

Macquarie Infrastructure Corp  
Form 10-K  
February 20, 2019

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

**FORM 10-K**

(Mark One)

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

**For the Fiscal Year Ended December 31, 2018**

**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 CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

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Delaware  
(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)

Registrant's Telephone Number, Including Area Code: **(212) 231-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Exchange on Which Registered:
Common stock, par value \$0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the outstanding shares of stock held by non-affiliates of Macquarie Infrastructure Corporation at June 30, 2018 was \$3,177,277,457 based on the closing price on the New York Stock Exchange on that date. This calculation does not reflect a determination that persons are affiliates for any other purposes.

There were 85,860,351 shares of common stock, with \$0.001 par value, outstanding at February 15, 2019.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The definitive proxy statement relating to Macquarie Infrastructure Corporation's Annual Meeting of Stockholders for fiscal year ended December 31, 2018, to be held May 15, 2019 is incorporated by reference in Part III to the extent described therein.

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## FORWARD-LOOKING STATEMENTS

We have included or incorporated by reference into this report, and from time to time may make in our public filings, press releases or other public statements, certain statements that may constitute forward-looking statements. These include without limitation those under Business in Part I, Item 1, Risk Factors in Part I, Item 1A, Legal Proceedings in Part I, Item 3, Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, and Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A. In addition, our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. We may, in some cases, use words such as project, believe, anticipate, plan, expect, estimate, intend, should, would, could, potentially, convey uncertainty of future events or outcomes to identify these forward-looking statements.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results to differ materially from those contained in any forward-looking statements made by us. Any such forward-looking statements are qualified by reference to the following cautionary statements.

Forward-looking statements in this report are subject to a number of risks and uncertainties, some of which are beyond our control, including, among other things:

changes in general economic, business or demographic conditions or trends in the U.S., including changes in GDP, interest rates and inflation, or changes in the political environment;

any event or occurrence that may limit our ability to pay or increase our dividend;

our ability to conclude a sufficient number of attractive growth projects, deploy growth capital in amounts consistent with our objectives in the prosecution of those and achieve targeted risk-adjusted returns on any growth project;

our ability to implement operating and internal growth strategies;

our ability to achieve targeted cost savings whether through the implementation of a shared services center or otherwise;

changes in demand and the markets for chemical, petroleum and vegetable and tropical oil products, the relative availability of tank storage capacity and the extent to which such products are imported or exported;

changes in patterns of commercial or general aviation (GA) air travel, including variations in customer demand; the regulatory environment, including federal and state level energy policy, and the ability to estimate compliance costs, comply with any changes thereto, rates implemented by regulators, and the relationships and rights under and contracts with governmental agencies and authorities;

disruptions or other extraordinary or force majeure events and the ability to insure against losses resulting from such events or disruptions;

sudden or extreme volatility in commodity prices;

changes in competitive dynamics affecting our businesses;

technological innovations leading to changes in energy production, distribution and consumption patterns; our ability to make, finance and integrate acquisitions and the quality of financial information and systems of acquired entities;

fluctuations in fuel costs, or the costs of supplies upon which our gas processing and distribution business is dependent, and the ability to recover increases in these costs from customers;

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our ability to service, comply with the terms of and refinance at maturity our indebtedness, including due to dislocation in debt markets;

our ability to make alternate arrangements to account for any disruptions or shutdowns that may affect suppliers facilities or the operation of the barges upon which our gas processing and distribution business is dependent;

environmental risks, including the impact of climate change and weather conditions;

sudden or substantial changes in energy costs;

unplanned outages and/or failures of technical and mechanical systems;

security breaches, cyber-attacks or similar disruptions to our operations;

payment of performance fees, if any, and base management fees to the Manager that could reduce distributable cash if paid in cash or could dilute existing stockholders if satisfied with the issuance of shares;

changes in U.S. income tax laws;

changes in labor markets, work interruptions or other labor stoppages;

our Manager's affiliation with the Macquarie Group or equity market sentiment, which may affect the market price of our shares;

our limited ability to remove the Manager for underperformance and the Manager's right to resign;

governmental shutdowns or budget delays;

unanticipated or unusual behavior of municipalities and states brought about by financial distress; and

the extent to which federal spending reduces the U.S. military presence in Hawaii or flight activity at airports at which Atlantic Aviation operates.

Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. A description of risks that could cause our actual results to differ appears under the caption "Risk Factors" in Part I, Item 1A and elsewhere in this report. It is not possible to predict or identify all risk factors and you should not consider that description to be a complete discussion of all potential risks or uncertainties that could cause our actual results to differ.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. The forward-looking events discussed in this report may not occur. These forward-looking statements are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult further disclosures we may make in future filings with the Securities and Exchange Commission (SEC).

**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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## PART I

### ITEM 1. BUSINESS

MIC is a Delaware corporation formed on May 21, 2015. MIC's predecessor, Macquarie Infrastructure Company LLC, was formed on April 13, 2004. Except as otherwise specified, all references in this Form 10-K to MIC, we, us, and our refer to Macquarie Infrastructure Corporation and its subsidiaries.

#### MIC Level Strategy

We own, operate and intend to expand our portfolio of infrastructure and infrastructure-like businesses with the objective of increasing the amount of Free Cash Flow generated by these businesses over time. Currently, we are focused on three priorities in pursuit of this strategy:

1. Investing in high-value, long-lived physical assets and extending the duration of revenue generating contracts or concessions;
2. Prudently managing our financial resources by pursuing projects with returns appropriately in excess of our cost of capital that are expected to increase the cash generating capacity of our businesses over the long term; and
3. Enhancing our financial strength and flexibility by maintaining an appropriate level of debt relative to the cash generating capacity of our businesses and by optimizing the cost and tenor of such debt.

We expect these efforts will, collectively, produce growth in the amount of cash generated by our businesses consistent with maintaining the highest level of environmental, health and safety and governance standards.

#### General

We currently own and operate a portfolio of businesses that provide services to other businesses, government agencies and individuals primarily in the U.S. The businesses we own and operate are organized into four segments:

**International-Matex Tank Terminals (IMTT):** a business providing bulk liquid terminalling services to third parties at 17 terminals in the U.S. 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) jet aircraft at 70 airports throughout the U.S.;

**MIC Hawaii:** comprising an energy company that processes and distributes gas and provides related services (Hawaii Gas) and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii; and

**Corporate and Other:** comprised of MIC Corporate (holding company), our shared services center and other smaller businesses.

Effective October 1, 2018, the Bayonne Energy Center (BEC) and substantially all of our portfolio of solar and wind power generation businesses were classified as discontinued operations and our Contracted Power segment was eliminated. The remaining renewable power development businesses have been reported as components of Corporate and Other. All prior comparable periods have been restated to reflect this change. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Recent Developments* for further discussions.

We buy, develop and invest in the growth of our businesses based on a general assumption that we will own them indefinitely. It is neither our intent nor our expectation that we will divest of a business at a particular point in our



ownership or as a result of having achieved certain targets, financial or otherwise. This view of ownership as a long-term relationship does not preclude sales of all or portions of businesses when we believe that we have either maximized the amount of value in the asset relative to our capability, or the asset is more highly valued by another owner. We may, depending on our ability to access additional debt or equity capital on what we consider attractive terms, sell businesses or assets to generate capital for reinvestment in new or existing businesses at what we believe could be improved returns. With respect to new

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developments, sales of these assets may occur more opportunistically. In general, we have redeployed the proceeds from asset sales in the development of our remaining businesses either through investment in growth projects or acquisitions of small, bolt-on operations consistent with our view of MIC as a long-term owner.

Managing the deployment of growth capital effectively has been and is expected to continue to be an important part of our strategy and the creation of stockholder value. Our sources of growth capital include the retained capital generated by our businesses but not distributed as a cash dividend to our stockholders, capital generated through the issuance of additional debt and/or equity securities, or the proceeds from the sale of entire or portions of certain businesses. Over time, we expect to deploy growth capital of \$300.0 million to \$350.0 million per year in projects and bolt-on acquisitions across all of our businesses. Importantly, although we find value in diversification and the generally uncorrelated nature of the businesses in our current portfolio, we are not obligated to invest in the growth of any one business or segment or the addition of any new segment. We currently expect that, given the relative size of the business, the attractiveness of available opportunities and the tax benefits associated with investing in high-value, physical-asset backed opportunities, a disproportionate share of the growth capital we deploy over the near term will be deployed into projects at IMTT.

Equally important, we seek to drive stockholder value by focusing on business performance improvement. These efforts include upgrading systems and technology, implementing data analytics tools, developing cross business efficiencies and deploying enterprise-wide procurement strategies among others. In 2017, we formed MIC Global Services (MGS), a new entity into which we have consolidated support functions across all of our businesses. We believe that MGS will generate significant savings relative to the cost of maintaining these functions separately in each of our operating companies. A majority of the costs associated with the operation of MGS are allocated to our operating companies. Any unallocated MGS costs are reported as a component of our Corporate and Other segment.

## **Businesses**

Our businesses, in general, are defined by a combination of the following characteristics:

- ownership of long-lived, high-value physical assets that are difficult to replicate or substitute for;
  - as a platform for the deployment of growth capital;
  - broadly consistent demand for their services over the longer term;
- relatively high operational leverage, such that increases in top-line growth can generate larger increases in earnings before interest, taxes, depreciation and amortization (EBITDA);
  - the provision of basic, often essential services;
  - generally predictable maintenance capital expenditure requirements; and
- generally favorable competitive positions, largely due to high barriers to entry, including:
  - high initial development and construction costs;
  - difficulty in obtaining suitable land on which to operate;
  - high costs of customer switching;
  - long-term concessions, leases or customer contracts; and
  - lack of immediate, cost-effective alternatives for the services provided.

The different businesses that comprise our Company exhibit these above characteristics to different degrees at different times. For example, a more macro-economically correlated business like Atlantic Aviation may exhibit more volatility during periods of economic downturn than businesses with substantially contracted revenue streams. While not every business we own will meet all of the general criteria described above, we seek to own a diversified portfolio of businesses that possesses a balance of these characteristics.

In addition to the benefits associated with these characteristics, net margins generated by most of our businesses tend to keep pace with historically normal rates of inflation. The price escalators built into many

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customer contracts, and the inflation and cost pass-through adjustments that are typically included in pricing, serve to insulate our businesses to a significant degree from the negative effects of inflation and commodity price fluctuations.

## **Our Manager**

We are a party to a Management Services Agreement with Macquarie Infrastructure Management (USA) Inc. (Manager). Our Manager is a member of the Macquarie Group, a diversified international provider of financial, advisory and investment services. The Macquarie Group is headquartered in Sydney, Australia and is a global leader in the management of infrastructure investment vehicles on behalf of third-party investors and an advisor on the acquisition, disposition and financing of infrastructure assets.

Effective November 1, 2018, our Manager waived two portions of the base management fee to which it is entitled under the terms of the Third Amended and Restated Management Services Agreement (Management Service Agreement). Our Manager reserves the right to revoke the waivers and revert to the prior terms of the agreement, subject to providing the Company with not less than a one year notice. We pay our Manager a monthly base management fee of 1% of our equity market capitalization less any cash balances at the holding company. For this, in accordance with the Management Services Agreement, the Manager provides normal ongoing corporate center functions such as facilities, technology, employee benefits and access to services including human resources, legal, finance, tax and accounting among others. Our Manager is responsible for and oversees the management of our operating businesses, subject to the oversight and supervision of our board of directors. Our Manager compensates and has assigned, or seconded, to us employees to serve as our chief executive officer and chief financial officer on a full-time basis. It also compensates and seconds, or makes available, other personnel as required. MIC has no employees at the holding company level.

Our Manager may also earn a performance fee if the quarterly total return (capital appreciation plus dividends) for our stockholders is positive and exceeds the quarterly total return of a U.S. utilities index benchmark both in the quarter and cumulatively. If payable, the performance fee is equal to 20% of the difference between the benchmark return and the total return for our stockholders during the quarter. Per the terms of the Management Services Agreement, our Manager currently reinvests any base management or performance fees in new primary shares of the Company. The Manager may elect to receive either base management or performance fees, if any, in cash but may only change its election during a 20 trading day window following our earnings release. Any change would apply to fees to which it was entitled thereafter.

## **Our Businesses**

### **Use of Non-GAAP measures**

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 particular, we use EBITDA excluding non-cash items, Free Cash Flow and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect our proportionate interest in our solar and wind facilities, substantially all of which are in discontinued operations.

We measure EBITDA excluding non-cash items as it reflects our businesses' ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those 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 and to fund a portion of our growth.

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See Management's Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations - Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* for further information, including our definition and calculation of EBITDA excluding non-cash items, Free Cash Flow and our proportionately combined metrics and for reconciliations of non-GAAP measures to the most comparable GAAP measures.

## **IMTT**

### **Industry Overview**

Bulk liquid terminals provide important infrastructure in the supply chain for a broad range of liquid commodities (see below). Bulk liquid terminals provide vital logistics services to oil producers and marketers, refiners, chemical manufacturers, food processors and commodity traders. Customers typically pay terminal operators such as IMTT on an availability or take or pay basis to provide tank capacity, loading and unloading access, and pipeline and trans-loading capacity, and also pay additional fees for ancillary services such as heating, blending and packaging.

A number of factors influence demand for bulk liquid terminals in the U.S. Demand for storage rises and falls according to local and regional consumption. In addition, import and export activity accounts for a material portion of the business. Shippers require storage for the staging, aggregation and/or distribution of products before and after transport. The extent of import/export activity depends on macroeconomic factors, such as currency fluctuations, as well as industry-specific conditions, such as supply and demand imbalances in different geographic regions. Demand for storage is also driven by fluctuations in the current and perceived future price and demand for the product being stored and the resulting temporal price arbitrage.

Potential entrants into the bulk liquid terminals business face several barriers. Strict environmental regulations, availability of suitable land with connectivity to pipeline and transport logistics, including marine, road and rail infrastructure, local community resistance and initial investment costs may limit the construction of new bulk liquid terminals. These barriers are typically higher around waterways near major urban centers. As a consequence, new tanks are generally built where existing docks, pipelines and other infrastructure can support them. However, restrictions on land use, difficulties in securing environmental permits, and the potential for operational bottlenecks due to constraints on related infrastructure may limit the ability of existing terminals to expand the storage capacity of their facilities.

### **Business Overview**

IMTT is one of the largest providers of independent, or third-party, bulk liquid terminal services in the U.S., based on capacity. IMTT handles products consumed by a diverse range of users in both domestic and foreign markets. IMTT stores or handles primarily refined petroleum products, various commodity and specialty chemicals, renewable fuels and vegetable and tropical oils (collectively liquid commodities). Crude oil constitutes an immaterial portion of IMTT's overall storage and handling operations. The business operates 19 terminals including 17 in the U.S. and two in Canada (one partially owned) with principal operations in the New York Harbor market and on the Lower Mississippi River.

Since our initial investment in IMTT in May 2006, we have deployed capital in the growth and development of additional storage capacity, facilities and related infrastructure (pipes, pumps, docks, etc.) and acquisitions of facilities in Illinois and a portfolio of terminals primarily in the U.S. Southeast. Consistent with IMTT's strategy below, we expect to be able to continue to deploy capital in the growth and expansion of storage capacity and capabilities and to

generate attractive risk-adjusted returns.

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The table below summarizes the revenue generated by product type by IMTT for the year ended December 31, 2018:

Refined Products	Chemical	Renewable/Vegetable & Tropical Oil	Crude Oil	Other
54%	29 %	7 %	2 %	8 % <sup>(1)</sup>

- (1) Includes 3% of revenues from OMI Environmental Solutions through its date of sale in April 2018. Following is summary financial information for IMTT (\$ in millions):

	As of, and for the Year Ended, December 31,		
	2018	2017	2016
Revenue	\$ 510.8	\$ 549.4	\$ 532.5
Net income <sup>(1)</sup>	65.3	363.0	83.1
EBITDA excluding non-cash items <sup>(2)</sup>	286.6	326.2	321.9
Total assets	4,020.5	4,109.4	3,978.4

Net income for 2017 includes the impact of the Tax Cuts and Jobs Act. See Management's Discussion and Analysis (1) of Financial Condition and Results of Operations *Results of Operations IMTT* in Part II, Item 7, for further discussions.

See Business *Our Businesses* in Part I, Item 1 and Management's Discussion and Analysis of Financial Condition (2) and Results of Operations *Results of Operations* in Part II, Item 7, for further information and a reconciliation of net income (loss) to EBITDA excluding non-cash items.

**Locations**

As of December 31, 2018, IMTT comprised the following facilities and storage capacity, not including tanks used in packaging, recovery tanks, and/or other storage capacity not typically leased.

Facility	Land	Aggregate Capacity of Storage Tanks in Service (Millions of Barrels)	Percent of Ownership
<b>Facilities in the United States:</b>			
Lower Mississippi River Terminals (4)	Owned	20.6	100.0 %
Bayonne Terminal	Owned	15.8	100.0 %
Other Terminals (12)	Owned	6.9	100.0 %
<b>Facilities in Canada:</b>			
Quebec City, Quebec	Leased	2.0	100.0 %
Placentia Bay, Newfoundland	Leased	3.0	20.1 %
<b>Total</b>		<b>48.3</b>	



IMTT facilities generally operate 24 hours a day providing customers with prompt access to a wide range of logistical services. In each of its two key markets, IMTT's scale ensures availability of sophisticated product handling capabilities. IMTT continuously improves speed and flexibility of operations at its facilities by investing in upgrades of its docks, pipelines and pumping infrastructure and facility management systems.

**Lower Mississippi River Terminals (48% of gross profit)**

On the Lower Mississippi River, IMTT currently operates four terminals (St. Rose, Gretna, Avondale and Geismar). With combined storage capacity of 20.6 million barrels, the four sites give IMTT substantial market share in the storage and handling of refined petroleum products, bulk liquid chemicals, vegetable and tropical oils on the strategically important Lower Mississippi River. These terminals serve a predominantly import/export market.

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**IMTT (continued)**

The Lower Mississippi River facilities also give IMTT a substantial presence in a key domestic transport hub. The Lower Mississippi River serves as a major transshipment point for agricultural products (such as vegetable and tropical oils) and commodity chemicals (such as methanol) between the central U.S. and the rest of the world. The region also has substantial traffic related to the petroleum industry. Lower Mississippi River refiners and traders send products to other regions of the U.S. and overseas and use IMTT's Lower Mississippi River facilities to provide aggregation and transshipment services. The Lower Mississippi River facilities also serve as an aggregation point for feedstocks prior to being utilized by refinery and chemical plant processing units located nearby. These facilities enjoy relatively unencumbered marine and road access when compared to other, more congested waterways such as the Houston Ship Channel.

**Bayonne Terminal (37% of gross profit)**

Located on the Kill Van Kull between New Jersey and Staten Island, New York, the 15.8 million barrel capacity IMTT-Bayonne Terminal occupies an attractive position in New York Harbor where it has substantial market share. New York Harbor serves as the main petroleum distribution hub in the northeast U.S. and a physical settlement site for certain futures contracts traded on the New York Mercantile Exchange (NYMEX). In addition to waterborne shipments, products reach New York Harbor through petroleum product pipelines including the Colonial Pipeline which originates in Houston, Texas. Pipelines also move imports and exports of refined petroleum product to and from New York Harbor and various inland markets. With connections to the Colonial, Buckeye and Harbor refined petroleum product pipelines, as well as rail and road connectivity and blending capabilities, the IMTT-Bayonne Terminal provides its customers with considerable logistical and commercial flexibility.

IMTT-Bayonne has the capability to quickly load and unload the largest bulk liquid transport ships entering New York Harbor which is an important competitive advantage. The U.S. Army Corp of Engineers has dredged the Kill Van Kull channel passing the IMTT-Bayonne docks to 50 feet. IMTT has dredged two of its docks to 47 feet, allowing large vessels to dock, load and unload products. Most of IMTT's competitors in New York Harbor have facilities located on the southern portion of the Arthur Kill (water depth of approximately 37 feet), and large ships must transfer a portion of their cargoes to barges before docking (a process known as lightering). Lightering increases the cost and time associated with loading and unloading.

**Competition**

The competitive environment in which IMTT operates varies by terminal location and product. The principal competition for each of IMTT's facilities comes from other bulk liquid terminals located in the same regional market. Secondary competition for IMTT's facilities comes from bulk liquid terminals located in the same broad geographic region as IMTT's terminals. For example, IMTT's Lower Mississippi River facilities indirectly compete with bulk liquid terminals located on the Houston Ship Channel.

Independent terminal operators generally compete on the basis of the location, connectivity and versatility of facilities, service and price. The services typically provided by the terminal include, among other things, the safe storage of the product at specified temperature, moisture and other conditions, as well as receipt and delivery from the terminal, all of which must be in compliance with applicable environmental regulations. A terminal with a favorable location will have access to a variety of cost-effective transportation modes, both to and from the terminal. Transportation modes typically include waterways, railroads, roadways and pipelines. A terminal operator's ability to obtain attractive prices is often dependent on the quality, versatility and reputation of its facilities.

IMTT faces significant competition from a variety of international, national and regional energy companies, including large, diversified midstream entities, global terminal operators and large multi-national energy companies. We believe that IMTT is favorably positioned to compete in the industry due to the strategic location of terminals on the Gulf Coast and in New York Harbor and certain secondary markets, its reputation, the prices charged for its services and the connectivity, quality and versatility of those services. In particular, we believe that IMTT's proximity to petroleum refineries and chemical plants in both of its key markets and to the very substantial end use market in the Northeast are sources of competitive advantage and provide diversity in our revenue.

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**IMTT (continued)**

As noted above, we believe that significant barriers to entry exist in the terminalling business. These barriers include significant capital requirements and execution risk, a lengthy permitting and development cycle, financing challenges, a finite number of sites suitable for development, operating expertise and customer relationships.

**Customers**

IMTT provides bulk liquid terminalling services primarily to oil refiners and marketers, chemical manufacturers, food processors and commodity traders. These customers, in turn, serve a range of end users in both domestic and foreign markets. Within its terminals, IMTT has the ability to repurpose tanks and related infrastructure for various bulk liquid products both to respond to and to anticipate changes in customer demand. IMTT does not depend on a single customer, the loss of which would have a material adverse effect on IMTT.

For the year ended December 31, 2018, approximately 50% of IMTT's revenue was generated by its top ten customers, of which eight were rated investment grade and two were not rated. Customers typically sign contracts which, among other things, provide for a fixed periodic payment (usually monthly) for access to and use of IMTT's facilities. These payments may be expressed in terms of cents per barrel of capacity, a dollar amount per unit of infrastructure, or a dollar amount per month. These amounts are payable whether the customer uses the facilities and services or not and does not include additional charges for throughput or ancillary services. In 2018, approximately 80% of IMTT's revenues were generated from these availability style payments.

IMTT is responsible for exercising appropriate care of the products stored at its facilities and believes it maintains adequate insurance with respect to its exposure. IMTT does not have direct material exposure to short-term commodity price fluctuations because it typically does not purchase or market the products that it handles. IMTT's customers retain title to products stored and have responsibility for securing insurance or self-insuring against loss or fluctuation in value.

**Regulation**

The rates that IMTT charges for its services are not subject to regulation. However, a number of regulatory agencies, including the United States Environmental Protection Agency, New Jersey Department of Environmental Protection, Louisiana Department of Environmental Quality, Department of Transportation, Department of Homeland Security and the United States Coast Guard, regulate IMTT's operations. IMTT must comply with numerous federal, state and local environmental, occupational health and safety, security, tax and planning statutes and regulations. These regulations require IMTT to obtain and maintain permits to operate its facilities and impose standards that govern the way IMTT operates its business. If IMTT does not comply with the relevant regulations, it could lose its operating permits and/or incur fines and increased liability. While changes in environmental, health and safety regulations pose a risk of higher operating costs, such changes are generally phased in over time to manage the impact on both the industry and the business.

Few of IMTT's facilities require significant environmental remediation. Those that do have such efforts overseen by various state and federal agencies. Remediation efforts entail removal of the free product, groundwater control and treatment, soil treatment, repair/replacement of sewer systems, and the implementation of containment and monitoring systems. These remediation activities are expected to continue for an additional ten to twenty years, or more. See Legal Proceedings in Part I, Item 3, for further discussions.

## Employees

As of December 31, 2018, IMTT (excluding the Newfoundland terminal) had a total of 917 employees, of which 274 employees were unionized. We believe relations with both union and non-union employees at IMTT are generally good.

The day-to-day operations of IMTT are managed by individual terminal managers who are responsible for most aspects of the operations. IMTT's operations are overseen by senior personnel with significant experience in the bulk liquid terminals industry. Management of the business is headquartered in New Orleans, Louisiana.

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**Atlantic Aviation**

**Industry Overview**

Fixed based operations (FBOs) primarily service the GA segment of the air transportation industry. Local airport authorities own the airport properties and grant FBO operators a long-term ground lease that includes the right to provide fueling and other services. Fueling services provide the majority of an FBO's revenue and gross margin.

FBOs often operate in environments with high barriers to entry. Airports tend to have limited physical space for additional FBOs and airport authorities generally do not have an incentive to add FBOs unless there is a significant demand for services that cannot be met by the existing FBO at the airport. Development of a new FBO requires securing airport approvals, completing the design and construction and may involve substantial time and capital. Furthermore, airports typically impose minimum standards with respect to the experience, capital investment and breadth of services provided by the FBO.

The ownership of FBOs in the U.S. is highly fragmented with the majority of facilities individually owned and operated rather than part of networks. Consolidation has been and is expected to continue to be an important feature of the industry as larger networks are able to achieve economies of scale in fuel and insurance purchasing, marketing and back office operations compared with individual owners/operators.

Demand for FBO services is driven by the level of GA flight activity which is defined as the number of take-offs and landings in a given period. We believe GA flight activity will continue to expand at rates broadly consistent with overall economic activity in the U.S.

**Business Overview**

At December 31, 2018, Atlantic Aviation operated FBOs at 70 airports in the U.S. Atlantic Aviation's FBOs provide fuel, terminal, aircraft hangaring and other services primarily to owners/operators of GA aircraft, but also to commercial, military, freight and government aviation customers.

Atlantic Aviation has been a part of the MIC portfolio since our IPO. In December 2004, the business owned and operated a total of 16 FBOs. Through a roll-up of FBOs, we have increased the size of the network to a total of 70 facilities. Consistent with our strategy of seeking to optimize the portfolio, we have exited markets we believe have limited growth potential in favor of entering those with better prospects. Since our IPO, we have deployed capital in Atlantic Aviation in the acquisition of FBOs and projects including the construction of terminals and aircraft hangars, fuel tank farms, aircraft parking (ramps) and a range of smaller projects.

Following is summary financial information for Atlantic Aviation (\$ in millions):

	As of, and for the Year Ended, December 31,		
	2018	2017	2016
Revenue	\$ 962.5	\$ 846.4	\$ 740.2
Net income <sup>(1)</sup>	96.4	124.4	59.5
EBITDA excluding non-cash items <sup>(2)</sup>	264.7	247.2	225.1
Total assets	1,675.7	1,710.5	1,564.7

Net income for 2017 includes the impact of the Tax Cuts and Jobs Act. See Management's Discussion and Analysis (1) of Financial Condition and Results of Operations *Results of Operations - Atlantic Aviation* in Part II, Item 7, for further discussions.

See Business *Our Businesses* in Part I, Item 1 and Management's Discussion and Analysis of Financial Condition (2) and Results of Operations *Results of Operations* in Part II, Item 7, for further information and a reconciliation of net income (loss) to EBITDA excluding non-cash items.

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## **Atlantic Aviation (continued)**

### **Operations**

Atlantic Aviation operates high-quality facilities and focuses on attracting customers who desire personalized service. Fuel sales generated 60% of gross margin in 2018. Other services, including de-icing, aircraft parking and hangar rental, aircraft cleaning and catering provided the balance. Fuel is stored in tank farms owned either by Atlantic Aviation or by the airport and Atlantic Aviation operates owned or leased refueling vehicles to move fuel from the tank farms to the aircraft being serviced. At some of Atlantic Aviation's locations, services are also provided to commercial airlines, freight operators, and military and government users. Services provided to the airlines may include refueling from the airline's own fuel supplies, de-icing and/or ground and ramp handling services.

Atlantic Aviation buys fuel at a wholesale price and sells fuel to customers either at a contracted price, or at a price negotiated at the point of purchase. While wholesale fuel costs can vary, Atlantic Aviation generally passes changes in fuel costs through to customers and seeks to maintain and, when possible, increase its dollar-based margin per gallon. In general, the business has minimal exposure to commodity price fluctuations as it carries a limited inventory of jet fuel.

Atlantic Aviation is focused on managing costs effectively and continuously evaluates opportunities to reduce expenses. Such opportunities may include business reengineering, more efficient purchasing, partnering with service providers and/or capturing synergies in acquisitions.

### **Locations**

Atlantic Aviation's FBOs operate pursuant to long-term leases from the airport authorities who own or manage the airport. Atlantic Aviation works with these airport authorities to optimize lease lengths through capital improvements or other enhancements to the airport.

Atlantic Aviation's EBITDA-weighted average remaining lease length (including leases extendable at Atlantic Aviation's sole discretion) was 19.9 years and 20.3 years at December 31, 2018 and 2017, respectively. The leases at nine of Atlantic Aviation's FBOs, collectively accounting for approximately 15.0% of Atlantic Aviation's gross margin, are expected to be renegotiated and extended within the next five years. No individual FBO generated more than 10% of Atlantic Aviation's gross margin at December 31, 2018.

