$1,929,220 | \$513,939 | \$6,355,154  | \$2,127,331 |

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

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

|                                       | As of September 30, |              |
|---------------------------------------|---------------------|--------------|
|                                       | 2014                | 2013         |
| Total assets of reportable segments   | \$ 6,355,154        | \$ 2,127,331 |
| Investment in unconsolidated business |                     | 86,554       |
| Corporate and other                   | 22,444              | 35,289       |
| Total consolidated assets             | \$ 6,377,598        | \$ 2,249,174 |

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

At September 30, 2014 and December 31, 2013, the Manager held 3,712,701 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      | Cash Paid to Manager (in thousands) |
|-------------------|---------------------|--------------|-------------------|-------------------|-------------------------------------|
| October 27, 2014  | Third quarter 2014  | \$0.98       | November 10, 2014 | November 13, 2014 | \$ (1)                              |
| July 3, 2014      | Second quarter 2014 | \$0.95       | August 11, 2014   | August 14, 2014   | \$ 3,402                            |
| 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                            |

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|                  |                     |          |                   |                   |          |
|------------------|---------------------|----------|-------------------|-------------------|----------|
| October 25, 2013 | Third quarter 2013  | \$0.875  | November 11, 2013 | November 14, 2013 | \$ 2,442 |
| July 29, 2013    | Second quarter 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 third quarter of 2014 will be determined on November 10, 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 seconds 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. For the quarter and nine months ended September 30, 2014, the Company recorded base management fees of \$13.9 million and \$32.4 million, respectively, and performance fees of \$116.6 million and \$121.5 million, respectively, payable to the Manager. Consistent with the Management Services Agreement, the Manager elected to reinvest these fees in additional shares of the Company.

However, for the third quarter of 2014, the Board requested, and the 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

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****11. Related Party Transactions (continued)**

reinvested in additional shares of MIC. For the quarter and nine months ended September 30, 2013, the Company incurred base management fees of \$8.3 million and \$23.5 million, respectively, and performance fees of \$6.9 million and \$53.4 million, respectively, payable to the Manager. Except for the portion of the third quarter of 2014 performance fee that was paid in cash in October of 2014, in all of the other periods listed below, the Manager elected to reinvest the base management and any 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 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<br>(\$ in thousands) | Performance Fee Amount<br>(\$ in thousands) | Shares Issued          |
|---------------------|---|---|------------------------|
| 2014 Activities:    |   |   |                        |
| Third quarter 2014  | \$ 13,915                                       | \$ 116,586                                  | 947,583 <sup>(1)</sup> |
| Second quarter 2014 | 9,535   | 4,960                                       | 243,329                |
| 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                |

In October of 2014, the Board requested, and the 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. The Company issued 947,583 <sup>(1)</sup> shares, of which 816,053 shares were issued in October of 2014 for the September of 2014 base management fee and the portion of the third quarter of 2014 performance fee. The Company also paid the cash portion of the performance fee to the Manager during October of 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 nine months ended September 30, 2014, the Manager charged the Company \$186,000 and \$394,000, respectively, for reimbursement of out-of-pocket expenses compared with \$137,000 and \$426,000, for the quarter and nine months ended September 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.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**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.

The district energy business credit facility was scheduled to 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. In August of 2014, the Company paid \$1.6 million to MCUSA for such services upon closing of the sale of district energy business. See Note 4, Acquisitions and Disposition, for further discussions.

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 (AA Credit Agreement). 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. 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.

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.

MIC engaged MCUSA in connection with its ongoing initiative to bring Liquefied Natural Gas to the state of Hawaii.

During the nine months ended September 30, 2013, Hawaii Gas incurred \$132,000, 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 nine months ended September 30, 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 September 30, 2014 and December 31, 2013, the revolving credit facility remained undrawn. For the quarter and nine months ended September 30, 2014,

Atlantic Aviation incurred \$27,000 and \$79,000, respectively, in commitment fees related to MBL's portion of the revolving credit facility. For the quarter and nine months ended September 30, 2013, Atlantic Aviation incurred \$18,000 and \$27,000, respectively, in such fees.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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. For the quarter and nine months ended September 30, 2014, the Company incurred \$29,000 in commitment fees related to MIHI LLC's portion of the revolving credit facility.

**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 nine months ended September 30, 2014 and 2013. In February of 2014, the Company renewed its Directors and Officers liability insurance utilizing several of the MIF insurers.

