

Macquarie Infrastructure CO LLC  
Form 10-Q  
August 03, 2011

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

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended June 30, 2011**

**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 46,028,258 limited liability company interests without par value outstanding at August 2, 2011.



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<p><b>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.</b></p>	

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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 operation of Macquarie Infrastructure Company LLC ( the Company or MIC ) should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein.

We own, operate and invest in a diversified group of infrastructure businesses that provide basic services, such as chilled water for building cooling and gas utility services to businesses and individuals primarily in the U.S. The businesses we own and operate are energy-related businesses consisting of: a 50% interest in International Matex Tank Terminals, or IMTT, The Gas Company and our controlling interest in District Energy; and an aviation-related business, Atlantic Aviation.

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

**Dividends**

On August 1, 2011, our board of directors declared a dividend of \$0.20 per share for the quarter ended June 30, 2011, which will be paid on August 18, 2011 to holders of record on August 15, 2011. On May 18, 2011, we paid a dividend of \$0.20 per share for the quarter ended March 31, 2011.

The precise timing and amount of any future dividend will be based on the continued stable performance of the Company's businesses and the economic conditions prevailing at the time of any authorization.

**Tax Treatment of Distributions**

We believe that dividends paid in 2011 are likely to be characterized in part as a dividend and in part as a return of capital for tax purposes. Shareholders would include in their taxable income that portion which is characterized as a dividend. We anticipate that any portion that is characterized as a dividend for U.S. federal income tax purposes will be eligible for treatment as qualified dividend income, subject to the shareholder having met the holding period requirements as defined by the Internal Revenue Service. Any portion that is characterized as a return of capital for tax purposes would not be includable in the shareholder's taxable income but would reduce the shareholder's basis in the shares on which the dividend was paid.

## **Arbitration Proceeding Between MIC and Co-investor in IMTT**

MIC has been unable to resolve the previously-disclosed dispute with the co-owner of IMTT regarding distributions, despite efforts to do so in accordance with the Shareholders' Agreement. Accordingly, on April 18, 2011, MIC initiated formal arbitration proceedings with the Voting Trust of IMTT Holdings Inc. ( "Voting Trust" ) and IMTT Holdings Inc. under the auspices of the American Arbitration Association, as provided under the Shareholders' Agreement. MIC believes the Voting Trust's defenses and claims in the arbitration are wholly without merit. We expect this process to be completed in the first quarter of 2012.

IMTT is named as a respondent because under the Shareholders' Agreement it is responsible for any monetary damages resulting from a breach of the Shareholders' Agreement by the Voting Trust. MIC is seeking payment of distributions due for the quarters ended December 31, 2010, March 31, 2011, June 30, 2011, an order covering future periods and other non-monetary relief that is designed to minimize the risk of future disputes. MIC has become concerned that, until the issues in the arbitration have been finally resolved, IMTT's senior management (which includes members and beneficiaries of the Voting Trust) may make operational decisions that are influenced by the context of the arbitration. We expect that this will be resolved through the arbitration.

Contingent upon the favorable outcome of the arbitration, and the continued stable performance of our businesses, and subject to prevailing economic conditions, our board of directors expect to increase our quarterly dividend.

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### **Continuing Operations**

Our energy-related businesses were largely resistant to the recent economic downturn, primarily due to the contracted or utility-like nature of their revenues combined with the essential services they provide and the contractual or regulatory ability to pass through most cost increases to customers. We believe these businesses are generally able to generate consistent cash flows throughout the business cycle.

Improvement in general aviation activity levels have resulted in improvement in the operating performance of Atlantic Aviation. We will continue to apply excess cash flow generated by Atlantic Aviation to the reduction of that business term loan principal, in accordance with the terms of its debt facility. Those repayments are expected to enhance the terms on which we may be able to refinance this debt when it matures in 2014.

### **Disposal of Assets at Atlantic Aviation**

During the quarter ended June 30, 2011, Atlantic Aviation concluded that several of its sites did not have sufficient scale or serve a market with sufficiently strong growth prospects to warrant continued operations at these sites. Atlantic Aviation has sold certain FBOs and is reinvesting proceeds into markets which it views as having better growth profiles. Accordingly, Atlantic Aviation recorded a \$1.2 million non-cash loss on disposal of assets.

### **Additions of FBOs at Atlantic Aviation**

On June 21, 2011, Atlantic Aviation opened its newest facility at Will Rogers Airport in Oklahoma City. On July 13, 2011, Atlantic Aviation entered into an asset purchase agreement for FBOs at the Portland International and Eugene airports in Oregon. This acquisition will expand the business network into the Pacific Northwest and follows the successful sale of smaller FBOs during the quarter and six months ended June 30, 2011. The transaction reflects reinvestment of proceeds from these sales. Subject to the satisfaction of the conditions precedent in the purchase agreement, including consent of the relevant airport authorities, Atlantic Aviation expects to close the transaction in August.

### **Income Taxes**

We file a consolidated federal income tax return that includes the taxable income of The Gas Company and Atlantic Aviation. IMTT and District Energy file separate federal income tax returns. To the extent we receive distributions from IMTT and District Energy, the distribution may be characterized as non-taxable returns of capital, and reduce our tax basis in these companies, or as a taxable dividend. We will include in our taxable income the taxable portion of any distributions from IMTT and District Energy characterized as a dividend. Those dividends are eligible for the 80% dividend received deduction.

As a result of having federal net operating loss, or NOL, carryforwards, we do not expect to have consolidated regular federal taxable income or regular federal tax payments at least through the 2013 tax year. However, we expect to pay an Alternative Minimum Tax of approximately \$409,000 for 2011. The cash state and local taxes paid by our individual businesses are discussed in the sections entitled Income Taxes for each of our individual businesses.

### **Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010**

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act) was signed. The Act provides for 100% bonus depreciation for certain fixed assets placed in service after September 8,

2010 and before January 1, 2012, and 50% bonus depreciation for certain fixed assets placed in service during 2012 for federal income tax purposes. Generally, states do not allow this bonus depreciation deduction in determining state taxable income. Importantly, Illinois and Louisiana, two states in which we have significant operations, do permit the use of bonus depreciation in calculating state taxable income. The Company will take into consideration the benefits of these accelerated depreciation provisions of the Act when evaluating our capital expenditure plans for the remainder of 2011 and 2012.



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### **Taxpayer Accountability and Budget Stabilization Act**

In January 2011, Illinois enacted the Taxpayer Accountability and Budget Stabilization Act. The legislation increases the corporate income tax rate to 7.0% from 4.8% for taxable years beginning on or after January 1, 2011 and prior to January 1, 2015; 5.25% for taxable years beginning on or after January 1, 2015 and prior to January 1, 2025; and 4.8% for taxable years beginning on or after January 1, 2025. The legislation also provides that no NOL carryforwards deduction will be allowed for any taxable year ending after December 31, 2010 and prior to December 31, 2014. For purposes of determining the taxable years to which a net loss may be carried, no taxable year for which a deduction is disallowed under this provision will be counted. As discussed below in District Energy's Results of Operations, the income tax expense for the six months ended June 30, 2011, reflects a change in the deferred tax liability of this business to reflect the change in Illinois law.

### **Discontinued Operations**

On June 2, 2010, we concluded the sale in bankruptcy of an airport parking business ( Parking Company of America Airports or PCAA ), resulting in a pre-tax gain of \$130.3 million, of which \$76.5 million related to the forgiveness of debt and the elimination of \$201.0 million of current debt from liabilities from our consolidated condensed balance sheet. The results of operations from this business and the gain from the bankruptcy sale are separately reported as discontinued operations in the Company's consolidated condensed financial statements. This business is no longer a reportable segment. As a part of the bankruptcy sale process, substantially all of the cash proceeds were used to pay the creditors of this business and were not paid to us. See Note 4, Discontinued Operations, in our consolidated condensed financial statements in Part I of this Form 10-Q for financial information and further discussions.

## **Results of Operations**

### **Consolidated**

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

consistent performance of our energy-related businesses reflecting:  
increase in average storage rates at IMTT; and  
increase in contribution margin at The Gas Company; partially offset by  
decrease in revenue and gross profit from IMTT spill response activity; and  
higher terminalling costs at IMTT.  
improved contribution from Atlantic Aviation reflecting:  
higher general aviation fuel volumes and margins; and  
lower cash interest payment.