The airport authorities have certain termination rights in each of Atlantic Aviation's leases of the FBO. Standard terms allow for termination if Atlantic Aviation defaults on the terms and conditions of the lease, abandons the property or becomes insolvent or bankrupt. Most of the leases allow for termination if liens are filed against the property. Leases related to fewer than twenty out of the 70 FBOs may be terminated for convenience or other similar reasons. In these cases, generally, there are compensation agreements based on amortization schedules or obligations of the airport authority to make best efforts to relocate the FBO.

Atlantic Aviation periodically evaluates its portfolio of FBOs and occasionally concludes that some of its sites do not have sufficient scale or do not serve a market with sufficiently strong growth prospects to warrant continued operations at these locations. In these cases, it may elect to sell the site or not renew the lease upon maturity.



## Marketing

Atlantic Aviation has a number of marketing programs, each utilizing an internally-developed point-of-sale system that tracks GA flight movements. This program supports flight tracking and provides customer relationship management data that facilitates up-selling of fuel and optimization of revenue per customer.

Atlantic Aviation also maintains a loyalty program for pilots known as Atlantic Awards that provides an incentive to purchase fuel from Atlantic Aviation. These awards are recorded as a reduction in revenue in Atlantic Aviation's consolidated financial statements.

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## **Atlantic Aviation (continued)**

### **Competition**

Atlantic Aviation competes with other FBO operators at more than half of its locations, and its facilities may also face indirect competition from FBOs located at nearby airports. The FBOs compete on the basis of location of the facility relative to runways and street access, service, safety, value-added features, reliability and price. Each FBO also faces competitive pressure from the fact that aircraft may take on sufficient fuel at one location and not need to refuel at a specific destination.

Atlantic Aviation's main competitors are Signature Flight Support, Jet Aviation, Million Air, Sheltair Aviation and TAC Air. To our knowledge, other than certain of the competitors listed, no competitor operated more than 20 FBOs in the U.S. at December 31, 2018.

### **Customers**

Atlantic Aviation does not depend on a single customer, the loss of which would have a material adverse effect on the business.

### **Regulation**

The aviation industry is overseen by a number of regulatory agencies, including the Department of Homeland Security, Department of Transportation and Environmental Protection Agency, but its primary regulator is the Federal Aviation Administration (FAA). In addition, local airport authorities also regulate FBOs. The business must comply with federal, state and local environmental statutes and regulations associated in part with the operation of fuel storage tank systems and mobile fueling vehicles. These requirements include tank and pipe testing for tightness, soil sampling for evidence of leaking and remediation of detected leaks and spills.

Atlantic Aviation's FBOs are subject to regular inspection by federal and local environmental agencies as well as local fire departments and other agencies. The business does not expect that compliance and related remediation work, if any, will have a material negative impact on earnings or the competitive position of Atlantic Aviation. The business has not received notice requiring it to cease operations at any location or of any abatement proceeding by any government agency as a result of failure to comply with applicable environmental laws and regulations.

### **Employees**

As of December 31, 2018, the business employed 1,924 people, of which 203 employees were subject to collective bargaining agreements. We believe relations with both union and non-union employees at Atlantic Aviation are generally good.

The day-to-day operations of Atlantic Aviation are managed by individual site managers who are responsible for most aspects of the operations at their site. Atlantic Aviation's operations are overseen by senior personnel with significant experience in the aviation industry.

## **MIC Hawaii**

### **Industry Overview**

According to the Energy Information Administration, energy consumption in Hawaii is split approximately equally between the transportation market and the industrial/commercial/residential markets. Gas holds approximately 2% share of the Hawaii energy market and serves primarily the residential and commercial markets with applications including water heating, drying, cooking, emergency power generation and other select uses.

Beginning in 2008 with the Hawaii Clean Energy Initiative, the State of Hawaii embarked on a program to be a leader in the development and deployment of clean energy solutions. MIC Hawaii has invested in multiple clean energy projects including the recent commissioning of a renewable natural gas facility that captures and purifies wastewater biogas for injection into the Hawaii Gas utility pipeline on Oahu. MIC Hawaii expects to pursue additional growth opportunities in line with Hawaii's clean energy goals.

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**MIC Hawaii (continued)**

**Business Overview**

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii. From 2006 to 2015, our MIC Hawaii segment consisted solely of Hawaii Gas, a combination of Hawaii's only government-franchised gas utility and an unregulated liquefied petroleum gas (LPG) distribution business. Founded in 1904, Hawaii Gas serves the State's approximately 1.4 million residents and 10.0 million visitors across Oahu, Hawaii, Maui, Kauai, Molokai and Lanai (the main islands).

Hawaii Gas's utility business includes the processing, distribution and sale of synthetic natural gas (SNG) and renewable natural gas (RNG) and the distribution and sale of re-gasified liquefied natural gas (LNG) on the island of Oahu, as well as the distribution and sale of LPG via pipeline on all of the main islands. Hawaii Gas's unregulated business distributes LPG by truck to individual tanks located on customer sites or distributes LPG in cylinders filled at central locations to customers on all the main islands. Customers include a wide variety of residential, commercial, hospitality, military, public sector and wholesale users.

Hawaii Gas's primary products consist of:

*Synthetic Natural Gas (SNG):* The business converts a light hydrocarbon feedstock (naphtha) into SNG which has a similar heating value to natural gas. Hawaii Gas operates the only SNG processing capability in Hawaii at its plant located on the island of Oahu. SNG is delivered by underground pipelines to utility customers throughout Oahu.

*Liquefied Petroleum Gas (LPG):* LPG is a generic name for a mixture of hydrocarbon gases, typically propane and butane. LPG liquefies at a relatively low pressure under normal temperature conditions and can be efficiently transported in a range of quantities. LPG is typically stored in cylinders or tanks and Hawaii Gas maintains the largest network of LPG storage throughout Hawaii. Domestic and commercial applications of LPG are similar to those of natural gas and SNG.

*Liquefied Natural Gas (LNG):* LNG is transported to Hawaii in conventional intermodal cryogenic containers from the U.S. mainland. Hawaii Gas utilizes LNG to offset up to 30% of the naphtha used to produce SNG that supplies customers of the regulated utility on Oahu.

*Renewable Natural Gas (RNG):* In December 2018, Hawaii Gas commissioned a renewable natural gas facility capable of collecting and purifying biogas from the Honouliuli Wastewater Treatment Plant and injecting it into the utility pipeline distribution system on Oahu. The business continues to evaluate a range of additional renewable feedstock sources including other waste water treatment plants, landfills and locally produced biomass.

Following is summary financial information for MIC Hawaii (\$ in millions):

	As of, and for the Year Ended, December 31,		
	2018	2017	2016
Revenue	\$ 291.8	\$ 277.9	\$ 233.9
Net (loss) income <sup>(1)</sup>	(13.1 )	25.4	35.7

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EBITDA excluding non-cash items <sup>(1)(2)</sup>	37.3	60.6	62.8
Total assets	501.1	532.1	501.7

(1) Includes the write-down of our investment in the previously owned design-build mechanical contractor business for the year ended December 31, 2018.

See Business *Our Businesses* in Part I, Item 1 and Management's Discussion and Analysis of Financial Condition (2) and Results of Operations *Results of Operations* in Part II, Item 7, for further information and a reconciliation of net income (loss) to EBITDA excluding non-cash items.

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**MIC Hawaii (continued)**

**Customers**

The businesses of MIC Hawaii provide services to commercial, residential and governmental customers. MIC Hawaii does not depend on any single customer, the loss of which would have a material adverse effect on the business.

**Utility Regulation**

Hawaii Gas utility business is regulated by the Hawaii Public Utilities Commission (HPUC). The HPUC exercises broad regulatory oversight and investigative authority over all public utilities in Hawaii.

*Rate Regulation.* The HPUC establishes the rates that Hawaii Gas can charge its utility customers via cost of service regulation. Although the HPUC sets the base rate for the gas sold by Hawaii Gas utility business, Hawaii Gas is permitted to pass through changes in its fuel costs by means of a monthly fuel adjustment charge.

Hawaii Gas utility rates are established by the HPUC in periodic rate cases typically initiated by Hawaii Gas. The business initiates a rate case by submitting a request to the HPUC for an increase in rates based upon, for example, increased costs related to providing services. Following initiation of the rate increase request and submissions by other intervening parties of their positions on the rate request, and potentially an evidentiary hearing, the HPUC issues a decision establishing the revenue requirements and the resulting rates that Hawaii Gas will be allowed to charge.

On December 21, 2018, the HPUC issued its Final Decision and Order in the rate case filed by Hawaii Gas in August 2017, authorizing an increase in regulated revenue of \$8.9 million or 8.4%. This is consistent with the HPUC's Interim Decision and Order issued in June 2018 that approved new rates effective July 1, 2018.

*Other Regulations.* In addition to regulating utility rates, the HPUC acts on requests for the acquisition, sale, disposition or other exchange of utility properties, including mergers and consolidations; acts on requests for financings; and approves material supply contracts.

**Competition**

Depending upon the end-use, Hawaii Gas competes with electric generators as well as other gas providers. Electricity in Hawaii is generated by four electric utilities and various independent power producers. In addition, residential and some commercial customers in Hawaii have increased the rate at which they are installing solar photovoltaic generating capacity.

*Hawaii Gas Utility Business.* Hawaii Gas holds the only government franchise for utility gas services in Hawaii. This enables Hawaii Gas to utilize public easements for its pipeline distribution systems. This franchise also provides for the exclusive use of extensive below-ground distribution infrastructure that Hawaii Gas owns and maintains.

Hawaii Gas competes on the basis of price, reliability and the energy preferences of its customers.

*Hawaii Gas Non-Utility Business.* Hawaii Gas sells LPG in an unregulated market on the main islands of Hawaii. There are several other wholesale and smaller retail distributors that compete in the LPG market. Hawaii Gas believes it has a competitive advantage because of its established customer base, storage facilities, distribution network and reputation for reliable service.

## **Fuel Supply, SNG Plant and Distribution System**

### **Fuel Supply**

Hawaii Gas sources naphtha feedstock for its SNG plant from Par Hawaii Refining, LLC (Par) pursuant to a contract that expires in December 2020. The majority of Hawaii Gas LPG is purchased from an off-island supplier. Hawaii Gas sources LNG from a U.S. mainland supplier pursuant to a contract that expires in July 2021. RNG is purchased from the City and County of Honolulu under a fixed rate contract that expires in December 2024.

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**MIC Hawaii (continued)**

**SNG Plant and Distribution System (Utility Business)**

Hawaii Gas processes and distributes SNG from a plant located on the west side of Oahu. A 22-mile transmission pipeline links the SNG plant to a distribution system at Pier 38 in south Oahu. From Pier 38, a pipeline distribution system consisting of approximately 900 miles of distribution and service pipelines transports gas to customers. On islands other than Oahu, LPG is distributed by direct deliveries from an off-island shipper and by barge from Oahu to holding facilities or base-yards on those islands. It is then distributed via pipelines to utility customers. Approximately 90% of the Hawaii Gas pipeline system is on Oahu.

**Distribution System (Non-Utility Business)**

The non-utility business of Hawaii Gas provides LPG to customers on each of the main islands that are not connected to Hawaii Gas utility pipeline system. The majority of Hawaii Gas non-utility customers are on islands other than Oahu. LPG is transported to these islands by direct deliveries from an off-island shipper and by barge from Oahu. Hawaii Gas also owns the infrastructure by which it distributes LPG to its customers, including harbor pipelines, trucks, several holding facilities and storage base-yards on Kauai, Maui and Hawaii.

**Environmental Permits**

The businesses of MIC Hawaii require environmental operating permits, the most significant of which are air and wastewater permits required for the Hawaii Gas SNG plant.

**Employees**

As of December 31, 2018, MIC Hawaii had 330 employees, of which 215 are subject to the terms of collective bargaining agreements. We believe relationships with both union and non-union employees are generally good.

**Corporate and Other**

Corporate and Other comprises MIC Corporate, our shared services center and other smaller businesses.

The financial results for MIC Corporate also reflect the costs associated with operating as a public company. These include primarily the fees paid in connection with the evaluation of various investment and acquisition/disposition opportunities, fees paid to the New York Stock Exchange, fees paid to our external auditors and advisors and the cost of Director s and Officer s insurance. Other corporate center costs including the salaries, benefits and incentives paid to individuals seconded to MIC, together with the cost of our facilities, technology and services provided to the holding company by the Manager, are covered in the *Fees to Manager related party* line item.

In 2017, we formed and staffed MGS, a shared services center that provides common administrative functions including payroll processing, health and benefit plan administration, information technology, procurement, tax, legal and certain finance and accounting functions to the businesses in our portfolio. Substantially all of the costs associated with the operation of MGS are allocated to each of our operating companies. Any unallocated MGS costs are reported as a component of our Corporate and Other segment.





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**Corporate and Other (continued)**

Other businesses within Corporate and Other include those that do not meet the criteria for being a reportable segment on a standalone basis. These include a business relationship with a third party renewables developer, the Company's joint venture with a developer of solar power facilities and other smaller businesses. Prior to October 2018, these businesses were reported as part of the Contracted Power segment. Following the sale of BEC and the commencement of a sale process involving substantially all of our portfolio of solar and wind power generation businesses, the Contracted Power segment has been eliminated.

**Employees**

As of December 31, 2018, Corporate and Other had 142 employees at MGS. MIC Corporate has no employees as our Manager seconded those individuals who serve as our chief executive officer and chief financial officer on a full-time basis and makes other personnel available as required.

**Consolidated**

**Our Employees**

As of December 31, 2018, our consolidated businesses employed approximately 3,300 people, of which approximately 20% were subject to collective bargaining agreements.

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## AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Macquarie Infrastructure Corporation) file electronically with the SEC. The SEC's website is [www.sec.gov](http://www.sec.gov).

Our website is [www.macquarie.com/mic](http://www.macquarie.com/mic). You can access our Investor Center through this website. We make available free of charge, on or through our Investor Center, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, as amended, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We also make available through our Investor Center the statements of beneficial ownership of shares filed by our Manager, our directors and officers, any holders of 10% or more of our shares outstanding and others under Section 16 of the Exchange Act.

You can also find information on the *About MIC* page on our website where we post documents including:

Amended and Restated Bylaws of Macquarie Infrastructure Corporation;  
Third Amended and Restated Management Services Agreement;  
Corporate Governance Guidelines;  
Code of Business Conduct;

Charters for our Audit Committee, Compensation Committee and Nominating and Governance Committee; Policy for Stockholder Nomination of Candidates to Become Directors of Macquarie Infrastructure Corporation; and Information for Stockholder Communication with our Board of Directors, our Audit Committee and our Lead Independent Director.

Our Code of Business Conduct applies to all of our directors, officers and employees as well as all directors, officers and employees of our Manager involved in the management of the Company and its businesses. We will post any amendments to the Code of Business Conduct, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange (NYSE), on our website. The information on our website is not incorporated by reference into this report.

You can request a copy of these documents at no cost, excluding exhibits, by contacting Investor Relations at 125 West 55<sup>th</sup> Street, New York, NY 10019 (212-231-1825).

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## ITEM 1A. RISK FACTORS

An investment in our shares involves a number of risks. The occurrence of any of these risks could have a significant or material adverse effect on our results of operations, cash flows or financial condition and could cause a corresponding decline in the market price of our shares.

### **Risks Related to Our Business Operations**

**Fluctuations in economic, equity and credit market conditions may have a material adverse effect on our results of operations, our liquidity or our ability to obtain credit on acceptable terms.**

Should economic, equity and credit market conditions, collectively or individually, become disrupted, our ability to raise equity or obtain capital, to repay or refinance credit facilities at maturity, pay significant capital expenditures, pay, maintain or grow dividends or fund growth may be costly and/or impaired. Our access to debt financing in particular will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit history and credit capacity, as well as the historical performance of our businesses and lender perceptions of their and our financial prospects. In the event that we are unable to obtain debt financing, particularly as significant credit facilities mature, our internal sources of liquidity may not be sufficient.

Economic conditions may also increase our counterparty risk, particularly in those businesses whose revenues are determined under multi-year contracts, such as IMTT. Should conditions deteriorate, we would expect to see increases in counterparty defaults and/or bankruptcies, which could result in an increase in bad debt expense and may cause our operating results to decline.

The volatility in the financial markets makes projections regarding future obligations under pension plans difficult. Two of our businesses, Hawaii Gas and IMTT, have defined benefit retirement plans. Future funding obligations under those plans depend in large part on the future performance of plan assets and the mix of investment assets. Our defined benefit plans hold a significant amount of equity securities as well as fixed income securities. If the market values of these securities decline or if interest rates decline, our pension expense and cash funding requirements would increase and, as a result, could materially adversely affect the results and liquidity of these businesses and our Company.

Continued economic expansion and reductions in unemployment rates and the tightening of labor markets could increase the cost of operating any or all of our businesses or make it more difficult to recruit and retain those with appropriate skillsets. In a tight labor market it may take longer to identify and hire additional employees and such delays could, in turn, increase fees paid to recruiting firms or the amount of overtime paid to existing employees. A tightening labor market may also drive the cost of retaining employees with appropriate skillsets higher to the extent we face increased competition from employers willing or able to pay higher wages.

**The documents governing our debt impose significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions.**

Our senior secured revolving credit facilities impose, and future debt agreements may impose, operational and financial restrictions on us. These restrictions limit or prohibit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends, redeem subordinated debt or make other restricted payments;
- make certain investments or acquisitions;
- grant or permit certain liens on our assets;
- enter into certain transactions with affiliates;
- merge, consolidate or transfer substantially all of our assets; and
- transfer or sell assets, including capital stock of our subsidiaries.

These covenants could adversely affect our ability to finance our future operations or capital needs, withstand a future downturn in our business or the economy in general, engage in business activities,

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including future opportunities that may be in our interest, and plan for or react to market conditions or otherwise execute our business strategies. A breach of any of these covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders or holders of such indebtedness could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness. Acceleration of our other indebtedness could result in a default under the terms of the senior secured revolving credit facility or our convertible senior notes. There is no guarantee that we would be able to satisfy our obligations if any of our indebtedness is accelerated.

### **Our operations require significant growth capital expenditures and a failure to make such capital expenditures could have a material adverse effect on our business, financial condition, operating results and prospects.**

An important part of our strategy is the prudent deployment of capital to grow our existing businesses and develop and acquire additional businesses. Our ability to deploy capital depends on a number of variables including (i) commodity prices; (ii) customer demand; (iii) competitive and economic conditions; (iv) availability of suitable land on which to operate; (v) ability to obtain required regulatory approvals; and (vi) availability of capital. Our sources of growth capital include capital retained by our businesses, debt or equity issuances, and proceeds from the sales of businesses or assets. We may not generate sufficient cash or be able to arrange additional financing to fund our future growth needs on terms acceptable to us or at all. Our ability to arrange financing, if needed, will depend on, among other factors, our credit ratings, leverage, financial and operating performance, general economic, financial, and regulatory conditions and prevailing capital market conditions. Many of these factors are beyond our control. If we incur significant additional indebtedness, or if we do not continue to generate sufficient cash from our operations, our credit ratings could be adversely affected, which would likely increase our future borrowing costs and could affect our ability to access additional capital. If we fail to deploy growth capital as planned, we may be unable to, among other things, expand our businesses to meet competitive challenges; take advantage of strategic acquisition and development opportunities; upgrade our facilities and systems; and create stockholder value. Any or all of these could have a material adverse effect on our businesses, financial condition, operating results and prospects. In addition, under current law, certain capital expenditures are eligible for accelerated depreciation for U.S. federal income tax purposes. If we fail to take advantage of this accelerated depreciation when prudent to do so, our tax position could be materially adversely impacted.

### **Our strategy includes an expectation that we will find, acquire or develop, and integrate, additional businesses.**

Although our businesses tend to benefit from fundamental drivers of growth which are stable over time, we will attempt to augment that growth by finding, acquiring or developing, and integrating additional businesses. We anticipate that a significant portion of our future projected growth will be derived from inorganic sources which are contingent on our ability to successfully find and execute opportunities to deploy incremental capital. We may not find or acquire such opportunities on economically sensible terms. In addition, we may acquire businesses with financial reporting and control systems that are less sophisticated than ours. If we do make an acquisition, we may not be successful in integrating it into our portfolio and/or achieving the expected level of returns. If we invest capital in a development project, we may not be successful in the execution of the full project or in integrating it into our portfolio and/or achieving the expected level of performance. Failure to do any of these could result in higher indebtedness or expenses and/or in generating less cash flows than expected or generating growing amounts of cash flows at a slower than anticipated rate, either of which could result in a reduction in our share price.

Our operations require significant growth capital expenditures and a failure to make such capital expenditures could



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**Decreasing the proportion of businesses in our portfolio that are not regulated or of a predominantly contracted nature increases the potential volatility in our financial results.**

With the exception of our airport services business, our businesses generally possess one or more of the following characteristics: generally stable demand; long-term contracts; regulated operations; and inflation linked revenue. Our airport services business generates revenue and cash flows in a way that is broadly reflective of the economic health of the country. To the extent we invest in or acquire or develop businesses with revenue and cash generating capacity that is similarly GDP sensitive or businesses that do not possess these characteristics, our financial results could become more volatile and our share price could decline as a result of an increase in the real or perceived risk.

**If borrowing costs increase or if debt terms become more restrictive, the cost of refinancing and servicing our debt will increase, reducing our profitability and ability to freely deploy capital or pay dividends to stockholders.**

The majority of our indebtedness matures within four to seven years. Refinancing this debt may result in substantially higher interest rates or credit margins or substantially more restrictive covenants. Each of these could limit operational flexibility or reduce dividends and/or distributions from our operating businesses to us, which would have an adverse impact on our ability to freely deploy capital and continue to pay, maintain or grow dividends to our stockholders. We cannot provide assurance that we or the other owners of any of our businesses will be willing or able to make capital contributions to repay some or all of the debt if required.

**The interest rates under our credit facilities may be impacted by the phase-out of LIBOR.**

LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rates on loans globally. We generally use LIBOR as a reference rate to calculate interest rates under our credit facilities. In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index, the Secured Overnight Financing Rate (SOFR), calculated using short-term repurchase agreements backed by Treasury securities. SOFR is observed and backward looking, unlike LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given that SOFR is a secured rate backed by government securities, it will be a rate that does not take into account bank credit risk (as is the case with LIBOR). SOFR also may be more volatile than LIBOR. Whether or not SOFR, or another alternative reference rate, attains market traction as a LIBOR replacement tool remains in question. If LIBOR ceases to exist, we may need to renegotiate our credit agreements to replace LIBOR with an agreed upon replacement index, and certain of the interest rates under our credit agreements may change. The new rates may not be as favorable to us as those in effect prior to any LIBOR phase-out. We may also find it desirable to engage in more frequent interest rate hedging transactions.



**Our holding company level debt could adversely affect our results of operations, cash flows and financial condition, limit our operational and financing flexibility and negatively impact our business. As a holding company, we are dependent on the ability of our businesses to make distributions to us to pay our expenses, pay dividends and repay indebtedness.**

At December 31, 2018, we had outstanding \$752.4 million of convertible senior notes and had available a \$600.0 million senior secured revolving credit facility, which was undrawn. These holding company level debt instruments increase our interest payments and could have significant adverse effects on our business, including:

we may be required to use a significant portion of our cash flow to pay interest on our indebtedness which will reduce the funds available for dividends to stockholders, additional acquisitions, pursuit of business opportunities or other business purposes;

our ability to obtain additional financing may be impaired;

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it may be more difficult for us to satisfy our financial obligations under our contractual and commercial commitments; our increased level of indebtedness could place us at a competitive disadvantage compared with firms that may have proportionately less debt;

exposing us to risk of increased interest rates because any borrowings under the senior secured revolving credit facility are at variable rates of interest;

our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and

our indebtedness may make us more vulnerable to economic downturns and adverse developments in our businesses.

We expect to obtain the funds to pay our operating expenses, pay dividends and to repay our indebtedness primarily from our operating businesses. Our ability to meet our expenses and make these payments therefore depends on the future performance of our businesses, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our businesses may not generate sufficient cash flow from operations in the future, which could result in our inability to repay indebtedness, pay, maintain or grow dividends or to fund other liquidity needs.

As a holding company with no operations, we are dependent on the ability of our businesses to make distributions to us to pay our expenses, pay dividends and repay our indebtedness. In addition, the senior secured revolving credit facility is guaranteed by MIC Ohana Corporation, our direct, wholly owned subsidiary. MIC Ohana Corporation is a holding company whose only material asset is the capital stock of our other subsidiaries. If we do not have enough funds, we may be required to refinance all or part of our then existing debt, sell assets or borrow more funds, which we may not be able to accomplish on terms acceptable to us, or at all. In addition, the terms of existing or future debt agreements may restrict us from pursuing any of these alternatives.

**We and any of our existing or future subsidiaries may incur substantially more indebtedness in the future. This could further exacerbate the risks to our business as described herein.**

We and any of our existing and future subsidiaries may incur substantial additional indebtedness in the future. Although the terms of our senior secured revolving credit facility contain limitations on our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions. If we incur any additional indebtedness that ranks equally with the indebtedness under our senior secured revolving credit facility, the holders of that additional debt will be entitled to share ratably with the lenders or holders of the indebtedness under the senior secured revolving credit facility in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our Company. If new debt is added to our or any of our subsidiaries current debt levels, the related risks that we now face could be exacerbated.

**Development and investment in our businesses involve various construction, operational and regulatory risks that could materially adversely affect our financial results.**

The development, construction, operation and maintenance of our businesses involve various operational risks, which can include mechanical and structural failure, accidents, labor issues or the failure of technology to perform as anticipated. Events outside our control, such as economic developments, changes in fuel prices or the price of other feedstocks, governmental policy changes, demand for energy and the like, could materially reduce the revenues generated or increase the expenses of constructing, operating or maintaining our businesses. Degradation of the performance of our facilities may reduce our revenues. Unanticipated capital expenditures associated with maintaining, upgrading or repairing our facilities may reduce profitability. We may also choose or be required to decommission a project or other asset. The decommissioning process could be protracted and result in the incurrence

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

of significant financial and/or regulatory obligations or other uncertainties.

Our businesses may also face construction risks typical for infrastructure businesses, including, without limitation:

labor disputes, work stoppages or shortages of skilled labor;

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shortages of fuels or materials;  
slower than projected construction progress and the unavailability or late delivery of necessary equipment;  
delays caused by or in obtaining the necessary regulatory approvals or permits;  
adverse weather conditions and unexpected construction conditions;  
accidents or the breakdown or failure of construction equipment or processes;  
difficulties in obtaining suitable or sufficient financing; and  
force majeure or catastrophic events such as explosions, fires and terrorist activities and other similar events beyond our control.

Such developments could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of construction activities once undertaken. Construction costs may exceed estimates for various reasons, including inaccurate engineering and planning, labor and building material costs in excess of expectations and unanticipated problems with project start-up. Such unexpected increases may result in increased debt service costs and funds being insufficient to complete construction. Our facilities under development may receive little or no cash flow through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced. Any events of this nature could severely delay or prevent the completion of, or significantly increase the cost of, the construction. In addition, there are risks inherent in the construction work which may give rise to claims or demands against us from time to time. Delays in the completion of any project may result in lost revenues or increased expenses.

**We rely on third-party suppliers and contractors when developing our projects. The failure of those third parties to perform could adversely affect our results of operations, cash flows and financial condition.**

We source engines, boilers, chillers, cogeneration systems and other complex components from third-party suppliers and engage third-party contractors for the construction of power projects. We typically enter into contracts with our suppliers and contractors on a project-by-project basis and do not maintain long-term contracts with our suppliers or contractors. Therefore, we are generally exposed to price fluctuations and availability of products and components sourced from our suppliers and construction services procured from our contractors. In light of changing market dynamics and government policies, the price and availability of certain products have been subject to significant volatility in recent years. Increases in the prices of products and components, decreases in their availability, fluctuations in construction, labor and installation costs, or changes in the terms of our relationships with our suppliers and contractors may increase the cost of procuring equipment and engaging contractors and hence materially adversely affect our results of operations, cash flows and financial condition.

Furthermore, the delivery of defective products or construction services by our suppliers or contractors which are otherwise not in compliance with contract specifications, or the late supply of products or construction services, may cause construction delays or projects that fail to adhere to our quality and safety standards, which could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Finally, we rely on third party contractors to help us develop new projects. If these contractors do not fulfill their contractual obligations we could incur additional expenses or lose part of the capital we invested in these new facilities.

**Our inability to realize targeted cost savings or maintain agreed upon service levels at our shared services center may negatively impact our business.**

We have formed and staffed a shared service center that is providing common administrative functions, including payroll processing, health and benefit plan administration, information technology, procurement, tax, legal and certain finance and accounting functions to the businesses in our portfolio. If any of these shared

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service functions do not perform effectively, or if we fail to adequately monitor their performance, we may not be able to achieve expected cost savings or we may have to incur additional costs to correct errors made by such shared service functions and our reputation could be harmed. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, effects on financial reporting, litigation or remediation costs. In addition, the concentration of processes in one shared service center means that any disruption at this facility could impact all or a substantial portion of our businesses. Any of these potential effects could have an adverse effect on our results of operations, cash flows and financial condition.

