Macquarie Infrastructure Corp
Form 10-Q
August 01, 2016

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2016

OR

o **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 CORPORATION

(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 x No o

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 x No o

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 x Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes o No x

There were 81,525,895 shares of common stock, with $0.001 par value, outstanding at August 1, 2016.

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MACQUARIE INFRASTRUCTURE CORPORATION

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Macquarie Infrastructure Corporation 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 Corporation.

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Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this quarterly report on Form 10-Q (Quarterly Report) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements may appear throughout this Quarterly Report, including without limitation, the Management s Discussion and Analysis of Financial Condition and Results of Operations section. We use words such as believe , intend , expect , anticipate , plan , may , will , shoul potential , project and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the risks identified in our Annual Report on Form 10-K for the year ended December 31, 2015, and in other reports we file from time to time with the Securities and Exchange Commission (SEC).

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

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PART I

FINANCIAL INFORMATION

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

The following discussion of the financial condition and results of operations of Macquarie Infrastructure Corporation should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein.

Macquarie Infrastructure Corporation is the successor to Macquarie Infrastructure Company LLC (MIC LLC) pursuant to the conversion (the Conversion) of MIC LLC from a Delaware limited liability company to a Delaware corporation on May 21, 2015. MIC LLC was formed on April 13, 2004.

Except as otherwise specified, all references in this Form 10-Q to MIC , we , us , and our refer (i) from and after th time of the Conversion, to Macquarie Infrastructure Corporation and its subsidiaries and (ii) prior to the Conversion, to our predecessor MIC LLC and its subsidiaries. Except as otherwise specified, all references in this Form 10-Q to common stock or shares refer (i) from and after the time of the Conversion, to common stock and (ii) prior to the Conversion, LLC interests. Macquarie Infrastructure Management (USA) Inc., which we refer to as our Manager, is part of the Macquarie Group, comprising Macquarie Group Limited and its subsidiaries and affiliates worldwide.

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

International-Matex Tank Terminals (IMTT): a bulk liquid terminals business providing bulk liquid storage, handling and other services to third parties at ten marine terminals in the United States and two in Canada;
Atlantic Aviation: a provider of fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) aircraft on 69 airports in the U.S.;
Contracted Power and Energy (CP&E) Segment: ownership of gas-fired and controlling interests in wind and solar power facilities in the U.S.; and
Hawaii Gas: a gas energy company processing and distributing gas and providing related services in Hawaii.

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

Overview

In addition to our results under U.S. GAAP, we use certain non-GAAP measures to assess the performance and prospects of our businesses.

In analyzing the financial performance of our businesses, we focus primarily on cash generation and Free Cash Flow in particular. We believe investors use Free Cash Flow as a measure of our ability to sustain and potentially increase our quarterly cash dividend.

In addition, we measure EBITDA excluding non-cash items, a component of Free Cash Flow, as it reflects our businesses ability to effectively manage the volume of products sold or services provided, the margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses.

We also use proportionately combined financial metrics, which reflects our ownership interest in each of our businesses and MIC Corporate. We use these measures to assess the amount of cash generated in proportion to our ownership interests in our businesses.

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See Management s Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations Consolidated Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Proportionately Combined Metrics* for further information on our calculation of Free Cash Flow, EBITDA excluding non-cash items and our proportionately combined metrics in Part I of this Form 10-Q.

At IMTT, we focus on providing bulk liquid storage for customers who place a premium on ease of access and operational flexibility. The substantial majority of IMTT s revenue is generated pursuant to take-or-pay contracts providing access to storage tank capacity and ancillary services.

At Atlantic Aviation, our focus is on attracting and maintaining relationships with GA aircraft owners and pilots and encouraging them to purchase fuel and other services from our fixed base operations (FBOs). Atlantic Aviation s revenue is correlated with 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.

The businesses that comprise our CP&E segment generate revenue by producing and selling electric power pursuant primarily to long-dated power purchase agreements (PPAs) and tolling agreements with creditworthy off-takers.

At Hawaii Gas, we focus on the provision of gas services to commercial, residential and governmental customers throughout the islands of Hawaii and seek to grow by increasing the number of customers served, the volume of gas sold and the margins achieved on gas sales. Hawaii Gas actively markets its products and services in an effort to develop new customers throughout Hawaii.

Dividends

Since January 1, 2015, MIC has paid or declared the following dividends:

Declared	Period Covered	$ per Share	Record Date	Payable Date
July 28, 2016	Second quarter 2016	$ 1.25	August 11, 2016	August 16, 2016
April 28, 2016	First quarter 2016	$ 1.20	May 12, 2016	May 17, 2016
February 18, 2016	Fourth quarter 2015	$ 1.15	March 3, 2016	March 8, 2016
October 29, 2015	Third quarter 2015	$ 1.13	November 13, 2015	November 18, 2015
July 30, 2015	Second quarter 2015	$ 1.11	August 13, 2015	August 18, 2015
April 30, 2015	First quarter 2015	$ 1.07	May 14, 2015	May 19, 2015
February 17, 2015	Fourth quarter 2014	$ 1.02	March 2, 2015	March 5, 2015

We currently intend to maintain, and where possible, increase our quarterly cash dividend to our shareholders. The MIC Board has authorized a quarterly cash dividend of $1.25 per share for the quarter ended June 30, 2016, or a 4.2% increase over the dividend for the quarter ended March 31, 2016 and 12.6% increase over the dividend for the quarter ended June 30, 2015. 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, subject to maintaining a prudent level of reserves and without creating undue volatility in the amount of such dividends where possible. Moreover, the Company s senior secured credit facility and the debt commitments at our businesses contain restrictions that may limit the Company s ability to pay dividends. Although historically we have declared cash dividends on our shares, any or all of these or other factors could result in the modification of our dividend policy, or the reduction, modification or elimination of our dividend in the future.