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

Our consolidated results of operations are as follows:

	Quarter Ended June 30, 2011		Change Favorable/(Unfavorable) \$ %		Six Months Ended June 2011		Change Favorable/(Unfavorable) \$ %	
	2010				2010			
	(\$ In Thousands) (Unaudited)							
Revenue								
Revenue from product sales	\$ 161,582	\$ 125,177	36,405	29.1	\$ 314,646	\$ 245,195	69,451	28.3
Revenue from product sales utility	36,421	28,450	7,971	28.0	70,694	55,285	15,409	27.9
Service revenue	47,923	49,794	(1,871 )	(3.8 )	99,170	103,000	(3,830 )	(3.7 )
Financing and equipment lease income	1,261	1,271	(10 )	(0.8 )	2,548	2,516	32	1.3
Total revenue	247,187	204,692	42,495	20.8	487,058	405,996	81,062	20.0
Costs and expenses								
Cost of product sales	113,226	79,887	(33,339)	(41.7 )	218,551	156,941	(61,610)	(39.3 )
Cost of product sales utility	30,772	23,151	(7,621 )	(32.9 )	57,637	44,464	(13,173)	(29.6 )
Cost of services	12,690	13,318	628	4.7	24,844	24,463	(381 )	(1.6 )
Gross profit	90,499	88,336	2,163	2.4	186,026	180,128	5,898	3.3
Selling, general and administrative	48,309	49,522	1,213	2.4	99,979	100,256	277	0.3
Fees to manager related party	4,156	2,268	(1,888 )	(83.2 )	7,788	4,457	(3,331 )	(74.7 )
Depreciation	8,623	7,202	(1,421 )	(19.7 )	15,833	14,924	(909 )	(6.1 )
Amortization of intangibles	16,044	8,740	(7,304 )	(83.6 )	24,763	17,411	(7,352 )	(42.2 )
Loss on disposal of assets	1,225		(1,225 )	NM	1,225		(1,225 )	NM
Total operating expenses	78,357	67,732	(10,625)	(15.7 )	149,588	137,048	(12,540)	(9.2 )
Operating income	12,142	20,604	(8,462 )	(41.1 )	36,438	43,080	(6,642 )	(15.4 )
Other income (expense)								
Interest income	97	4	93	NM	101	20	81	NM
Interest expense <sup>(1)</sup>	(19,866 )	(38,974 )	19,108	49.0	(34,335 )	(73,661 )	39,326	53.4
Equity in earnings and amortization charges of investees	3,270	5,774	(2,504 )	(43.4 )	11,632	11,367	265	2.3
Other expense, net	(46 )	(496 )	450	90.7	(395 )	(448 )	53	11.8
Net (loss) income from continuing operations before income taxes	(4,403 )	(13,088 )	8,685	66.4	13,441	(19,642 )	33,083	168.4
Benefit (provision) for income taxes	488	13,488	(13,000)	(96.4 )	(6,498 )	14,577	(21,075)	(144.6)
Net (loss) income from continuing operations	\$(3,915 )	\$400	(4,315 )	NM	\$6,943	\$(5,065 )	12,008	NM
Net income from discontinued operations, net of taxes		85,212	(85,212)	(100.0)		81,199	(81,199)	(100.0)
Net (loss) income	\$(3,915 )	\$85,612	(89,527)	(104.6)	\$6,943	\$76,134	(69,191)	(90.9 )
Less: net loss attributable to noncontrolling interests	(1,425 )	(238 )	1,187	NM	(1,732 )	(1,351 )	381	28.2
Net (loss) income attributable to MIC LLC	\$(2,490 )	\$85,850	(88,340)	(102.9)	\$8,675	\$77,485	(68,810)	(88.8 )

NM Not meaningful

(1) Interest expense includes non-cash losses on derivative instruments of \$545,000 and non-cash gains on derivatives of \$5.0 million for the quarter and six months ended June 30, 2011, respectively. For the quarter and six months ended June 30, 2010, interest expense includes non-cash losses on derivative instruments of \$20.5 million and \$31.7 million, respectively.

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

**Gross Profit**

Consolidated gross profit increased reflecting improved results for fuel-related services at Atlantic Aviation and The Gas Company, partially offset by non-fuel related services at Atlantic Aviation.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses decreased at Atlantic Aviation and at The Gas Company. Selling, general and administrative expenses at Atlantic Aviation decreased primarily due to lower rent expense resulting from the sale of non-core FBOs, partially offset by higher motor fuel costs and higher weather-related expense in the first quarter of 2011. Selling, general and administrative expenses at The Gas Company decreased primarily due to increased allocation of labor costs to capital projects, partially offset by higher professional fees.

**Fees to Manager**

Base management fees to our Manager increased in line with our increased market capitalization. Our Manager elected to reinvest its first quarter 2011 base management fee of \$3.6 million in additional LLC interests and 144,742 LLC interests were issued to our Manager on June 6, 2011. Our Manager has elected to reinvest its second quarter 2011 base management fee of \$4.2 million in additional LLC interests. These LLC interests will be issued during the third quarter of 2011.

Our Manager elected to reinvest its first quarter 2010 base management fees of \$2.2 million in additional LLC interests and 155,375 LLC interests were issued to our Manager on June 11, 2010. The base management fee in the amount of \$2.3 million for the second quarter of 2010 was paid in cash to our Manager during the third quarter of 2010.

**Depreciation**

The increase in depreciation primarily reflects the non-cash asset impairment charge of \$1.4 million recorded at Atlantic Aviation during the quarter ended June 30, 2011. The impairment charge resulted from adverse conditions specific to three small locations.

**Amortization of Intangibles**

The increase in amortization of intangibles expense reflects the non-cash impairment charge of \$7.3 million recorded at Atlantic Aviation during the quarter ended June 30, 2011. The impairment charge resulted from adverse conditions specific to three small locations.

**Loss on disposal of assets**

During the quarter ended June 30, 2011, Atlantic Aviation concluded that several of its sites did not have sufficient scale or serve a market with sufficiently strong growth prospects to warrant continued operations at these sites. Atlantic Aviation has sold certain FBOs and is reinvesting proceeds into markets which it views as having better growth profiles. Accordingly, Atlantic Aviation recorded a \$1.2 million non-cash loss on disposal of assets.

**Interest Expense and (Losses) Gains on Derivative Instruments**

Interest expense includes non-cash losses on derivative instruments of \$545,000 and non-cash gains on derivative instruments of \$5.0 million for the quarter and six months ended June 30, 2011, respectively, and non-cash losses on derivative instruments of \$20.5 million and \$31.7 million for the quarter and six months ended June 30, 2010, respectively. The change in the non-cash (losses) gains on derivatives recorded in interest expense is attributable to the change in fair value of interest rate swaps and includes the reclassification of amounts from accumulated other comprehensive loss into earnings. Excluding the portion related to non-cash (losses) gains on derivatives, interest expense decreased primarily due to lower principal balance at Atlantic Aviation, partially offset by the expiration of an interest rate basis swap agreement in March 2010 at each of the consolidated operating businesses.

TABLE OF CONTENTS**Results of Operations: *Consolidated* (continued)****Equity in Earnings and Amortization Charges of Investees**

The decrease in equity in the earnings of IMTT, predominantly in the quarter ended June 30, 2011, primarily reflects our share of the decrease in operating results of the business, partially offset by lower non-cash derivative losses compared with 2010.

**Income Taxes**

For 2011, we expect that any consolidated taxable income we report will be fully offset by our NOL carryforwards. For 2011, we expect to pay a federal Alternative Minimum Tax of approximately \$409,000.

As we own less than 80% of IMTT and District Energy, these businesses are not included in our consolidated federal tax return. These businesses file separate consolidated income tax returns, and we include 20% of any dividends received from IMTT and District Energy in our consolidated income tax return. Further, we expect that any dividends from IMTT and District Energy in 2011 will be treated as taxable dividends and qualify for the 80% Dividends Received Deduction (DRD).

The following table reconciles our net income from continuing operations before income taxes and noncontrolling interests to our federal taxable income for the six months ended June 30, 2011 (\$ in thousands):

Net income from continuing operations before income taxes and noncontrolling interests	\$ 13,441
Adjustments for less than 80% owned businesses	(398 )
State income taxes	(2,100 )
Other adjustments	1,623
Federal book taxable income for the six months ended June 30, 2011	\$ 12,566
Accordingly, our tax expense for the six months ended June 30, 2011 is as follows:	
Federal tax at 35% of the taxable income	\$ 4,398
State income tax expense	2,100
Total tax provision	\$ 6,498

Valuation allowance:

As discussed in Note 17, *Income Taxes* in our consolidated financial statements, in Part II, Item 8 of our Form 10-K for 2010, from the date of sale of the noncontrolling interest in District Energy and onwards, we evaluate the need for a valuation allowance against our deferred tax assets without taking into consideration the deferred tax liabilities of District Energy. As of December 31, 2010, our valuation allowance was approximately \$9.2 million. In calculating our consolidated income tax provision for the six months ended June 30, 2011, we did not provide for an increase in the valuation allowance.

During the six months ended June 30, 2010, we reduced the valuation allowance by approximately \$2.6 million. This decrease was recorded as part of the benefit for income taxes included in continuing operations on the consolidated condensed statements of operations.