**Changes to trade regulation, quotas, duties or tariffs, caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs, result in fewer growth capital opportunities or projects, limit the amount of raw materials and products that we can import, decrease demand for certain of our services, or otherwise adversely impact our business.**

The current U.S. administration has voiced concerns about imports from countries that it perceives as engaging in unfair trade practices, has increased tariffs on certain goods imported into the United States from those countries, including China and other countries from which we import components or raw materials, and has raised the possibility of imposing significant, additional tariff increases. The announcement of tariffs on imported products by the U.S has triggered retaliatory actions from certain foreign governments, including China, and may trigger retaliatory actions by other foreign governments, potentially resulting in a trade war. A trade war or other governmental action related to tariffs or international trade agreements or policies could increase our costs, reduce the demand or opportunity to deploy growth capital in our businesses at attractive rates of return, limit the amount of raw materials, components and other products that we can import, restrict our customers' ability to deploy growth capital or transport products and therefore decrease demand for certain of our services, and/or adversely affect the U.S. economy or certain sectors thereof and, thus, adversely impact our businesses.

**Warranties provided by our suppliers and contractors may be limited or insufficient to compensate our losses, or may not cover the nature of our losses incurred.**

We expect to benefit from various warranties, including product quality and performance warranties, provided by our suppliers and contractors. These suppliers and contractors, however, may file for bankruptcy, cease operations or otherwise become unable or unwilling to fulfill their warranty obligations. Even if a supplier fulfills its warranty obligations, the warranty may not be sufficient to compensate us for all of our losses. In addition, the warranty period generally expires several years after the date that the equipment is delivered or commissioned and is subject to liability limits. Where damages are caused by defective products provided by our suppliers or construction services delivered by our contractors, our suppliers or contractors may be unable or unwilling to perform their warranty obligations as a result of their financial condition or otherwise, or if the warranty period has expired or a liability limit has been reached, there may be a reduction or loss of warranty protection for the affected projects, which could have a material adverse effect on our business' result of operations, cash flows and financial condition.

**We are dependent on certain key personnel, and the loss of key personnel, or the inability to retain or replace qualified employees, could have an adverse effect on our consolidated businesses, results of operations, cash flows and**

## **financial condition.**

We operate our consolidated businesses on a stand-alone basis, relying on existing management teams for day-to-day operations. Consequently, our operational success, as well as the success of our internal growth strategy, will be dependent on the continued efforts of the management teams of our consolidating businesses, who have extensive experience in the day-to-day operations of these businesses. Furthermore, we will likely be dependent on the operating management teams of businesses that we may acquire in the future. The loss of key personnel, or the inability to retain or replace qualified employees, could have an adverse effect on our business, results of operations, cash flows and financial condition.

### **Prolonged work stoppages by employees who are subject to a collective bargaining agreement could adversely affect our financial position.**

As of December 31, 2018, approximately 20% of our businesses' employees were covered by collective bargaining agreements. These agreements have staggered expirations over the next several years. Although we

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believe our employee relations to be generally good, a prolonged work stoppage, strike or other slowdown at any facility with union employees could significantly disrupt our operations and could have a material adverse effect on our business, results of operations, cash flows or financial condition. In addition, we cannot ensure that upon the expiration of existing collective bargaining agreements, new agreements will be reached without union action or that any such new agreements will be on terms satisfactory to us. Any renegotiation of labor agreements could significantly increase our costs for wages, healthcare and other benefits.

### **We own, and may acquire in the future, investments in which we share voting control and, consequently, our ability to exercise significant influence over the business may be limited.**

While it is our preference to own or control our businesses or to be able to exercise significant influence over our investments, including with respect to the timing and amount of distributions to us from those businesses, we may in some cases find the potential economic benefits of owning less than a controlling interest to be compelling. In such cases, we will attempt to co-invest with like-minded individuals/organizations. However, there can be no certainty that our interests with such co-investor(s) will always be aligned or that we will always be in a position to determine the amount and timing of distributions from such investments.

Our ability to influence a joint venture business is typically governed by (and may be limited to) our rights under a stockholders' agreement. We may not directly manage the day-to-day operations of a joint venture, and we may not be provided with notice of material events with respect to such joint venture businesses (including, without limitation, potential liabilities for environmental, health and safety matters) in as timely a manner and with the same level of detail as we would if we were in such a day-to-day management role.

If we do not manage the day-to-day operations of a joint venture, we may not have complete visibility into operational and financial systems, controls or processes, including among others, as they relate to environmental, health and safety measures. We may not be able to evaluate whether such financial, operational, or environmental, health and safety systems or controls are sufficiently robust or executed appropriately.

### **Our businesses are subject to environmental risks that may impact our future profitability.**

Our businesses (including businesses in which we invest) are subject to numerous statutes, rules and regulations relating to environmental protection. Atlantic Aviation is subject to environmental protection requirements relating to the storage, transport, pumping and transfer of jet fuel. Hawaii Gas is subject to risks and hazards associated with the refining, handling, storage and transportation of combustible products. The occurrence of any or all of these risks could result in substantial losses due to personal injury, loss of life, damage or destruction of property and equipment and environmental damage. Any losses we face could be greater than insurance levels maintained by our businesses, and could have an adverse effect on their and our financial results. In addition, disruptions to physical assets could reduce our ability to serve customers and adversely affect sales and cash flows.

IMTT's operations in particular are subject to complex, stringent and expensive environmental regulations, including compliance with emission limitations and/or air permits, and future compliance costs are difficult to estimate with certainty. IMTT also faces risks relating to the handling and transportation of significant amounts of hazardous materials. Failure to comply with regulations or other claims may give rise to interruptions in operations and civil or criminal penalties and liabilities that could adversely affect the profitability of this business and the distributions it

Prolonged work stoppages by employees who are subject to a collective bargaining agreement could adversely affect



makes to us, as could significant unexpected compliance costs. Further, these rules and regulations are subject to change and compliance with any changes could result in a restriction of the activities of our businesses, significant capital expenditures and/or increased ongoing operating costs.

IMTT owns a number of properties that have been subject to environmental contamination in the past and require remediation for which IMTT is liable. These remediation obligations exist principally at IMTT's Bayonne and Lemont facilities and could cost more than anticipated or could be incurred earlier than anticipated, or both. In addition, IMTT may discover additional environmental contamination at its Bayonne, Lemont or other facilities that may require remediation at significant cost to IMTT. Further, the past

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contamination of the properties owned by IMTT, including by former owners or operators of such properties, could result in remediation obligations, personal injury, property damage, environmental damage or similar claims by third parties.

We may also be required to address other prior or future environmental contamination, including soil and groundwater contamination that results from the spillage of fuel, hazardous materials or other pollutants. Under various federal, state, local and foreign environmental statutes, rules and regulations, a current or previous owner or operator of real property may be liable for noncompliance with applicable environmental and health and safety requirements and for the costs of investigation, monitoring, removal or remediation of hazardous materials. These laws often impose liability, whether or not the owner or operator knew of, or was responsible for, the presence of hazardous materials. Persons who arrange for the disposal or treatment of hazardous materials may also be liable for the costs of removal or remediation of those materials at the disposal or treatment facility, whether or not that facility is or ever was owned or operated by that person and whether or not the original disposal or treatment activity accorded with all regulatory requirements. The presence of hazardous materials on a property could result in personal injury, loss of life, damage or destruction of property and equipment, environmental damage and/or claims by third parties that could have a material adverse effect on our result of operations, cash flows and financial condition.

### **Our income may be affected adversely if additional compliance costs are required as a result of new safety, health or environmental regulation.**

Our businesses are subject to federal, state and local safety, health and environmental laws and regulations. These laws and regulations affect all aspects of their operations and are frequently modified. There is a risk that any one of our businesses may not be able to comply with some aspect of these laws and regulations, resulting in fines or penalties. Additionally, if new laws and regulations are adopted or if interpretations of existing laws and regulations change, we could be required to increase capital spending and/or incur increased operating expenses in order to comply. Because the regulatory environment frequently changes, we cannot predict when or how we may be affected by such changes. Environmental emissions and other compliance testing technologies continue to improve, which may result in more stringent, targeted environmental regulations and compliance obligations in the future, for example at IMTT, the costs of which could be material and adversely affect our results of operations, cash flows and financial condition.

### **Our businesses are dependent on our relationships, on a contractual and regulatory level, with government entities that may have significant leverage over us. Government entities may be influenced by political considerations to take actions adverse to us.**

Our businesses generally are, and will continue to be, subject to substantial regulation by governmental agencies. In addition, our businesses rely on obtaining and maintaining government permits, licenses, concessions, leases or contracts. Government entities, due to the wide-ranging scope of their authority, have significant leverage over us in their contractual and regulatory relationships with us that they may exercise in a manner that causes us delays in the operation of our businesses or pursuit of our strategy, or increased administrative expense. Furthermore, government permits, licenses, concessions, leases and contracts are generally very complex, which may result in periods of non-compliance, or disputes over interpretation or enforceability. If we fail to comply with these regulations or contractual obligations, we could be subject to monetary penalties or we may lose our rights to operate the affected business, or both. Where our ability to operate a business is subject to a concession or lease from government entities, the concession or lease may restrict our ability to operate the business in a way that maximizes cash flows and

profitability. Further, our ability to grow our current and future businesses will often require consent of numerous government regulators. Increased regulation restricting the ownership or management of U.S. assets by non-U.S. persons, given the non-U.S. ultimate ownership of our Manager, may limit our ability to pursue acquisitions. Any such regulation may also limit our Manager's ability to continue to manage our operations, which could cause disruption to our businesses and a decline in our performance. In addition, any required government consents may be costly to seek and we may not be able to obtain them. Failure to obtain any required consents could limit our ability to achieve our growth strategy.

Our contracts with government entities may also contain clauses more favorable to the government counterparty than a typical commercial contract. For instance, a lease, concession or general service contract

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may enable the government to terminate the agreement without adequate compensation. In addition, government counterparties also may have the discretion to change or increase regulation of our operations, or implement laws or regulations affecting our operations, separate from any contractual rights they may have. Governments have considerable discretion in implementing regulations that could impact these businesses. Governments may be influenced by political considerations to take actions that may hinder the efficient and profitable operation of our businesses.

Many of our contracts, especially those with government entities or quasi-governmental entities are long-term contracts. These long-term contracts may be difficult to replace if terminated. In addition, buy-out or other early termination provisions could adversely affect our results of operations, cash flows and financial condition if exercised before the end of the contract.

### **Governmental agencies may determine the prices we charge and may be able to restrict our ability to operate our businesses to maximize profitability.**

Where our businesses are sole or predominant service providers in their respective service areas and provide services that are essential to the community, they are likely to be subject to rate regulation by governmental agencies that will determine the prices they may charge. We may also face fees or other charges imposed by government agencies that increase our costs and over which we have no control. We may be subject to increases in fees or unfavorable price determinations that may be final with no right of appeal or that, despite a right of appeal, could result in our profits being negatively affected. In addition, we may have very little negotiating leverage in establishing contracts with government entities, which may decrease the prices that we otherwise might be able to charge or the terms upon which we provide products or services. Businesses we acquire in the future may also be subject to rate regulation or similar negotiating limitations.

### **Failure to comply with government regulations could result in contract terminations or we may be unable to enter into future government contracts.**

We enter into government contracts, from time to time, which are subject to various uncertainties, restrictions and regulations, which could result in withholding or delay of payments. In addition, government contracts are subject to specific regulations as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. These laws impact how we transact business with governmental clients and, in some instances, impose significant costs on business operations. If we fail to comply with any of these regulations, requirements or statutes, our existing government contracts could be terminated, and we could be temporarily suspended or even barred from government contracting or subcontracting. If one or more of our government contracts are terminated or if we are suspended or barred from government contract work, or if payment of our cost is disallowed, we could suffer a significant reduction in expected revenue and profits.

### **Delays in the government budget process or a government shutdown may adversely affect our operating results.**

Certain of our businesses provide services to government customers, often under long-term contracts. Any delay in the federal or state government budget process or a federal or state government shutdown may result in our incurring substantial costs without reimbursement under these contracts for extended periods. In addition, our businesses rely on obtaining and maintaining government permits, licenses, concessions and leases. Governmental budget delays or government shutdowns could also negatively impact our ability to timely obtain approvals and consents needed to

Governmental agencies may determine the prices we charge and may be able to restrict our ability to operate our b

operate and grow our businesses. Any of these consequences could have an adverse impact on our operating results.

**Unfavorable publicity or public perception of the industries in which we operate could adversely impact our operating results and our reputation.**

Accidents and incidents involving the aviation industry, particularly those involving the airports and heliport at which we operate, whether or not directly related to our Company's services, and the media coverage thereof, can adversely impact our Company's reputation and the demand for our services. Similarly, negative publicity or public perception of the energy-related industries in which we operate, including through

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media coverage of environmental contamination and climate change concerns, could reduce demand for our services and harm our reputation. Any reduction in demand for the services our businesses provide or damage to our reputation could have a material adverse effect on our results of operations, cash flows and financial condition and business prospects.

**A significant and sustained increase in the price of oil could have a negative impact on the revenue of a number of our businesses.**

A significant and sustained increase in the price of oil could have a negative impact on the profitability of a number of our businesses. Higher prices for jet fuel could result in reduction in the use of aircraft by GA customers, which would have a negative impact on the profitability of Atlantic Aviation. Higher fuel prices could increase the cost of power to our businesses generally and they may not be able to fully pass the increase through to customers.

**A sustained period of low energy prices may foreshadow a downturn in economic activity, and capital investment in particular, that could have a negative impact on the performance and prospects of one or more of our businesses.**

A period of low energy prices, or what has been characterized as an oil or energy glut, may not drive an increase in economic activity and capital investment. If instead it constrains growth in economic activity and capital investment, and/or results in an economic slowdown, demand for products and services provided by our airport services and/or bulk liquid terminal businesses may flatten or decline. A decline in the performance of these businesses could result in a decline in the value of our shares.

**Fluctuations in commodity prices could adversely impact revenue, cost of services/goods sold and gross margin at our businesses.**

Revenue at our Atlantic Aviation and Hawaii Gas businesses is generated primarily from the re-sale of a commodity. Accordingly, we may not be able to pass through all or any of the fluctuations to customers on a real time basis.

**Energy efficiency and technology advances, as well as conservation efforts and changes in the sources and types of energy produced in the U.S. may result in reduced demand for our products and services.**

The trends toward increased conservation, as well as technological advances including installation of improved insulation, the development of more efficient heating and cooling devices and advances in energy generation technology, may reduce demand for certain of our products and services. During periods of high energy commodity costs, the prices of certain of our products and services generally increase, which may lead to increased conservation. In addition, federal and/or state regulation may require mandatory conservation measures, which would also reduce demand.

The discovery and development of new and unconventional energy sources in the U.S. may drive changes in related energy product logistics chains. The location and exploitation of these new energy sources could result in the dislocation of certain portions of some of our businesses. Either or both of these changes in energy supply chain logistics or trends toward increased conservation could reduce demand for our products and services and could

Unfavorable publicity or public perception of the industries in which we operate could adversely impact our operating

adversely affect our results of operations, cash flows and financial condition.

**Each of our businesses experience a measure of seasonality and such seasonality may cause fluctuations in our results of operations.**

Although our businesses tend to produce stable financial results owing to a preponderance of contracted/concession based revenues and the provision of generally essential services, each operates in an environment which can generate seasonal variations in results. Our bulk liquid terminals business may generate incrementally more cash during cold weather months as a result of increased heating, throughput of certain products such as heating oil or the reduction in maintenance expenses. Our aviation services business may generate relatively more cash during cold weather months as a result of increased GA traffic into bases in Florida and the intermountain West. Our gas production and distribution business may generate incrementally more cash during the peak tourism periods in Hawaii between mid-December and the end of March and from

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mid-June through mid-September. To the extent that our businesses collectively appear to generate more cash flows in the first quarter of the year, such performance, if annualized, could result in an overly optimistic estimate of the value of our shares.

**Security breaches or interruptions in our information systems, the loss or misappropriation of confidential information, or cyber-attacks on our facilities or those of third parties on which we rely, could materially adversely affect our business.**

We rely on information technology networks and systems to process, transmit and store electronic information used to operate our businesses, make operational decisions and manage inventory. We also share certain information technology networks with our Manager and we use third party information technology service providers. The information technology we use, as well as the information technology systems used by our Manager and third party providers, could be vulnerable to security breach, damage or interruption from computer viruses, cyber-attacks, cyber terrorism, natural disasters or telecommunications failures. If our technology systems, or those of the Manager or third party providers, were to fail or be breached and we were unable to recover in a timely manner, we may be unable to fulfill critical business functions and confidential data could be compromised, we may incur substantial repair or replacement costs, and our reputation could be damaged, any of which could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We transmit confidential credit card information by way of secure private retail networks and rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission and storage of confidential information, such as customer credit card information. Any material failure by us to achieve or maintain compliance with the Payment Card Industry security requirements or to rectify a security issue may result in fines and the imposition of restrictions on our ability to accept credit cards as a form of payment. Any loss, disclosure or misappropriation of, or access to, customers', employees' or business partners' information or other breach of our information security can result in legal claims or legal proceedings, including regulatory investigations and actions, may have a negative impact on our reputation, could result in loss of customers, could lead to regulator enforcement actions against us, and could materially adversely affect our business, results of operations, cash flows and financial condition.

If our information technology systems, or the information technology systems of third parties on which we rely, cease to function properly or our cybersecurity is breached, we could suffer disruptions to our normal operations in a variety of ways, including among others: (i) unauthorized access to our facilities or a cyber-attack on our automated systems, or the power grids or communications networks we use, that could cause operational disruption and potential environmental hazards; (ii) a cyber-attack on third party transportation systems that could result in supply chain disruptions, prevent our IMTT customers from transporting product to us for storage, or prevent our Hawaii Gas business from transporting product to its customers; and (iii) a cyber-attack on power generation facilities or refineries that could significantly impact prices and demand in the commodities markets. Any or all of these events could materially adversely affect our operating results. Additionally, certain cyber incidents may remain undetected for an extended period. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Each of our businesses experience a measure of seasonality and such seasonality may cause fluctuations in our results of operations.



**Climate change, climate change regulations and greenhouse effects may adversely impact our operations and markets.**

Climate change is receiving increased attention and the outcome of federal and state actions to address global climate change could result in significant new regulations, additional changes to fund energy efficiency activities or other regulatory actions. These actions could increase the costs of operating our businesses, reduce the demand for our products and services and impact the prices we charge our customers, any or all of which could adversely affect our results of operations. In addition, climate change could make severe weather events more frequent, which would increase the likelihood of capital expenditures to replace damaged physical property at our businesses.

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**Policies at the national, regional and state levels to regulate greenhouse gas emissions, as well as climate change, could adversely impact our results of operations, cash flows and financial condition.**

Hazards customary to the power production industry include the potential for unusual weather conditions, which could affect fuel pricing and availability, as well as route to market or access to customers through transmission and distribution lines or to critical plant assets. To the extent that climate change contributes to the frequency or intensity of weather-related events, our operations could be affected.

Restrictions on emissions of methane or carbon dioxide that may be imposed could adversely impact the demand for, price of, and value of our products and reserves. As our operations also emit greenhouse gases directly, current and future laws or regulations limiting such emissions could increase our own costs. Future laws or regulations addressing greenhouse gas emissions could adversely impact our businesses.

**Changes or new financial accounting standards may cause us to alter the reporting of our results or operations or cause us to change business practices.**

Financial accounting standards are promulgated by the Financial Accounting Standards Board (FASB), and interpreted by the SEC and various regulatory bodies formed to interpret, modify and/or create new accounting policies. Changes in those policies can have a significant effect on our reported results of operations, cash flows and financial condition and may affect our reporting, in particular our reporting related to transactions completed prior to implementation of policy.

**We may face greater exposure to terrorism than other companies because of the nature of our businesses.**

Our businesses may face greater risk of terrorist attack than other businesses, particularly our operations within the immediate vicinity of metropolitan and suburban areas. Because our businesses provide basic or essential services relied on by many people, our facilities may be at greater risk for terrorism attacks than other businesses, which could affect our operations significantly. Any terrorist attacks that occur at or near our business locations would be likely to cause significant harm to our employees and assets. In recent years, insurers have significantly reduced the amount of insurance coverage available for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. A terrorist attack that makes use of our property, or property under our control, may result in liability far in excess of available insurance coverage. In addition, any terrorist attack, regardless of location, could cause a disruption to our business and a decline in earnings. Furthermore, such an attack would likely result in an increase in insurance premiums and a reduction in coverage and could reduce profitability.

**Our recent sale of BEC, and the pending sale of substantially all of our portfolio of solar and wind facilities, subjects us to various risks and uncertainties.**

In October 2018, we concluded the sale, through a subsidiary, of BEC. Our subsidiary has indemnified the buyer, subject to the terms and limitations in the purchase and sale agreement, for breaches of representations, warranties and covenants in the purchase and sale agreement, and we have guaranteed our subsidiary's payment and certain

post-closing indemnity obligations. In addition, following the sale, our portfolio of businesses is now less diversified and our exposure to the risks inherent in our remaining businesses has increased. The reduction in overall diversification could cause a rating agency to modify their view of the risk profile of the Company and such modification could lead to a reduction in the rating applied to the Company.

## **Risks Related to IMTT**

### **IMTT's business is dependent on the demand for bulk liquid terminal services in the markets it serves.**

Demand for IMTT's bulk liquid terminal services is largely a function of demand for chemical, petroleum and vegetable and tropical oil products and the extent to which such products are imported into and/or exported out of the U.S. Demand for chemical, petroleum and vegetable and tropical oil products is influenced by a number of factors, including economic conditions, growth in the economy, the absolute and relative pricing of chemical, petroleum and vegetable and tropical oil products and their substitutes. Import and export volumes of these products to and from the U.S. are influenced by demand and supply imbalances

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in the U.S. and overseas, the cost of producing chemical, petroleum and vegetable and tropical oil products domestically versus overseas and the cost of transporting the products between the U.S. and overseas destinations.

Global demand for heavy oils has declined in recent years, and the demand for light transportation fuels, tropical oils and vegetable oils has increased. In addition, recent backwardation (meaning the futures prices for commodities are below the current, or spot, prices) has reduced the demand for storage by commodities traders. These trends have had, and are expected to continue to have, an adverse impact on the demand for a segment of IMTT's services. If IMTT is unable to successfully repurpose some of its capacity to accommodate the products for which demand is high, increase supply chain efficiencies and upgrade certain other capabilities to enhance service, the demand for IMTT's services may materially decrease and IMTT's results of operations, cash flows and financial condition may be materially adversely affected.

In addition, changes in government regulations that affect imports and exports of bulk chemical, petroleum, renewable fuels and vegetable and tropical oil products, including the imposition of surcharges or taxes on imported or exported products, could adversely affect import and export volumes to and from the U.S. A reduction in demand for bulk liquid terminals, particularly in New York Harbor or the Lower Mississippi River, as a consequence of lower demand for, or imports/exports of, chemical, petroleum or vegetable and tropical oil products, could lead to a decline in storage rates and tankage volumes leased out by IMTT and adversely affect IMTT's revenue and profitability and the distributions it makes to us.

### **IMTT's business could be adversely affected by a substantial change in bulk liquid terminal or refining capacity or demand in the locations where it operates or in other alternative or substitute locations.**

An increase in available bulk liquid terminal capacity in excess of growth in demand for such storage in the key locations in which IMTT operates, such as New York Harbor and the Lower Mississippi River, or in Houston or other parts of the Gulf Coast could result in overcapacity and a decline in storage rates and tankage volumes leased out by IMTT. This could adversely affect IMTT's revenue and profitability and the distributions it makes to us.

Demand for products at IMTT's terminal locations may also drive pricing and utilization. Demand may be influenced by a range of factors including changes in petroleum product supply for demand patterns, forward-price structure, financial market conditions, regulations or other factors.

The interplay and proximity of terminal capacity, refining and end user demand is critical for the commercial viability of a terminal. Shifts in any of these factors may cause a decline in demand for our terminals or make other terminals more attractive, which could adversely affect IMTT's revenue and profitability and the distributions it makes to us.

### **If IMTT does not deploy capital for growth or make such deployment on economically acceptable terms, any future growth of the business may be limited.**

A portion of IMTT's historical growth has been dependent on the deployment of growth capital. IMTT faces significant uncertainties and competition in the pursuit of growth opportunities. For example, decisions regarding new growth projects rely on numerous estimates, including among other factors, predictions of future demand for IMTT's services, future supply shifts, crude oil production estimates, commodity price environments, economic conditions and potential changes in the financial condition of IMTT's customers. IMTT's predictions of such factors could cause it to

forego certain investments or to lose opportunities to competitors who make investments based on more aggressive predictions. If IMTT cannot find projects with economically acceptable terms, future growth of this business may be limited.

**A continued or sustained decrease in the global price of crude oil and its derivative products may negatively impact IMTT's operations.**

A decrease in oil prices over a long period of time may result in reduced demand for the services IMTT provides. Uncertainty in the oil markets may also result in IMTT's customers entering into shorter term contracts for storage than they have previously. This would increase the frequency of customer contract renewals and negotiations and may result in more volatility in earnings.

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Lower oil prices may negatively impact certain IMTT customers and cause them to seek to renegotiate contract pricing or storage capacity in order to reduce operating costs. Low oil prices may also result in a lower level of growth capital deployment by IMTT as its customers may not require additional storage or logistics assets and this may limit IMTT's future growth. IMTT's customer base includes large, multinational oil companies. If oil prices remain low or decline further, one or more of these companies could cease operations or be consolidated. This could result in a loss of customers and/or a consolidation among customers and may reduce IMTT's revenue or concentrate counterparties to the point where the loss of any one could be material to the performance or prospects of the business.

### **IMTT's agreements may be terminated or expire at the end of the current term upon requisite notice or renewed on different terms. If one or more of the current agreements is terminated and IMTT is unable to secure comparable alternative arrangements, its results of operations, cash flows and financial condition may be adversely affected.**

Upon expiration, agreements can generally be terminated by either party, though some agreements require the giving of requisite notice. Changing market conditions, including changes in petroleum product supply or demand patterns, forward-price structure, financial market conditions, regulations, accounting rules or other factors could cause IMTT's customers to be unwilling to renew their storage agreements when those agreements terminate, or make them willing to renew only at lower rates or for shorter periods. If any of IMTT's agreements are terminated or expire and IMTT is unable to secure comparable alternative arrangements, IMTT may not be able to generate sufficient additional revenue from third parties to replace any shortfall. Additionally, IMTT may incur substantial costs if modifications to its terminals are required by a new or renegotiated agreement.

Recent trends in the demand for certain products stored at IMTT's facilities, as well as recent pricing trends in the commodities futures markets, have had, and are expected to continue to have, an adverse impact on the demand for IMTT's services. See risk factor *IMTT's business is dependent on the demand for bulk liquid terminal services in the markets it serves* above. If IMTT is unable to successfully repurpose some of its capacity and upgrade certain of its other capabilities to address these trends, the level of contract renewals by IMTT customers may materially decrease, which may have a material adverse effect on IMTT's results of operations, cash flows and financial condition.

### **IMTT could incur significant costs and liabilities in responding to contamination that occurs at its facilities.**

There is risk of incurring significant environmental costs and liabilities in IMTT's operations due to its handling of petroleum chemicals, hazardous substances and wastes, because of air emissions, water discharges and waste practices related to its operations, and as a result of historical operations and waste disposal practices of prior owners of IMTT's facilities. IMTT's pipeline and terminals have been used for transportation, storage and distribution of crude oil, refined petroleum products and chemicals for several decades. Although IMTT has utilized operating and disposal practices that were standard in the industry at the time, refined petroleum products or crude oil, chemicals, hazardous substances and wastes from time to time have been spilled or released on or under the terminal properties.

In addition, the terminal properties that were previously owned and operated by other parties and those parties from time to time also may have spilled or released refined petroleum products or crude oil, chemicals, hazardous substances or wastes. The terminal properties are subject to federal, state and local laws that impose investigatory, corrective action and remedial obligations, some of which are joint and several or strict liability obligations without

A continued or sustained decrease in the global price of crude oil and its derivative products may negatively impact

regard to fault, to address and prevent environmental contamination. IMTT may incur significant costs and liabilities in responding to any soil and groundwater contamination that occurs on its properties, even if the contamination was caused by prior owners and operators of its facilities. IMTT may not be able to recover some or any of these costs from insurance or other sources of contractual indemnity. To the extent that the costs associated with meeting any or all of these requirements are substantial and not adequately provided for, there could be a material adverse effect on IMTT's business, results of operations, cash flows and financial condition.

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**IMTT may incur significant costs and liabilities in complying with environmental and occupational health and safety laws and regulations.**

IMTT's operations involve the transportation and storage of petroleum, chemical and vegetable and tropical oil products which are subject to federal, state, and local laws and regulations governing release of materials and vapors into the environment, occupational health and safety aspects of our operations, and otherwise relating to the protection of the environment. Compliance with this array of federal, state, and local laws and regulations is difficult and may require significant capital expenditures and operating costs to mitigate or prevent pollution. Moreover, IMTT's business is subject to spills, discharges or other releases of petroleum or chemical products or other hazardous substances or wastes into the environment and neighboring areas, in which events joint and several, strict liability may be imposed against us under certain environmental laws for costs required to remediate and restore affected properties, for claims made by neighboring landowners and other third parties for personal injury, natural resource and property damages, and for costs required to conduct health studies. Failure to comply with applicable environmental, health, and safety laws and regulations may result in the assessment of sanctions, including fines, administrative, civil or criminal penalties, and permit revocations, the imposition of investigatory, corrective action, or remedial obligations and the issuance of injunctions limiting or prohibiting some or all of IMTT's operations.