Over the long term, we believe we will distribute between 75% and 85% of the Free Cash Flow generated by our businesses as a cash dividend. We define Free Cash Flow as EBITDA excluding non-cash items, as defined below, less cash paid for interest, taxes and pension contributions and maintenance capital expenditures, which includes principal repayments on capital lease obligations used to fund maintenance capital expenditures. For the avoidance of doubt, base management fees and performance fees, if any, are excluded from the calculation of Free Cash Flow whether paid in cash or stock.

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Results of Operations

Consolidated

Key Factors Affecting Operating Results for the Quarter:

- an absence of performance fees incurred in 2015;
- an improved gross profit from the operating businesses; and
- a decrease in selling, general and administrative expenses.

Our consolidated results of operations are as follows:

	Quarter Ended June 30, 2016	Quarter Ended June 30, 2015	Change Favorable/(Unfavorable) $	Change Favorable/(Unfavorable) %	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Change Favorable/(Unfavorable) $	Change Favorable/(Unfavorable) %
	($ In Thousands, Except Share and Per Share Data) (Unaudited)							
Revenue								
Service revenue	$306,221	$327,809	(21,588)	(6.6)	$618,462	$653,811	(35,349)	(5.4)
Product revenue	91,358	95,880	(4,522)	(4.7)	175,504	168,376	7,128	4.2
Total revenue	397,579	423,689	(26,110)	(6.2)	793,966	822,187	(28,221)	(3.4)
Costs and expenses								
Cost of services(1)	120,857	148,417	27,560	18.6	237,320	281,834	44,514	15.8
Cost of product sales(1)	35,018	45,247	10,229	22.6	68,078	84,374	16,296	19.3
Gross profit	241,704	230,025	11,679	5.1	488,568	455,979	32,589	7.1
Selling, general and administrative	72,430	81,064	8,634	10.7	144,714	151,717	7,003	4.6
Fees to Manager-related party	16,392	154,559	138,167	89.4	31,188	319,832	288,644	90.2
Depreciation	59,662	51,801	(7,861)	(15.2)	112,883	109,223	(3,660)	(3.4)
Amortization of intangibles	16,713	17,902	1,189	6.6	34,500	65,873	31,373	47.6
Total operating expenses	165,197	305,326	140,129	45.9	323,285	646,645	323,360	50.0
Operating income (loss)	76,507	(75,301)	151,808	NM	165,283	(190,666)	355,949	186.7
Other income (expense)								
Interest income	25	7	18	NM	58	13	45	NM
Interest expense(2)	(39,502)	(22,342)	(17,160)	(76.8)	(96,397)	(53,863)	(42,534)	(79.0)
Other income, net	271	588	(317)	(53.9)	3,700	1,620	2,080	128.4
Net income (loss) before income taxes	37,301	(97,048)	134,349	138.4	72,644	(242,896)	315,540	129.9
(Provision) benefit for income taxes	(16,220)	33,531	(49,751)	(148.4)	(31,387)	88,864	(120,251)	(135.3)
Net income (loss)	$21,081	$(63,517)	84,598	133.2	$41,257	$(154,032)	195,289	126.8
Less: net income (loss) attributable to noncontrolling interests	1,889	(421)	(2,310)	NM	(290)	(1,934)	(1,644)	(85.0)
	$19,192	$(63,096)	82,288	130.4	$41,547	$(152,098)	193,645	127.3

Net income (loss) attributable to MIC								
Basic income (loss) per share attributable to MIC	$0.24	$(0.80)	1.04	130.0	$0.52	$(2.00)	2.52	126.0
Weighted average number of shares outstanding: basic	80,369,575	79,246,069	1,123,506	1.4	80,241,293	76,214,929	4,026,364	5.3

NM Not meaningful

(1) Cost of services and cost of product sales exclude depreciation.

(2) Interest expense includes losses on derivative instruments of $14.9 million and $46.7 million for the quarter and six months ended June 30, 2016, respectively. For the quarter and six months ended June 30, 2015, interest expense includes gains on derivative instruments of $3.5 million and losses on derivative instruments of $8.9 million, respectively.

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Results of Operations: *Consolidated* (continued)

Gross Profit

Consolidated gross profit increased for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 primarily reflecting improved results at Atlantic Aviation and Hawaii Gas. In addition, consolidated gross profit increased for the six months ended June 30, 2016 due to the contribution from the acquisition of Bayonne Energy Center (BEC) and improved wind and solar resources at the renewable portion of our CP&E business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 primarily as a result of the absence of transaction costs related to the BEC acquisition and costs associated with the Conversion. This decrease was partially offset by incremental selling, general and administrative expenses associated with BEC, costs associated with acquired FBOs and higher salaries and benefit costs at Atlantic Aviation.