### **Discontinued Operations**

On June 2, 2010, we concluded the sale in bankruptcy of PCAA, resulting in a pre-tax gain of \$130.3 million, of which \$76.5 million related to the forgiveness of debt. The results of operations from this business and the gain from the bankruptcy sale are separately reported as discontinued operations in our consolidated condensed financial statements. See Note 4, **Discontinued Operations**, in our consolidated condensed financial statements in Part I of this Form 10-Q for financial information and further discussions.

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

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

In accordance with GAAP, we have disclosed EBITDA excluding non-cash items for our Company and each of our operating segments in Note 11, 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 noncash items, which includes impairments, derivative gains and losses and adjustments for other non-cash items reflected in the statements of operations. We believe EBITDA excluding non-cash items provides additional insight into the performance of our operating businesses relative to each other and similar businesses without regard to their capital structure, and their ability to service or reduce debt, fund capital expenditures and/or support distributions to the holding company.

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, less maintenance capital expenditures and changes in working capital. Working capital movements are excluded on the basis that these are largely timing differences in payables and receivables, and are therefore not reflective of our ability to generate cash.

We believe that reporting Free Cash Flow will provide our investors with additional insight into our future 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 for our consolidated results 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, pay dividends 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 (loss) income attributable to MIC LLC from continuing operations to EBITDA excluding non-cash items and EBITDA excluding non-cash items to Free Cash Flow from continuing operations, on a consolidated basis, is provided below:

	Quarter Ended June 30,		Change Favorable/(Unfavorable)		Six Months Ended June 30,		Change Favorable/(Unfavorable)	
	2011	2010	\$	%	2011	2010	\$	%
	(\$ In Thousands) (Unaudited)							
Net (loss) income attributable to MIC LLC from continuing operations <sup>(1)</sup>	\$(2,490 )	\$940			\$8,675	\$(3,578 )		
Interest expense, net <sup>(2)</sup>	19,769	38,970			34,234	73,641		
(Benefit) provision for income taxes	(488 )	(13,488 )			6,498	(14,577 )		
Depreciation <sup>(3)</sup>	8,623	7,202			15,833	14,924		
Depreciation cost of service <sup>(3)</sup>	1,658	1,636			3,305	3,271		
Amortization of intangibles <sup>(4)</sup>	16,044	8,740			24,763	17,411		
Loss on disposal of assets	1,153				1,153			
Equity in earnings and amortization charges of investees <sup>(5)</sup>	(3,270 )	(5,774 )			(11,632 )	(6,367 )		
Base management fees settled/to be settled in LLC interests	4,156				7,788	2,189		
Other non-cash (income) expense, net	(759 )	(671 )			(313 )	770		
EBITDA excluding non-cash items from continuing operations	\$44,396	\$37,555	6,841	18.2	\$90,304	\$87,684	2,620	3.0
EBITDA excluding non-cash items from continuing operations	\$44,396	\$37,555			\$90,304	\$87,684		
Interest expense, net <sup>(2)</sup>	(19,769 )	(38,970 )			(34,234 )	(73,641 )		
Interest rate swap breakage fees <sup>(2)</sup>	(627 )	(695 )			(1,732 )	(3,205 )		
Non-cash derivative losses (gains) recorded in interest expense <sup>(2)</sup>	1,172	21,243			(3,233 )	34,879		
Amortization of debt financing costs <sup>(2)</sup>	1,030	955			2,060	2,256		
Equipment lease receivables, net	753	739			1,493	1,451		
Provision for income taxes, net of changes in deferred taxes	(196 )	(591 )			(1,128 )	(1,469 )		
Changes in working capital	(7,014 )	(9,396 )			(12,243 )	(6,309 )		
Cash provided by operating activities	19,745	10,840			41,287	41,646		
Changes in working capital	7,014	9,396			12,243	6,309		
Maintenance capital expenditures	(3,912 )	(2,002 )			(7,074 )	(3,749 )		
Free cash flow from continuing operations	\$22,847	\$18,234	4,613	25.3	\$46,456	\$44,206	2,250	5.1

Net (loss) income attributable to MIC LLC from continuing operations excludes net loss attributable to

- (1) noncontrolling interests of \$1.4 million and \$1.7 million for the quarter and six months ended June 30, 2011, respectively, and net loss attributable to noncontrolling interests of \$540,000 and \$1.487 million for the quarter and six months ended June 30, 2010, respectively.

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

- (2) Interest expense, net, includes non-cash (losses) gains on derivative instruments, non-cash amortization of deferred financing fees and interest rate swap breakage fees.

- (3) Depreciation cost of services includes depreciation expense for District Energy, 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 depreciation expense of \$1.9 million and \$3.6 million for the quarter and six months ended June 30, 2011, respectively, and \$1.7 million and \$3.4 million for the quarter and six months ended June 30, 2010, respectively, in connection with our investment in IMTT, which is reported in equity in earnings and amortization charges of investees in our consolidated condensed statements of operations.

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

Amortization of intangibles does not include acquisition-related step-up amortization expense of \$151,000 and \$435,000 for the quarter and six months ended June 30, 2011, respectively, and \$283,000 and \$567,000 for the (4) quarter and six months ended June 30, 2010, respectively, in connection with our investment in IMTT, which is reported in equity in earnings and amortization charges of investees in our consolidated condensed statements of operations.

(5) Equity in earnings and amortization charges of investees in the above table includes our 50% share of IMTT's earnings, offset by distributions we received only up to our share of the earnings recorded.

**Energy-Related Businesses**

**IMTT**

We account for our 50% interest in IMTT under the equity method. To enable meaningful analysis of IMTT's performance across periods, IMTT's overall performance is discussed below, rather than IMTT's contribution to our consolidated results.

**Key Factors Affecting Operating Results:**

terminal revenue and terminal gross profit increased principally due to increase in average tank rental rates; partially offset by

increased terminal costs, predominantly in the second quarter of 2011; and environmental response service revenue and gross profit decreased principally due to a lower level of spill response activity.

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TABLE OF CONTENTS**Energy-Related Business: *IMTT* (continued)**

	Quarter Ended June 30,				Six Months Ended June 30,			
	2011	2010	Change		2011	2010	Change	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Revenue								
Terminal revenue	101,436	90,743	10,693	11.8	207,451	186,297	21,154	11.4
Environmental response revenue	5,514	67,492	(61,978)	(91.8 )	10,330	78,976	(68,646)	(86.9 )
Total revenue	106,950	158,235	(51,285)	(32.4 )	217,781	265,273	(47,492)	(17.9 )
Costs and expenses								
Terminal operating costs	48,121	39,934	(8,187 )	(20.5 )	94,170	82,546	(11,624)	(14.1 )
Environmental response operating costs	4,012	41,271	37,259	90.3	8,743	49,471	40,728	82.3
Total operating costs	52,133	81,205	29,072	35.8	102,913	132,017	29,104	22.0
Terminal gross profit	53,315	50,809	2,506	4.9	113,281	103,751	9,530	9.2
Environmental response gross profit	1,502	26,221	(24,719)	(94.3 )	1,587	29,505	(27,918)	(94.6 )
Gross profit	54,817	77,030	(22,213)	(28.8 )	114,868	133,256	(18,388)	(13.8 )
General and administrative expenses	7,717	11,697	3,980	34.0	15,580	18,963	3,383	17.8
Depreciation and amortization	16,360	14,916	(1,444 )	(9.7 )	32,035	29,534	(2,501 )	(8.5 )
Operating income	30,740	50,417	(19,677)	(39.0 )	67,253	84,759	(17,506)	(20.7 )
Interest expense, net <sup>(1)</sup>	(16,311 )	(25,774 )	9,463	36.7	(20,994 )	(37,899 )	16,905	44.6
Other income	341	580	(239 )	(41.2 )	1,120	1,361	(241 )	(17.7 )
Provision for income taxes	(5,903 )	(10,750 )	4,847	45.1	(19,447 )	(20,356 )	909	4.5
Noncontrolling interest	66	(251 )	317	126.3	91	(400 )	491	122.8
Net income	8,933	14,222	(5,289 )	(37.2 )	28,023	27,465	558	2.0
Reconciliation of net income to EBITDA excluding non-cash items:								
Net income	8,933	14,222			28,023	27,465		
Interest expense, net <sup>(1)</sup>	16,311	25,774			20,994	37,899		
Provision for income taxes	5,903	10,750			19,447	20,356		
Depreciation and amortization	16,360	14,916			32,035	29,534		
Other non-cash (income) expenses	(46 )	12			(54 )	245		
EBITDA excluding non-cash items	47,461	65,674	(18,213)	(27.7 )	100,445	115,499	(15,054)	(13.0 )
EBITDA excluding non-cash items	47,461	65,674			100,445	115,499		
Interest expense, net <sup>(1)</sup>	(16,311 )	(25,774 )			(20,994 )	(37,899 )		
Non-cash derivative losses recorded in interest expense <sup>(1)</sup>	7,640	17,380			3,308	22,053		
Amortization of debt financing costs <sup>(1)</sup>	807	538			1,618	710		
Benefit (provision) for income taxes, net of changes in deferred taxes	304	(2,965 )			(7,584 )	(4,232 )		
Changes in working capital	(14,479 )	(24,220 )			(12,847 )	(27,454 )		
Cash provided by operating activities	25,422	30,633			63,946	68,677		

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Changes in working capital	14,479	24,220			12,847	27,454		
Maintenance capital expenditures	(13,005 )	(11,236 )			(21,519 )	(19,031 )		
Free cash flow	26,896	43,617	(16,721)	(38.3 )	55,274	77,100	(21,826)	(28.3 )

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

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**Energy-Related Business: *IMTT* (continued)**

**Revenue and Gross Profit**

The increase in terminal revenue primarily reflects growth in storage revenue. Storage revenue grew due to an increase in average rental rates of 13.2% during the first six months of 2011 as compared with the first six months of 2010. IMTT expects full year average rental rates to rise by approximately 11.0%.