New laws and regulations, amendment of existing laws and regulations, increased government enforcement or other developments could require IMTT to make additional expenditures. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time. IMTT is not able to predict the impact of new or changed laws or regulations or how such legal requirements are interpreted or enforced, but any such expenditures or costs for environmental and occupational health and safety compliance could have a material adverse effect on its results of operations, cash flows and financial condition.

**IMTT's business involves hazardous activities and is partly located in a region with a history of significant adverse weather events and is potentially a target for terrorist attacks. We cannot assure that IMTT is, or will be in the future, adequately insured against all such risks.**

The transportation, handling and storage of petroleum, chemical and vegetable and tropical oil products are subject to the risk of spills, leakage, contamination, fires and explosions. Any of these events may result in loss of revenue, loss of reputation or goodwill, fines, penalties and other liabilities. In certain circumstances, such events could also require IMTT to halt or significantly alter operations at all or part of the facility at which the event occurred. IMTT carries insurance to protect against most of the accident-related risks involved in the conduct of the business; however, the limits of IMTT's coverage mean IMTT cannot insure against all risks. Losses from terrorism or acts of war, which results in significant damage to one or more of IMTT's major facilities, may have a negative impact on IMTT's future cash flow and profitability and the distributions it makes to us. Further, future losses sustained by insurers during hurricanes and storms in the U.S. Gulf and Northeast regions may result in lower insurance coverage and/or increased insurance premiums for IMTT's properties.

**Many of IMTT's facilities have been in service for several decades. Costs of maintaining those facilities could adversely affect IMTT's results of operations.**

IMTT's terminals are generally long-lived assets. Some of those assets have been in service for several decades. The age and condition of these terminals could result in increased maintenance or remediation expenditures and an increased risk of product releases and associated costs and liabilities. Any significant increase in these expenditures,

IMTT may incur significant costs and liabilities in complying with environmental and occupational health and safety



costs or liabilities could materially adversely affect IMTT's results of operations, cash flows and financial condition.

**IMTT's business is subject to federal, state and local laws and regulations that govern the product quality specifications of the products that it stores or handles. Changes in these regulations could impose costs on IMTT that would adversely affect its results of operations, cash flows and financial condition.**

Petroleum and other products that IMTT stores and handles are consumed in various end markets. Various federal, state and local agencies have the authority to prescribe specific product quality specifications for commodities sold into the public market. Changes in product quality specifications or blending

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requirements could reduce IMTT's revenue, require IMTT to incur additional costs or require capital expenditures. If IMTT is unable to recover these costs through increased revenue, its cash flows could be adversely affected.

### **IMTT's business could be adversely affected by the insolvency or loss of large customers.**

As of December 31, 2018, IMTT's ten largest customers by revenue generated approximately 50% of its revenue. The loss of one or more of these customers for any reason, including, but not limited to, insolvency, industry consolidation or deconsolidation or changes in market conditions, could result in a reduction in storage capacity utilization in the event such capacity is not leased to other customers and may adversely affect IMTT's revenue and profitability and the distributions it makes to us.

## **Risks Related to Atlantic Aviation**

### **Deterioration in the economy in general or in the aviation industry that results in less air traffic at airports that Atlantic Aviation services would have a material adverse impact on our business.**

A large part of the business's revenue is derived from fueling and other services provided to GA customers and, to a lesser extent, commercial, freight and military flights. An economic downturn could reduce the level of air travel, adversely affecting Atlantic Aviation as GA travel is primarily a function of economic activity. Consequently, during periods of financial market dislocation, FBO customers may be more likely to curtail air travel.

Air travel and air traffic volume can also be affected by events that have nationwide and industry-wide implications. Events such as wars, outbreaks of disease, severe weather and terrorist activities in the U.S. or overseas may reduce air travel. Local circumstances include downturns in the general economic conditions of the area where an airport is located or other situations in which the business's major FBO customers relocate their home base or preferred fueling stop to alternative locations.

In addition, changes to regulations governing the tax treatment relating to GA travel, either for businesses or individuals, may cause a reduction in GA travel. Increased environmental regulation restricting or increasing the cost of aviation activities could also cause the business's revenue to decline.

### **A decline in financial markets activity could have a negative impact on Atlantic Aviation's results of operations.**

Atlantic Aviation may experience negative impacts to its results of operations due to a deterioration in the level of domestic and international financial markets activity. A deterioration in either equity or credit markets and its impact on the volume or value of debt or equity issuances and/or merger and acquisition activity may cause GA activity to decline and consequently impact our results of operations, cash flows and financial condition.

### **Atlantic Aviation is subject to a variety of competitive pressures, and the actions of competitors may have a material adverse effect on its revenue, market share, and fuel margins, causing a decline in the profitability of that**

**business.**

FBO operators at a particular airport compete based on a number of factors, including location of the facility relative to runways and street access, service, value added features, reliability and price. Many of Atlantic Aviation's FBOs compete with one or more FBOs at their respective airports and with FBOs at nearby airports. Furthermore, leases related to FBO operations may be subject to competitive bidding at the end of their term. Some present and potential competitors may have or may obtain greater financial and marketing resources than Atlantic Aviation, which may negatively impact Atlantic Aviation's ability to compete at each airport or for lease renewal. Some competitors may aggressively or irrationally price their bids for airport leases, which may limit the business's ability to grow or renew its portfolio. Excessive price discounting may cause fuel volume and market share decline, potential decline in hangar rentals and de-icing and may result in increased margin pressure, adversely affecting the profitability of this business.

Atlantic Aviation's FBOs do not have the right to be the sole provider of FBO services at any airport. The authority responsible for each airport has the ability to grant other leases to other operators and new competitors could be established at those airports. The addition of new competitors may reduce or impair Atlantic Aviation's ability to grow or improve its financial performance.

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**Airport leases may not be renewed on economically favorable terms.**

Atlantic Aviation generates revenue pursuant to leases granted by airport authorities. Airport authorities may choose at the expiration of the current lease to not renew the lease at all or to only renew the lease on terms which are economically unfavorable to Atlantic Aviation. In addition, airport authorities may require Atlantic Aviation to participate in a bidding process to renew a lease, which could require unanticipated capital spending and could divert management's attention during the pendency of the process. The loss or modification of any of Atlantic Aviation's airport leases could adversely impact its results of operations, cash flows and financial condition.

**The termination for cause or convenience of one or more of the FBO leases would damage Atlantic Aviation's operations significantly.**

Atlantic Aviation's revenue is derived from long-term leases granted by airport authorities on 70 airports in the U.S. If Atlantic Aviation defaults on the terms and conditions of its leases, including upon insolvency, the relevant authority may terminate the lease without compensation. In this case, Atlantic Aviation would then lose the income from that location and potentially the expected returns from prior capital expenditures. Such an event could have a material adverse effect on Atlantic Aviation's results of operations, cash flows and financial condition.

**The business may be exposed to sudden and extreme volatility in commodity prices directly or indirectly.**

Aviation fuel is generally stored on site in fuel farms. In some instances these fuel farms are owned by the FBO operator and in other instances they are owned by a third party, usually the airport or a third party fuel provider. Extreme and sudden movements in underlying commodity prices may impact the value of an FBO operator's fuel inventory as well as the margin the FBO operator earns on fuel. In addition, extreme and sudden movements in commodity prices may impact overall GA activity levels.

**Failure to adequately maintain the facilities comprising our FBOs or the integrity of our fuel supplies may have a material adverse impact on the revenue or market share of one or more of the FBOs in the network resulting in a decline in profitability of the business.**

FBO operators compete in part on the basis of the overall quality and attractiveness as well as the safety of their operations. Inadequate maintenance of any of the hangars, terminals, ramps or other assets comprising Atlantic Aviation's FBOs could result in customers electing not to utilize Atlantic Aviation where another provider operates or to elect not to use a particular airport where an alternative in the same market exists. The resulting decline in customer visits or negative impact on reputation could adversely impact revenue from fuel sales, hangar/office rental, ramp and/or ramp services fees and could impact more than one facility.

Aircraft owners and operators rely on FBOs to control the quality of the fuel they sell. Failure to maintain the integrity of supplies as a result of inadequate or inappropriate maintenance of fuel farms (storage facilities), fuel trucks, or related equipment could result in the introduction of contaminants and could lead to damage or failure of aircraft and could adversely impact the reputation, revenue and/or profitability of the business.

**Failure to complete, or realize anticipated performance from acquisitions, expansions or developments could negatively impact Atlantic Aviation; the business increased indebtedness to fund such acquisitions, expansions or developments could reduce our operating flexibility.**

Completing acquisitions, expansions or developments are subject to a number of conditions, and we may not complete such transactions on a timely basis or at all, which could have an adverse effect on the business and results of operations, cash flows and financial condition.

FBO industry participants are often smaller, private companies with less sophisticated information systems and financial reporting and control capabilities. If we complete the acquisitions, we may be unable to integrate the assets into our existing operations on a timely basis or to achieve expected efficiencies. The integration could be expensive and could be time consuming for our management.

We may not be able to achieve anticipated levels of financial performance at the acquired FBO within our expected time frames or at all. Atlantic Aviation may incur additional indebtedness to fund future

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acquisitions, expansions or developments. This increased level of indebtedness will increase interest expense and could reduce funds available for reinvestment or distribution to us.

**Deterioration of GA air traffic at airports where Atlantic Aviation operates would decrease Atlantic Aviation's ability to refinance or service its debt.**

As of December 31, 2018, Atlantic Aviation had \$1,025.0 million of its term loan debt outstanding and a senior secured revolving credit facility that was not drawn. The terms of these debt arrangements require compliance with certain operating and financial covenants. The ability of Atlantic Aviation to meet its respective debt service obligations and to refinance or repay their outstanding indebtedness will depend primarily upon cash flows generated by this business.

**Reductions in U.S. military spending could result in a reduction in demand for services provided by Atlantic Aviation at certain airports in the U.S.**

The U.S. military operates aircraft that are serviced at Atlantic Aviation FBOs. Cuts in U.S. military spending, to the extent they result in a reduction in the number of flights by military aircraft, could reduce revenue and gross margin at Atlantic Aviation.

**Atlantic Aviation is subject to extensive governmental regulations that could require significant expenditures. Regulators, such as the Transportation Security Administration (TSA), have and may continue to consider new regulations which could impair the relative convenience of GA and adversely affect demand for Atlantic Aviation's services.**

FBOs are subject to extensive regulatory requirements that could result in significant costs. For example, the FAA, from time to time, issues directives and other regulations relating to the management, maintenance and operation of facilities. Compliance with those requirements may cause Atlantic Aviation to incur significant expenditures. The proposal and enactment of additional laws and regulations, as well as any charges that Atlantic Aviation has not complied with any such laws and regulations, could significantly increase the cost of Atlantic Aviation's operations and reduce overall revenue. In addition, new regulations, if implemented, could decrease the convenience and attractiveness of GA travel relative to commercial air travel and, therefore, may adversely impact demand for Atlantic Aviation's services.

**The lack of accurate and reliable industry data can result in unfavorable strategic planning, mergers and acquisitions and macro pricing decisions.**

The business uses industry and airport-specific GA traffic data published by the FAA to identify trends in the FBO industry. The business also uses this traffic data as a key input to decision-making in strategic planning, mergers and acquisitions and macro pricing matters. However, as noted by the FAA on their website, the data has several limitations and challenges. As a result, the use of the FAA traffic data may result in conclusions in strategic planning, mergers and acquisitions or macro pricing decisions that are ultimately sub-optimal.

## **Risks Related to MIC Hawaii**

**Hawaii Gas is exposed to the effects of changing commodity prices that have a history of price volatility. To the extent that these costs cannot be hedged or passed on to customers, both in the short-term or the long-term, the business gross margin and cash flows will be adversely affected.**

The profitability of Hawaii Gas is based on the margin of sales prices over costs. Since LPG and LNG, as well as feedstock for the SNG plant are commodities, changes in global supply of and demand for these products can have a significant impact on costs. Hawaii Gas has no control over these costs, and, to the extent that these costs cannot be hedged or passed on to customers, the business results of operations, cash flows and financial condition could be adversely affected.

**The operations of Hawaii Gas are subject to a variety of competitive pressures and the actions of competitors could have a materially adverse effect on operating results.**

Other energy resources, including diesel, solar, geo-thermal and wind, may be substituted for gas in certain end-use applications, particularly if the price of gas increases relative to competing resources, whether

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due to higher costs or otherwise. Customers could, for a number of reasons, including increased gas prices, lower costs of alternative generation resources or convenience, meet their energy needs through other energy sources. This could have an adverse effect on the business results of operations, cash flows and financial condition.

**Hawaii Gas relies on its SNG plant, including its transmission pipeline, for a significant portion of its sales. Disruptions at that facility could adversely affect the business ability to serve customers.**

Disruptions at the SNG plant resulting from mechanical or operational issues or power failures could affect the ability of Hawaii Gas to produce SNG. Most of the utility sales on Oahu are of SNG and all SNG is produced at the Oahu plant. Hawaii Gas has redundant production systems in place, however, disruptions to both the primary and redundant production systems could have a significant adverse effect on Hawaii Gas results of operations, cash flows and financial condition.

**Hawaii Gas obtains its primary feedstock for its SNG plant from a refinery located on Oahu and sources its LPG supply from an off-island distributor. Supply disruptions may have an adverse effect on the operations of the business.**

The extended unavailability of the refinery that supplies SNG feedstock, or the inability to purchase LPG from off-island sources, could adversely affect operations. The business has a limited ability to store LPG, and any disruption in supply may cause a depletion of LPG stocks. All supply disruptions of SNG or LPG, if occurring for an extended period, could materially adversely impact the business results of operations, cash flows and financial condition.

**The MIC Hawaii businesses are subject to risks associated with volatility in the Hawaii economy.**

Hawaii's economy, and demand for our business products, is heavily influenced by economic conditions in the U.S. and Asia and their impact on tourism, as well as by government spending. If the local economy deteriorates, the volume of gas sold at Hawaii Gas could be negatively affected by business closures or lower usage which could adversely impact the business financial performance. Additionally, a lack of growth in the Hawaiian economy could adversely impact gas volumes from new customers and reduce the level of new commercial construction. A reduction in government activity, particularly military activity could also have a negative impact on the MIC Hawaii businesses.

**Changes in commodity market prices may have a negative effect on our liquidity.**

Depending on the terms of our contracts with suppliers, as well as the extent and success of our use of financial instruments to reduce our exposure related to volatility in the cost of LPG, changes in the market price of Hawaii Gas fuel supplies could create payment obligations that expose the business to increased liquidity risk.

The operations of Hawaii Gas are subject to a variety of competitive pressures and the actions of competitors could



**Hawaii Gas utility business is subject to regulation by the HPUC and actions by the HPUC or changes to the regulatory environment may constrain the operation or profitability of the business.**

The HPUC regulates all franchised or certificated public service companies operating in Hawaii; prescribes rates, tariffs, charges and fees; determines the allowable rate of earnings in establishing rates; issues guidelines concerning the general management of franchised or certificated utility businesses; and acts on requests for the acquisition, sale, disposition or other exchange of utility properties, including mergers and consolidations.

Any adverse decision by the HPUC concerning the level or method of determining utility rates, the items and amounts that may be included in the rate base, the returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other proceeding, could have an adverse effect on our business.

As part of our acquisition, the business agreed to 14 regulatory conditions with the HPUC that address a variety of matters including: a requirement that Hawaii Gas and HGC Holdings LLC's (HGC) ratio of consolidated debt to total capital does not exceed 65%; and a requirement to maintain \$20.0 million in readily-available cash resources at Hawaii Gas, HGC or MIC. The business is currently in compliance with these conditions, however, future non-compliance with these or other HPUC regulatory conditions, could adversely impact the business.

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**Hawaii has implemented a renewable portfolio standard (RPS) for utility electric generation, currently at 15% through 2020, with periodic increases resulting in a 100% goal by 2045. In recent Hawaii legislative sessions, lawmakers have proposed bills that have included an RPS for utility gas. The enactment of 2018 legislation requiring the State to be carbon neutral by 2045 or a potential RPS for utility gas usage or supply could result in supply disruptions, increased energy costs to ratepayers or a negative impact on Hawaii Gas future financial performance.**

Hawaii's geographic location includes an abundance of renewable electric energy resources which, combined with state and federal tax incentives and regulatory tariffs, has resulted in significant growth of rooftop solar and a growing number of utility scale electric generation projects that support the State's electric utilities in meeting Hawaii's RPS. The production of renewable natural gas in Hawaii is limited by comparatively fewer local feedstocks, limited tax incentives and the economic importation of renewable natural gas is unproven. As part of its existing regulatory reporting requirements, Hawaii Gas provides the HPUC the annual percentage of feedstock and quantity of gas produced from non-petroleum feedstock. The Hawaii legislature or municipal governments could impose a gas RPS, enact other restrictive legislation or impose changes to building codes, which may result in increased energy costs to the business and its customers, and disruptions in supply or restrict future business.

**Hawaii Gas seeks to grow its renewable feedstocks to increase the percentage of RNG distributed to its customers. This initiative exposes Hawaii Gas to new technology, supply, counterparty and regulatory risks that could impact the performance of the business.**

Hawaii Gas continues to pursue a range of renewable resources for conversion into pipeline quality gas in scalable quantities. These initiatives include the current contract for recovery of biogas from the Honouliuli waste water treatment plant as well as ongoing commercial negotiations to source biogas from additional waste water treatment plants, landfills and biomass producers. Blending of RNG with existing fuels and integrating RNG into the Hawaii Gas pipeline network may present technical challenges resulting in project delays, cost overruns or pipeline disruptions. Use of RNG also has the risk of supply fluctuations due to the organic digestion processes inherent in its production. These technical and supply risks may impact the performance of the business.

**Hawaii Gas LNG initiatives include regulatory, environmental, contractual and market-based risks.**

Hawaii Gas has invested in the evaluation and planning for LNG import, storage and distribution program to supply various end markets including the marine and transportation sectors. In August 2015, Hawaii's Governor announced that his administration is opposed to LNG for electricity generation, the largest potential LNG market. The LNG project is subject to ongoing implementation risks including but not limited to: the timely issuance of necessary permits; licenses and approvals by governmental agencies and third parties; unanticipated changes in market demand or supply; site difficulties; environmental conditions; delays of critical equipment and materials; and commercial arrangements to transport and distribute LNG. If the project is delayed or cancelled, the actual cost of planning and implementation may increase beyond the amounts currently estimated in our capital and operating budgets.

Hawaii has implemented a renewable portfolio standard (RPS) for utility electric generation, currently at 15% through

**Because of its geographic location, Hawaii, and in turn the MIC Hawaii businesses, are subject to earthquakes, volcanos and certain weather risks that could materially disrupt operations.**

Hawaii is subject to earthquakes, volcanic activity and certain weather risks, such as hurricanes, floods, heavy and sustained rains and tidal waves that could materially disrupt operations. Because MIC Hawaii's business properties, such as the SNG plant, SNG transmission line and several storage facilities, are close to the ocean, weather-related disruptions to operations are possible. In addition, earthquakes and volcanic activity may cause disruptions. These events could damage the business's assets or could result in wide-spread damage to its customers, thereby reducing the volumes of gas sold and, to the extent such damages are not covered by insurance, adversely impacting the business's results of operations, cash flows and financial condition.

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**Reductions in U.S. military spending could result in a reduction in demand for gas in Hawaii.**

The U.S. military has a significant presence in Hawaii and has contributed to its economy. To the extent that federal spending cuts, including voluntary or mandatory cuts in U.S. military spending results in a reduced military presence in Hawaii, such reductions could reduce the demand for gas and new construction in Hawaii.

**Because of its geographic location and the unique economy of Hawaii, MIC Hawaii is subject to challenges in hiring and maintaining staff with specialized skill sets.**

The changing nature of the Hawaiian energy complex has had an impact on our staffing requirements. Volatility in feedstock prices, together with the impact of the State of Hawaii's goals to reduce dependency on imported petroleum, requires staff with specialized knowledge of the energy sector. Because the resident labor pool in Hawaii is both small, and oriented mainly to Hawaii's basic industries, it is difficult to find individuals with these specialized skill sets. Unemployment rates in Hawaii are traditionally lower than those in the U.S. Mainland. Moreover, relocation to Hawaii is costly and often requires employees to make cultural and family adjustments not normally required for a change of employment. Despite the asset intensity of the Company's businesses in Hawaii, the inability to source and retain staff with appropriate skill sets could adversely impact their performance. In addition, dependence on skilled labor trades could result in constraints on growth and profitability as a result of competition for a limited labor pool.

**Hawaii Gas operations on the islands of Hawaii, Maui and Kauai rely on LPG that is transported to those islands by Jones Act qualified barges from Oahu and from non-Jones Act vessels from off-island ports. Disruptions to service by those vessels could adversely affect the financial performance of our business.**

The Jones Act requires that all goods transported by water between U.S. ports be carried in U.S.-flag ships and that they meet certain other requirements. The business has time charter agreements for the only two Jones Act qualified barges available in Hawaii capable of carrying large volumes of LPG. If the barges are unable to transport LPG from Oahu and the business is not able to secure off-island sources of LPG or obtain an exemption to the Jones Act that would permit importation of a sufficient quantity of LPG from the mainland U.S., the business could be adversely affected. If the barges require refurbishment or repair at a greater frequency than forecast, cash outflows for capital costs could adversely impact Hawaii Gas results of operations, cash flows and financial condition.

**Generation underperformance at individual projects within MIC Hawaii could lead to financial penalties or contract terminations under existing off-take agreements.**

Certain distributed generation projects have minimum production clauses included in their respective PPAs. These minimum production levels are specified in each respective contract. Failure to meet these minimum production levels, could result in liquidated damages, other financial penalties, or contract termination which could negatively impact the business results of operations, cash flows and financial condition.

**Certain MIC Hawaii projects depend on electric interconnection and transmission facilities that we do not own or control and that are potentially subject to transmission constraints. If these facilities fail to provide adequate transmission capacity, MIC Hawaii projects may be restricted in their ability to deliver electricity to customers.**

MIC Hawaii's generation facilities depend on the electricity grid interconnection and transmission facilities owned and operated by others to deliver the power they generate. Certain off-taker contracts include limited provisions that allow for occasional curtailment of electricity generated by MIC Hawaii due to the limitations of the transmission system or electricity grid. Any constraints on, or the failure of, interconnections or transmission facilities could prevent MIC Hawaii from selling power and could adversely affect MIC Hawaii's results of operations, cash flows and financial condition.

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**MIC Hawaii depends on counterparties, including O&M providers and power purchasers, performing in accordance with their agreements. If they fail to so perform, our MIC Hawaii businesses could incur losses of revenue or additional expenses and business disruptions.**

Counterparties to long-term agreements within MIC Hawaii may not perform their obligations in accordance with such agreements. Should they fail to perform, due to financial difficulty or otherwise, MIC Hawaii may be required to seek alternative O&M providers. The failure of any of the parties to perform in accordance with these agreements could adversely affect MIC Hawaii's results of operations, cash flows and financial condition.

**MIC Hawaii's failure to uphold its obligations as managing member at the relevant facilities could adversely affect MIC Hawaii's result of operations, cash flows and financial condition.**

As managing member, MIC Hawaii is obligated to perform certain actions, including providing certain reporting items to its co-investor and the filing of correct and timely tax returns. As managing member, MIC Hawaii is also obligated to refrain from performing certain actions, including selling its interest to certain entities that would result in adverse economic outcomes to MIC Hawaii and its co-investor due to tax regulations. If MIC Hawaii were to cause an adverse tax outcome for its co-investor, MIC Hawaii could be liable. MIC Hawaii's failure to perform its obligations or to take any actions contrary to its obligations under any or all operating LLC agreements could adversely affect MIC Hawaii's results of operations, cash flows and financial condition.

## **Risks Related to Having an External Manager**

**We are subject to the terms and conditions of the Management Services Agreement between us and our Manager; our Manager may revoke its fee waiver.**

We cannot unilaterally amend the Management Services Agreement between us and our Manager. Changes in the compensation of our Manager, certain rights held by our Manager or other components of the Management Services Agreement require the approval of our Manager and limit our ability to make changes without the consent of the Manager that could be beneficial to stockholders generally.

Effective November 1, 2018, our Manager waived two portions of the base management fee to which it was entitled under the terms of the Management Services Agreement. Our Manager reserves the right to revoke the waiver and revert to the prior terms of the Management Services Agreement, subject to providing us with at least one year's notice. If our Manager chooses to revoke the waiver in the future, the base management fee payable to our Manager will increase, which will result in additional dilution of existing stockholders (to the extent our Manager reinvests the additional fee amounts in our common stock) or reduce our cash (to the extent our Manager does not so reinvest the additional fee amounts).

**Our Manager owns a significant portion of our outstanding stock. A sale of all or a portion of the common stock owned by our Manager could be interpreted by the equity markets as a lack of confidence in our prospects.**

Our Manager, in its sole discretion, determines whether to reinvest base management and performance fees, if any, in shares of our common stock and whether to hold or sell those securities. From May 2018 through September 2018, the Manager bought 5,987,100 shares in the open market. Reinvestment of base management and performance fees, if any, in additional common stock would increase our Manager's ownership stake in our Company. At December 31, 2018, our Manager owned 14.54% of our outstanding shares. Our Manager has sold, and is expected to continue to sell from time to time, our common shares that it acquires upon reinvestment of fees. If our Manager decides to reduce its position in our Company, such sales may be interpreted by some market participants as a lack of confidence in our Company and put downward pressure on the market price of our common stock. Sales of shares of common stock by our Manager would increase the available supply and could decrease the price if demand is insufficient to absorb such sales.

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**Certain provisions of our Management Services Agreement, certificate of incorporation and bylaws make it difficult for third parties to acquire control of our Company and could deprive investors of the opportunity to obtain a takeover premium for their shares of common stock.**

In addition to the limited circumstances in which our Manager can be terminated under the terms of the Management Services Agreement, the Management Services Agreement provides that in circumstances where our common stock ceases to be listed on a recognized U.S. exchange as a result of the acquisition of our common stock by third parties in an amount that results in our common stock ceasing to meet the distribution and trading criteria on such exchange or market, our Manager has the option to either propose an alternate fee structure and remain our Manager or resign, terminate the Management Services Agreement upon 30 days' written notice and be paid a substantial termination fee. The termination fee payable on our Manager's exercise of its right to resign as our Manager subsequent to a delisting of our common stock could delay or prevent a change in control that may favor our stockholders. Furthermore, in the event of such a delisting, any proceeds from the sale, lease or exchange of a significant amount of assets must be reinvested in new assets of our Company, subject to debt repayment obligations. We would also be prohibited from incurring any new indebtedness or engaging in any transactions with stockholders or our affiliates without the prior written approval of our Manager. These provisions could deprive stockholders of opportunities to realize a premium on the common stock owned by them.

Our certificate of incorporation and bylaws contain a number of provisions that could have the effect of making it more difficult for a third-party to acquire, or discouraging a third-party from acquiring, control of our Company. These provisions include:

restrictions on our ability to enter into certain transactions with our major stockholders, with the exception of our Manager; similar restrictions are also contained in Section 203 of the Delaware General Corporation Law; allowing only our board of directors to fill vacancies, including newly created directorships and requiring that directors may be removed with or without cause by a stockholder vote of 66 2/3%;

requiring that only the chairman or board of directors may call a special meeting of our stockholders;

prohibiting stockholders from taking any action by written consent;

establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by our stockholders at a stockholders' meeting; and

having a substantial number of additional shares of common stock authorized but unissued.

**Our Manager's decision to reinvest its monthly base management fees and quarterly performance fees, as applicable, in common stock or retain the cash will affect stockholders differently.**

Our Manager is paid a base management fee based on our market capitalization and potentially performance fees based on the total return generated on behalf of equity holders relative to a U.S. utilities index benchmark. Our Manager, in its sole discretion, may elect to retain base management fees and performance fees, if applicable, paid in cash or to reinvest such payments in additional common stock. In the event our Manager chooses not to reinvest the fees to which it is entitled in additional shares of common stock, the amount paid will reduce the cash that may otherwise be distributed as a dividend to all stockholders or used in our Company's operations. In the event our Manager chooses to reinvest the fees to which it is entitled in additional common stock, effectively returning the cash to us, such reinvestment and the issuance of new shares of common stock will dilute existing stockholders by the increase in the percentage of common stock owned by our Manager. Either option may adversely impact the market for our shares.



In addition, our Manager has typically elected to invest its fees in shares of common stock, and, unless otherwise agreed with us, can only change this election during a 20-trading day window following our earnings release. Any change would apply to fees incurred thereafter. Accordingly, stockholders would generally have notice of our Manager's intent to receive fees in cash rather than reinvest before the change was effective.

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**The price of our stock and our ability to pay dividends could be adversely affected by our obligation to pay performance fees to our Manager, which in turn is dependent on the performance of our stock relative to a benchmark index which is unpredictable and beyond our control.**

Under our Management Services Agreement, we are obligated to pay performance fees to our Manager if we outperform a benchmark index that reflects broader utility industry components. The amount of the performance fees can be substantial, and could adversely affect the price of our common stock and our ability to pay dividends. For example, if our absolute performance (as described in the Management Services Agreement) increases slightly and the benchmark index substantially decreases, we could be obligated to pay a significant performance fee. As a result, we may be obligated to pay our Manager a performance fee, which could be substantial, even when there has not been a substantial increase in the performance of our common stock. The benchmark index comprises numerous utility stocks, the performance of which may or may not correlate to our actual performance. Moreover, the benchmark index is unpredictable and variable. The Manager is entitled to select whether a performance fee will be settled in cash, shares of our common stock or a combination thereof, which could result in a material cash expense or dilution of our shares.