Fees to Manager

Our Manager is entitled to a monthly base management fee based primarily on our market capitalization, and potentially a quarterly performance fee, based on the total shareholder return relative to a U.S. utilities index. For the quarter and six months ended June 30, 2016, we incurred base management fees of $16.4 million and $31.2 million, respectively, and no performance fees. For the quarter and six months ended June 30, 2015, we incurred base management fees of $18.9 million and $35.5 million, respectively, and performance fees of $135.6 million and $284.4 million, respectively. In accordance with the Third Amended and Restated Management Service Agreement, unless our Manager changes its current election, base management fees and performance fees, if any, are reinvested in additional shares of MIC.

The unpaid portion of the base management fees and performance fees, if any, at the end of each reporting period is included in Due to Manager-related party in the consolidated condensed balance sheets. The following table shows our Manager s reinvestment of its base management fees and performance fees, if any, in shares, except as noted:

Period	Base Management Fee Amount ($ in thousands)	Performance Fee Amount ($ in thousands)	Shares Issued
2016 Activities:			
Second quarter 2016	$ 16,392	$	232,835 (1)
First quarter 2016	14,796		234,179
2015 Activities:			
Fourth quarter 2015	$ 17,009	$	227,733
Third quarter 2015	18,118		226,914
Second quarter 2015	18,918	135,641	1,167,873 (2)
First quarter 2015	16,545	148,728	2,068,038

(1) Our Manager elected to reinvest all of the monthly base management fees for the second quarter of 2016 in shares. We issued 232,835 shares for the quarter ended June 30, 2016, including 77,440 shares that were issued on August 1, 2016 for the June 2016 monthly base management fee.

(2) In July 2015, our Board requested, and our Manager agreed, that $67.8 million of the performance fee for the quarter ended June 30, 2015 be settled in cash in July 2015 to minimize dilution. The remaining $67.8 million obligation was settled and reinvested in 944,046 shares by our Manager on August 1, 2016 using the June 2016 monthly volume weighted average share price of $71.84.

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Results of Operations: *Consolidated* (continued)

Depreciation

Depreciation expense increased for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 primarily due to the depreciation associated with FBOs acquired at Atlantic Aviation and tank replacements at IMTT. The increase in depreciation expense for the six months ended June 30, 2016 compared with the six months ended June 30, 2015 is also attributable to the depreciation associated with BEC, partially offset by the absence of non-cash impairments at Atlantic Aviation.

Amortization of Intangibles

Amortization of intangibles decreased for the six months ended June 30, 2016 compared with the six months ended June 30, 2015 primarily due to the absence of non-cash impairments at Atlantic Aviation recorded during the first quarter of 2015, partially offset by the incremental amortization of intangibles associated with BEC.

Interest Expense and (Losses) Gains on Derivative Instruments

Interest expense includes losses on derivative instruments of $14.9 million and $46.7 million for the quarter and six months ended June 30, 2016, respectively, compared with gains on derivative instruments of $3.5 million and losses on derivative instruments of $8.9 million for the quarter and six months ended June 30, 2015, respectively. Gains and losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. For the six months ended June 30, 2016, interest expense also included the non-cash write-off of deferred financing costs at Hawaii Gas related to the refinancing of its $80.0 million term loan debt and its $60.0 million revolving credit facility.

Excluding the derivative adjustments and deferred financing cost write-offs, interest expense decreased for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 primarily due to the lower interest rate and average debt balance at BEC, partially offset by the higher average debt balances at both IMTT and MIC Corporate.

As part of the refinancing of the IMTT debt in May 2015, IMTT paid $31.4 million in interest rate swap breakage fees related to the termination of out-of-the-money interest rate swap contracts related to prior debt facilities. See further discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* .

Income Taxes

We file a consolidated federal income tax return that includes the financial results for IMTT, Atlantic Aviation, BEC, Hawaii Gas and our allocable share of the taxable income (loss) from our solar and wind power facilities, which are treated as partnerships for tax purposes. Pursuant to the tax sharing agreement, the individual businesses included in our consolidated federal income tax return pay MIC an amount equal to the federal income taxes each would have paid on a standalone basis as if they were not part of the MIC consolidated federal income tax return.

The change from income tax benefit for the quarter and six months ended June 30, 2015 to income tax expense for the quarter and six months ended June 30, 2016 is primarily due to the absence of any tax benefit in 2016 associated with the performance fees incurred during the first half of 2015. The change in tax rate from a benefit of 36.6% for the six months ended June 30, 2015 to a tax expense of 43.2% for the six months ended June 30, 2016 was primarily attributable to the impact of the performance fee on taxable income for 2015.

For 2016, we expect any consolidated federal income tax liability to be fully offset by our net operating loss (NOL) carryforwards. We believe that we will be able to use all of our federal prior year NOLs. Our federal NOL balance at December 31, 2015 was $426.2 million. As a result of having federal NOL carryforwards, together with planned tax strategies, we do not expect to make regular federal tax payments until the second half of 2019. For the year ending December 31, 2016, we expect to report taxable income of approximately $75.0 million and pay approximately $600,000 in Alternative Minimum Tax.