Capacity utilization was 94.3% and 94.0% for the quarter and six months ended June 30, 2011, respectively, compared with 94.8% and 95.4% for the quarter and six months ended June 30, 2010, respectively. Utilization rates were lower in the first six months of 2011, primarily due to tank modifications for certain customers as well as tanks being taken out of service for inspection and repairs and maintenance. IMTT expects utilization rates to remain between approximately 93.0% and 94.0% throughout 2011.

Terminal operating costs increased during the first six months of 2011, predominantly in the second quarter. IMTT management has explained that the cause of the second quarter cost growth was one-time factors beyond their control and because certain costs were pulled forward into the second quarter. The two largest cost increases were medical costs and tank repairs and cleaning costs. The majority of the increase in tank repair costs relates to the repair of a construction defect in tanks recently constructed at Bayonne. These repairs are approximately two-thirds completed.

Revenue and gross profit from environmental response services decreased during the first six months of 2011, predominantly in the second quarter of 2011, compared with the first six months of 2010 primarily due to a lower level of spill response activity as a result of the BP oil spill in 2010.

**General and Administrative Expenses**

General and administrative expenses for the first six months of 2011 decreased primarily due to the current absence of the costs associated with the BP oil spill that occurred in the second quarter of 2010.

**Depreciation and Amortization**

Depreciation and amortization expense increased as IMTT completed several major expansion projects, resulting in higher asset balances.

**Interest Expense, Net**

Interest expense, net, includes non-cash losses on derivative instruments of \$7.6 million and \$3.3 million for the quarter and six months ended June 30, 2011, respectively. For the quarter and six months ended June 30, 2010, interest expense, net, includes non-cash losses on derivative instruments of \$17.4 million and \$22.1 million, respectively.

Excluding the non-cash losses on derivative instruments, interest expense is higher due to increased rates on the amended revolving credit facility and letter of credit fees associated with the tax-exempt debt. Cash interest paid was \$8.2 million and \$16.8 million for the quarter and six months ended June 30, 2011, respectively, and \$8.5 million and \$15.9 million for the quarter and six months ended June 30, 2010, respectively.

## **Income Taxes**

For the six months ended June 30, 2011, IMTT recorded \$4.2 million of current federal income tax expense and \$3.4 million of current state income tax expense. As assets are placed in service for the remainder of 2011, IMTT expects federal taxable income to decrease due to tax depreciation applicable to these assets. As a result, IMTT expects to pay cash federal taxes of \$1.5 million and pay cash state taxes of \$5.5 million for the year ended December 31, 2011.

For the year ended December 31, 2010, IMTT recorded \$5.5 million of current federal income tax expense and \$7.0 million of current state income tax expense. At December 31, 2009, IMTT had a federal NOL of \$50.5 million, of which \$5.8 million was carried back to and used in year 2008 and \$44.7 million was carried forward to and was fully utilized in 2010.

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**Energy-Related Business: *IMTT* (continued)**

A significant difference between IMTT's book and federal taxable income relates to depreciation of terminalling fixed assets. For book purposes, these fixed assets are depreciated primarily over 15 to 30 years using the straight-line method of depreciation. For federal income tax purposes, these fixed assets are depreciated primarily over 5 to 15 years using accelerated methods. Most terminalling fixed assets placed in service in 2010 and 2011 qualify for the federal 50% or 100% bonus depreciation, except assets placed in service in Louisiana financed with GO Zone Bonds.

A significant portion of Louisiana terminalling fixed assets constructed since Hurricane Katrina are or will be financed with Gulf Opportunity Zone Bonds ( GO Zone Bonds ). GO Zone Bond financed assets are depreciated, for tax purposes, primarily over 9 to 20 years using the straight-line depreciation method. Most of the states in which the business operates do not allow the use of the federal bonus depreciation calculation methods.

**The Gas Company**

**Key Factors Affecting Operating Results:**

higher utility contribution margin driven by increased sales volumes;  
increase in non-utility contribution margin driven by price increases partially offset by increased gas and transportation costs; and

lower non-utility volume resulting from local propane supply disruptions.

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TABLE OF CONTENTS**Energy-Related Business: *The Gas Company* (continued)**

	Quarter Ended June 30,				Six Months Ended June 30,			
	2011	2010	Change		2011	2010	Change	
	\$	\$	Favorable/	(Unfavorable)	\$	\$	Favorable/	(Unfavorable)
	(\$ In Thousands) (Unaudited)							
Contribution margin								
Revenue utility	36,421	28,450	7,971	28.0	70,694	55,285	15,409	27.9
Cost of revenue utility	27,206	19,402	(7,804)	(40.2 )	51,211	37,274	(13,937)	(37.4 )
Contribution margin utility	9,215	9,048	167	1.8	19,483	18,011	1,472	8.2
Revenue non-utility	26,935	24,236	2,699	11.1	54,286	49,546	4,740	9.6
Cost of revenue non-utility	14,315	12,089	(2,226)	(18.4 )	30,372	25,845	(4,527 )	(17.5 )
Contribution margin non-utility	12,620	12,147	473	3.9	23,914	23,701	213	0.9
Total contribution margin	21,835	21,195	640	3.0	43,397	41,712	1,685	4.0
Production	1,778	1,728	(50 )	(2.9 )	3,454	3,408	(46 )	(1.3 )
Transmission and distribution	5,021	5,270	249	4.7	9,419	10,131	712	7.0
Gross profit	15,036	14,197	839	5.9	30,524	28,173	2,351	8.3
Selling, general and administrative expenses	4,041	4,537	496	10.9	8,258	8,298	40	0.5
Depreciation and amortization	1,802	1,716	(86 )	(5.0 )	3,575	3,434	(141 )	(4.1 )
Operating income	9,193	7,944	1,249	15.7	18,691	16,441	2,250	13.7
Interest expense, net <sup>(1)</sup>	(3,483 )	(5,926 )	2,443	41.2	(5,497 )	(10,733)	5,236	48.8
Other expense	(127 )	(26 )	(101 )	NM	(279 )	(11 )	(268 )	NM
Provision for income taxes	(2,310 )	(780 )	(1,530)	(196.2)	(5,212 )	(2,231 )	(2,981 )	(133.6)
Net income <sup>(2)</sup>	3,273	1,212	2,061	170.0	7,703	3,466	4,237	122.2
Reconciliation of net income to EBITDA excluding non-cash items:								
Net income <sup>(2)</sup>	3,273	1,212			7,703	3,466		
Interest expense, net <sup>(1)</sup>	3,483	5,926			5,497	10,733		
Provision for income taxes	2,310	780			5,212	2,231		
Depreciation and amortization	1,802	1,716			3,575	3,434		
Other non-cash expenses	512	531			1,182	1,065		
EBITDA excluding non-cash items	11,380	10,165	1,215	12.0	23,169	20,929	2,240	10.7
EBITDA excluding non-cash items	11,380	10,165			23,169	20,929		
Interest expense, net <sup>(1)</sup>	(3,483 )	(5,926 )			(5,497 )	(10,733)		
Non-cash derivative losses recorded in interest expense <sup>(1)</sup>	1,173	3,620			897	6,211		
Amortization of debt financing costs <sup>(1)</sup>	120	119			239	239		
Provision for income taxes, net of changes in deferred taxes	(1,260 )	(1,270 )			(3,545 )	(2,754 )		
Changes in working capital	(2,034 )	(3,202 )			(6,449 )	(2,803 )		
Cash provided by operating activities	5,896	3,506			8,814	11,089		
Changes in working capital	2,034	3,202			6,449	2,803		

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Maintenance capital expenditures	(1,660 )	(422 )			(3,920 )	(978 )		
Free cash flow	6,270	6,286	(16 )	(0.3 )	11,343	12,914	(1,571 )	(12.2 )

NM Not meaningful

- (1) Interest expense, net, includes non-cash losses on 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 at the MIC Inc. level.