**Our Manager is not required to offer all acquisition opportunities to us and may offer such opportunities to other entities. Our management may waive investment opportunities presented by our Manager.**

Pursuant to our Management Services Agreement, we have first priority ahead of all current and future funds, investment vehicles, separate accounts and other entities managed by our Manager or by members of the Macquarie Group within the Macquarie Infrastructure and Real Assets division only with respect to four specific types of acquisition opportunities within the United States. The four specific type of acquisition opportunities where we have first priority include airport FBOs, airport parking, district energy and user pays, contracted and regulated assets that represent an investment of greater than AUD \$40.0 million. Other than these four specific types of opportunities, our Manager does not have an obligation to offer to us any particular acquisition opportunities, even if they meet our investment objectives, and the Manager and its affiliates can offer any or all other acquisition opportunities on a priority basis or otherwise to current and future funds, investment vehicles and accounts sponsored by the Manager or its affiliates. Our businesses may compete with these entities for investment opportunities, and there can be no assurance that we will prevail with respect to such investments.

In addition, our management may determine not to pursue investment opportunities presented to us by our Manager, including those presented on a priority basis. If our management waives any such opportunity, our Manager and its affiliates may offer such opportunity to any other entity, including any entities sponsored or advised by members of the Macquarie Infrastructure and Real Assets division of the Macquarie Group. As such, every acquisition opportunity presented to us by our Manager may not be pursued by us, and may ultimately be presented to entities with whom we compete for investments.

**Our Manager can resign with 90 days notice, or our CEO or CFO could be removed by our Manager, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations, which could adversely affect our financial results and negatively impact the market**

The price of our stock and our ability to pay dividends could be adversely affected by our obligation to pay performance

## **price of our common stock.**

Our Manager has the right, under the Management Services Agreement, to resign at any time with 90 days' notice, whether we have found a replacement manager or not. In addition, our Manager could re-assign or remove the CEO and/or the CFO from their positions and responsibilities at our Company without our board of directors' approval and with little or no notice. If our Manager resigns or our CEO and/or CFO are removed, we may not be able to find a new external manager or hire internal management with similar expertise within 90 days to provide the same or equivalent services on acceptable terms, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial results could be adversely affected, perhaps materially, and the market price of our common stock may decline substantially. In addition, the coordination of our internal management, acquisition activities and supervision of our businesses are likely to suffer if we were unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our Manager and its affiliates.

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Furthermore, if our Manager resigns, we and our subsidiaries will be required to cease use of the Macquarie brand entirely, and change their names to remove any reference to Macquarie. This may cause the value of our Company and the market price of our common stock to decline.

**Our externally managed model may not be viewed favorably by investors.**

We are externally managed by a member of the Macquarie Group. Our Manager receives a fee for its services that provides for a number of corporate center functions including the compensation of our management team and those who provide services to us on a shared basis, health and welfare benefits, the provision of facilities, technology and insurance (other than directors and officers). The fee is based on our market capitalization and thus increases as we grow. The size of the fee may bear no direct correlation with the actual cost of providing the agreed upon services and may be higher than the cost of managing our Company internally. Per the terms of the Management Services Agreement with our Manager, the current default election for satisfying any base management or performance fees to which our Manager may be entitled is the issuance of additional shares of common stock. To the extent the fees continue to be satisfied by reinvestment in our common stock, all stockholders will be diluted and our hurdle for growing distributable cash on a per share basis will be higher.

**Our Manager's affiliation with Macquarie Group Limited and the Macquarie Group may result in conflicts of interest or a decline in the market price of our common stock.**

Our Manager is an affiliate of Macquarie Group Limited and a member of the Macquarie Group. From time to time, we have entered into, and in the future we may enter into, transactions and relationships involving Macquarie Group Limited, its affiliates, or other members of the Macquarie Group. Such transactions have included and may include, among other things, the entry into debt facilities and derivative instruments with members of the Macquarie Group serving as lender or counterparty, and financial advisory or equity and debt underwriting services provided to us by the Macquarie Group.

Although our audit committee, all of the members of which are independent directors, is required to review and approve in advance of any related party transactions, including those involving members of the Macquarie Group or its affiliates, the relationship of our Manager to the Macquarie Group may result in conflicts of interest.

In addition, as a result of our Manager's being a member of the Macquarie Group, negative market perceptions of Macquarie Group Limited generally or of Macquarie's infrastructure management model, or Macquarie Group statements or actions with respect to other managed vehicles, may affect market perceptions of us and cause a decline in the price of our common stock unrelated to our financial performance and prospects.

**In the event of the underperformance of our Manager, we may be unable to remove our Manager, which could limit our ability to improve our performance and could adversely affect the market price of our common stock.**

Under the terms of the Management Services Agreement, our Manager must significantly underperform in order for the Management Services Agreement to be terminated. Our board of directors cannot remove our Manager unless:

our common stock underperforms a weighted average of two benchmark indices by more than 30% in relative terms and more than 2.5% in absolute terms in 16 out of 20 consecutive quarters prior to and including the most recent full

quarter, and the holders of a minimum of 66.67% of the outstanding shares of our common stock (excluding any shares owned by our Manager or any affiliate of the Manager) vote to remove our Manager;  
our Manager materially breaches the terms of the Management Services Agreement and such breach has been unremedied within 60 days after notice;  
our Manager acts with gross negligence, willful misconduct, bad faith or reckless disregard of its duties in carrying out its obligations under the Management Services Agreement, or engages in fraudulent or dishonest acts; or

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our Manager experiences certain bankruptcy events.

Our board of directors cannot remove our Manager unless the market performance of our common stock also significantly underperforms the benchmark index. If we were unable to remove our Manager in circumstances where the absolute market performance of our common stock does not meet expectations, the market price of our common stock could be negatively affected.

## **Risks Related to Ownership of Our Stock**

**The guidance we may provide for our anticipated dividends, EBITDA excluding non-cash items, Free Cash Flow and other metrics is based on estimates. Circumstances may arise that lead to conflicts between using funds to pay anticipated dividends or to invest in our business, and our dividends could be reduced.**

We periodically disclose our expected annual cash dividend growth rate and other financial metrics. This reflects our judgment at the time, but as with any estimate, it may be affected by known and unknown risks and uncertainties and inaccurate assumptions, many of which are beyond our control. See Forward-Looking Statements. If the payment of dividends at the anticipated level would leave us with insufficient cash to take timely advantage of growth opportunities (including through acquisitions), to meet any large unanticipated liquidity requirements, to fund our operations, or otherwise to address properly our business prospects, our board of directors, which determines our business strategy and our dividend policy, might have to choose between addressing those matters or reducing our anticipated dividends, and the board could determine to reduce our dividends. If dividends are reduced below anticipated levels, our stock price could be significantly adversely affected.

**The market price and marketability of our common stock may from time to time be significantly affected by numerous factors beyond our control, which may adversely affect our ability to raise capital through future equity financings.**

The market price of our common stock may fluctuate significantly. Many factors that are beyond our control may significantly affect the market price and marketability of our common stock and may adversely affect our ability to raise capital through equity financings. These factors include, but are not limited to:

significant volatility in the market price and trading volume of securities of Macquarie Group Limited and/or vehicles managed by the Macquarie Group or branded under the Macquarie name or logo;  
significant volatility in the market price and trading volume of securities of registered investment companies, business development companies or companies in our sectors;  
changes in our earnings or variations in operating results;  
changes in our ratings from any of the ratings agencies;  
any shortfall in EBITDA excluding non-cash items or Free Cash Flow from levels expected by securities analysts;  
changes in regulatory policies or tax law;  
operating performance of companies comparable to us;  
loss of funding sources; and  
substantial sales of our common stock by our Manager or other significant stockholders.

**The performances of our businesses or our holding company structure may limit our ability to make regular dividends in the future to our stockholders because we are reliant upon the cash flows and distributions from our businesses.**

Our Company is a holding company with no operations. Therefore, we are dependent upon the ability of our businesses to make distributions to our Company to enable it to meet its expenses, and to pay, maintain or grow dividends to stockholders in the future. The ability of our operating subsidiaries and the businesses we

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own to make distributions to our Company is subject to limitations based on their operating performance, the terms of their debt agreements and the applicable laws of their respective jurisdictions. In addition, the ability of each business to reduce its outstanding debt will be similarly limited by its operating performance, as discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations .

**We could be adversely impacted by actions of activist stockholders, and such activism could impact the value of our securities.**

We value constructive input from our stockholders and the investment community. However, there is no assurance that the actions taken by our board of directors and management in seeking to maintain constructive engagement with our stockholders will be successful. Certain of our shareholders may express views with respect to the operation of our business, our business strategy, corporate governance considerations or other matters that are contrary to ours.

Responding to these, or to actions that may be taken by activist stockholders can be costly and time-consuming, disruptive to our operations and divert the attention of management and our employees. The perceived uncertainties as to our future direction due to activist actions could affect the market price of our securities, result in the loss of potential business opportunities and make it more difficult to attract and retain qualified personnel, board members and business partners.

**We are currently subject to purported securities class action and shareholder derivative lawsuits and could become subject to other similar actions in the future, the unfavorable outcome of which could have a materially adverse impact our business or results of operations.**

In April 2018, two lawsuits seeking to establish class actions were filed against us and certain current and former officers of ours and one of our subsidiaries. These lawsuits allege violations of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder and knowing material misstatements and omissions in our public disclosures concerning our business and the sustainability of our dividend to stockholders. In addition, three shareholder derivative complaints were filed asserting derivative claims on behalf of the Company against certain current and former officers and directors, arising out of the same subject matter at issue in the securities class action lawsuits.

While we intend to vigorously defend against these lawsuits, there is no assurance that we will be successful in the defense or that insurance will be available or adequate to fund any settlement or judgment or the litigation costs of the actions. In addition, we are obligated to indemnify and incur legal expenses on behalf of current and former officers under certain circumstances. These lawsuits, and any similar proceedings or claims that may be brought against us in the future, may divert management resources and cause us to incur substantial costs, and any unfavorable outcome could result in payment of damages and could damage our reputation, any or all of which could have a material adverse impact our business and results of operations.

**The price of our stock may be vulnerable to actions of market participants whose strategies may not involve buying and holding our securities in pursuit of an attractive total return.**

Our common stock has been the subject of short selling efforts by certain market participants. Short sales are transactions in which a market participant borrows, then sells a security that it does not own. The market participant is obligated to replace the security borrowed by purchasing the security at or before the time the security is recalled. If the price at the time of recall is lower than the price at which the security was originally sold by the market

We could be adversely impacted by actions of activist stockholders, and such activism could impact the value of our



participant, then the market participant will realize a gain on the transaction. Thus, it is in the market participant's interest for the price of the security to decline during the period up to the time of recall.

Previous short selling efforts have had an impact on, and may in the future impact, the value of our stock in an extreme and volatile manner to our detriment and the detriment of our stockholders. In addition, market participants have published, and may in the future publish, negative, inaccurate or misleading information regarding our company and our management team. We believe that the publication of such information has led, and may in the future lead to, significant downward pressure on the price of our stock to our detriment and the further detriment of our stockholders. These and other efforts by certain market participants to unduly influence the price of our common stock for financial gain may cause value of our stockholders' investments to decline, may make it more difficult for us to raise equity capital when needed without significantly diluting existing stockholders, and may reduce demand from new investors to purchase our shares.

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**We identified a material weakness in our internal control over financial reporting which, if not remediated could result in loss of investor confidence and adversely impact our stock price.**

Effective internal controls are necessary for us to provide reliable and accurate financial statements. As further described in Part II, Item 9A Controls and Procedures, management has concluded that, because of a material weakness at Atlantic Aviation relating to non-credit card fuel revenues, our internal control over financial reporting was not effective as of December 31, 2018. We are implementing remedial measures and we expect that the remediation of this material weakness will be completed prior to the end of fiscal year 2019. However, we cannot be certain that these measures will be successful or that we will be able to prevent future significant deficiencies or material weaknesses. If we are unable to remediate the material weakness, or are otherwise unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within required time periods, could be adversely affected, which could cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our stock and our access to capital. In addition, implementing any appropriate changes to internal controls will result in additional expenses.

**We may issue preferred stock with rights, preferences and privileges that may be superior to the common stock, and these could have negative consequences for holders of our common stock.**

We may issue shares of preferred stock in one or more financing transactions. We may also use the authorized preferred stock for funding transactions, including, among other things, acquisitions, strategic partnerships, joint ventures, restructurings, business combinations and investments, although we have no immediate plans to do so. We cannot provide assurances that any such transaction will be consummated on favorable terms or at all, that they will enhance stockholder value, or that it will not adversely affect our business or the trading price of our common stock. Any shares of preferred stock could be issued with rights, preferences and privileges that may be superior to those of our common stock. In addition, preferred stock could be issued for capital raising, financing and acquisition needs or opportunities that have the effect of making an acquisition of our Company more difficult or costly, as could also be the case if the board of directors were to issue additional common stock.

**Our reported Earnings per Share (EPS), as defined under GAAP, does not reflect the cash generated by our businesses and may result in unfavorable comparisons with other businesses.**

Our businesses own and invest in high-value, long-lived assets that generate large amounts of depreciation and amortization. Depreciation and amortization are non-cash expenses that serve to reduce reported EPS. We pay our Manager base management fees and may pay performance fees both of which may be reinvested in additional shares thereby rendering them a non-cash expense. Whether the fees are settled in cash or reinvested in additional shares, they have the effect of reducing EPS. As a result, our financial performance may appear to be substantially worse compared with other businesses. To the extent that our results appear to be worse, we may have relatively greater difficulty attracting investors in our stock.

**Our inability, under GAAP, to consolidate the financial results of certain of our investments may make it relatively more difficult to analyze the cash generating capacity of our combined businesses.**

We may make investments in certain businesses which we will be required to account for using the equity method rather than consolidate with the results of our other businesses. The equity method requires us to include the portion of the net income, as determined in accordance with GAAP, equal to our equity interest in the business in our consolidated statement of operations. The physical asset backed nature of the businesses in which we invest (and the higher levels of non-cash expenses including depreciation and amortization) may mean that the performance of these investments have relatively little impact on our consolidated statement of operations even where they generate positive cash flow and this cash flow may not be reflected in the valuation of our stock.

**Our total assets include a substantial amount of goodwill and other intangible assets. The write-off of a significant portion of intangible assets would negatively affect our reported earnings.**

Our total assets reflect a substantial amount of goodwill and other intangible assets. At December 31, 2018, goodwill and other intangible assets, net, represented 38.0% of our total assets. Goodwill and other

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intangible assets were primarily recognized as a result of the acquisitions of our businesses. Other intangible assets consist primarily of airport operating rights, customer relationships and trade names. On at least an annual basis we assess whether there has been any impairment in the value of goodwill and other intangible assets when there are triggering events or circumstances. If the carrying value of the tested asset exceeds its estimated fair value, impairment is deemed to have occurred. In this event, the intangible is written down to fair value. Under current accounting rules, this would result in a charge to reported earnings. We have recognized significant impairments in the past, and any future determination requiring the write-off of a significant portion of goodwill or other intangible assets would negatively affect our reported earnings and total capitalization, and could be material.

### **Our total assets include a substantial amount of intangible assets and fixed assets. The depreciation and amortization of these assets may negatively impact our reported earnings.**

The high level of intangible and physical assets written up to fair value upon acquisition of our businesses generates substantial amounts of depreciation and amortization. These non-cash items serve to lower net income as reported in our consolidated statement of operations as well as our taxable income. The generation of net losses or relatively small net income may contribute to a net operating loss (NOL) carryforward that can be used to offset current taxable income in future periods. However, the continued reporting of little or negative net income may adversely affect the attractiveness of our Company among some potential investors and may reduce the market for our common stock.

## **Risks Related to Taxation**

### **We have significant federal NOL carryforwards that may be fully utilized in 2019 or subsequent years. After they are utilized, we could be subject to payment of substantial federal income taxes, which would reduce our distributable Free Cash Flow.**

We may, without the acquisition of businesses with NOLs, incurring performance fees, investing in growth capital expenditures that qualify for 100% bonus depreciation, or implementing other strategies that provide us with additional tax shield, fully utilize our existing NOLs before we anticipate or have previously indicated. At that point we may be subject to federal income taxes in consolidation and any liability could be material. Any liability will reduce distributable Free Cash Flow and could prevent the growth or reduce the rate of growth of our dividends.

### **The current treatment of qualified dividend income and long-term capital gains under current U.S. federal income tax law may be adversely affected, changed or repealed in the future.**

Under current law, qualified dividend income and long-term capital gains are taxed to non-corporate investors at a maximum U.S. federal income tax rate of 20%. In addition, certain holders that are individuals, estates or trusts are subject to 3.8% surtax on all or a portion of their net investment income, which may include all or a portion of their dividend income and net gains from the disposition of our shares. This tax treatment may be adversely affected, changed or repealed by future changes in tax laws at any time, which may affect market perceptions of our Company and the market price of our shares could be negatively affected.

**Our ability to use our NOL carryforwards to offset future taxable income may be subject to certain limitations.**

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation (or other entity taxable as a corporation, such as the Company) that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change NOLs and certain other tax attributes to offset future taxable income. Generally speaking, an ownership change occurs if the aggregate percentage ownership of the stock of the corporation held by one or more five-percent stockholders (as defined in the Code) increases by more than fifty percentage points over such stockholders' lowest percentage ownership during the testing period, which is generally the three year-period ending on the transaction date. If we undergo an ownership change, our ability to utilize NOLs and certain other tax attributes could be limited.

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**We have significant income tax NOLs, which may not be realized before they expire.**

We have \$152.0 million in federal NOL carryforwards at December 31, 2018. While we have concluded that all of the NOLs will more likely than not be realized, there can be no assurance that we will utilize the NOLs generated to date or any NOLs we might generate in the future. In addition, we have incurred state NOLs and have provided a valuation allowance against a portion of those. As with our federal NOLs, there is also no assurance that we will utilize those state losses or future losses that may be generated. Further, the State of Louisiana has imposed limitations on the ability of NOL carryforwards to offset current year income. There can be no assurance that other states will not suspend or limit the use of NOL carryforwards.

**Recent changes to U.S. tax laws may adversely affect our results of operations and financial condition and create the risk that we may need to adjust our accounting for these changes.**

The Tax Cut and Jobs Act made significant changes to U.S. tax laws and includes numerous provisions that affect businesses, including ours. For instance, as a result of lower corporate tax rates, the Tax Cut and Jobs Act tends to reduce both the value of deferred tax assets and the amount of deferred tax liabilities. It also limits interest rate deductions and the amount of NOLs that can be used each year and alters the expensing of capital expenditures. The Tax Cut and Jobs Act is unclear in certain respects and will require interpretations and implementing regulations by the IRS, as well as state tax authorities, and the Tax Cut and Jobs Act could be subject to amendments and technical corrections, any of which could lessen or increase the adverse (and positive) impacts of the Tax Cut and Jobs Act. The accounting treatment of these tax law changes is complex, and some of the changes may affect both current and future periods.

**The treatment of depreciation and other tax deductions under current U.S. federal income tax law may be adversely affected, changed or repealed in the future.**

Under current law, certain capital expenditures are eligible for accelerated depreciation, including 100% bonus depreciation for qualifying assets purchased and placed in service after September 27, 2017 and prior to January 1, 2023, for U.S. federal income tax purposes. In addition, certain other expenses are eligible to be deducted for U.S. federal income tax purposes. This tax treatment may be adversely affected, changed or repealed by future changes in tax laws at any time, which may affect market perceptions of our Company and the market price of our shares could be negatively affected.

**Our Company could be adversely effected by changes in tax laws and/or changes in the interpretation of existing tax laws.**

We are subject to various taxing regimes, including federal, state, local and foreign taxes such as income, excise, sales/use, payroll, franchise, property, gross receipts, withholding and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations or the interpretation thereof are continuously being enacted or proposed and could result in increased expenditures for tax in the future and could have a material adverse effect on our Company's results of operations, cash flows and financial condition.

## **Our property taxes could increase due to reassessment or property tax rate changes.**

We are required to pay real property taxes in respect of our properties and such taxes may increase as our properties are reassessed by taxing authorities or as property tax rates change. An increase in the assessed value of our properties or our property tax rates may not be passed along to our customers and could adversely impact our results of operations, cash flows and financial condition.

## **Our Company and our subsidiaries are subject to examinations and challenges by taxing authorities.**

Periodic examinations or audits by taxing authorities could increase our tax liabilities and result in the imposition of interest and penalties. If challenges arising from such examinations and audits are not resolved in our Company's favor, they could have a material adverse effect on our Company's results of operations, cash flows and financial condition.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

In general, the assets of our businesses, including real property, are pledged to secure the financing arrangements of each business on a stand-alone basis. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* in Part II, Item 7, for a further discussion of these financing arrangements.

### IMTT

IMTT operates 17 wholly-owned bulk liquid terminals in the U.S., one in Canada and has a minority interest in a company that owns a single bulk liquid terminal, also in Canada. The land on which the facilities are located is either owned or leased by IMTT with leased land comprising a small proportion of the total land in use. IMTT also owns the storage tanks, piping and transportation infrastructure such as truck and rail loading equipment located at the facilities and the majority of any related ship docks. Ship docks at facilities in Quebec and Geismar, L.A. are leased. Management believes the aforementioned equipment is generally well maintained and adequate for the present operations. For further details, see *Our Businesses IMTT Locations* in Part I, Item 1.

### Atlantic Aviation

Atlantic Aviation does not own any real property. Its operations are carried out under various long-term leases. The business leases office space for its head office in Plano, Texas. For more information regarding Atlantic Aviation's FBO locations, see *Our Businesses Atlantic Aviation Locations* in Part I, Item 1.

Atlantic Aviation owns or leases a number of vehicles, including fuel trucks and other equipment needed to provide service to customers. Routine maintenance is performed on this equipment and a portion is replaced as appropriate to ensure continued safe and efficient operations and the maintenance of service level standards. Management believes the equipment is generally well maintained and adequate for present operations. Changes in market conditions allowed Atlantic Aviation to move to purchasing or procuring capital leases for larger equipment. Atlantic Aviation believes that these assets are a core part of the business and have long useful lives making ownership desirable if conditions permit.

### MIC Hawaii

Hawaii Gas owns real property and equipment including: its SNG plant on Oahu and the land on which it sits; several LPG storage yards on islands other than Oahu; approximately 1,000 miles of underground piping, of which approximately 900 miles are on Oahu; and a 22-mile transmission pipeline from the SNG plant to Pier 38 in Honolulu. In addition, MIC Hawaii has controlling interests in operating solar facilities and distributed energy products.

A summary of selected properties follows for the MIC Hawaii businesses. For more information regarding MIC Hawaii's operations, see *Our Businesses MIC Hawaii Fuel Supply, SNG Plant and Distribution System* in Part I, Item 1.



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The following represents the properties owned or leased by the Hawaii Gas business.

Island	Description	Use	Own/Lease
Oahu	SNG plant and land	Production of SNG	Own
Oahu	Kamakee Street buildings and maintenance yard	Engineering, maintenance facility, warehouse	Own
Oahu	LPG baseyard	Storage facility for tanks and cylinders	Lease
Oahu	Topa Fort Street Tower	Executive offices	Lease
Oahu	Various holding tanks	Store and supply LPG to utility customers	Lease
Maui	Office, tank storage facilities and baseyard	Island-wide operations	Lease
Kauai	Office	Island-wide operations	Own
Kauai	Tank storage facility and baseyard	Island-wide operations	Lease
Hawaii	Office, tank storage facilities and baseyard	Island-wide operations	Own

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The following represents the properties leased by the other businesses within MIC Hawaii.

Project Name	Facility	Location	Ownership or Lease Information
Waihonu	Solar	Oahu, HI	Long-term property lease until 2036.
GWE Solar-Storage	Solar with Battery Storage	Hawaii, HI	Long-term site leases until 2037.
SW Cogen	Combined Heat and Power	Oahu, HI	Long-term site lease until 2028.

**Corporate and Other**

MGS leases an office building in Plano, Texas that currently expires in December 2024.

**ITEM 3. LEGAL PROCEEDINGS**

There are no legal proceedings pending that we believe will have a material adverse effect on us. We are involved in ordinary course legal, regulatory, administrative and environmental proceedings that are incidental to our businesses. Typically, expenses associated with these proceedings are covered by insurance.

**IMTT Bayonne Remediation**

The Bayonne, New Jersey terminal, portions of which have been acquired over a 30-year period, have pervasive remediation requirements that were assumed at the time of purchase from the various former owners. One former owner retained environmental remediation responsibilities for a purchased site and shares in other remediation costs. These remediation requirements are documented in two memoranda of agreement and an administrative consent order with the State of New Jersey. Remediation efforts entail removal of free product, soil treatment, repair/replacement of sewer systems, and the implementation of containment and monitoring systems. These remediation activities are estimated to span a period of ten to twenty or more years and cost from \$30.0 million to \$65.0 million. The cost of the remediation activities at the terminal are estimated based on currently available information, in undiscounted U.S. dollars and is inherently subject to relatively large fluctuation.

**Shareholder Litigation**

On April 23, 2018, a complaint captioned *City of Riviera Beach General Employees Retirement System v. Macquarie Infrastructure Corp., et al.*, Case 1:18-cv-03608 (VSB), was filed in the United States District Court for the Southern District of New York. A substantially identical complaint captioned *Daniel Fajardo v. Macquarie Infrastructure Corporation, et al.*, Case No. 1:18-cv-03744 (VSB) was filed in the same court on April 27, 2018. Both complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder on behalf of a putative class consisting of all purchasers of MIC common stock between February 22, 2016 and February 21, 2018. The named defendants in both cases are the Company and four current or former officers of MIC and one of its subsidiaries, IMTT Holdings LLC. The complaints in both actions allege that the Company and the individual defendants knowingly made material misstatements and omitted material facts in its public disclosures concerning the Company's and IMTT's business and the sustainability of the Company's dividend to stockholders. On January 30, 2019, the Court issued an opinion and order consolidating the two cases, appointing Moab Partners, L.P. (Moab) as Lead Plaintiff, approving Moab's selection of lead counsel, and directing Moab to file a consolidated amended complaint within 30 days. The Company intends to vigorously contest the claims asserted in the consolidated cases, which the Company believes are entirely meritless.

On August 9, 2018, a shareholder derivative complaint captioned *Phyllis Wright v. Liam Stewart, et al.*, Case No. 1:18-cv-07174 (VSB), was filed in the United States District Court for the Southern District of New York. A substantially identical complaint captioned *Raymond Greenlee v. James Hooke, et al.*, Case No. 1:18-cv-09339 (VSB) was filed in the same court on October 12, 2018. A third and substantially similar shareholder derivative complaint captioned *Kim Johnson v. Liam Stewart, et al.*, Case No. 1:18-cv-011062 (VSB) was filed in the same court on November 27, 2018. Each of the shareholder derivative complaints assert derivative claims on behalf of the Company against certain of its current and former officers and directors arising out of the same subject matter at issue in the *City of Riviera Beach* and *Fajardo* complaints discussed above. The causes of action asserted include violation of Section 14(a) of the Securities Exchange Act of 1934, breach of fiduciary duties, waste of corporate assets, unjust enrichment, and aiding and abetting breach of fiduciary duty. A motion to consolidate the three actions is currently pending.

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Proceedings in the *Wright*, *Greenlee* and *Johnson* cases are otherwise stayed pending resolution of an anticipated motion to dismiss the securities class actions described above. The Company expects that the named defendants will vigorously contest the claims asserted in the *Wright*, *Greenlee* and *Johnson* complaints.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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TABLE OF CONTENTS**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY,  
RELATED STOCKHOLDER MATTERS AND ISSUER  
PURCHASES OF EQUITY SECURITIES****Market Information**

Our shares are traded on the NYSE under the symbol "MIC". As of February 15, 2019, we had 85,860,351 shares issued and outstanding that we believe were held by approximately 326 holders of record.

The following represents the Company's relative share price performance from January 1, 2014 through December 31, 2018.

**Securities Authorized for Issuance Under Equity Compensation  
Plans**

The table below sets forth information with respect to shares authorized for issuance as of December 31, 2018:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Under Column (a)) (c)
Equity compensation plans approved by stockholders <sup>(1)</sup>	23,646	\$	(1)
Equity compensation plans not approved by stockholders			
Total	23,646	\$	(1)

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Information in column (a) represents the number of shares issuable upon the vesting of director stock units pursuant to our 2014 Independent Directors Equity Plan (2014 Plan), which was approved in 2014. Only the Company's independent directors may participate in the 2014 Plan. The only type of award that may be granted under the 2014 Plan is an award of director shares. Each share is an unsecured promise to transfer one share on the settlement date, subject to satisfaction of the applicable terms and conditions. The units vest on the day prior to the following year's annual meeting. The Company granted 3,846 restricted stock units to each of its independent directors elected at the 2018 annual stockholders' meeting. In September 2018, the Company appointed two new independent directors and granted 2,208 restricted stock units to each of its new independent directors. The maximum number of shares available for issuance under the 2014 Plan is 300,000 shares, with a balance of 248,664 shares remaining available for issuance at December 31, 2018. The aggregate grant date fair value of awards granted to an independent director during any single fiscal year (excluding awards made at the election of the independent director in lieu of all or a portion of annual and committee cash retainers) may not exceed \$350,000. The 2014 Plan does not provide a formula for the determination of awards and the Compensation Committee will have the authority to determine the size of all awards under 2014 Plan, subject to the limits on the number of shares that may be granted annually.