Results of Operations: *Consolidated* (continued)

For 2016, we expect to pay state income taxes of approximately $9.7 million. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOL carryforwards, the use of which is uncertain.

Protecting Americans from Tax Hikes Act

On December 18, 2015, President Obama signed bill HR 2029, the Protecting Americans from Tax Hikes Act (PATH Act), into law. The PATH Act retroactively extends several tax provisions applicable to corporations, including the extension of 50% bonus depreciation for certain assets placed in service in 2015, 2016 and 2017, 40% bonus depreciation for eligible property placed in service in 2018 and 30% bonus depreciation for property placed in service in 2019. Other than the extension of the bonus depreciation provision, the Company does not expect the provisions of the PATH Act to have a material effect on its tax profile.

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

In addition to our results under U.S. GAAP, we use certain non-GAAP measures to assess the performance and prospects of our businesses.

In analyzing the financial performance of our businesses, we focus primarily on cash generation and Free Cash Flow in particular. We believe investors use Free Cash Flow as a measure of the Company s ability to sustain and potentially increase our quarterly cash dividend.

In addition, we measure EBITDA excluding non-cash items, a component of Free Cash Flow, as it reflects our businesses ability to effectively manage the volume of products sold or services provided, the margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses.

We also use proportionately combined financial metrics, which reflects our ownership interest in each of our businesses and MIC Corporate. We use these measures to assess the amount of cash generated in proportion to our ownership interests in our businesses. Given our varied ownership levels in some of our businesses, principally in the CP&E segment, together with our obligations to report the results of these businesses on a consolidated basis, management believes that GAAP measures such as net income (loss) do not fully reflect all of the items it considers in assessing the amount of cash generated based on its ownership interest in its businesses. We note that the proportionately combined metrics used may be calculated in a different manner by other companies and may limit their usefulness as a comparative measure. Therefore, proportionately combined metrics should be used as a supplemental measure to help understand our financial performance and not in lieu of our financial results reported under GAAP.

We define Free Cash Flow as EBITDA excluding non-cash items less cash paid for interest, taxes, pension contributions, and maintenance capital expenditures, including principal repayments on capital lease obligations used to fund maintenance capital expenditures. Thus, we view Free Cash Flow and EBITDA excluding non-cash items as key performance indicators with respect to the ongoing performance of our businesses and our ability to generate cash, in part in support of our dividend. In this Quarterly Report on Form 10-Q, we have disclosed Free Cash Flow on a consolidated basis and for each of our operating segments and MIC Corporate.

We define EBITDA excluding non-cash items as net income (loss) or earnings *the most comparable GAAP measure* before interest, taxes, depreciation and amortization and non-cash items including impairments, unrealized derivative gains and losses and adjustments for other non-cash items reflected in the statements of operations. EBITDA excluding non-cash items also excludes base management fees and performance fees, if any, whether paid in cash or stock.

We believe that both Free Cash Flow and EBITDA excluding non-cash items support a more complete understanding of the business factors and economic trends reflected in the financial performance of our businesses than would otherwise be achieved using GAAP results alone. Specifically, both Free Cash Flow and EBITDA excluding non-cash items reflect the ability of our businesses to generate cash on an ongoing basis. Our businesses can be characterized as owners of high-value, long-lived assets which tend to generate

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Results of Operations: *Consolidated* (continued)

Free Cash Flow in excess of GAAP net income as a result of: (i) non-cash depreciation, amortization and impairment charges; (ii) our ability to defer all or a portion of current federal income taxes; (iii) non-cash unrealized gains or losses on derivative instruments; and, (iv) various other non-cash items such as pension

expense, amortization of tolling liabilities and gains (losses) on disposal of assets. The non-cash pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses. In addition, management uses Free Cash Flow as a measure of our ability to sustain and potentially increase our quarterly cash dividend. We believe that external consumers of our financial statements, including investors and research analysts, use this metric to assess our performance and as an indicator of our success in generating a cash return on investment.

We do not consider Free Cash Flow to be a measure of liquidity because it does not fully reflect our ability to deploy generated cash for discretionary spending. It does not take into consideration required payments on indebtedness and other fixed obligations or the other cash items that are excluded when calculating Free Cash Flow. We note that Free Cash Flow may be calculated differently by other companies thereby limiting its usefulness as a comparative measure. Free Cash Flow should be used as a supplemental measure to help understand our financial performance and not in lieu of our financial results reported under GAAP.

Classification of Maintenance Capital Expenditures and Growth Capital Expenditures

We categorize capital expenditures as either maintenance capital expenditures or growth capital expenditures. As neither maintenance capital expenditure nor growth capital expenditure is a GAAP term, we have adopted a framework to categorize specific capital expenditures. In broad terms, maintenance capital expenditures primarily maintain our businesses at current levels of operations, capability, profitability or cash flow, while growth capital expenditures primarily provide new or enhanced levels of operations, capability, profitability or cash flow. We consider a number of factors to determine whether a specific capital expenditure will be classified as maintenance or growth.

In some cases, specific capital expenditures contain characteristics of both maintenance and growth capital expenditures. We do not bifurcate specific capital expenditures into growth and maintenance components. Each discrete capital expenditure is considered within the above framework and the entire capital expenditure is classified as either maintenance or growth.