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**Energy-Related Business: *The Gas Company* (continued)**

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

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

**Contribution Margin and Operating Income**

Utility contribution margin was higher driven by an increase in sales volume.

Non-utility contribution margin was higher due to price increases partially offset by increased gas and transportation costs and lower non-utility volume resulting from local propane supply disruptions.

Production, transmission and distribution and selling, general and administrative expenses are primarily composed of labor-related expenses and professional fees. On a combined basis, these costs were lower in 2011, primarily driven by increased allocation of labor costs to capital projects. Underlying costs were higher due to higher professional fees and operating lease payments.

**Interest Expense, Net**

Interest expense, net, includes non-cash losses on derivative instruments of \$1.2 million and \$897,000 for the quarter and six months ended June 30, 2011, respectively. For the quarter and six months ended June 30, 2010, interest expense, net, includes non-cash losses on derivative instruments of \$3.6 million and \$6.2 million, respectively. Excluding the non-cash losses on derivative instruments, interest expense for the six months ended June 30, 2011 was slightly higher due to the expiration of an interest rate basis swap agreement in March 2010.

Cash interest paid was \$2.1 million and \$4.3 million for the quarter and six months ended June 30, 2011, respectively, and \$2.2 million and \$4.3 million for the quarter and six months ended June 30, 2010, respectively.

**Income Taxes**

Income from The Gas Company 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, 2011, the business expects to pay cash state income taxes of approximately \$1.4 million, of which \$682,000 was recorded during the six months ended June 30, 2011. Any federal income tax liability is expected to be offset in consolidation from the application of NOLs.

## District Energy

Customers of District Energy pay two charges to receive chilled water services: a fixed charge based on contracted capacity and a variable charge based on the consumption of chilled water. Capacity charges are typically adjusted annually at a fixed rate or are indexed to the Consumer Price Index (CPI). The terms of the business customer contracts provide for the pass through of increases or decreases in electricity costs, the largest component of the business direct expenses.

The financial results discussed below reflect 100% of District Energy's performance during the periods presented below.

TABLE OF CONTENTS**Energy-Related Business: *District Energy* (continued)****Key Factors Affecting Operating Results:**

a decrease in consumption revenue and gross profit was driven by cooler average temperatures during the second quarter of 2011 compared with 2010;  
increased other direct expenses due to higher real estate taxes and plant rent; offset by  
an increase in capacity revenue from new customers and annual inflation-linked increases in contract capacity rates.

	Quarter Ended June 30,		Change		Six Months Ended June 30,		Change	
	2011	2010	Favorable/(Unfavorable)		2011	2010	Favorable/(Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Cooling capacity revenue	5,428	5,295	133	2.5	10,759	10,533	226	2.1
Cooling consumption revenue	5,924	7,144	(1,220)	(17.1)	8,354	8,907	(553)	(6.2)
Other revenue	903	803	100	12.5	1,593	1,667	(74)	(4.4)
Finance lease revenue	1,261	1,271	(10)	(0.8)	2,548	2,516	32	1.3
Total revenue	13,516	14,513	(997)	(6.9)	23,254	23,623	(369)	(1.6)
Direct expenses electricity	3,675	4,664	989	21.2	5,621	5,987	366	6.1
Direct expenses other <sup>(1)</sup>	5,231	5,066	(165)	(3.3)	10,190	9,937	(253)	(2.5)
Direct expenses total	8,906	9,730	824	8.5	15,811	15,924	113	0.7
Gross profit	4,610	4,783	(173)	(3.6)	7,443	7,699	(256)	(3.3)
Selling, general and administrative expenses	762	799	37	4.6	1,685	1,557	(128)	(8.2)
Amortization of intangibles	341	341			678	678		
Operating income	3,507	3,643	(136)	(3.7)	5,080	5,464	(384)	(7.0)
Interest expense, net <sup>(2)</sup>	(4,925)	(7,976)	3,051	38.3	(7,184)	(14,004)	6,820	48.7
Other income	55	59	(4)	(6.8)	111	109	2	1.8
Benefit for income taxes	650	1,767	(1,117)	(63.2)	997	3,487	(2,490)	(71.4)
Noncontrolling interest	(213)	(198)	(15)	(7.6)	(426)	(392)	(34)	(8.7)
Net loss	(926)	(2,705)	1,779	65.8	(1,422)	(5,336)	3,914	73.4
Reconciliation of net loss to EBITDA excluding non-cash items:								
Net loss	(926)	(2,705)			(1,422)	(5,336)		
Interest expense, net <sup>(2)</sup>	4,925	7,976			7,184	14,004		
Benefit for income taxes	(650)	(1,767)			(997)	(3,487)		
Depreciation <sup>(1)</sup>	1,658	1,636			3,305	3,271		
Amortization of intangibles	341	341			678	678		
Other non-cash expenses	300	232			338	387		
EBITDA excluding non-cash items	5,648	5,713	(65)	(1.1)	9,086	9,517	(431)	(4.5)
EBITDA excluding non-cash items	5,648	5,713			9,086	9,517		
Interest expense, net <sup>(2)</sup>	(4,925)	(7,976)			(7,184)	(14,004)		
Non-cash derivative losses recorded in interest expense <sup>(2)</sup>	2,304	5,328			1,943	8,826		

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Amortization of debt financing costs <sup>(2)</sup>	170	170			340	340		
Equipment lease receivable, net	753	739			1,493	1,451		
Benefit for income taxes, net of changes in deferred taxes	230				185			
Changes in working capital	(1,142 )	(2,799 )			181	(3,569 )		
Cash provided by operating activities	3,038	1,175			6,044	2,561		
Changes in working capital	1,142	2,799			(181 )	3,569		
Maintenance capital expenditures	(59 )	(400 )			(125 )	(564 )		
Free cash flow	4,121	3,574	547	15.3	5,738	5,566	172	3.1

(1) Includes depreciation expense of \$1.7 million and \$3.3 million for the quarter and six months ended June 30, 2011, respectively, and \$1.6 million and \$3.3 million for the quarter and six months ended June 30, 2010, respectively.

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

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**Energy-Related Business: *District Energy* (continued)**

**Gross Profit**

Gross profit decreased primarily due to cooler average temperatures during the second quarter of 2011 compared with 2010 resulting in lower consumption revenue net of electricity costs. Gross profit also decreased due to higher real estate taxes and plant rent. The decline was partially offset by an increase in cooling capacity revenue from new customers and annual inflation-related increases of contract capacity rates in accordance with customer contract terms.

**Selling, General and Administrative Expenses**

Underlying selling, general and administrative expenses were relatively flat compared with 2010. The first quarter of 2010 included a reversal of accrued incentives that did not recur in 2011.

**Interest Expense, Net**

Interest expense, net, includes non-cash losses on derivative instruments of \$2.3 million and \$1.9 million for the quarter and six months ended June 30, 2011, respectively. For the quarter and six months ended June 30, 2010, interest expense, net, includes non-cash losses on derivative instruments of \$5.3 million and \$8.8 million, respectively. Excluding the non-cash losses on derivative instruments, interest expense for the six months ended June 30, 2011 was slightly higher due to the expiration of an interest rate basis swap agreement in March 2010.

Cash interest paid was \$2.5 million and \$5.0 million for the quarter and six months ended June 30, 2011, respectively, and \$2.6 million and \$4.9 million for the quarter and six months ended June 30, 2010, respectively.

**Income Taxes**

For periods prior to the sale of 49.99% noncontrolling interest in the business in December 2009, the income from District Energy was included in our consolidated federal income tax return and District Energy filed a separate Illinois state income tax return.

For periods after December 2009, District Energy will file a separate federal income tax return and will continue to file a separate Illinois state income tax return. As of December 31, 2010, the business has approximately \$18.5 million in federal NOL carryforwards available to offset positive taxable income. For the year ending December 31, 2011, District Energy expects to pay a federal Alternative Minimum Tax of approximately \$34,000 and state income taxes of approximately \$179,000.

In 2011, Illinois enacted the Taxpayer Accountability and Budget Stabilization Act, which increases the state corporate income tax rate to 7.0% from 4.8% through 2014 and suspended the use of state NOL carryforwards through 2014. At December 31, 2010, the business had approximately \$18.0 million in state NOL carryforwards. For the six months ended June 30, 2011, District Energy recorded approximately \$147,000 of deferred state income tax expense due to the increase in Illinois corporate income tax rates enacted in 2011.

**Aviation-Related Business**

## Atlantic Aviation

### Key Factors Affecting Operating Results:

higher general aviation ( GA ) fuel volumes and marginally higher weighted average GA fuel margins;  
lower cash interest paid driven by reduced debt levels; and  
flat selling, general and administrative expenses due to higher weather-related expenses in the first quarter of 2011  
that were offset by lower rent expense.