The Company's 2016 Omnibus Employee Incentive Plan provides for the issuance of equity awards covering up to 500,000 shares of common stock to employees, consultants and service providers. Types of awards include stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, cash-based awards and other stock-based awards. At December 31, 2018, 500,000 shares of common stock were available to be issued under this Plan.

## Dividend Policy

We intend to provide investors with the benefits of access to a portfolio of infrastructure businesses that we believe will, as a result of inflation-linked escalators and the provision of basic services to customers, generate growing amounts of cash flow over time. Consistent with this, we intend to distribute the majority of the cash generated from operations of our businesses as a quarterly cash dividend.

Our board of directors regularly reviews our dividend policy and payout ratio. 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 and economic conditions, the Company's financial condition, results of operations, indebtedness levels, capital requirements, capital opportunities and any contractual, legal and regulatory restrictions on the payment of dividends by the Company to its stockholders 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.

Since January 1, 2017, MIC has paid or declared the following dividends:

Declared	Period Covered	\$ per Share	Record Date	Payable Date
February 14, 2019	Fourth quarter 2018	\$ 1.00	March 4, 2019	March 7, 2019
October 30, 2018	Third quarter 2018	1.00	November 12, 2018	November 15, 2018

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July 31, 2018	Second quarter 2018	1.00	August 13, 2018	August 16, 2018
May 1, 2018	First quarter 2018	1.00	May 14, 2018	May 17, 2018
February 19, 2018	Fourth quarter 2017	1.44	March 5, 2018	March 8, 2018
October 30, 2017	Third quarter 2017	1.42	November 13, 2017	November 16, 2017
August 1, 2017	Second quarter 2017	1.38	August 14, 2017	August 17, 2017
May 2, 2017	First quarter 2017	1.32	May 15, 2017	May 18, 2017
February 17, 2017	Fourth quarter 2016	1.31	March 3, 2017	March 8, 2017

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**Fourth Quarter of 2018 Dividend**

The MIC Board has authorized a quarterly cash dividend of \$1.00 per share for the quarter ended December 31, 2018. Together with the dividends for the first three quarters for 2018, this represents a cumulative 2018 dividend of \$4.00 per share.

**Tax Treatment of 2018 Dividends**

The Company has determined that 65.5% of the dividends paid in the year ended December 31, 2018 were characterized as a dividend for U.S. federal income tax purposes. The remaining 34.5% of dividends paid were characterized as returns of capital.

Future dividends, if any, may be characterized as either dividends or returns of capital depending on the earnings and profits of the Company as determined in accordance with the Internal Revenue Code. Holders of MIC shares are encouraged to seek their own tax advice with regard to their investment in MIC.



TABLE OF CONTENTS**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data includes the results of operations, cash flows and balance sheet data for the years ended, and as of, December 31, 2018, 2017, 2016, 2015 and 2014 for our consolidated group, with the results of businesses acquired during those five years being included from the date of each acquisition. The selected financial data for each of the five years in the period ended December 31, 2018 have been derived from the consolidated financial statements of the Company, as adjusted for the presentation of discontinued operations. The information below should be read in conjunction with the consolidated financial statements (and notes thereto) and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(\$ In Thousands, Except Share and Per Share Data)				
<b>STATEMENT OF OPERATIONS DATA:</b>					
<b>Revenue</b>					
Service revenue	\$1,515,149	\$1,445,832	\$1,288,562	\$1,288,501	\$1,035,195
Product revenue	246,384	222,955	213,470	226,952	264,621
Total revenue	1,761,533	1,668,787	1,502,032	1,515,453	1,299,816
<b>Cost and expenses</b>					
Cost of services	712,082	624,214	524,423	551,029	525,298
Cost of product sales	178,822	143,787	119,440	150,053	189,012
Selling, general and administrative	328,464	306,664	277,628	274,611	256,935
Fees to Manager related party	44,866	71,388	68,486	354,959	168,182
Goodwill impairment	3,215				
Depreciation	193,659	178,292	175,518	169,753	83,684
Amortization of intangibles	68,314	63,825	60,997	97,935	41,852
Total operating expenses	1,529,422	1,388,170	1,226,492	1,598,340	1,264,963
<b>Operating income (loss)</b>	232,111	280,617	275,540	(82,887 )	34,853
Interest income	788	83	86	32	89
Interest expense	(112,626 )	(86,999 )	(95,613 )	(94,666 )	(64,567 )
Equity in earnings and amortization charges of investee					26,147
Gain from acquisition/divestiture of businesses <sup>(1)</sup>					948,137
Other (expense) income, net	(6,194 )	10,566	17,765	222	(3,248 )
Net income (loss) from continuing operations before income taxes	114,079	204,267	197,778	(177,299 )	941,411
(Provision) benefit for income taxes	(49,451 )	229,503	(69,313 )	56,622	55,846
<b>Net income (loss) from continuing operations</b>	\$64,628	\$433,770	\$128,465	\$(120,677 )	\$997,257
<b>Discontinued Operations<sup>(2)</sup></b>					
Net income (loss) from discontinued operations before income taxes	\$31,748	\$17,691	\$28,348	\$(1,669 )	\$73,498
(Provision) benefit for income taxes	(2,128 )	4,651	(1,944 )	8,539	(31,472 )
	29,620	22,342	26,404	6,870	42,026

**Net income from discontinued operations**

<b>Net income (loss)</b>	\$94,248	\$456,112	\$154,869	\$(113,807 )	\$1,039,283
Net income (loss) from continuing operations	\$64,628	\$433,770	\$128,465	\$(120,677 )	\$997,257
Less: net (loss) income attributable to noncontrolling interests	(3,452 )	(409 )	(3,608 )	586	1,726
<b>Net income (loss) from continuing operations attributable to MIC</b>	\$68,080	\$434,179	\$132,073	\$(121,263 )	\$995,531

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	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(\$ In Thousands, Except Share and Per Share Data)				
Net income from discontinued operations	\$29,620	\$22,342	\$26,404	\$6,870	\$42,026
<b>STATEMENT OF OPERATIONS DATA:</b>					
Less: net (loss) income attributable to noncontrolling interests	(38,821 )	5,319	2,096	(5,856 )	(4,471 )
<b>Net income from discontinued operations attributable to MIC</b>	\$68,441	\$17,023	\$24,308	\$12,726	\$46,497
Net income (loss) attributable to MIC	\$136,521	\$451,202	\$156,381	\$(108,537 )	\$1,042,028
Basic income (loss) per share from continuing operations attributable to MIC	\$0.80	\$5.22	\$1.63	\$(1.55 )	\$15.80
Basic income per share from discontinued operations attributable to MIC	0.80	0.20	0.30	0.16	0.74
Basic income (loss) per share attributable to MIC	\$1.60	\$5.42	\$1.93	\$(1.39 )	\$16.54
Weighted average number of shares outstanding: basic	85,233,989	83,204,404	80,892,654	77,997,826	62,990,312
Diluted income (loss) per share from continuing operations attributable to MIC	\$0.80	\$4.94	\$1.55	\$(1.55 )	\$15.38
Diluted income per share from discontinued operations attributable to MIC	0.80	0.19	0.30	0.16	0.72
Diluted income (loss) per share attributable to MIC	\$1.60	\$5.13	\$1.85	\$(1.39 )	\$16.10
Weighted average number of shares outstanding: diluted	85,249,865	91,073,362	82,218,627	77,997,826	64,925,565
Cash dividends declared per share	\$4.00	\$5.56	\$5.05	\$4.46	\$3.8875

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(\$ In Thousands)				
<b>STATEMENT OF CASH FLOWS DATA:</b>					
<b>Cash flow from continuing operations</b>					
Cash provided by operating activities	\$473,160	\$464,106	\$488,127	\$360,607	\$207,086
Cash used in investing activities	(156,344)	(421,064)	(287,526)	(238,217)	(1,216,476)
Cash (used in) provided by financing activities	(389,376)	70,462	(138,415)	302,144	858,358
Net (decrease) increase in cash, cash equivalents and restricted cash from	\$(72,560 )	\$113,504	\$62,186	\$424,534	\$(151,032 )

continuing operations

**Cash flow from discontinued operations<sup>(2)</sup>**

Cash provided by operating activities	\$46,268	\$64,928	\$71,668	\$19,827	\$8,671
Cash provided by (used in) investing activities	614,892	(135,757)	(85,733 )	(207,647)	152,112
Cash used in financing activities	(30,881 )	(32,359 )	(28,485 )	(264,414)	(224,937 )
Net increase (decrease) in cash, cash equivalents and restricted cash from discontinued operations	\$630,279	\$(103,188)	\$(42,550 )	\$(452,234)	\$(64,154 )

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	As of December 31,				
	2018	2017	2016	2015	2014
	(\$ In Thousands)				
<b>BALANCE SHEET DATA:</b>					
Current assets from continuing operations	\$772,651	\$270,731	\$208,934	\$178,528	\$199,717
Current assets held for sale <sup>(2)</sup>	647,652	36,914	35,734	38,041	31,761
Total current assets	1,420,303	307,645	244,668	216,569	231,478
Property, equipment, land and leasehold improvements, net	3,141,407	3,197,407	2,963,247	2,869,353	2,799,529
Intangible assets, net	788,761	851,751	822,197	863,691	949,264
Goodwill	2,043,320	2,047,040	2,002,781	1,995,583	1,990,018
Noncurrent assets held for sale <sup>(2)</sup>		1,550,948	1,475,868	1,342,358	581,379
Total assets	\$7,443,781	\$8,008,951	\$7,559,253	\$7,308,804	\$6,567,739
Current liabilities from continuing operations	\$520,798	\$205,300	\$195,840	\$261,077	\$193,295
Current liabilities held for sale <sup>(2)</sup>	317,178	50,665	55,169	47,713	31,037
Total current liabilities	837,976	255,965	251,009	308,790	224,332
Deferred income taxes	680,938	644,914	904,179	826,935	848,684
Long-term debt, net of current portion	2,652,748	2,991,654	2,473,477	2,226,240	2,049,804
Noncurrent liabilities held for sale <sup>(2)</sup>		603,037	643,291	601,029	333,563
Total liabilities	\$4,327,454	\$4,658,248	\$4,411,719	\$4,106,362	\$3,597,571
Stockholders' equity	\$2,964,602	\$3,153,692	\$2,952,894	\$3,030,190	\$2,787,163

(1) Represents gain from the acquisition of the remaining 50% interest in IMTT from the remeasuring to fair value of the Company's previous 50% ownership interest.

(2) See Note 5, "Discontinued Operations and Dispositions", in our consolidated financial statements in "Financial Statements and Supplementary Data" in Part II, Item 8, of this Form 10-K.

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## ITEM 7. 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 financial statements and the notes to those statements included elsewhere herein.

### Recent Developments

#### Business Divestitures

In November 2018, we completed the sale of the design-build mechanical contractor business previously reported within the MIC Hawaii segment. Prior to the sale, we wrote-down the value of our investment in the previously owned design-build mechanical contractor of approximately \$30.0 million to reflect its underperformance.

In October 2018, we completed the sale of BEC and received cash of \$657.4 million, net of the assumption of the outstanding debt balance of \$243.5 million by the buyer and subject to post-closing working capital adjustments. We have used the proceeds from the sale of BEC and cash on hand to pay down the majority of the outstanding balances on our and our businesses' revolving credit facilities. We may redraw the majority of these facilities in the future to fund a portion of our planned growth capital deployments. For further discussions on use of BEC proceeds, see *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Financing Activities from Continuing Operations*.

In October 2018, we commenced a sale process involving substantially all of our portfolio of solar and wind facilities. We believe a sale of these assets and the redeployment of the proceeds will maximize value relative to attempting to continue to expand the portfolio through acquisitions. The sale process is expected to be concluded in the second quarter of 2019.

#### Discontinued Operations Presentation

Effective October 1, 2018, BEC and substantially all of our portfolio of solar and wind power generation businesses were classified as discontinued operations and our Contracted Power segment was eliminated. The remaining renewable power development businesses have been reported as components of Corporate and Other. All prior comparable periods have been restated to reflect this change. For additional information, see Note 5, *Discontinued Operations and Dispositions*, in our consolidated financial statements in *Financial Statements and Supplementary Data* in Part II, Item 8, of this Form 10-K.

### Results of Operations

#### Consolidated

Our consolidated results reflect a decrease in the contribution from IMTT primarily as a result of the non-renewal of certain contracts for bulk liquid storage and handling services and the absence of deferred revenue recognized in 2017 in connection with the termination of a construction project. The decrease was partially offset by contributions from an acquisition of a portfolio of storage terminals completed in the third quarter of 2017.

Our consolidated results also reflect increased contributions from our Atlantic Aviation business. Atlantic Aviation benefited from contributions from acquisitions, hangar rentals and ancillary fees.

MIC Hawaii's contribution declined primarily as a result of the underperformance of the previously owned design-build mechanical contractor, and the write-down of our investment in that business, together with cost increases at Hawaii Gas. These factors were partially offset by incremental regulated revenue generated by Hawaii Gas as a result of the settlement of the general rate case in June 2018.

Results for Corporate and Other for the year ended December 31, 2018 reflect the absence of implementation costs incurred in 2017 related to our shared services facility, and the benefit of reductions in procurement costs in 2018. The absence of the implementation expenses was partially offset by the cost of advisory and other services incurred in connection with addressing shareholder matters in 2018 and higher

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costs related to the evaluation of various investment and acquisition/disposition opportunities, primarily related to the sale of BEC. Corporate and Other also reflects a year over year increase in fee income from a developer of renewable power projects during the year ended December 31, 2018.

Capital deployed into acquisitions by each of IMTT and Atlantic Aviation in 2017, as well as growth investments generally, contributed to revenue and EBITDA excluding non-cash items to our overall results for the year ended December 31, 2018.

Contributions from discontinued operations increased primarily from BEC as a result of the plant expansion completed in May 2018 and improved wind resources.

	Year Ended December 31,			Change (From 2017 to 2018)		Change (From 2016 to 2017)	
	2018	2017	2016	Favorable/(Unfavorable) \$	Favorable/(Unfavorable) %	Favorable/(Unfavorable) \$	Favorable/(Unfavorable) %
(\$ In Thousands, Except Share and Per Share Data) (Unaudited)							
<b>Revenue</b>							
Service revenue	\$1,515,149	\$1,445,832	\$1,288,562	69,317	4.8	157,270	12.2
Product revenue	246,384	222,955	213,470	23,429	10.5	9,485	4.4
Total revenue	1,761,533	1,668,787	1,502,032	92,746	5.6	166,755	11.1
<b>Costs and expenses</b>							
Cost of services	712,082	624,214	524,423	(87,868 )	(14.1 )	(99,791 )	(19.0 )
Cost of product sales	178,822	143,787	119,440	(35,035 )	(24.4 )	(24,347 )	(20.4 )
Selling, general and administrative	328,464	306,664	277,628	(21,800 )	(7.1 )	(29,036 )	(10.5 )
Fees to Manager related party	44,866	71,388	68,486	26,522	37.2	(2,902 )	(4.2 )
Goodwill impairment	3,215			(3,215 )	NM		
Depreciation	193,659	178,292	175,518	(15,367 )	(8.6 )	(2,774 )	(1.6 )
Amortization of intangibles	68,314	63,825	60,997	(4,489 )	(7.0 )	(2,828 )	(4.6 )
Total operating expenses	1,529,422	1,388,170	1,226,492	(141,252 )	(10.2 )	(161,678 )	(13.2 )
Operating income	232,111	280,617	275,540	(48,506 )	(17.3 )	5,077	1.8
<b>Other income (expense)</b>							
Interest income	788	83	86	705	NM	(3 )	(3.5 )
Interest expense <sup>(1)</sup>	(112,626 )	(86,999 )	(95,613 )	(25,627 )	(29.5 )	8,614	9.0
Other (expense) income, net	(6,194 )	10,566	17,765	(16,760 )	(158.6)	(7,199 )	(40.5 )
Net income from continuing operations before income taxes	114,079	204,267	197,778	(90,188 )	(44.2 )	6,489	3.3
(Provision) benefit for income taxes	(49,451 )	229,503	(69,313 )	(278,954 )	(121.5)	298,816	NM
<b>Net income from continuing operations</b>	\$64,628	\$433,770	\$128,465	(369,142 )	(85.1 )	305,305	NM
<b>Discontinued Operations</b>							
Net income from discontinued operations before income taxes	\$31,748	\$17,691	\$28,348	14,057	79.5	(10,657 )	(37.6 )



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(Provision) benefit for income taxes	(2,128 )	4,651	(1,944 )	(6,779 )	(145.8)	6,595	NM
<b>Net income from discontinued operations</b>	\$29,620	\$22,342	\$26,404	7,278	32.6	(4,062 )	(15.4 )
<b>Net income</b>	\$94,248	\$456,112	\$154,869	(361,864 )	(79.3 )	301,243	194.5
Net income from continuing operations	\$64,628	\$433,770	\$128,465	(369,142 )	(85.1 )	305,305	NM
Less: net loss attributable to noncontrolling interests	(3,452 )	(409 )	(3,608 )	3,043	NM	(3,199 )	(88.7 )
<b>Net income from continuing operations attributable to MIC</b>	\$68,080	\$434,179	\$132,073	(366,099 )	(84.3 )	302,106	NM
Net income from discontinued operations	\$29,620	\$22,342	\$26,404	7,278	32.6	(4,062 )	(15.4 )
Less: net (loss) income attributable to noncontrolling interests	(38,821 )	5,319	2,096	44,140	NM	(3,223 )	(153.8)
<b>Net income from discontinued operations attributable to MIC</b>	\$68,441	\$17,023	\$24,308	51,418	NM	(7,285 )	(30.0 )
<b>Net income attributable to MIC</b>	\$136,521	\$451,202	\$156,381	(314,681 )	(69.7 )	294,821	188.5
Basic income per share from continuing operations attributable to MIC	\$0.80	\$5.22	\$1.63	(4.42 )	(84.7 )	3.59	NM
Basic income per share from discontinued operations attributable to MIC	0.80	0.20	0.30	0.60	NM	(0.10 )	(33.3 )
Basic income per share attributable to MIC	\$1.60	\$5.42	\$1.93	(3.82 )	(70.5 )	3.49	180.8
Weighted average number of shares outstanding: basic	85,233,989	83,204,404	80,892,654	2,029,585	2.4	2,311,750	2.9

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

NM Not meaningful

- (1) Interest expense includes gains on derivative instruments of \$7.6 million and \$2.2 million and losses on derivative instruments of \$2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

**Year Ended December 31, 2018 Compared with Year Ended December 31, 2017**

**Revenue**

Consolidated revenues increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily as a result of, (i) an increase in the wholesale cost of jet fuel sold at Atlantic Aviation; (ii) an increase in the volume and the wholesale cost of propane and synthetic natural gas sold at Hawaii Gas; and (iii) contributions from acquisitions. The increase in revenue for the year ended December 31, 2018 was partially offset by the decrease in revenue at IMTT due to the decline in utilization and lower average storage rates and the absence of deferred revenue recognized in 2017 in connection with the termination of a construction project.

**Cost of Services and Product Sales**

Consolidated cost of services and product sales increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to, (i) an increase in the wholesale cost of jet fuel at Atlantic Aviation; (ii) an increase in the wholesale cost of propane and synthetic natural gas and lower margins at MIC Hawaii; and (iii) incremental costs associated with various acquisitions and developments. The changes in consolidated cost of services and product sales also reflect higher unrealized losses on commodity hedges at Hawaii Gas (see Results of Operations *MIC Hawaii* below).

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to, (i) incremental costs associated with acquired and developed businesses; (ii) higher costs related to the evaluation of various investment and acquisition/disposition opportunities, primarily related to the sale of BEC; and (ii) approximately \$4.0 million of costs incurred for advisory services in connection with addressing shareholder matters. The increases in selling, general and administrative expenses were partially offset by the absence of costs incurred during 2017 in connection with the implementation of our shared services center.

**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 total stockholder returns relative to a U.S. utilities index. For the years ended December 31, 2018 and 2017, we incurred base management fees of \$44.9 million and \$71.4 million, respectively. No performance fees were incurred in any of the above periods. The unpaid portion of base management fees and performance fees, if any, at the end of each reporting period is included in the line item *Due to Manager-related party* in our consolidated balance sheets.



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

In all of the periods shown below, our Manager elected to reinvest any fees to which it was entitled in additional shares. In accordance with the Third Amended and Restated Management Services Agreement, our Manager has currently elected to reinvest future base management fees and performance fees, if any, in new primary shares.

Period	Base Management Fee Amount (\$ in Thousands)	Performance Fee Amount (\$ in Thousands)	Shares Issued
<i>2018 Activities:</i>			
Fourth quarter 2018	\$ 8,753	\$	220,208 <sup>(1)</sup>
Third quarter 2018	12,333		269,286
Second quarter 2018	10,852		277,053
First quarter 2018	12,928		265,002
<i>2017 Activities:</i>			
Fourth quarter 2017	\$ 16,778	\$	248,162
Third quarter 2017	17,954		240,674
Second quarter 2017	18,433		233,394
First quarter 2017	18,223		232,398
<i>2016 Activities:</i>			
Fourth quarter 2016	\$ 18,916	\$	230,773
Third quarter 2016	18,382		232,488
Second quarter 2016	16,392		232,835
First quarter 2016	14,796		234,179

Our Manager elected to reinvest all of the monthly base management fees for the fourth quarter of 2018 in shares.

(1) We issued 220,208 shares for the quarter ended December 31, 2018, including 60,048 shares that were issued in January 2019 for the December 2018 monthly base management fee.

**Goodwill Impairment**

During the year ended December 31, 2018, we wrote-off the goodwill balance related to the previously owned design-build mechanical contractor.

**Depreciation**

Depreciation expense increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily as a result of contributions from acquisitions and assets placed in service.

**Amortization of Intangibles**

Amortization of intangibles increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to write-off of intangible assets related to the previously owned design-build mechanical contractor.

## **Interest Expense and Gains on Derivative Instruments**

Interest expense includes gains on derivative instruments of \$7.6 million and \$2.2 million for the years ended December 31, 2018 and 2017, respectively. Gains on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. For the year ended December 31, 2018, interest expense also included the non-cash write-off of deferred financing costs at Atlantic Aviation related to the December 2018 refinancing of its term loan and revolving credit facility. Excluding the derivative adjustments and the write-off of deferred financing costs, cash interest expense was \$98.4 million and \$80.3 million for the years ended December 31, 2018 and 2017, respectively. The increase in cash interest expense reflects primarily a higher average debt balance and an increase in the weighted average interest rate. See discussions of interest expense for each of our operating businesses below.

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

**Other (Expense) Income, net**

Other (expense) income, net decreased primarily due to the write-down of our investment in the previously owned design-build mechanical contractor during the quarter ended September 30, 2018, partially offset by higher fee income from a developer of renewable power during 2018.

**Discontinued Operations**

Income from discontinued operations increased primarily due to (i) the change in tax rates imposed on certain entities by the Tax Cuts and Jobs Act; (ii) contribution from the BEC plant expansion; and (iii) improved wind resources.

**Income Taxes (including Continuing and Discontinued Operations)**

We file a consolidated federal income tax return that includes the financial results of IMTT, Atlantic Aviation, MIC Hawaii, BEC through the date of sale, and our allocable share of the taxable income (loss) from the solar and wind facilities in discontinued operations. The solar and wind facilities in which we own less than 100% of the equity interest are held in limited liability companies and treated as partnerships for tax purposes. Pursuant to a tax sharing agreement, the businesses included in our consolidated federal income tax return pay MIC an amount equal to the federal income tax each would have paid on a standalone basis as if they were not part of the consolidated federal income tax return. In addition, our businesses file income tax returns and may pay taxes in the state and local jurisdictions in which they operate.

The change from income tax benefit for the year ended December 31, 2017 to income tax expense for the year ended December 31, 2018 is primarily due to the impact of the Tax Cut and Jobs Act in 2017. The Tax Cut and Jobs Act required the revaluation of the net deferred tax liability which resulted in a tax benefit of \$312.3 million (primarily at IMTT and Atlantic Aviation).

For the year ended December 31, 2018, current taxable income, including income from discontinued operations, is expected to be approximately \$220.0 million, which includes the gain on sale of BEC as well as the loss on the sale of the design-build mechanical contractor in the MIC Hawaii segment.

For the year ended December 31, 2018, any consolidated federal income tax liabilities our businesses generated are expected to be fully offset by net operating loss (NOL) carryforwards. Our federal NOL carryforward at December 31, 2018 was \$152.0 million. The amount of any federal income tax otherwise payable in 2019 is expected to be reduced by tax benefits associated with planned capital deployment of approximately \$275.0 million to \$300.0 million. Gains from potential sale of assets concluded in 2019 would increase our federal income tax payable.

In addition, we expect our businesses collectively to pay state/provincial income taxes of approximately \$21.0 million in 2018, including the expected taxes due on the sale of BEC. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOLs, the use of which is uncertain.

Valuation allowance:

At December 31, 2018 and 2017, we did not have a valuation allowance for our consolidated federal NOL carryforwards. In calculating our consolidated income tax provision, we reduced our valuation allowance by \$4.4

million to \$1.1 million at December 31, 2018 for certain foreign tax credits and state income tax NOL carryforwards, the utilization of which is not assured beyond a reasonable doubt.

### **The Tax Cuts and Jobs Act**

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law and includes provisions that will have an impact on our federal taxable income. The most significant of these are 100% bonus depreciation on qualifying assets (which is scheduled to decrease ratably to 0% between 2023 and 2027) and a reduction in the federal corporate tax rate from 35% to 21%.

The Tax Cuts and Jobs Act also limits the deductibility of net interest expense to 30% of adjusted taxable income. We do not expect this limitation to have a material impact to our financial results through 2021.

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

**Year Ended December 31, 2017 Compared with Year Ended December 31, 2016**

**Revenue**

Consolidated revenues increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily as a result of an increase in the wholesale cost and the volume of jet fuel sold at Atlantic Aviation, contributions from acquisitions and an increase in the wholesale cost and volume of gas sold at MIC Hawaii. The increase in the consolidated revenue for the year ended December 31, 2017 also includes a contribution from IMTT from the recognition of deferred revenue resulting from termination of a construction project by a customer.

**Cost of Services and Product Sales**

Consolidated cost of services and product sales increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to an increase in the wholesale cost of jet fuel at Atlantic Aviation, the wholesale cost of gas at MIC Hawaii and contributions from acquisitions. The changes in consolidated cost of services and product sales were also attributable to unrealized losses on commodity hedges at Hawaii Gas in 2017 compared with unrealized gains in 2016 (see Results of Operations *MIC Hawaii* below).

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to (i) \$9.3 million of costs incurred in connection with the evaluation of various investment and acquisition opportunities; (ii) \$8.5 million of costs incurred in connection with the implementation of our shared services center; and (iii) incremental costs associated with acquired businesses.

**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 total stockholder returns relative to a U.S. utilities index. For the years ended December 31, 2017 and 2016, we incurred base management fees of \$71.4 million and \$68.5 million, respectively. No performance fees were generated in any of the above periods.

**Depreciation**

Depreciation expense increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to contributions from acquisitions, partially offset by the write-off of tanks and docks in 2016 at IMTT.

**Amortization of Intangibles**

Amortization of intangibles increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to contributions from acquisitions.



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

Interest expense includes gains on derivative instruments of \$2.2 million and losses on derivative instruments of \$2.5 million for the years ended December 31, 2017 and 2016, respectively. For the year ended December 31, 2016, interest expense also included the non-cash write-off of deferred financing costs at Atlantic Aviation related to the October 2016 refinancing of its term loan and revolving credit facility and at Hawaii Gas related to the February 2016 refinancing of its \$80.0 million term loan and its \$60.0 million revolving credit facility. Excluding the derivative adjustments and the write-off of deferred financing costs, interest expense decreased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to a reduction in the weighted average interest rate, partially offset by a higher average debt balance. Cash interest expense was \$80.3 million and \$83.4 million for the years ended December 31, 2017 and 2016, respectively. See discussions of interest expense for each of our operating businesses below.

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

As part of the refinancing of the Atlantic Aviation debt in October 2016, Atlantic Aviation paid \$17.8 million in interest rate swap breakage fees associated with the termination of out-of-the-money interest rate swap contracts related to prior debt facilities. In addition, the business entered into \$400.0 million of interest rate caps with a strike price of 1.0% to hedge the one month LIBOR floating rate interest exposure on the Atlantic Aviation term loan facility. The business paid \$8.6 million in upfront premiums to enter into the caps.

### **Other Income, net**

Other income, net, decreased for the year ended December 31, 2017 compared with year ended December 31, 2016 as 2016 included insurance recoveries associated with damage docks to IMTT's facilities, partially offset by fee income from a developer of renewable power during 2017.

### **Income Taxes**

The change from income tax expense for the year ended December 31, 2016 to income tax benefit for the year ended December 31, 2017 is primarily due to the Tax Cut and Jobs Act. The effects of the change in the corporate tax rate requires us to revalue the net deferred tax liability balances on the consolidated balance sheet. The effect of revaluing the Company's net deferred tax liabilities to the new rate of 21% resulted in recording a tax benefit of \$312.3 million, primarily at IMTT and Atlantic Aviation, in the consolidated statement of operations.

### **Valuation allowance:**

At December 31, 2017 and 2016, we did not have a valuation allowance for our consolidated federal NOL carryforwards. In calculating our consolidated income tax provision, we increased our valuation allowance by \$1.1 million to \$5.5 million at December 31, 2017 for certain foreign tax credits and state income tax NOL carryforwards, the utilization of which is not assured beyond a reasonable doubt.