A reconciliation of net income (loss) to EBITDA excluding non-cash items and EBITDA excluding non-cash items to Free Cash Flow, on a consolidated basis, is provided below, and similar reconciliations for each of our operating businesses and MIC Corporate follow:

	Quarter Ended June 30,		Change Favorable/(Unfavorable)		Six Months Ended June 30,		Change Favorable/(Unfavorable)	
	2016	2015	$	%	2016	2015	$	%
	($ In Thousands) (Unaudited)							
Net income (loss)	$21,081	$(63,517)			$41,257	$(154,032)		
Interest expense, net[1]	39,477	22,335			96,339	53,850		
	16,220	(33,531)			31,387	(88,864)		

Provision (benefit) for income taxes								
Depreciation	59,662	51,801			112,883	109,223		
Amortization of intangibles	16,713	17,902			34,500	65,873		
Fees to Manager-related party[(2)]	16,392	154,559			31,188	319,832		
Other non-cash (income) expense, net[(3)]	(2,761)	2,433			(4,795)	1,344		
EBITDA excluding non-cash items	$166,784	$151,982	14,802	9.7	$342,759	$307,226	35,533	11.6
EBITDA excluding non-cash items	$166,784	$151,982			$342,759	$307,226		
Interest expense, net[(1)]	(39,477)	(22,335)			(96,339)	(53,850)		
Adjustments to derivative instruments recorded in interest expense[(1)]	9,866	(12,387)			36,471	(7,034)		
Amortization of debt financing costs[(1)]	2,370	2,951			5,249	4,566		
Interest rate swap breakage fees		(31,385)				(31,385)		
Provision/benefit for income taxes, net of changes in deferred taxes	(1,662)	357			(4,168)	(448)		
Maintenance capital expenditures	(9,840)	(11,390)			(20,253)	(17,505)		
Free cash flow	$128,041	$77,793	50,248	64.6	$263,719	$201,570	62,149	30.8

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Results of Operations: *Consolidated* (continued)

(1) Interest expense, net, includes adjustment to derivative instruments and non-cash amortization of deferred financing fees. Interest expense also included a non-cash write-off of deferred financing fees related to the February 2016 refinancing at Hawaii Gas for the six months ended June 30, 2016 and a non-cash write-off of deferred financing costs related to the May 2015 refinancing at IMTT for the quarter and six months ended June 30, 2015.

(2) In July 2015, our Board requested, and our Manager agreed, that $67.8 million of the performance fee for the quarter ended June 30, 2015 be settled in cash in July 2015 to minimize dilution. The remaining $67.8 million obligation was settled and reinvested in 944,046 shares by our Manager on August 1, 2016 using the June 2016 monthly volume weighted average share price of $71.84.

(3) Other non-cash (income) expense, net, primarily includes non-cash pension expense, amortization of tolling liabilities, unrealized gains (losses) on commodity hedges and non-cash gains (losses) related to disposal of assets.

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

The following table is a reconciliation from Free Cash Flow on a consolidated basis to Free Cash Flow on a proportionately combined basis (in proportion to our interests). See Results of Operations *Consolidated* above for a reconciliation of Free Cash Flow Consolidated basis to net income (loss), the most comparable GAAP measure. See Results of Operations below for each of our segments for a reconciliation of Free Cash Flow for each segment to net income (loss) for such segment.

	Quarter Ended June 30,		Change Favorable/(Unfavorable)		Six Months Ended June 30,		Change Favorable/(Unfavorable)	
	2016	2015	$	%	2016	2015	$	%
	($ In Thousands) (Unaudited)							
Free Cash Flow Consolidated basis	$128,041	$77,793	50,248	64.6	$263,719	$201,570	62,149	30.8
100% of CP&E Free Cash Flow included in consolidated Free Cash Flow	(17,871)	(4,341)			(29,814)	(7,030)		
MIC s share of CP&E Free Cash Flow	16,147	2,863			25,807	4,456		
Free Cash Flow Proportionately Combined basis	$126,317	$76,315	50,002	65.5	$259,712	$198,996	60,716	30.5

Results of Operations: *IMTT*

Key Factors Affecting Operating Results for the Quarter:

an increase in gross profit primarily due to:
a decrease in cost of services;
an increase in heating gross profit; and
an increase in revenue from firm commitments; partially offset by

a decline in gross profit from spill response activities.

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Results of Operations: *IMTT* (continued)