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TABLE OF CONTENTS**Aviation-Related Business: *Atlantic Aviation* (continued)**

	Quarter Ended June 30,				Six Months Ended June 30,			
	2011	2010	Change		2011	2010	Change	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Revenue								
Fuel revenue	134,647	100,941	33,706	33.4	260,360	195,649	64,711	33.1
Non-fuel revenue	35,668	36,552	(884 )	(2.4 )	78,464	81,893	(3,429 )	(4.2 )
Total revenue	170,315	137,493	32,822	23.9	338,824	277,542	61,282	22.1
Cost of revenue								
Cost of revenue fuel	95,678	64,549	(31,129)	(48.2 )	181,732	124,747	(56,985)	(45.7 )
Cost of revenue non-fuel	3,785	3,587	(198 )	(5.5 )	9,033	8,539	(494 )	(5.8 )
Total cost of revenue	99,463	68,136	(31,327)	(46.0 )	190,765	133,286	(57,479)	(43.1 )
Fuel gross profit	38,969	36,392	2,577	7.1	78,628	70,902	7,726	10.9
Non-fuel gross profit	31,883	32,965	(1,082 )	(3.3 )	69,431	73,354	(3,923 )	(5.3 )
Gross profit	70,852	69,357	1,495	2.2	148,059	144,256	3,803	2.6
Selling, general and administrative expenses	41,624	42,558	934	2.2	86,675	86,793	118	0.1
Depreciation and amortization	22,524	13,885	(8,639 )	(62.2 )	36,343	28,223	(8,120 )	(28.8 )
Loss on disposal of assets	1,225		(1,225 )	NM	1,225		(1,225 )	NM
Operating income	5,479	12,914	(7,435 )	(57.6 )	23,816	29,240	(5,424 )	(18.5 )
Interest expense, net <sup>(1)</sup>	(11,361 )	(26,688 )	15,327	57.4	(21,554 )	(48,674 )	27,120	55.7
Other income (expense)	50	(528 )	578	109.5	(177 )	(544 )	367	67.5
Benefit (provision) for income taxes	2,335	5,764	(3,429 )	(59.5 )	(840 )	8,051	(8,891 )	(110.4)
Net (loss) income <sup>(2)</sup>	(3,497 )	(8,538 )	5,041	59.0	1,245	(11,927 )	13,172	110.4
Reconciliation of net (loss) income to EBITDA excluding non-cash items:								
Net (loss) income <sup>(2)</sup>	(3,497 )	(8,538 )			1,245	(11,927 )		
Interest expense, net <sup>(1)</sup>	11,361	26,688			21,554	48,674		
(Benefit) provision for income taxes	(2,335 )	(5,764 )			840	(8,051 )		
Depreciation and amortization	22,524	13,885			36,343	28,223		
Loss on disposal of assets	1,153				1,153			
Other non-cash (income) expenses	(43 )	558			103	605		
EBITDA excluding non-cash items	29,163	26,829	2,334	8.7	61,238	57,524	3,714	6.5
EBITDA excluding non-cash items	29,163	26,829			61,238	57,524		
Interest expense, net <sup>(1)</sup>	(11,361 )	(26,688 )			(21,554 )	(48,674 )		
Interest rate swap breakage fees <sup>(1)</sup>	(627 )	(695 )			(1,732 )	(3,205 )		
Non-cash derivative (gains) losses recorded in interest expense <sup>(1)</sup>	(2,305 )	12,299			(6,073 )	19,839		
Amortization of debt financing costs <sup>(1)</sup>	740	665			1,481	1,472		
Provision for income taxes, net of changes in deferred taxes	(121 )	(144 )			(616 )	(287 )		

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Changes in working capital	(3,085 )	(4,724 )			(2,862 )	2,662		
Cash provided by operating activities	12,404	7,542			29,882	29,331		
Changes in working capital	3,085	4,724			2,862	(2,662 )		
Maintenance capital expenditures	(2,193 )	(1,180 )			(3,029 )	(2,207 )		
Free cash flow	13,296	11,086	2,210	19.9	29,715	24,462	5,253	21.5

NM Not meaningful

- (1) Interest expense, net, includes non-cash gains (losses) on derivative instruments, non-cash amortization of deferred financing fees and interest rate swap breakage fees.
- (2) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation at the MIC Inc. level.

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**Aviation-Related Business: *Atlantic Aviation* (continued)**

**Revenue and Gross Profit**

The majority of the revenue and gross profit in Atlantic Aviation is generated through fueling GA aircraft at 63 airports and one heliport in the U.S. Revenue is categorized according to who owns the fuel used to service these aircrafts. If our business owns the fuel, it records the cost to purchase that fuel as cost of revenue-fuel. The business corresponding fuel revenue is its cost to purchase that fuel plus a margin. The business generally pursues a strategy of maintaining, and where appropriate increasing, dollar-based margins, thereby passing any increase in fuel prices to the customer.

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

The business fuel-related revenue and gross profit are driven by fuel volume and dollar-based margin per gallon. This applies to both fuel and into-plane revenue. Customers will sometimes move from one category to the other.

The business believes discussing total fuel-related revenue and gross profit, including both fuel sales and into-plane arrangements (as recorded in the non-fuel revenue line) and related key metrics on an aggregate basis, provides a more meaningful analysis of Atlantic Aviation's gross profit than a discussion of each item. In the first six months of 2011, the business derived 64.7% of total gross profit from fuel and fuel-related services compared with 64.0% in the first six months of 2010.

The increase in gross profit for both the quarter and six months ended June 30, 2011 resulted from an increase in fuel volume sold at marginally higher fuel margins, partially offset by the divestiture of non-core FBOs in the first half of 2011.

On a same store basis, gross profit increased by 4.2% and 4.0% for the quarter and six months ended June 30, 2011, respectively. On the same basis, GA fuel volume sold increased by 4.5% for the quarter ended June 30, 2011 and GA average fuel margin increased by 0.5%. Non-fuel and non-GA gross profit increased by 2.9%.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the first six months of 2011 were flat compared with the first six months of 2010. Higher weather-related expense in the first quarter of 2011 and higher motor fuel cost in the first six months of 2011 were offset by lower rent expense resulting from the sale of non-core FBOs during the second quarter of 2011.

On a same-store basis, SG&A increased 0.6% and 1.9% for the quarter and six months ending June 30, 2011, respectively.

On a same-store basis, EBITDA increased 9.4% and 6.9% for the quarter and six months ended June 30, 2011, respectively.

### **Depreciation and Amortization**

Depreciation and amortization expense includes non-cash impairment charge of \$8.7 million recorded at Atlantic Aviation during the quarter ended June 30, 2011. The impairment charge resulted from adverse conditions specific to three small locations.

### **Loss on disposal of assets**

During the quarter ended June 30, 2011, the business concluded that several of its sites did not have sufficient scale or serve a market with sufficiently strong growth prospects to warrant continued operations at these sites. Atlantic Aviation has sold certain FBOs and is reinvesting proceeds into markets which it views as having better growth profiles. Accordingly, Atlantic Aviation recorded a \$1.2 million non-cash loss on disposal of assets.

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**Aviation-Related Business: *Atlantic Aviation* (continued)**

**Interest Expense, Net**

Interest expense, net, includes non-cash gains on derivative instruments of \$2.9 million and \$7.8 million for the quarter and six months ended June 30, 2011, respectively. For the quarter and six months ended June 30, 2010, interest expense, net, includes non-cash losses on derivative instruments of \$11.6 million and \$16.6 million, respectively. Excluding the non-cash losses on derivative instruments, interest expense for the six months ended June 30, 2011 was lower due to the prepayment of term loan debt, partially offset by the expiration of an interest rate basis swap agreement in March 2010.

Excluding cash paid for interest rate swap breakage fees, cash interest paid was \$13.0 million and \$26.2 million for the quarter and six months ended June 30, 2011, respectively, and \$13.8 million and \$27.6 million for the quarter and six months ended June 30, 2010, respectively. Cash paid for interest rate swap breakage fees were \$627,000 and \$1.7 million for the quarter and six months ended June 30, 2011, respectively, and \$695,000 and \$3.2 million for the quarter and six months ended June 30, 2010, respectively. These fees are excluded from interest expense, net in the current quarter as they have been included in interest expense, net in prior periods as part of the mark-to-market derivative adjustments at Atlantic Aviation.

**Income Taxes**

Income generated by Atlantic Aviation is included in our consolidated federal income tax return. The business files state income tax returns in more than 30 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.

The business has approximately \$59.0 million of state NOL carryforwards at December 31, 2010. State NOL carryforwards are specific to the state in which the NOL was generated and various states impose limitations on the utilization of NOL carryforwards. Therefore, the business may incur state income tax liabilities in the near future, even if its consolidated state taxable income is less than \$59.0 million.