### **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow 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 particular, we use EBITDA excluding non-cash items, Free Cash Flow and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect our proportionate interest in our solar and wind facilities, substantially all of which are in discontinued operations.

We measure EBITDA excluding non-cash items as it reflects our businesses' ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses. We believe investors use EBITDA excluding non-cash items primarily as a measure of the operating performance of MIC's businesses and to make comparisons with the operating performance of other businesses whose depreciation and amortization expense may vary widely from ours, particularly where acquisitions and other non-operating factors are involved. 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, adjustments for other non-cash items and pension expense 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.

Because we have varied ownership interests in the businesses within our portfolio of solar and wind power generation facilities (in discontinued operations), but have an obligation to report their financial results on a consolidated basis, GAAP measures such as net income (loss) do not fully reflect our proportionate share of the cash generated by these 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 and not in lieu of our financial results reported under GAAP.

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

Our businesses are characteristically owners of high-value, long-lived assets capable of generating substantial Free Cash Flow. We define Free Cash Flow as cash from operating activities *the most comparable GAAP measure* which includes cash interest, tax payments and pension contributions, less maintenance capital expenditures, which includes principal repayments on capital lease obligations used to fund maintenance capital expenditures, and excludes changes in working capital.

We use Free Cash Flow as a measure of our ability to provide investors with an attractive risk-adjusted total return by sustaining and potentially increasing our quarterly cash dividend and funding a portion of our growth. GAAP metrics such as net income (loss) do not provide us with the same level of visibility into the performance and prospects of the business as a result of: (i) the capital intensive nature of our businesses and the generation of non-cash depreciation and amortization; (ii) shares issued to our external Manager under the Management Services Agreement; (iii) our ability to defer all or a portion of current federal income taxes; (iv) non-cash unrealized gains or losses on derivative instruments; (v) amortization of tolling liabilities; (vi) gains (losses) on disposal of assets; and (vii) pension expenses. Pension expenses primarily consist of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses. Any cash contributions to pension plans are reflected as a reduction to Free Cash Flow and are not included in pension expense. We believe that external consumers of our financial statements, including investors and research analysts, use Free Cash Flow both to assess MIC's performance and as an indicator of its success in generating an attractive risk-adjusted total return.

In this Annual Report on Form 10-K, we have disclosed Free Cash Flow on a consolidated basis and for each of our operating segments and MIC Corporate. We believe that both EBITDA excluding non-cash items and Free Cash Flow support a more complete and accurate understanding of the financial and operating performance of our businesses than would otherwise be achieved using GAAP results alone.

Free Cash Flow does not take into consideration required payments on indebtedness and other fixed obligations or other cash items that are excluded from our definition of 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 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 flows. We consider a number of factors in determining whether a specific capital expenditure will be classified as maintenance or growth.

We do not bifurcate specific capital expenditures into maintenance and growth components. Each discrete capital expenditure is considered within the above framework and the entire capital expenditure is classified as either maintenance or growth.



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

A reconciliation of net income from continuing operations to EBITDA excluding non-cash items from continuing operations and a reconciliation from cash provided by operating activities from continuing operations to Free Cash Flow from continuing operations, on a consolidated basis, is provided below. Similar reconciliations for each of our operating businesses and Corporate and Other follow.

	Year Ended December 31,			Change (From 2017 to 2018)		Change (From 2016 to 2017)	
	2018	2017	2016	Favorable/ \$	(Unfavorable) %	Favorable/ \$	(Unfavorable) %
	(\$ In Thousands) (Unaudited)						
Net income from continuing operations	\$64,628	\$433,770	\$128,465				
Interest expense, net <sup>(1)</sup>	111,838	86,916	95,527				
Provision (benefit) for income taxes	49,451	(229,503)	69,313				
Goodwill impairment	3,215						
Depreciation	193,659	178,292	175,518				
Amortization of intangibles	68,314	63,825	60,997				
Fees to Manager-related party	44,866	71,388	68,486				
Pension expense <sup>(2)</sup>	8,306	8,106	8,601				
Other non-cash expense (income), net <sup>(3)</sup>	25,178	5,734	(9,296 )				
EBITDA excluding non-cash items continuing operations	\$569,455	\$618,528	\$597,611	(49,073 )	(7.9 )	20,917	3.5
EBITDA excluding non-cash items continuing operations	\$569,455	\$618,528	\$597,611				
Interest expense, net <sup>(1)</sup>	(111,838)	(86,916 )	(95,527 )				
Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	(1,574 )	(3,803 )	(8,415 )				
Amortization of debt financing costs <sup>(1)</sup>	11,353	7,184	19,552				
Amortization of debt discount <sup>(1)</sup>	3,627	3,266	1,007				
Interest rate swap breakage fees			(17,770 )				
Interest rate cap premium			(8,629 )				
Provision for current income taxes	(13,950 )	(11,031 )	(7,304 )				
Pension contribution <sup>(2)</sup>			(3,500 )				
Changes in working capital <sup>(4)</sup>	16,087	(63,122 )	11,102				
Cash provided by operating activities continuing operations	473,160	464,106	488,127				
Changes in working capital <sup>(4)</sup>	(16,087 )	63,122	(11,102 )				
	(49,979 )	(34,676 )	(57,191 )				

Maintenance capital  
expenditures

Free cash flow operations	continuing	407,094	492,552	419,834	(85,458)	(17.4)	72,718	17.3
Free cash flow operations	discontinued	67,934	65,448	72,412	2,486	3.8	(6,964)	(9.6)
Total Free Cash Flow		\$475,028	\$558,000	\$492,246	(82,972)	(14.9)	65,754	13.4

Interest expense, net, includes adjustments to derivative instruments, non-cash amortization of deferred financing fees and non-cash amortization of debt discount related to the 2.00% Convertible Senior Notes due October 2023.

(1) Interest expense, net, also included a non-cash write-off of deferred financing fees related to the February 2016 refinancing at Hawaii Gas and the October 2016 and December 2018 refinancing at Atlantic Aviation.

Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses. Any cash contributions to pension plans are not included in pension expense, but rather reflected as a reduction to Free Cash Flow, as noted in the table above.

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

Other non-cash expense (income), net, primarily includes unrealized gains (losses) on commodity hedges, adjustments to asset retirement obligations and non-cash gains (losses) related to the disposal of assets. Other non-cash expense (income), net, also includes the write-down of our investment in the previously owned design-build mechanical contractor business for the year ended December 31, 2018. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.

Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 4230): Restricted Cash*. See Note 2, Summary of Significant Accounting Policies, in our Notes to Consolidated Financial Statements in Part II, Item 8, of this Form 10-K for recently issued accounting standards.

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

See Results of Operations *Consolidated* above for a reconciliation of Free Cash Flow Consolidated basis from continuing operations to cash provided by operating activities from continuing operations, the most comparable GAAP measure. The following table is a reconciliation from Free Cash Flow on a consolidated basis to Free Cash Flow on a proportionately combined basis (our proportionate interest in our solar and wind facilities reported in discontinued operations). See Results of Operations below for a reconciliation of Free Cash Flow for each of our segments to cash provided by (used in) operating activities for such segment.

	Year Ended December 31,			Change (From 2017 to 2018)		Change (From 2016 to 2017)	
	2018	2017	2016	Favorable/ \$(Unfavorable)	%	Favorable/ \$(Unfavorable)	%
	(\$ In Thousands) (Unaudited)						
100% Total Free Cash Flow (includes continuing and discontinued operations)	\$475,028	\$558,000	\$492,246	(82,972)	(14.9)	65,754	13.4
100% of Discontinued Operations Free Cash Flow	(67,934)	(65,448)	(72,412)				
Proportionately Combined Discontinued Operations Free Cash Flow	58,926	57,642	64,012				
Proportionately Combined Free Cash Flow (includes continuing and discontinued operations)	\$466,020	\$550,194	\$483,846	(84,174)	(15.3)	66,348	13.7

**Results of Operations: IMTT**

The financial performance of IMTT is in large part a function of the amount of bulk liquid storage capacity under lease and the rates achieved on those leases. IMTT recorded financial results for the year ended December 31, 2018 that reflect a previously forecast decline in storage capacity utilization and lower average storage rates, partially offset by contributions from an acquisition completed in 2017.



The portion of IMTT's storage capacity under lease (utilization) averaged 82.0% for the quarter ended December 31, 2018 compared with 82.1% in the quarter ended September 30, 2018 and 86.1% in the quarter ended June 30, 2018. For the full year 2018, utilization averaged 84.6% compared with 93.3% in 2017. The decrease in utilization during the year reflects the anticipated and previously disclosed impact of the non-renewal of certain contracts for the storage of primarily heavy and residual oil on the Lower Mississippi River. IMTT expects utilization to increase to approximately high 80s% at year ended 2019, subject to market conditions, as a result of leasing of currently uncontracted capacity related to demand growth and the re-leasing of capacity repurposed from heavy and residual oil to clean petroleum, chemical and agricultural products.

New and renewing storage rates on gasoline and distillate contracts in New York Harbor and heavy and residual fuel contracts on the Lower Mississippi River were lower in 2018 than in the prior comparable period. IMTT expects the lower storage rates to continue to impact its financial results through 2019, although this impact is expected to be partially offset by increases in storage utilization and an increase in demand for a range of products and services in advance of the implementation of the International Maritime Organization's IMO Marpol Annex VI (IMO 2020) regulations limiting the sulphur content of bunker fuel on January 1, 2020.

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

IMTT is currently both involved in and evaluating a number of initiatives related to repurposing existing storage capacity and repositioning the overall business:

**Repurposing**

IMTT anticipates cleaning and modifying up to approximately 3.0 million barrels storage capacity and related infrastructure on the Lower Mississippi River, from heavy and residual oil storage to storage of products with potentially better growth prospects including clean petroleum, chemical and agricultural oils or in support of repositioning projects involving fundamental users of heavy and residual oil storage. Approximately 1.3 million of the 3.0 million barrels of storage capacity was targeted for repurposing and successfully recontracted in 2018. Approximately 600,000 of these barrels were returned to service at December 31, 2018. The remainder have been or will be returned to service in the first quarter of 2019. For the year ended December 31, 2018, the cost of repurposing the 1.3 million barrels of storage capacity totaled \$10.8 million of which \$6.9 million was characterized as maintenance capital expenditure. The total cost of repurposing the 1.3 million barrels is expected to be approximately \$20.0 million. IMTT currently believes that up to an additional 1.0 million barrels of capacity could be repurposed in 2019, subject to identification of a corresponding level of customer demand.

**Repositioning**

Repositioning includes projects designed to leverage IMTT's existing geographic footprint through increases in capacity or capability designed to meet customer demand and/or further diversify the mix of products handled. During 2018 and through February 2019, the following projects that are expected to enhance terminal connectivity via investment in truck, marine and rail infrastructure, were announced and/or executed by IMTT:

In the second quarter of 2018, an agreement to construct an additional 200,000 barrels of capacity at an existing terminal for a chemicals manufacturer;

In the third quarter of 2018, the development of an automated, multi-product, six bay truck loading facility at its terminal in Bayonne, N.J. to improve its intermodal distribution capabilities in the New York Harbor market;

In the fourth quarter of 2018, the completion of negotiations on an agreement with Methanex that could see IMTT construct 714,000 barrels of chemical storage capacity and associated infrastructure at its Geismar Chemical Logistics facility. The project is subject to a final investment decision by Methanex on the construction of a third methanol manufacturing plant in Geismar (Geismar 3) alongside its two existing facilities. A final investment decision is expected in mid-2019;

In the fourth quarter of 2018, an additional dock at its Geismar facility that will support the existing business, the Methanex project and future expansion opportunities;

In the first quarter of 2019, the construction of storage capacity and related infrastructure at its Avondale, LA facility including a new ship dock in support of a palm oil processing facility being developed on land leased by IMTT to Fuji Vegetable Oil (Fuji). The project includes 87,000 barrels of new capacity being built pursuant to a 30-year use agreement with Fuji and 100,000 barrels of existing capacity expected to be used by a feedstock supplier. The facility is expected to be in service in late 2020; and

In the first quarter of 2019, at its terminal in Gretna, LA, the leasing of 442,000 barrels of capacity, including 80,000 barrels of capacity to be constructed, to a marketer of highly refined oils pursuant to a long-term agreement. IMTT will also construct a truck loading facility for the customer. The project is expected to be in service in early 2020.

The above projects have an estimated total value of approximately \$175.0 million. The majority are subject to customary pre-construction permitting. None of these repositioning projects are expected to generate any material



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

The successful implementation of the repurposing and repositioning initiatives is, over time, expected to, (i) improve utilization and rates, (ii) increase exposure to products with better growth prospects, (iii) generate a larger proportion of IMTT's revenue from longer-dated contracts and (iv) reduce exposure to heavy and residual oil storage demand.

	Year Ended December 31,			Change		Change		
	2018	2017	2016	(From 2017 to 2018)		(From 2016 to 2017)		
				Favorable/(Unfavorable)		Favorable/(Unfavorable)		
	\$	\$	\$	\$	%	\$	%	
	(\$ In Thousands) (Unaudited)							
Revenue	510,783	549,422	532,472	(38,639 )	(7.0 )	16,950	3.2	
Cost of services	200,966	196,369	204,279	(4,597 )	(2.3 )	7,910	3.9	
Selling, general and administrative expenses	32,709	36,406	32,687	3,697	10.2	(3,719 )	(11.4 )	
Depreciation and amortization	131,402	126,463	134,385	(4,939 )	(3.9 )	7,922	5.9	
Operating income	145,706	190,184	161,121	(44,478 )	(23.4 )	29,063	18.0	
Interest expense, net <sup>(1)</sup>	(45,502 )	(38,357 )	(38,752 )	(7,145 )	(18.6 )	395	1.0	
Other income, net	965	1,758	18,509	(793 )	(45.1 )	(16,751 )	(90.5 )	
(Provision) benefit for income taxes	(35,885 )	209,464	(57,736 )	(245,349 )	(117.1)	267,200	NM	
Net income	65,284	363,049	83,142	(297,765 )	(82.0 )	279,907	NM	
Less: net income attributable to noncontrolling interests			59			59	100.0	
Net income attributable to MIC	65,284	363,049	83,083	(297,765 )	(82.0 )	279,966	NM	
<b><i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i></b>								
Net income	65,284	363,049	83,142					
Interest expense, net <sup>(1)</sup>	45,502	38,357	38,752					
Provision (benefit) for income taxes	35,885	(209,464)	57,736					
Depreciation and amortization	131,402	126,463	134,385					
Pension expense <sup>(2)</sup>	7,662	6,996	7,219					
Other non-cash expense, net	867	767	657					
EBITDA excluding non-cash items	286,602	326,168	321,891	(39,566 )	(12.1 )	4,277	1.3	
EBITDA excluding non-cash items	286,602	326,168	321,891					
Interest expense, net <sup>(1)</sup>	(45,502 )	(38,357 )	(38,752 )					
Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	(1,978 )	(3,834 )	(2,169 )					

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Amortization of debt financing costs <sup>(1)</sup>	1,721	1,647	1,654				
Provision for current income taxes	(6,862 )	(4,417 )	(5,438 )				
Changes in working capital	4,524	(32,795 )	(3,734 )				
Cash provided by operating activities	238,505	248,412	273,452				
Changes in working capital	(4,524 )	32,795	3,734				
Maintenance capital expenditures	(33,494 )	(20,143 )	(38,620 )				
Free cash flow	200,487	261,064	238,566	(60,577 )	(23.2 )	22,498	9.4

NM Not meaningful

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

(2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.

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

**Year Ended December 31, 2018 Compared with Year Ended December 31, 2017**

**Revenue**

IMTT generates the majority of its revenue from contracts comprising a fixed monthly charge for access to or use of a specified amount of capacity, infrastructure or land. The monthly charge typically increases annually with inflation. We refer to revenue generated from such contracts or fixed charges as firm commitments. At December 31, 2018, firm commitments had a revenue weighted average remaining contract life of 1.9 years, although some customers, particularly ones storing certain petroleum products are renewing contracts for shorter durations. Revenue from firm commitments comprised 80.7% of total revenue for the year ended December 31, 2018.

For the year ended December 31, 2018, total revenue decreased compared with the year ended December 31, 2017 primarily due to the decline in utilization and lower average storage rates on new and renewing contracts, reduced environmental response revenue as a result of the sale of IMTT's subsidiary OMI Environmental Solutions (OMI) in April 2018 and the absence of deferred revenue recognized in 2017 in connection with the termination of a construction project. The decrease in revenue was partially offset by contributions from an acquisition of a portfolio of terminals completed in the third quarter of 2017.

**Cost of Services and Selling, General and Administrative Expenses**

Cost of services and selling, general and administrative expenses combined increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to incremental costs related to the terminals acquired in 2017 and an increase in property taxes assessed on the terminal at St. Rose. The increases were partially offset by the absence of costs related to OMI.

**Depreciation and Amortization**

Depreciation and amortization expense increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to an acquisition of terminals in 2017.

**Interest Expense, net**

Interest expense includes gains on derivative instruments of \$3.1 million and \$1.7 million for the years ended December 31, 2018 and 2017, respectively. Excluding the derivative adjustments, cash interest expense increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to increased debt balances. Cash interest expense was \$45.8 million for the year ended December 31, 2018 compared with \$40.5 million for the year ended December 31, 2017. The increase in cash interest expense reflects a higher average debt balance and a higher weighted average interest rate.

**Income Taxes**

The taxable income generated by IMTT is reported on our consolidated federal income tax return. The business files standalone state/provincial income tax returns in the jurisdictions in which it operates. The *Provision for current*

*income taxes* of \$6.9 million for the year ended December 31, 2018 in the above table includes \$5.6 million of state income tax expense and \$1.3 million of provincial income tax expense. Due to the utilization of NOL carryforwards, IMTT did not have any standalone current federal income tax expense.

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

The majority of the difference between IMTT's book and federal taxable income relates to depreciation of terminal fixed assets. For book purposes, these fixed assets are depreciated primarily over 5 to 30 years using the straight-line method of depreciation. For federal income tax purposes, these same fixed assets are depreciated primarily over 5 to 15 years using accelerated methods. In addition, most terminal fixed assets qualify for federal bonus tax depreciation. A significant portion of terminal fixed assets in Louisiana that were constructed in the period after Hurricane Katrina in 2005 were financed with GO Zone Bonds. GO Zone Bond financed assets are depreciated, for tax purposes, primarily over 9 to 20 years using the straight-line method. Most of the states in which the business operates do not allow the use of bonus tax depreciation. Louisiana allows the use of bonus depreciation except for assets financed with GO Zone Bonds.

The increase in income tax expense for the year ended December 31, 2018 compared with the year ended December 31, 2017 is primarily due to the impact of the Tax Cut and Jobs Act in 2017. This required the revaluation of the net deferred tax liability balances on the balance sheet, which resulted a tax benefit of approximately \$260.0 million in the statement of operations.

**Maintenance Capital Expenditures**

For the year ended December 31, 2018, IMTT incurred maintenance capital expenditures of \$33.5 million and \$31.2 million on an accrual basis and cash basis, respectively, compared with \$20.1 million and \$23.0 million on an accrual basis and cash basis, respectively, for the year ended December 31, 2017. The increase was primarily a result of \$6.9 million of expenditures related to the repurposing of existing storage capacity. IMTT expects to incur between \$40.0 million and \$50.0 million of maintenance capital expenditures in 2019. The increase in 2019 is the result of an estimated \$12.0 million expenditure in the first phase of the rehabilitation of a pier in Bayonne. The total cost of the pier is expected to be approximately \$30.0 million and is anticipated to be completed within three years.

**Year Ended December 31, 2017 Compared with Year Ended December 31, 2016**

**Revenue**

For the year ended December 31, 2017, total revenue increased by \$17.0 million compared with the year ended December 31, 2016. The increase in revenue was primarily due to an acquisition and the recognition of deferred revenue resulting from termination of a construction project by a customer, partially offset by lower utilization. Firm commitments at December 31, 2017, had a revenue weighted average remaining life of 2.3 years. Revenue from firm commitments comprised 80.2% of total revenue for the year ended December 31, 2017.

Capacity utilization for the quarter and year ended December 31, 2017 was 90.6% and 93.3%, respectively, compared with 96.6% and 96.4%, respectively, for the quarter and year ended December 31, 2016. The decrease in utilization reflects the non-renewal of a small number of primarily residual and heavy oil contracts late in the year. These non-renewals reflected both continuing changes in domestic and global demand for the product, and market conditions for trading customers.



**Cost of Services and Selling, General and Administrative Expenses**

Cost of services and selling, general and administrative expenses combined decreased for the year ended December 31, 2017 compared with the year ended December 31, 2016. The decrease was primarily the result of lower labor, healthcare and repair and maintenance expenses, partially offset by incremental costs from an acquisition and higher franchise taxes.

**Depreciation and Amortization**

Depreciation and amortization expense decreased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to the write-off of tanks and docks in 2016.

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

**Interest Expense, net**

Interest expense includes gains on derivative instruments of \$1.7 million for the year ended December 31, 2017 compared with losses on derivative instruments of \$2.1 million for the year ended December 31, 2016. Excluding the derivative adjustments, interest expense increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to increased debt balances. Cash interest expense was \$40.5 million for the year ended December 31, 2017 compared with \$39.3 million for the year ended December 31, 2016.

**Other Income, net**

Other income, net, decreased for the year ended December 31, 2017 compared with the year ended December 31, 2016. The business incurred insured losses in connection with damage done to various docks in Bayonne and Gretna for which insurance recoveries of approximately \$16.5 million were recorded during the year ended December 31, 2016.

**Income Taxes**

The *Provision for current income taxes* of \$4.4 million for the year ended December 31, 2017 in the above table includes \$3.2 million of state income tax expense and \$1.2 million of federal income tax expense. Any current federal income tax payable was offset in consolidation with the application of NOLs at the MIC holding company level.

The change from income tax expense for the year ended December 31, 2016 to income tax benefit for the year ended December 31, 2017 is primarily due to the Tax Cut and Jobs Act. The effects of the change in the corporate tax rate required a revaluation of the net deferred tax liability balances on the balance sheet. The effect of revaluing the net deferred tax liabilities to the new rate of 21% resulted in recording a tax benefit of approximately \$260.0 million in the statement of operations.

**EBITDA Excluding Non-Cash Items**

For the year ended December 31, 2016, EBITDA excluding non-cash items included \$16.5 million of insurance recoveries for damaged docks. These insurance recoveries were used to repair damaged docks and recorded in *Other Income, net*. The cost of those repairs was recorded in *Maintenance Capital Expenditures*. Excluding insurance proceeds, EBITDA excluding non-cash items would have been \$305.4 million for the year ended December 31, 2016. On that basis, EBITDA excluding non-cash items would have increased by \$20.8 million, or 6.8%, for the year ended December 31, 2017 compared with the prior comparable period.

**Maintenance Capital Expenditures**

For the year ended December 31, 2017, IMTT incurred maintenance capital expenditures of \$20.1 million and \$23.0 million on an accrual basis and cash basis, respectively, compared with \$38.6 million and \$40.4 million on an accrual basis and cash basis, respectively, for the year ended December 31, 2016. For the year ended December 31, 2016, maintenance capital expenditures included \$13.9 million associated with the rebuilding of damaged docks at IMTT s Gretna and Bayonne terminals. The property insurance recoveries are recorded in *Other Income, net*, in the above statement of operations. Excluding these costs, maintenance capital expenditures would have been \$24.7 million for the year ended December 31, 2016. On that basis, maintenance capital expenditures would have decreased by \$4.6

million, or 18.6%, for year ended December 31, 2017 compared with the prior comparable period. The decrease for the year ended December 31, 2017 compared with the year ended December 31, 2016 is primarily as a result of the timing of planned maintenance for the year.

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

The fundamental driver of the performance of Atlantic Aviation is the number of GA flight movements (take-offs and landings) in a given period. Based on data reported by the FAA, industry-wide domestic GA flight movements increased by 0.6% and 0.9% for the quarter and year ended December 31, 2018, respectively, compared with the same periods in 2017. The number of GA flight movements tends to be correlated with general economic activity over the long-term. Factors that could impact GA flight movements either positively or negatively in the short-term include traffic constraints due to repairs and maintenance of runways, weather conditions or events, the timing of public and religious holidays and events, including major sporting events.

The total number of GA flight movements at airports on which Atlantic Aviation operates decreased by 1.4% and 1.1% during the quarter and year ended December 31, 2018, respectively, compared with the same periods in 2017. The decrease was the result of a number of the aforementioned short-term factors, several of which had a positive impact on the prior comparable periods, together with decreased traffic at Santa Monica Municipal Airport in Santa Monica, CA as a result of the shortening of the runway and decreased traffic at Peachtree Dekalb Airport in Atlanta, GA as a result of airport runway construction, which was subsequently completed. Atlantic Aviation believes that growth in GA flight movements will continue to be positively correlated with growth in economic activity and GDP. Flight movements at airports on which Atlantic Aviation operates, other than Santa Monica and Peachtree, increased by 1.4% and 0.6% for the quarter and year ended December 31, 2018, respectively, compared with the same periods in 2017.

Atlantic Aviation seeks to extend FBO leases prior to their maturity in order to maintain visibility into the cash generating capacity of these assets over the long-term. Atlantic Aviation calculates a weighted average remaining lease life based on EBITDA excluding non-cash items in the prior calendar year adjusted for the impact of acquisitions/dispositions. The weighted average remaining lease life was 19.9 years at December 31, 2018 compared with 20.3 years at December 31, 2017.

TABLE OF CONTENTS**Results of Operations: Atlantic Aviation (continued)**

	Year Ended December 31,			Change		Change	
	2018	2017	2016	(From 2017 to 2018)		(From 2016 to 2017)	
				Favorable/(Unfavorable)		Favorable/(Unfavorable)	
	\$	\$	\$	\$	%	\$	%
	(\$ In Thousands) (Unaudited)						
Revenue	962,492	846,431	740,209	116,061	13.7	106,222	14.4
Cost of services (exclusive of depreciation and amortization shown separately below)	466,948	378,494	303,899	(88,454 )	(23.4 )	(74,595 )	(24.5 )
Gross margin	495,544	467,937	436,310	27,607	5.9	31,627	7.2
Selling, general and administrative expenses	231,980	222,205	212,331	(9,775 )	(4.4 )	(9,874 )	(4.7 )
Depreciation and amortization	105,950	100,190	90,659	(5,760 )	(5.7 )	(9,531 )	(10.5 )
Operating income	157,614	145,542	133,320	12,072	8.3	12,222	9.2
Interest expense, net <sup>(1)</sup>	(25,833 )	(14,512 )	(33,961 )	(11,321 )	(78.0)	19,449	57.3
Other (expense) income, net	(140 )	(151 )	68	11	7.3	(219 )	NM
Provision for income taxes	(35,222 )	(6,509 )	(39,889 )	(28,713 )	NM	33,380	83.7
Net income	96,419	124,370	59,538	(27,951 )	(22.5)	64,832	108.9
<b><i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i></b>							
Net income	96,419	124,370	59,538				
Interest expense, net <sup>(1)</sup>	25,833	14,512	33,961				
Provision for income taxes	35,222	6,509	39,889				
Depreciation and amortization	105,950	100,190	90,659				
Pension expense <sup>(2)</sup>	21	20	110				
Other non-cash expense, net	1,221	1,642	905				
EBITDA excluding non-cash items	264,666	247,243	225,062	17,423	7.0	22,181	9.9
EBITDA excluding non-cash items	264,666	247,243	225,062				
Interest expense, net <sup>(1)</sup>	(25,833 )	(14,512 )	(33,961 )				
Convertible senior notes interest <sup>(3)</sup>	(7,487 )	(7,782 )	(1,969 )				
Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	251	429	(4,158 )				
Amortization of debt financing costs <sup>(1)</sup>	4,296	1,170	14,195				
Interest rate swap breakage fees			(17,770 )				
Interest rate cap premium			(8,629 )				
Provision for current income taxes	(22,801 )	(14,457 )	(2,137 )				

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Changes in working capital	13,708	(7,240 )	11,164				
Cash provided by operating activities	226,800	204,851	181,797				
Changes in working capital	(13,708 )	7,240	(11,164 )				
Maintenance capital expenditures	(8,301 )	(7,965 )	(10,632 )				
Free cash flow	204,791	204,126	160,001	665	0.3	44,125	27.6

NM Not meaningful

Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred (1) financing fees. For the year ended December 31, 2018 and 2016, interest expense also included non-cash write-off of deferred financing costs related to the December 2018 and October 2016 refinancing.

(2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.

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

(3) Represents the cash interest expense reclassified to Atlantic Aviation related to the 2.00% Convertible Senior Notes due October 2023 through December 06, 2018, the date of Atlantic Aviation's refinancing. The proceeds from this note issuance in October 2016 were used principally to reduce the drawn balance on Atlantic Aviation's revolving credit facility.

**Year Ended December 31, 2018 Compared with Year Ended December 31, 2017**

Atlantic Aviation generates the majority of its revenue from sales of jet fuel. Increases and decreases in the cost of jet fuel are generally passed through to consumers. Accordingly, revenue will fluctuate based on the cost of jet fuel to Atlantic Aviation and reported revenue may not reflect the business' ability to effectively manage volume and gross margin. For example, an increase in revenue may be attributable to an increase in the cost of the jet fuel and not an increase in the volume sold or margin per gallon to the customer. Conversely, a decline in revenue may be attributable to a decrease in the cost of jet fuel and not a reduction in the volume sold or margin per gallon.