	Quarter Ended June 30, 2016	2015	Change Favorable/(Unfavorable)		Six Months Ended June 30, 2016	2015	Change Favorable/(Unfavorable)	
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	128,218	142,384	(14,166)	(9.9)	263,643	280,445	(16,802)	(6.0)
Cost of services[(1)]	46,459	61,052	14,593	23.9	96,760	114,643	17,883	15.6
Gross profit	81,759	81,332	427	0.5	166,883	165,802	1,081	0.7
General and administrative expenses	7,790	8,302	512	6.2	15,964	16,006	42	0.3
Depreciation and amortization	35,282	31,673	(3,609)	(11.4)	67,903	67,552	(351)	(0.5)
Operating income	38,687	41,357	(2,670)	(6.5)	83,016	82,244	772	0.9
Interest expense, net[(2)]	(13,764)	(6,263)	(7,501)	(119.8)	(33,635)	(13,169)	(20,466)	(155.4)
Other income, net	464	769	(305)	(39.7)	3,452	1,401	2,051	146.4
Provision for income taxes	(10,409)	(14,659)	4,250	29.0	(21,638)	(28,748)	7,110	24.7
Net income[(3)]	14,978	21,204	(6,226)	(29.4)	31,195	41,728	(10,533)	(25.2)
Less: net income attributable to noncontrolling interests		108	108	100.0	59	358	299	83.5
Net income attributable to MIC[(3)]	14,978	21,096	(6,118)	(29.0)	31,136	41,370	(10,234)	(24.7)
Reconciliation of net income to EBITDA excluding non-cash items and Free Cash Flow:								
Net income[(3)]	14,978	21,204			31,195	41,728		
Interest expense, net[(2)]	13,764	6,263			33,635	13,169		
Provision for income taxes	10,409	14,659			21,638	28,748		
Depreciation and amortization	35,282	31,673			67,903	67,552		
Other non-cash expense, net[(4)]	1,946	1,849			4,220	2,855		
EBITDA excluding non-cash items	76,379	75,648	731	1.0	158,591	154,052	4,539	2.9
EBITDA excluding non-cash items	76,379	75,648			158,591	154,052		
Interest expense, net[(2)]	(13,764)	(6,263)			(33,635)	(13,169)		
Adjustments to derivative instruments recorded in interest expense[(2)]	3,546	(3,955)			13,156	(6,334)		
Amortization of debt financing costs[(2)]	411	1,416			831	1,529		
Interest rate swap breakage fees		(31,385)				(31,385)		
Provision for income taxes, net of changes in deferred taxes	(937)	473			(2,167)	(104)		
Maintenance capital expenditures	(6,942)	(6,043)			(13,239)	(8,514)		
Free cash flow	58,693	29,891	28,802	96.4	123,537	96,075	27,462	28.6

(1) Cost of services excludes depreciation.

(2) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees. For the quarter and six months ended June 30, 2015, interest expense also includes non-cash write-off of deferred financing costs related to the May 2015 refinancing.

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

(4) Other non-cash expense, net, primarily includes non-cash adjustments related to pension expense and non-cash gains (losses) related to disposal of assets.

Revenue

IMTT generates the majority of its revenue from contracts typically comprising a fixed monthly charge (that escalates annually with inflation) for access to or use of its infrastructure. We refer to revenue generated from such contracts or fixed charges as firm commitments. Firm commitments are generally of medium term duration and at the end of the second quarter in 2016, had a revenue weighted average remaining life of approximately two and half years.

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Results of Operations: *IMTT* (continued)

For the quarter and six months ended June 30, 2016, total revenue decreased by $14.2 million and $16.8 million, respectively, compared to the quarter and six months ended June 30, 2015, primarily as a result of: a reduced level of spill response activity on the part of IMTT s subsidiary OMI Environmental Solutions (OMI); a decrease in rail services revenue principally in connection with the reduction in demand for Canadian crude oil in the U.S.; and a reduction in heating revenue attributable to the warmer weather in the first quarter of 2016. Revenue at OMI for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 declined by an amount greater than the overall decrease in revenue. These reductions in total revenue were partially offset by an increase in revenue from firm commitments primarily attributable to higher utilization rates and an increase in ancillary services in both the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015. In addition, in the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015, heating revenue increased. Revenue from firm commitments comprised 84.2% of total revenue in the quarter ended June 30, 2016.

Consistent with strong demand patterns across petroleum product storage markets, capacity utilization was higher than historically normal levels at 96.3% and 96.2% for the quarter and six months ended June 30, 2016, respectively, compared with 94.5% and 94.8% for the quarter and six months ended June 30, 2015, respectively. The business expects utilization rates to revert to historical levels of 94% to 96% in the medium term.

Costs (Cost of Services and General and Administrative Expenses)

Costs were 21.8% and 13.7% lower in the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015, respectively. The reduction in costs was primarily the result of lower costs associated with OMI as a result of lower level of spill related activity, lower fuel costs, improved cost controls and the continued realization of efficiencies following the acquisition of the remaining 50% interest in IMTT in 2014 (IMTT Acquisition).

Depreciation and Amortization

Depreciation and amortization expense increased for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 primarily due to tank replacements.

Interest Expense, net

Interest expense includes losses on derivative instruments of $4.6 million and $15.4 million for the quarter and six months ended June 30, 2016, respectively, compared with gains on derivative instruments of $811,000 and losses on derivative instruments of $1.3 million for the quarter and six months ended June 30, 2015, respectively. Excluding the derivative adjustments, interest expense increased for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 due to a higher average debt balance partially offset by lower interest rates. The weighted average interest rate on all outstanding debt facilities, including interest rate swaps, was 3.39% at June 30, 2016.

Cash interest paid totaled $16.0 million and $19.5 million for the quarter and six months ended June 30, 2016, respectively, compared with $6.3 million and $15.5 million for the quarter and six months ended June 30, 2015, respectively. Cash interest paid was higher for both the quarter and six months ended June 30, 2016 primarily due to a higher average debt balance. In addition, cash interest paid was higher for the quarter ended June 30, 2016 compared with the quarter ended June 30, 2015 due to the timing of interest payments on the senior notes, which are paid semi-annually.