Atlantic Aviation, as a whole, expects to generate a current year federal and state taxable income in 2011. For the year ended December 31, 2011, the business expects to pay state income taxes of approximately \$1.2 million.

Atlantic Aviation recorded an increase of approximately \$134,000 in its reserve for uncertain tax positions in the quarter ended June 30, 2011. The increase in the reserve was recorded as a state income tax expense for the period.

**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 borrow against existing credit facilities for growth capital expenditures, issue additional LLC interests or sell assets to generate cash.

On August 1, 2011, our board of directors declared a dividend of \$0.20 per share for the quarter ended June 30, 2011,

which will be paid on August 18, 2011 to holders of record on August 15, 2011. On May 18, 2011, we paid a dividend of \$0.20 per share for the quarter ended March 31, 2011.

The precise timing and amount of any future dividend will be based on the continued stable performance of the Company's businesses and the economic conditions prevailing at the time of any authorization.

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

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

our businesses and investments overall generate, and will continue to generate, significant operating cash flow; the ongoing maintenance capital expenditures associated with our businesses are readily funded from their respective operating cash flow or available financing; all significant short-term growth capital expenditures will be funded with cash on hand or from committed undrawn credit 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.

We have capitalized our businesses, in part, using project-finance style debt. Project-finance style debt is limited-recourse, floating rate, non-amortizing debt with a medium term maturity of between five and seven years, although the principal balance on the term loan debt at Atlantic Aviation is being prepaid using the excess cash generated by the business. At June 30, 2011, the average remaining maturity of the drawn balances of the primary debt facilities across all of our businesses, including our proportional interest in the revolving credit facility of IMTT, was approximately 3.1 years. In light of the improvement in the functioning of the credit markets generally, and the leverage and interest coverage ratios, we expect each of these businesses to successfully refinance their long-term debt on economically reasonable terms on or before maturity.

We have no holding company debt.

Due to the impact on financial markets of the recent process to raise the U.S. Government debt ceiling and approve a deficit reduction plan, we drew \$35.0 million on revolving credit facilities at our portfolio companies to increase our short-term liquidity. This action was taken during July 2011 and is therefore not reflected in our June 30, 2011 financial statements.

The section below discusses the sources and uses of cash on a consolidated basis and for each of our businesses and investments. All inter-company 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 Continuing Operations**

	Six Months Ended		Change	
	June 30,		Favorable/(Unfavorable)	
	2011	2010		
(\$ In Thousands)	\$	\$	\$	%
Cash provided by operating activities	41,287	41,646	(359 )	(0.9 )
Cash provided by (used in) investing activities	1,312	(9,057 )	10,369	114.5
Cash used in financing activities	(30,808 )	(30,625 )	(183 )	(0.6 )

## Operating Activities

Consolidated cash provided by operating activities comprises primarily from 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 at the holding company, including base management fees paid in cash, professional fees and cost associated with being a public company.

The decrease in consolidated cash provided by operating activities was primarily due to:

higher working capital requirements due to increased energy costs at Atlantic Aviation and The Gas Company; and absence of distribution from IMTT in the first six months of 2011; partially offset by improved operating performance and lower interest paid on the reduced term loan balance for Atlantic Aviation; and improved operating performance at The Gas Company.

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

Distributions from IMTT are reflected in our consolidated cash provided by operating activities only up to our 50% share of IMTT's positive earnings. Amounts in excess of this, and any distributions when IMTT records a net loss, are reflected in our consolidated cash from investing activities as a return of investment in unconsolidated business. For the first six months of 2010, \$5.0 million in distributions were included in cash from operating activities.

## **Investing Activities**

The increase in consolidated cash provided by investing activities was primarily due to:

cash proceeds received in 2011 for the sale of FBOs at Atlantic Aviation;  
decrease in investment in capital leased asset at District Energy; partially offset by  
increase in capital expenditures at Atlantic Aviation due to construction costs of a new FBO at Oklahoma City; and  
increase in capital expenditures at The Gas Company due to timing of projects.

## **Financing Activities**

The increase in consolidated cash used in financing activities was primarily due to:

first quarter 2011 dividend paid to our shareholders during the second quarter 2011; and  
increase in distributions paid to noncontrolling interests at District Energy; offset by  
lower net debt repayments in 2011 at Atlantic Aviation; and  
borrowings on line of credit facilities and proceed from long term debt in 2011 at Atlantic Aviation.

Our businesses are capitalized with a mix of equity and project-finance style debt. Our project-finance debt is non-amortizing and we expect to be able to refinance the outstanding balances of the term loan on or before maturity, except at Atlantic Aviation, where all excess cash flow from the business is being used to prepay the outstanding principal balance of the term loan. Similarly, excess cash flow generated at District Energy must be applied toward the principal balance of the term loan during the last two years before maturity. The majority of our businesses also maintain revolving capital expenditure and/or working capital facilities.

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

## **Energy-Related Businesses**

### **IMTT**

The following analysis represents 100% of the cash flows of IMTT, rather than just the composition of cash flows that are included in our consolidated cash flows. We believe this is the most appropriate and meaningful approach to discuss the historical cash flow trends of IMTT. We account for our 50% ownership of this business using the equity method. Distributions from IMTT when IMTT records a net loss, or pays distributions in excess of our share of its earnings, are reflected in investing activities in our consolidated cash flow.

Six Months Ended	Change
June 30,	Favorable/(Unfavorable)
2011                  2010	

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(\$ In Thousands)	\$	\$	\$	%
Cash provided by operating activities	63,946	68,677	(4,731 )	(6.9 )
Cash used in investing activities	(11,849 )	(37,171 )	25,322	68.1
Cash used in financing activities	(12,317 )	(28,018 )	15,701	56.0

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**Energy-Related Business: *IMTT* (continued)**

**Operating Activities**

Cash provided by operating activities at IMTT is generated primarily from storage rentals and ancillary services that are billed monthly and paid on various terms. 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 primarily due to lower operating results, partially offset by a smaller increase in working capital requirements.

In 2010, working capital requirements increased substantially as a result of the timing of payments on work being performed on the BP spill in the Gulf of Mexico.

**Investing Activities**

The decrease in cash used in investing activities was primarily due to the release of a tax-exempt bond escrow, partially offset by higher capital expenditures in the first six months of 2011 as compared with the first six months of 2010. Total capital expenditures increased from \$34.4 million in the first six months of 2010 to \$49.9 million in the first six months of 2011 primarily reflecting an increase in growth capital expenditures.

**Maintenance Capital Expenditure**

IMTT incurs maintenance capital expenditures to prolong the useful lives and increase the service capacity of existing revenue-producing assets. Maintenance capital expenditures include the refurbishment of storage tanks, piping, dock facilities and environmental capital expenditures, principally in relation to improvements in containment measures and remediation.

IMTT incurred \$21.5 million and \$19.0 million in the first six months of 2011 and the first six months of 2010, respectively, on maintenance capital expenditures, including (i) \$19.6 million and \$16.6 million, respectively, principally in relation to refurbishments of tanks, docks and other infrastructure and (ii) \$1.9 million and \$2.4 million, respectively, on environmental capital expenditures, principally in relation to improvements in containment measures and remediation.

For the full-year 2011, IMTT expects to spend approximately \$55.0 million on maintenance capital expenditures. IMTT anticipates that maintenance capital expenditures will remain at elevated levels through 2014 due to required cleaning and inspection program in Louisiana.

**Growth Capital Expenditure**

During the first six months of 2011, IMTT incurred growth capital expenditures of \$28.4 million. This compares with growth capital expenditures incurred of \$15.4 million for the first six months of 2010.

During the first half of 2011, IMTT committed to projects that are expected to cost \$85.4 million, which are expected to add \$13.6 million of EBITDA on an annualized basis. In addition, IMTT completed the construction and refurbishment of 1.4 million barrels at a total cost of \$38.5 million, which will add \$6.5 million to EBITDA on an annualized basis. These barrels were commissioned at various points throughout the first six months of 2011.

At June 30, 2011, IMTT is in the process of constructing and refurbishing 1.9 million barrels of storage. These projects are expected to cost \$171.9 million in total and contribute \$28.5 million to gross profit and EBITDA on an annualized basis. The projects are expected to be commissioned between 2011 and 2013. At June 30, 2011, \$13.1 million of the \$171.9 million had been spent or committed.

In addition, IMTT is engaged in the construction or upgrade of related infrastructure, primarily docks. These projects are expected to cost \$55.4 million. During the first six months of 2011, IMTT spent \$9.3 million on these infrastructure projects. At June 30, 2011, \$34.9 million of the \$55.4 million had been spent or committed.