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 nine months ended September 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 nine months ended September 30, 2014, Atlantic Aviation incurred \$6,000 and \$18,000, respectively, in lease expense on these copiers as compared to \$6,000 and \$17,000 for the quarter and nine months ended September 30, 2013, respectively. As of September 30, 2014 and 2013, Atlantic Aviation had prepaid the October 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 nine months ended September 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 a federal consolidated taxable loss for the year ending December 31, 2014, which will increase the net operating loss carryforward. The Company believes that it will be able to utilize its federal prior year NOLs, except for approximately \$13.3 million, of which \$5.5 million was inherited in connection with the IMTT Acquisition. During the nine months ended September 30, 2014, the Company recorded an increase of approximately \$2.0 million to the valuation allowance attributable to certain state NOLs. On July 16, 2014, the Company acquired the remaining 50% interest in IMTT and therefore becomes part of the consolidated group. As such, any taxable income earned by IMTT for the short period ending December 31, 2014 will be offset by MIC's NOL carryforwards, and any losses by IMTT would be eligible to be added to MIC's NOL carryforwards. On August 21, 2014, the Company sold its interest in the district energy business. This resulted in a taxable gain of \$30.4 million, which was offset by the Company's NOLs.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**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.

The Bayonne, New Jersey terminal, portions of which have been acquired and aggregated over a 30 year period, contain pervasive remediation requirements that were assumed at the time of purchase from the various former owners. One former owner retained environmental remediation responsibilities for a purchased site as well as sharing other remediation costs. These remediation requirements are documented in two memoranda of agreement and an administrative consent order with the state of New Jersey. Remediation efforts entail removal of free product, soil treatment, repair/replacement of sewer systems, and the implementation of containment and monitoring systems. These remediation activities are estimated to span a period of ten to twenty or more years at a cost ranging from \$29.7 million to \$51.3 million. The remediation activities at the terminal is estimated based on currently available information, in undiscounted U.S. dollars and is inherently subject to relatively large fluctuation.

**14. Subsequent Events**

**Dividend**

On October 27, 2014, the Board of Directors declared a dividend of \$0.98 per share for the quarter ended September 30, 2014, which is expected to be paid on November 13, 2014 to holders of record on November 10, 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, other than those described in Note 13, Legal Proceedings and Contingencies, of the accompanying consolidated condensed financial statements..

#### **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**

**Failure to realize anticipated operational improvements from the IMTT acquisition could negatively impact our business; assumption of managerial control over IMTT will be time consuming; IMTT's business relationships may be adversely impacted by the change in ownership.**

We may be unable to timely and effectively integrate the entire IMTT business into our ongoing operations.

Integration and assumption of managerial control could be expensive and will be time consuming for our management. We also may not be able to achieve anticipated financial performance of the IMTT business within our expected time frames or at all. In addition, parties with which IMTT does business, including customers, suppliers and regulatory authorities, may experience uncertainty associated with our acquisition of IMTT. As a result, IMTT's business relationships may be adversely impacted if these parties attempt to negotiate changes in existing business arrangements, which could have an adverse effect on our financial condition and results of operations. In addition, discovery of previously undisclosed or unknown liabilities at IMTT could be material and could adversely affect the Company's business, operating results and financial condition.

**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

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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.

**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, IMTT currently has \$1.3 billion senior unsecured revolving credit facility in place. 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

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

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.

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**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 had a non-controlling interest in IMTT from 2006 until July 16, 2014. Our co-investor had primary responsibility for the day to day operations of the business during that time. As such, we relied on the financial reporting of our co-investor, and related reviews conducted by independent auditors, with respect to the performance of the business for that period. To the extent such 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.

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**

During the three months ended September 30, 2014, there were no unregistered sales of equity securities, other than those described in the Company s Current Report on Form 8-K filed on July 18, 2014, which description is incorporated herein by reference.

## **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: October 29, 2014

/s/ James Hooke

Name: James Hooke  
Title: Chief Executive Officer  
By:

Dated: October 29, 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 September 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))   |
| 4.1     | Indenture – Senior Debt Securities, dated as of July 15, 2014, by and between Macquarie Infrastructure Company LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 18, 2014)   |
| 4.2     | First Supplemental Indenture – 2.875% Convertible Senior Notes due 2019, dated as of July 15, 2014, by and between Macquarie Infrastructure Company LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on July 18, 2014)  |
| 10.1    | Registration Rights Agreement, dated July 7, 2014, by and between Macquarie Infrastructure Company LLC and The Voting Trust of IMTT Holdings Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 7, 2014)   |
| 10.2*** | Credit Agreement, dated as of July 7, 2014, by and among Macquarie Infrastructure Company LLC, Macquarie Infrastructure Company Inc., JPMorgan Chase Bank, N.A. and the lenders party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 7, 2014)   |
| 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 September 30, 2014, filed on October 29, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets as of September 30, 2014 (Unaudited) and December 31, 2013, (ii) the Consolidated Condensed Statements of Operations for the quarters and nine months ended September 30, 2014 and 2013 (Unaudited), (iii) the Consolidated Condensed Statements of Comprehensive Income for the quarters and nine months ended September 30, 2014 and 2013 (Unaudited), (iv) the Consolidated Condensed Statements of Cash Flows for the nine months ended September 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.