As part of the refinancing of its debt in May 2015, IMTT paid $31.4 million in interest rate swap breakage fees related to the termination of out-of-the-money interest rate swap contracts related to prior debt facilities. See further discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* .

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Results of Operations: *IMTT* (continued)

Other Income, net

IMTT and its customers maintain insurance against the loss of use or damage to IMTT s facilities. The business incurred losses in connection with damage done to various docks in Bayonne and Gretna. Insurance recoveries of approximately $2.5 million were recorded during the first quarter of 2016.

Income Taxes

The federal taxable income generated by IMTT is reported as part of our consolidated federal tax return. The business files state income tax returns in the states in which it operates. For 2016, the business expects to pay state income taxes of approximately $4.7 million. The Provision for income taxes, net of changes in deferred taxes of $2.2 million for the six months ended June 30, 2016 in the above table includes $1.8 million of state income taxes and $403,000 of federal income taxes payable to MIC. Any current federal income taxes payable is expected to be offset in consolidation with the application of MIC s NOLs.

The 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 between 2012 through 2015 qualified for the federal 50% bonus tax depreciation. A significant portion of Louisiana terminalling fixed assets constructed after Hurricane Katrina were 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, and do not qualify for bonus depreciation. Most of the states in which the business operates do not allow the use of 50% bonus tax depreciation. However, Louisiana allows the use of 50% bonus depreciation except for assets financed with GO Zone Bonds.

Maintenance Capital Expenditures

For the six months ended June 30, 2016, IMTT incurred maintenance capital expenditures of $13.2 million and $15.0 million on an accrual basis and cash basis, respectively, compared with $8.5 million and $6.9 million on an accrual basis and cash basis, respectively, for the six months ended June 30, 2015. The increase in maintenance capital expenditures for the six months ended June 30, 2016 was a result of lower spending in the first half of 2015 as IMTT was implementing processes and procedures around cost controls and maintenance capital expenditure planning. IMTT anticipates deploying between $30.0 million and $35.0 million in maintenance capital expenditures for full year 2016.

Other Matters

A portion of the labor force at IMTT s Bayonne, NJ facility is unionized. The collective bargaining agreement under which the unionized employees have been working was originally scheduled to expire on June 20, 2016. Negotiation of a new agreement is underway and the expiration of the current contract has been extended through August 20, 2016 to facilitate additional discussions between IMTT management and the union representatives. The business has commenced implementation of contingency plans in the event of work stoppage/job action.

Results of Operations: *Atlantic Aviation*

Key Factors Affecting Operating Results for the Quarter:

- an increase in same store gross profit; and
- contribution from acquired FBOs; partially offset by;
- higher selling, general and administrative expenses.

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Results of Operations: *Atlantic Aviation* (continued)

	Quarter Ended June 30,		Change Favorable/(Unfavorable)		Six Months Ended June 30,		Change Favorable/(Unfavorable)	
	2016	2015			2016	2015		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	179,218	185,425	(6,207)	(3.3)	357,206	373,366	(16,160)	(4.3)
Cost of services[1]	74,440	87,365	12,925	14.8	140,602	167,191	26,589	15.9
Gross profit	104,778	98,060	6,718	6.9	216,604	206,175	10,429	5.1
Selling, general and administrative expenses	51,381	50,037	(1,344)	(2.7)	103,992	102,046	(1,946)	(1.9)
Depreciation and amortization	24,702	21,810	(2,892)	(13.3)	46,893	81,525	34,632	42.5
Operating income	28,695	26,213	2,482	9.5	65,719	22,604	43,115	190.7
Interest expense, net[2]	(8,924)	(5,605)	(3,319)	(59.2)	(22,238)	(18,690)	(3,548)	(19.0)
Other (expense) income, net	(49)	(65)	16	24.6	341	(637)	978	153.5
Provision for income taxes	(7,973)	(8,275)	302	3.6	(17,715)	(1,586)	(16,129)	NM
Net income[3]	11,749	12,268	(519)	(4.2)	26,107	1,691	24,416	NM
Reconciliation of net income to EBITDA excluding non-cash items and Free Cash Flow:								
Net income[3]	11,749	12,268			26,107	1,691		
Interest expense, net[2]	8,924	5,605			22,238	18,690		
Provision for income taxes	7,973	8,275			17,715	1,586		
Depreciation and amortization	24,702	21,810			46,893	81,525		
Other non-cash expense, net[4]	356	748			282	1,473		
EBITDA excluding non-cash items	53,704	48,706	4,998	10.3	113,235	104,965	8,270	7.9
EBITDA excluding non-cash items	53,704	48,706			113,235	104,965		
Interest expense, net[2]	(8,924)	(5,605)			(22,238)	(18,690)		
Adjustments to derivative instruments recorded in interest expense[2]	1,179	(2,485)			6,787	2,581		
Amortization of debt financing costs[2]	905	806			1,705	1,614		
Provision for income taxes, net of changes in deferred taxes	(910)	(278)			(2,362)	(633)		
Maintenance capital expenditures	(1,457)	(3,558)			(3,741)	(6,181)		
Free cash flow	44,497	37,586	6,911	18.4	93,386	83,656	9,730	11.6

NM Not meaningful

(1) Cost of services excludes depreciation.