TABLE OF CONTENTS**Energy-Related Business: IMTT (continued)**

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act) was signed. The Act provides for 100% bonus depreciation for certain fixed assets placed in service after September 8, 2010 and before January 1, 2012, and 50% bonus depreciation for certain fixed assets placed in service during 2012 for federal income tax purposes. Generally, states do not allow this bonus depreciation deduction in determining state taxable income. Importantly, Louisiana, in which IMTT has significant operations, does permit the use of bonus depreciation in calculating state taxable income. IMTT will take into consideration the benefits of these accelerated depreciation provisions of the Act when evaluating its capital expenditure plans for the remainder of 2011 and 2012.

**Financing Activities**

Cash flows used in financing activities decreased primarily due to a distribution of \$5.0 million to each shareholder on January 4, 2010 as compared with no distributions paid during the first six months of 2011 as well as debt refinancing costs in 2010 that did not recur.

At June 30, 2011, the outstanding balance on IMTT's debt facilities, excluding capitalized leases, consisted of \$336.3 million in letter of credit backed tax exempt bonds, \$190.0 million in bank owned tax exempt bonds, a \$65.0 million term loan, \$22.3 million in revolving credit facilities and \$30.0 million in shareholder loans. The weighted average interest rate of the outstanding debt facilities, including any interest rate swaps and fees associated with outstanding letters of credit is 5.02%. Cash interest paid was \$16.8 million and \$15.9 million for six months ended June 30, 2011 and 2010, respectively.

For a description of the material terms of IMTT's credit facilities, see Liquidity and Capital Resources in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. IMTT has not had any material changes to these credit facilities since February 23, 2011, our 10-K filing date.

**The Gas Company**

	Six Months Ended June 30,		Change	
	2011	2010	Favorable/(Unfavorable)	
(\$ In Thousands)	\$	\$	\$	%
Cash provided by operating activities	8,814	11,089	(2,275 )	(20.5 )
Cash used in investing activities	(7,806 )	(3,910 )	(3,896 )	(99.6 )
Cash (used in) provided by financing activities				

**Operating Activities**

The main driver of cash provided by operating activities is customer receipts. The business incurs payments for fuel, materials, pipeline repairs, vendor services and supplies, payroll and benefit costs, revenue-based taxes and payment of administrative costs. Customers are generally billed monthly and make payments on account. Vendors and suppliers generally bill the business when services are rendered or when products are shipped. The decrease from the 2010 to 2011 was primarily driven by higher working capital requirements due to increased fuel costs to be recovered from customers, partially offset by improved operating results during 2011.

## **Investing Activities**

Cash used in investing activities is composed primarily of capital expenditures. Capital expenditures for the non-utility business are funded by cash from operating activities and capital expenditures for the utility business are funded by drawing on credit facilities as well as cash from operating activities.

### **Maintenance Capital Expenditure**

Maintenance capital expenditures include replacement of pipeline sections, improvements to the business transmission system and SNG plant, improvements to buildings and other property and the purchase of equipment.

### **Growth Capital Expenditure**

Growth capital expenditures include the purchase of meters, regulators and propane tanks for new customers, the cost of installing pipelines for new residential and commercial construction, the renewable feedstock pilot program and the expansion of gas storage facilities.

TABLE OF CONTENTS**Energy-Related Business: *The Gas Company* (continued)**

The following table sets forth information about capital expenditures in The Gas Company:

	Maintenance	Growth
Six months ended June 30, 2010	\$1.7 million	\$2.2 million
Six months ended June 30, 2011	\$5.3 million	\$2.5 million
2011 full year projected	\$6.2 million	\$7.4 million
Commitments at June 30, 2011	\$367,000	\$227,000

The business expects to fund its total 2011 capital expenditures primarily from cash from operating activities and available debt facilities. Capital expenditures for 2011 are expected to be higher than in 2010 due to completion of the renewable feedstock project, pipeline maintenance and inspection projects related to the integrity management program (expected to be completed by 2012) and expansion of storage facilities. These are reflected in the increase in capital expenditure for the six months ended June 30, 2011 and committed at June 30, 2011.

December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act) was signed. The Act provides for 100% bonus depreciation for certain fixed assets placed in service after September 8, 2010 and before January 1, 2012, and 50% bonus depreciation for certain fixed assets placed in service during 2012 for federal income tax purposes. Generally, states do not allow this bonus depreciation deduction in determining state taxable income. The business will take into consideration the benefits of these accelerated depreciation provisions of the Act when evaluating its capital expenditure plans for the remainder of 2011 and 2012.

**Financing Activities**

The main drivers for cash from financing activities are debt financings for capital expenditures and the repayment of outstanding credit facilities. At June 30, 2011, the outstanding balance on the business debt facilities consisted of \$160.0 million in term loan facility borrowings. In 2010, the business repaid \$19.0 million of its capital expenditure facility borrowings and no amount was outstanding at June 30, 2011.

The Gas Company has interest rate swaps hedging 100% of the interest rate exposure under the two \$80.0 million floating rate term loan facilities that effectively fix the interest rate. The weighted average interest rate of the outstanding debt facilities, including any interest rate swaps at June 30, 2011, was 5.44%, which includes a ten basis point step-up in the LIBOR margin, effective June 8, 2011, for each of two \$80.0 million term loan facilities. The business paid \$4.3 million in interest expense related to its debt facilities for the six months ended June 30, 2011 and 2010. Cash interest expense was slightly higher in the first six months of 2011 due to the expiration of an interest rate basis swap agreement in March 2010.

The Gas Company also has an uncommitted unsecured short-term borrowing facility of \$7.5 million that was renewed during the second quarter of 2011. This credit line bears interest at the lending bank's quoted rate or prime rate. The facility is available for working capital needs. No amount was outstanding for this facility at June 30, 2011.

The financial covenants triggering distribution lock-up or default under the business credit facility are as follows:

12 mo. look-forward and 12 mo. look-backward adjusted EBITDA/interest <3.5x (distribution lock-up) and <2.5x (default). The look-backward ratio and look-forward ratios at June 30, 2011 were 7.34x and 5.27x, respectively.

Additionally, the HPUC requires the consolidated debt to total capital for HGC Holdings not to exceed 65% and \$20.0 million to be readily available in cash resources at The Gas Company, HGC Holdings or MIC. At June 30, 2011, the debt to total capital ratio was 56.6% and \$20.0 million in cash resources was readily available.

For a description of the material terms of The Gas Company's credit facilities, see Liquidity and Capital Resources in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. We have not had any material changes to these credit facilities since February 23, 2011, our 10-K filing date.



TABLE OF CONTENTS**Energy-Related Business: *District Energy***

The following analysis represents 100% of the cash flows of District Energy.

	Six Months Ended June 30,		Change	
	2011	2010	Favorable/(Unfavorable)	
(\$ In Thousands)	\$	\$	\$	%
Cash provided by operating activities	6,044	2,561	3,483	136.0
Cash used in investing activities	(1,001 )	(3,246 )	2,245	69.2
Cash used in financing activities	(3,951 )	(960 )	(2,991 )	NM

NM Not meaningful

**Operating Activities**

Cash provided by operating activities is primarily driven by customer receipts for services provided and leased equipment payments received (including non-revenue lease principal). Cash used in operating activities is driven by the timing of payments for electricity, vendor services or supplies and the payment of payroll and benefit costs. Cash from operating activities increased as a result of the timing of receipt of certain equipment lease payments in 2011 compared with 2010 and the expiration of a requirement that the business prepay a portion of its electricity supply.

**Investing Activities**

Cash used in investing activities mainly comprises capital expenditures, which are generally funded by drawing on available facilities. Cash used in investing activities in 2011 and 2010 primarily funded growth capital expenditures for new customer connections and plant expansion.

**Maintenance Capital Expenditure**

The business expects to spend approximately \$1.0 million per year on capital expenditures relating to the replacement of parts, system reliability, customer service improvements and minor system modifications. Maintenance capital expenditures will be funded from available facilities and cash from operating activities. These expenditures were lower during the first six months of 2011 due to the timing of spend on ordinary course maintenance projects.

**Growth Capital Expenditure**

District Energy signed contracts with five additional customers and committed to spend \$1.9 million on interconnection, of which it had spent \$1.0 million as of June 30, 2011, with \$900,000 remaining to be spent. The business anticipates it will receive reimbursements from customers for approximately \$1.1 million of the total \$1.9 million expenditure, of which it had received \$200,000 as of June 30, 2011. These additional customers are expected to contribute \$625,000 to gross profit and EBITDA on an annualized basis.

The business continues to actively market to new potential customers. New customers will typically reimburse the business for a substantial portion of expenditures related to connecting them to the business system, thereby reducing the impact of this element of capital expenditure.

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The following table sets forth information about District Energy's capital expenditures:

	Maintenance	Growth
Six months ended June 30, 2010	\$719,000	