

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

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2014

OR

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

For the Transition Period from _____ to _____

Commission File Number: 001-32384

MACQUARIE INFRASTRUCTURE COMPANY LLC

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

43-2052503
(IRS Employer
Identification No.)

125 West 55th Street
New York, New York 10019

(Address of Principal Executive Offices) (Zip Code)

(212) 231-1000

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

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PART I

FINANCIAL INFORMATION

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

The following discussion of the financial condition and results of operations of Macquarie Infrastructure Company LLC should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties and are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Words such as anticipates, expects, intends, plans, believes, seeks, estimates, and similar expressions identify forward-looking statements. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and in this Form 10-Q Quarterly Report. Unless required by law, we can undertake no obligation to update forward-looking statements. Readers should also carefully review the risk factors set forth in other reports and documents filed from time to time with the Securities and Exchange Commission (the SEC).

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

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

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

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

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

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

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

Overview

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

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

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

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

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

Dividends

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

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

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

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

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

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Recent Developments

District Energy Business Sale

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

Atlantic Aviation Acquisitions

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

Equity Offering

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

Convertible Senior Notes Offering

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

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

IMTT Acquisition of Remaining Interest

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

MIC Revolver

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

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

CP&E Acquisition

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

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Transaction Costs

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

Results of Operations

Consolidated

Key Factors Affecting Operating Results:

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

an increase in gross profit at IMTT;

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

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

lower performance fees.

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Our consolidated results of operations are as follows:

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2014	2013	\$	%	2014	2013	\$	%
	(\$ In Thousands) (Unaudited)							
Revenue								
Revenue from product sales	\$ 188,087	\$ 167,181	20,906	12.5	\$ 371,888	\$ 341,296	30,592	9.0
Revenue from product sales utility	37,117	34,193	2,924	8.6	72,262	71,114	1,148	1.6
Service revenue	55,029	50,286	4,743	9.4	111,531	102,401	9,130	8.9
Financing and equipment lease income	710	907	(197)	(21.7)	1,457	1,962	(505)	(25.7)
Total revenue	280,943	252,567	28,376	11.2	557,138	516,773	40,365	7.8
Costs and expenses								
Cost of product sales	121,332	109,594	(11,738)	(10.7)	244,249	226,587	(17,662)	(7.8)
Cost of product sales utility	31,926	29,464	(2,462)	(8.4)				