(2)

Key Factors Affecting Operating Results for the Quarter:

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

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

(4) Other non-cash expense, net, primarily includes non-cash gains (losses) related to disposal of assets.

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Results of Operations: *Atlantic Aviation* (continued)

Revenue and Gross Profit

The majority of the revenue and gross profit earned by Atlantic Aviation is generated through fueling GA aircraft at facilities located on 69 U.S. airports at which Atlantic Aviation operates. The business generally pursues a strategy of maintaining and, where appropriate, increasing dollar-based margins. Generally, fluctuations in the cost of fuel are passed through to the customer.

Revenue and gross profit are driven by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales. Despite an increase in the volume of fuel sold, revenues decreased in the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 as a result of a significant decline in the wholesale cost of fuel. However, the decline in the cost of fuel more than offset the reduction in revenue. In the six months ended June 30, 2016, the increase in gross profit was partially offset by lower deicing gross profit due to relatively warmer winter weather.

Our presentation of same store results in the current and prior comparable periods reflects contributions from FBOs that have been in operation for the same full months in each period, but excludes the costs of acquiring, integrating or disposing of FBOs. On a same store basis, gross profit increased 4.8% and 4.5% in the quarter and six months ended June 30, 2016, respectively, compared with the quarter and six months ended June 30, 2015 driven by an increase in fuel gross profit, other services and hangar rentals.

Atlantic Aviation seeks to extend FBO leases prior to their maturity to improve our visibility into the cash generating capacity of these assets. Atlantic Aviation calculates the weighted average lease life based on EBITDA excluding non-cash items in the prior calendar year adjusted for the impact of acquisitions/dispositions. At June 30, 2016, the weighted average lease life increased to 19.5 years compared with 18.4 years at June 30, 2015, notwithstanding the passage of one year, as a result of successful extension and acquisition of leaseholds.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased in the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 primarily due to costs associated with acquired FBOs and higher salaries and benefit costs. On a same store basis, costs were 1.4% and 2.3% higher in the quarter and six months ended June 30, 2016, respectively, compared with the quarter and six months ended June 30, 2015.

Depreciation and Amortization

Depreciation and amortization expense increased for quarter ended June 30, 2016 compared with quarter ended June 30, 2015 due to depreciation associated with FBOs acquired. Depreciation and amortization expense decreased for the six months ended June 30, 2016 compared with the six months ended June 30, 2015 primarily as a result of the absence of non-cash impairment. The non-cash impairments incurred during the first quarter of 2015 were attributable to the reassessment of the useful lives of contractual arrangements and leasehold and land improvements related to leases at certain airports and change in the lease contract at one of the bases.

Interest Expense, Net

Interest expense includes losses on derivative instruments of $3.3 million and $11.0 million for the quarter and six months ended June 30, 2016, respectively, compared with gains on derivative instruments of $371,000 and losses on derivative instruments of $6.8 million for the quarter and six months ended June 30, 2015, respectively. Excluding the derivative adjustments, interest expense decreased for the quarter and six months ended June 30, 2016 compared with the quarter and six months ended June 30, 2015 due to lower average debt balances. The weighted average interest rate on all outstanding debt facilities, including interest rate swaps, was 4.63% at June 30, 2016. Cash interest paid was $6.8 million and $13.7 million for the quarter and six months ended June 30, 2016, respectively, compared with $7.2 million and $14.4 million for the quarter and six months ended June 30, 2015, respectively.

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Results of Operations: *Atlantic Aviation* (continued)

Income Taxes

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

For 2016, the business expects to pay state income taxes of approximately $3.3 million. The Provision for income taxes, net of changes in deferred taxes of $2.4 million for the six months ended June 30, 2016 in the above table includes $1.5 million of state income taxes and $881,000 of federal income taxes payable to MIC. Any current federal income taxes payable is expected to be offset in consolidation with the application of MIC s NOLs.

Maintenance Capital Expenditures

For the six months ended June 30, 2016, Atlantic Aviation incurred maintenance capital expenditures of $3.7 million and $4.0 million on an accrual basis and cash basis, respectively, compared with $6.2 million and $6.4 million on an accrual basis and cash basis, respectively, for the quarter and six months ended June 30, 2015. Maintenance capital expenditures for the periods presented were primarily to fund replacement of equipment at existing locations.

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Results of Operations: *Contracted Power and Energy*

Key Factors Affecting Operating Results for the Quarter:

- an absence of acquisition costs related to BEC; and
- an increase in revenue and gross profit from improved solar and wind output.

	Quarter Ended June 30,		Change Favorable/(Unfavorable)		Six Months Ended June 30,		Change Favorable/(Unfavorable)	
	2016	2015			2016	2015		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	38,300	36,121	2,179	6.0	68,479	47,953	20,526	42.8
Cost of product sales[1]	5,794	5,136	(658)	(12.8)	10,151	7,783	(2,368)	(30.4)
Gross profit	32,506	30,985	1,521	4.9	58,328	40,170	18,158	45.2
Selling, general and administrative expenses	6,547	14,170	7,623	53.8	12,507	16,808	4,301	25.6
Depreciation and amortization	13,847	13,854	7	0.1	27,693	21,299	(6,394)	(30.0)
Operating income								