Gross margin, which we define as revenue less cost of services, excluding depreciation and amortization, is the effective top line for Atlantic Aviation as it is reflective of the business' ability to drive growth in the volume of products and services sold and the margins earned on those sales over time. We believe that our investors view gross margin as reflective of our ability to manage volume and price throughout the commodity cycle. Gross margin can be reconciled to operating income *the most comparable GAAP measure* by subtracting selling, general and administrative expenses and depreciation and amortization in the table above.

**Revenue and Gross Margin**

The majority of the revenue generated and gross margin earned by Atlantic Aviation is the result of fueling GA aircraft at facilities located at the 70 U.S. airports on which the business operates. Atlantic Aviation seeks to maintain and, where appropriate, increase dollar-based margins on fuel sales.

Revenue and gross margin are driven, in part, by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales. Revenue increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 as a result of increases in the wholesale cost of fuel and contributions from acquisitions. The increased wholesale cost of fuel was offset by a corresponding increase in cost of services, contributing to an increase in gross margin for the year ended December 31, 2018 compared with the year ended December 31, 2017. The improvement in gross margin primarily reflects an increased contribution from hangar rentals and ancillary fees, in addition to acquisitions.

Our discussion 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, and excludes the costs of acquiring, integrating or disposing of FBOs. On a same store basis, gross margin increased by 3.4% in the year ended December 31, 2018 compared with the year ended December 31, 2017 driven by an increased contribution from hangar rentals and ancillary fees.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily as a result of rent increases and higher labor costs, including those related to acquisitions.

### **Depreciation and Amortization**

Depreciation and amortization expense increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily as a result of contributions from acquisitions and assets placed in service.

### **Operating Income**

Operating income increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 due to the increase in gross margin, partially offset by the increase in selling, general and administrative expenses and the increase in depreciation and amortization.



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

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$3.8 million and \$120,000 for the years ended December 31, 2018 and 2017, respectively. For the year ended December 31, 2018, interest expense also included the non-cash write-off of deferred financing costs at Atlantic Aviation related to the December 2018 refinancing of its term loan and revolving credit facility. Excluding the derivative adjustments and the write-off of deferred financing costs, cash interest expense was \$28.8 million for the year ended December 31, 2018 compared with \$20.7 million for the year ended December 31, 2017. The increase in cash interest expense reflects a higher average debt balance and a higher weighted average interest rate.

Cash interest expense for the years ended December 31, 2018 and 2017 includes the cash interest paid on the \$402.5 million of MIC Corporate 2.00% Convertible Senior Notes issued in October 2016 through the refinancing of the business's debt on December 6, 2018. The proceeds from this note issuance in October 2016 were used principally to reduce the drawn balance of Atlantic Aviation's revolving credit facility.

**Income Taxes**

The taxable income generated by Atlantic Aviation is included in our consolidated federal income tax return. The business files standalone state income tax returns in the majority of 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.

The *Provision for current income taxes* of \$22.8 million for the year ended December 31, 2018 in the above table includes \$16.0 million of federal income tax expense and \$6.8 million of state income tax expense. Any current federal income tax payable is expected to be offset in consolidation with the application of MIC holding company level NOLs.

The increase in income tax expense for the year ended December 31, 2018 compared with the year ended December 31, 2017 is primarily due to the impact of the Tax Cut and Jobs Act in 2017. This required the revaluation of the net deferred tax liability balances on the balance sheet, which resulted a tax benefit of approximately \$46.0 million in the statement of operations.

At December 31, 2018, Atlantic Aviation had \$14.5 million of state NOL carryforwards. 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 future, even if its consolidated state taxable income is less than \$14.5 million.

**Maintenance Capital Expenditures**

For the year ended December 31, 2018, Atlantic Aviation incurred maintenance capital expenditures of \$8.3 million and \$8.7 million on an accrual basis and cash basis, respectively, compared with \$8.0 million both on an accrual basis and cash basis for the year ended December 31, 2017.

# **Year Ended December 31, 2017 Compared with Year Ended December 31, 2016**

## **Revenue and Gross Margin**

Revenue increased by 14.4% for the year ended December 31, 2017 compared with the year ended December 31, 2016 as a result of higher wholesale cost of fuel, an increase in the volume of fuel sold and contributions from acquisitions. The higher wholesale cost of fuel was largely offset by a corresponding increase in cost of services, resulting in an increase in gross margin of 7.2% for the year ended December 31, 2017 compared with the year ended December 31, 2016.

## **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to higher salaries and benefit costs and incremental costs associated with acquisitions.

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

### **Depreciation and Amortization**

Depreciation and amortization expense increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily as a result of assets placed in service and contributions from acquisitions.

### **Operating Income**

Operating income increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 due to the increase in gross margin, partially offset by the increase in selling, general and administrative expenses and the increase in depreciation and amortization expense.

### **Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$120,000 for the year ended December 31, 2017 compared with losses on derivative instruments of \$2.2 million for the year ended December 31, 2016. For the year ended December 31, 2016, interest expense also included the non-cash write-off of deferred financing costs at Atlantic Aviation related to the October 2016 refinancing of its term loan and revolving credit facility. Excluding the derivative adjustments and the write-off of deferred financing costs, interest expense decreased for the year ended December 31, 2017 compared with the year ended December 31, 2016 due to a lower weighted average interest rate and a lower average debt balance resulting from the October 2016 refinancing.

Cash interest expense was \$20.7 million for the year ended December 31, 2017 compared with \$25.9 million for the year ended December 31, 2016. Cash interest expense for the years ended December 31, 2017 and 2016 includes the cash interest paid on the \$402.5 million of MIC Corporate 2.00% Convertible Senior Notes issued in October 2016. The proceeds from this note issuance in October 2016 were used principally to reduce the drawn balance of Atlantic Aviation's revolving credit facility.

As part of the refinancing of the Atlantic Aviation debt in October 2016, Atlantic Aviation paid \$17.8 million in interest rate swap breakage fees associated with the termination of out-of-the-money interest rate swap contracts related to prior debt facilities. In addition, the business entered into \$400.0 million of interest rate caps with a strike price of 1.0% to hedge the one month LIBOR floating rate interest exposure on the new Atlantic Aviation term loan facility. The business paid \$8.6 million in upfront premiums to enter into the caps.

### **Income Taxes**

The *Provision for current income taxes* of \$14.5 million for the year ended December 31, 2017 in the above table includes \$7.6 million of federal income tax expense and \$6.9 million of state income tax expense. Any current federal income tax payable was offset in consolidation with the application of NOLs at the MIC holding company level.

The decrease in income tax expense for the year ended December 31, 2017 compared with the year ended December 31, 2016 is primarily due to the Tax Cut and Jobs Act. The effects of the change in the corporate tax rate required a revaluation of the net deferred tax liability balances on the balance sheet. The effect of revaluing the net deferred tax liabilities to the new rate of 21% resulted in recording a tax benefit of approximately \$46.0 million in the statement of operations.

**Maintenance Capital Expenditures**

For the year ended December 31, 2017, Atlantic Aviation incurred maintenance capital expenditures of \$8.0 million both on an accrual basis and cash basis compared with \$10.6 million and \$10.2 million on an accrual basis and cash basis, respectively, for the year ended December 31, 2016.

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TABLE OF CONTENTS**Results of Operations: MIC Hawaii**

The decreased contribution from our MIC Hawaii businesses for the year ended December 31, 2018 primarily reflects the underperformance of the previously owned design-build mechanical contractor, prior to its sale in November 2018, and the related write-down of our investment as discussed in *Recent Developments* above. The decrease is partially offset by improved performance in the utility portion of our Hawaii Gas business.

On December 21, 2018, the HPUC issued a Final Decision and Order in the rate case filed by Hawaii Gas in August 2017, authorizing an increase in regulated revenue of \$8.9 million or 8.4%. New rates went into effect on July 1, 2018.

	Year Ended December 31,			Change		Change	
	2018	2017	2016	(From 2017 to 2018)		(From 2016 to 2017)	
				Favorable/(Unfavorable)		Favorable/(Unfavorable)	
	\$	\$	\$	\$	%	\$	%
	(\$ In Thousands) (Unaudited)						
Product revenue	245,532	222,955	213,159	22,577	10.1	9,796	4.6
Service revenue	46,257	54,913	20,762	(8,656 )	(15.8 )	34,151	164.5
Total revenue	291,789	277,868	233,921	13,921	5.0	43,947	18.8
Cost of product sales (exclusive of depreciation and amortization shown separately below)	178,562	143,787	119,429	(34,775 )	(24.2 )	(24,358 )	(20.4 )
Cost of services (exclusive of depreciation and amortization shown separately below)	44,168	49,365	16,335	5,197	10.5	(33,030)	NM
Cost of revenue total	222,730	193,152	135,764	(29,578)	(15.3 )	(57,388)	(42.3 )
Gross margin	69,059	84,716	98,157	(15,657)	(18.5 )	(13,441)	(13.7 )
Selling, general and administrative expenses	29,307	26,938	24,276	(2,369 )	(8.8 )	(2,662 )	(11.0 )
Goodwill impairment	3,215			(3,215 )	NM		
Depreciation and amortization	23,708	15,303	11,325	(8,405 )	(54.9 )	(3,978 )	(35.1 )
Operating income	12,829	42,475	62,556	(29,646)	(69.8 )	(20,081)	(32.1 )
Interest expense, net <sup>(1)</sup>	(7,984 )	(7,041 )	(5,559 )	(943 )	(13.4 )	(1,482 )	(26.7 )
Other expense, net	(24,739 )	(731 )	(812 )	(24,008)	NM	81	10.0
Benefit (provision) for income taxes	6,769	(9,287 )	(20,441 )	16,056	172.9	11,154	54.6
Net (loss) income	(13,125 )	25,416	35,744	(38,541)	(151.6)	(10,328)	(28.9 )
Less: net loss attributable to noncontrolling interests	(3,202 )	(148 )	(3,663 )	3,054	NM	(3,515 )	(96.0 )
Net (loss) income attributable to MIC	(9,923 )	25,564	39,407	(35,487)	(138.8)	(13,843)	(35.1 )

***Reconciliation of net (loss) income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:***

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Net (loss) income	(13,125 )	25,416	35,744				
Interest expense, net <sup>(1)</sup>	7,984	7,041	5,559				
(Benefit) provision for income taxes	(6,769 )	9,287	20,441				
Goodwill impairment	3,215						
Depreciation and amortization	23,708	15,303	11,325				
Pension expense <sup>(2)</sup>	438	1,090	1,272				
Other non-cash expense (income), net <sup>(3)</sup>	21,810	2,494	(11,539 )				
EBITDA excluding non-cash items	37,261	60,631	62,802	(23,370)	(38.5 )	(2,171 )	(3.5 )
EBITDA excluding non-cash items	37,261	60,631	62,802				
Interest expense, net <sup>(1)</sup>	(7,984 )	(7,041 )	(5,559 )				
Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	153	(398 )	(2,088 )				
Amortization of debt financing costs <sup>(1)</sup>	383	403	948				
Benefit (provision) for current income taxes	727	(8,312 )	(8,353 )				
Pension contribution <sup>(2)</sup>			(3,500 )				
Changes in working capital <sup>(4)</sup>	13,155	(7,748 )	9,786				
Cash provided by operating activities	43,695	37,535	54,036				
Changes in working capital <sup>(4)</sup>	(13,155 )	7,748	(9,786 )				
Maintenance capital expenditures	(8,184 )	(6,568 )	(7,939 )				
Free cash flow	22,356	38,715	36,311	(16,359)	(42.3 )	2,404	6.6

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**Results of Operations: MIC Hawaii (continued)**

NM Not meaningful

Interest expense, net, includes adjustments to derivative instruments related to interest rate swaps and non-cash (1) amortization of deferred financing fees. For the year ended December 31, 2016, interest expense, net, also included a non-cash write-off of deferred financing fees related to the February 2016 refinancing at Hawaii Gas.

Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and (2) performance gains and losses. Any cash contributions to pension plans are not included in pension expense, but rather reflected as a reduction to Free Cash Flow, as noted in the table above.

Other non-cash expense (income), net, primarily includes non-cash adjustments related to unrealized gains (losses) on commodity hedges and non-cash gains (losses) related to the disposal of assets. Other non-cash expense (3) (income), net, also includes the write-down of our investment in the previously owned design-build mechanical contractor business for the year ended December 31, 2018. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.

Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic (4) 230): Restricted Cash*. See Note 2, *Summary of Significant Accounting Policies*, in our Notes to Consolidated Financial Statements in Part II, Item 8, of this Form 10-K for recently issued accounting standards.

**Year Ended December 31, 2018 Compared with Year Ended December 31, 2017**

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii. The businesses of MIC Hawaii generate revenue primarily from the provision of gas services to commercial, residential and governmental customers and the generation of power.

Hawaii Gas generates a significant portion of its revenue from the sale of gas. Accordingly, revenue can fluctuate based on the wholesale cost of gas to Hawaii Gas and may not reflect the business ability to effectively manage volume and gross margin. For example, an increase in revenue may be attributable to an increase in the wholesale cost of gas passed through to Hawaii Gas customers and not an increase in the volume of gas sold or margin per therm. Conversely, a decline in revenue may be attributable to a decrease in the wholesale cost of gas passed through to Hawaii Gas customers and not a reduction in the volume of gas sold or margin per therm.

Gross margin, which we define as revenue less cost of product sales and services, excluding depreciation and amortization, is the effective top line for Hawaii Gas as it is reflective of the business ability to drive growth in the volume of products and services and the margins earned on those sales over time. We believe that investors utilize gross margin as it is reflective of our performance in managing volume and price throughout the commodity cycle. Gross margin is reconciled to operating income *the most comparable GAAP measure* by subtracting selling, general and administrative expenses and depreciation and amortization in the table above.

**Revenue and Gross Margin**

Revenue increased for the year ended December 31, 2018 compared with the year ended December 31, 2017. The increase was primarily attributable to the increase in the volume of gas sold and a higher average price per therm of

gas together with higher revenue from distributed generation assets, partially offset by lower revenue from the previously owned design-build mechanical contractor. On an underlying basis, adjusting for changes in customer inventory, the volume of gas sold increased by 4.1% for the year ended December 31, 2018 compared with the year ended December 31, 2017.

Gross margin decreased by \$15.7 million for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily attributable to movements in commodity hedges. The business recorded unrealized losses on commodity hedges of \$13.1 million for the year ended December 31, 2018 compared with unrealized losses of \$94,000 for the year ended December 31, 2017.



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

Excluding the impact of unrealized losses on commodity hedges, gross margin decreased \$2.6 million, or 3.2%, due to lower margins at our design-build mechanical contractor and reduced contribution margin per therm at Hawaii Gas non-utility business. Gross margin at Hawaii Gas for the year ended December 31, 2018 reflects the increase in interim rates for the utility business beginning July 1, 2018.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily driven by higher salaries and benefit costs at Hawaii Gas and the previously owned design-build mechanical contractor.

### **Goodwill Impairment**

During the year ended December 31, 2018, MIC Hawaii wrote-off the goodwill balance related to the previously owned design-build mechanical contractor.

### **Depreciation and Amortization**

Depreciation and amortization expense increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to the write-offs of the intangible assets at the previously owned design-build mechanical contractor.

### **Operating Income**

Operating income decreased for the year ended December 31, 2018 compared with the year ended December 31, 2017 due to the decrease in gross margin, increase in depreciation and amortization expenses, goodwill impairment and the increase in selling, general and administrative expenses.

### **Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$749,000 and \$409,000 for the years ended December 31, 2018 and 2017, respectively. Excluding the derivative adjustments, cash interest expense increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to a higher average debt balance outstanding. Cash interest expense was \$7.4 million for the year ended December 31, 2018 compared with \$7.0 million for the year ended December 31, 2017.

### **Other Expenses, Net**

Other expense, net, increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to the write-down of our investment in the previously owned design-build mechanical contractor during the quarter ended September 30, 2018.

### **Income Taxes**

The taxable income generated by the MIC Hawaii businesses is reported on our consolidated federal income tax return and is subject to Hawaii state income tax on a stand-alone basis. The tax benefit in the table above includes both state tax and the portion of the consolidated federal tax liability attributable to the businesses. The *Benefit (provision) for current income taxes* of \$727,000 for the year ended December 31, 2018 in the above table includes \$623,000 of federal income tax benefit and \$104,000 of state income tax benefit largely attributable to the sale of the design-build mechanical contractor in November 2018.

### **Maintenance Capital Expenditures**

For the year ended December 31, 2018, MIC Hawaii incurred maintenance capital expenditures of \$8.2 million and \$7.8 million on an accrual basis and cash basis, respectively, compared with \$6.6 million and \$7.0 million on an accrual basis and cash basis, respectively, for the year ended December 31, 2017.

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**Results of Operations: MIC Hawaii (continued)**

**Year Ended December 31, 2017 Compared with Year Ended December 31, 2016**

**Revenue and Gross Margin**

Revenue increased by \$43.9 million for the year ended December 31, 2017 compared with the year ended December 31, 2016. The increase is primarily attributable to contributions from acquisitions, an increase in the wholesale cost of gas and an increase of 1.7% in the volume of gas sold by Hawaii Gas for the year ended December 31, 2017. On an underlying basis, adjusting for changes in customer inventory, the volume of gas sold increased by 1.2% in the year ended December 31, 2017 compared with the year ended December 31, 2016.

Gross margin decreased by \$13.4 million for the year ended December 31, 2017 compared with the year ended December 31, 2016. The decrease for the year ended December 31, 2017 is primarily attributable to unrealized losses on commodity hedges of \$94,000 compared with unrealized gains on commodity hedges of \$15.0 million for the year ended December 31, 2016, partially offset by contribution from acquisitions.

Gross margin, excluding the impact of unrealized gains and losses on commodity hedges, increased by \$1.6 million, or 2.0%, for the year ended December 31, 2017 compared with the year ended December 31, 2016. The increase was primarily as a result of contributions from acquisitions and lower transmission and distribution expenses, partially offset by a decrease in gross margin from the non-utility business at Hawaii Gas.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to incremental costs from acquisitions.

**Depreciation and Amortization**

Depreciation and amortization expense increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to incremental expenses associated with acquisitions.

**Operating Income**

Operating income decreased for the year ended December 31, 2017 compared with the year ended December 31, 2016 due to the decrease in gross margin, an increase in depreciation and amortization expense and an increase in selling, general and administrative expenses.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$409,000 and \$1.8 million for the years ended December 31, 2017 and 2016, respectively. For the year ended December 31, 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 and its \$60.0 million revolving credit facility. Excluding the derivative adjustments and the write-off of the deferred financing costs, interest expense increased for the year ended December 31, 2017 compared with the year ended

December 31, 2016 primarily due to debt assumed from an acquisition and the financing of solar facilities constructed in the past year. Cash interest expense was \$7.0 million for the year ended December 31, 2017 compared with \$6.7 million for the year ended December 31, 2016.

### **Income Taxes**

The *Provision for current income taxes* of \$8.3 million for the year ended December 31, 2017 in the above table includes \$7.6 million of federal income tax expense and \$680,000 of state income tax expense. Any current federal income tax payable was offset in consolidation with the application of NOLs at the MIC holding company level.

### **Maintenance Capital Expenditures**

For the year ended December 31, 2017, MIC Hawaii incurred maintenance capital expenditures of \$6.6 million and \$7.0 million on an accrual basis and cash basis, respectively, compared with \$7.9 million and \$8.4 million on an accrual basis and cash basis, respectively, for the year ended December 31, 2016.

TABLE OF CONTENTS**Results of Operations: Corporate and Other**

Corporate and Other comprises results from MIC Corporate, our shared services center and the two renewable power development platforms. Prior to October 2018, the results of the two renewable power development platforms were reported as part of the Contracted Power segment. Following the sale of BEC and the commencement of a sale process involving substantially all of our portfolio of solar and wind facilities, the Contracted Power segment has been eliminated and now reported in discontinued operations.

The financial results below reflect Corporate and Other's results during the periods below.

	Year Ended December 31,			Change		Change	
	2018	2017	2016	(From 2017 to 2018) Favorable/		(From 2016 to 2017)	
				(Unfavorable)		(Unfavorable)	
	\$	\$	\$	\$	%	\$	%
	(\$ In Thousands) (Unaudited)						
Product revenue	852		311	852	NM	(311 )	(100.0)
Service revenue	42			42	NM		
Total revenue	894		311	894	NM	(311 )	(100.0)
Cost of product sales	260		11	(260 )	NM	11	100.0
Selling, general and administrative expenses	38,893	26,035	13,125	(12,858)	(49.4)	(12,910)	(98.4 )
Fees to Manager-related party	44,866	71,388	68,486	26,522	37.2	(2,902 )	(4.2 )
Depreciation and amortization	913	161	146	(752 )	NM	(15 )	(10.3 )
Operating loss	(84,038)	(97,584)	(81,457)	13,546	13.9	(16,127)	(19.8 )
Interest expense, net <sup>(1)</sup>	(32,519)	(27,006)	(17,255)	(5,513 )	(20.4)	(9,751 )	(56.5 )
Other income, net	17,720	9,690		8,030	82.9	9,690	NM
Benefit for income taxes	14,887	35,835	48,753	(20,948)	(58.5)	(12,918)	(26.5 )
Net loss	(83,950)	(79,065)	(49,959)	(4,885 )	(6.2 )	(29,106)	(58.3 )
Less: net loss attributable to noncontrolling interests	(250 )	(261 )	(4 )	(11 )	(4.2 )	257	NM
Net loss attributable to MIC	(83,700)	(78,804)	(49,955)	(4,896 )	(6.2 )	(28,849)	(57.7 )
<b>Reconciliation of net loss to EBITDA excluding non-cash items and a reconciliation of cash used in operating activities to Free Cash Flow:</b>							
Net loss	(83,950)	(79,065)	(49,959)				
Interest expense, net <sup>(1)</sup>	32,519	27,006	17,255				
Benefit for income taxes	(14,887)	(35,835)	(48,753)				
Depreciation and amortization	913	161	146				
Fees to Manager-related party	44,866	71,388	68,486				
Pension expense <sup>(2)</sup>	185						
Other non-cash expense, net	1,280	831	681				
EBITDA excluding non-cash items	(19,074)	(15,514)	(12,144)	(3,560 )	(22.9)	(3,370 )	(27.8 )
EBITDA excluding non-cash items	(19,074)	(15,514)	(12,144)				

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Interest expense, net <sup>(1)</sup>	(32,519)	(27,006)	(17,255)				
Convertible senior notes interest <sup>(3)</sup>	7,487	7,782	1,969				
Amortization of debt financing costs <sup>(1)</sup>	4,953	3,964	2,755				
Amortization of debt discount <sup>(1)</sup>	3,627	3,266	1,007				
Benefit for current income taxes	14,986	16,155	8,624				
Changes in working capital	(15,300)	(15,339)	(6,114 )				
Cash used in operating activities	(35,840)	(26,692)	(21,158)				
Changes in working capital	15,300	15,339	6,114				
Free cash flow	(20,540)	(11,353)	(15,044)	(9,187 )	(80.9)	3,691	24.5

NM Not meaningful

(1) Interest expense, net, included non-cash amortization of deferred financing fees and non-cash amortization of debt discount related to the 2.00% Convertible Senior Notes due October 2023.

(2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.

Represents the cash interest expense reclassified to Atlantic Aviation, related to the 2.00% Convertible Senior Notes due October 2023 through December 6, 2018, the date of Atlantic Aviation's refinancing. The proceeds from this note issuance in October 2016 were used principally to reduce the drawn balance on Atlantic Aviation's revolving credit facility. Cash interest expense on this note issuance is included in Corporate and Other subsequent to December 6, 2018.

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**Results of Operations: Corporate and Other (continued)**  
**Year Ended December 31, 2018 Compared with Year**  
**Ended December 31, 2017**

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to, (i) higher costs related to the evaluation of various investment and acquisition/disposition opportunities, primarily related to the sale of BEC; and (ii) approximately \$4.0 million of costs incurred for advisory services in connection with addressing shareholder matters. The increases in selling, general and administrative expenses were partially offset by the absence of costs incurred during 2017 in connection with the implementation of our shared services center.

**Fees to Manager**

Fees to Manager for the years ended December 31, 2018 and 2017 comprise base management fees of \$44.9 million and \$71.4 million, respectively. Base management fees decreased for the year ended December 31, 2018 compared with the year ended December 2017 primarily due to the decrease in market capitalization. No performance fees were incurred in any of these periods.

**Interest Expense, Net**

Cash interest expense was \$16.5 million for the year ended December 31, 2018 compared with \$12.0 million for the year ended December 31, 2017. The increase in cash interest expense reflects a higher average debt balance and higher weighted average interest rate.

Cash interest expense for the years ended December 31, 2018 and 2017 excludes the cash interest paid on the \$402.5 million of MIC Corporate 2.00% Convertible Senior Notes issued in October 2016 through the date of the refinancing of Atlantic Aviation's debt on December 6, 2018. The proceeds from this note issuance in October 2016 were used principally to reduce the drawn balance of Atlantic Aviation's revolving credit facility. Cash interest expense on this note issuance is included in Corporate and Other subsequent to December 6, 2018.

**Other Income, Net**

Other income, net, increased for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to higher fee income from a developer of renewable power.

**Income Taxes**

The *Benefit for current income taxes* of \$15.0 million for the year ended December 31, 2018 in the above table includes \$15.4 million of federal income tax benefit and \$400,000 of state income tax expense. The federal income tax benefit represents the federal income tax payable at IMTT, Atlantic Aviation, MIC Hawaii and BEC through the date of sale that are offset in consolidation with the application of MIC holding company level NOLs. At December 31, 2018, we had \$152.0 million in federal NOLs for the consolidated group.





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**Results of Operations: Corporate and Other (continued)**  
**Year Ended December 31, 2017 Compared with Year**  
**Ended December 31, 2016**

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2017 compared with the year ended December 31, 2016 primarily due to costs incurred in connection with the implementation of our shared services initiative and higher costs incurred in connection with the evaluation of various investment and acquisition opportunities.

**Fees to Manager**

Fees to Manager for the years ended December 31, 2017 and 2016 comprise base management fees of \$71.4 million and \$68.5 million, respectively. Base management fees increased for the year ended December 31, 2017 compared with the year ended December 2016 primarily due to the increase in market capitalization. No performance fees were incurred in any of these periods.

**Interest Expense, Net**

Cash interest expense was \$12.0 million for the year ended December 31, 2017 compared with \$11.5 million for the year ended December 31, 2016. The increase in cash interest expense reflects a higher average debt balance and higher weighted average interest rate.

Cash interest expense for the years ended December 31, 2017 and 2016 excludes the cash interest paid on the \$402.5 million of MIC Corporate 2.00% Convertible Senior Notes issued in October 2016. The proceeds from the note issuance in October 2016 were used principally to reduce the drawn balance of Atlantic Aviation's revolving credit facility.

**Other Income, Net**

Other income, net, for the year ended December 31, 2017 primarily represents fee income from a developer of renewable power.

**Income Taxes**

The *Benefit for current income taxes* of \$16.2 million for the year ended December 31, 2017 in the above table includes \$16.5 million of federal income tax benefit and \$280,000 of state income tax expense.

**Liquidity and Capital Resources**

## General

Our primary cash requirements include normal operating expenses, debt service, debt principal payments, payments of dividends and capital expenditures. Our primary source of cash is operating activities, although we may draw on credit facilities for capital expenditures, issue new equity or debt or sell assets to generate cash.

We may from time to time seek to purchase or retire our outstanding debt in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on market conditions, our liquidity needs and other factors.

At December 31, 2018, our consolidated debt outstanding from continuing operations totaled \$3,082.2 million (excluding adjustments for unamortized debt discounts), our consolidated cash balance from continuing operations totaled \$588.6 million and consolidated available capacity under our revolving credit facilities from continuing operations totaled \$1.6 billion, excluding letters of credit outstanding of \$34.6 million.

In December 2018, Atlantic Aviation refinanced its existing term loan, with an amortized principal balance of \$375.0 million outstanding, and its \$350.0 million revolving credit facility, which was undrawn, both with October 2021 maturities. The new facility consists of a term loan of \$1,025.0 million maturing in December 2025 and a \$350.0 million revolving credit facility maturing in December 2023. In December 2018, IMTT amended its extension on the maturity date for each of the business \$600.0 million revolving credit facility and \$509.0 million of tax-exempt bonds by three and a half years to December of 2023 and 2025, respectively.

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

The additional proceeds from the Atlantic Aviation refinancing are expected to be used to repay the holding company level 2.875% Convertible Senior Notes due July 2019 and for general corporate purposes.

During the quarter ended December 31, 2018, we used the proceeds from the sale of BEC and cash on hand to pay down the majority of the outstanding balances on our and our businesses' revolving credit facilities. We may redraw the majority of these facilities in the future to fund a portion of our planned growth capital deployments.

In July 2018, we included our 2.875% Convertible Senior Notes due July 2019 in the current portion of the long-term debt on our consolidated balance sheet. We expect to repay this debt at its maturity in July 2019.

The following table shows MIC's debt obligations from continuing operations at February 15, 2019 (\$ in thousands):

Business	Debt	Weighted Average Remaining Life (in years)	Balance Outstanding	Weighted Average Rate <sup>(1)</sup>	
MIC Corporate	Convertible Senior Notes <sup>(2)</sup>	2.7	\$ 752,443	2.41	%
IMTT	Senior Notes	7.2	600,000	3.97	%
	Tax-Exempt Bonds <sup>(3)</sup>	6.8	508,975	2.97	%
Atlantic Aviation	Term Loan <sup>(4)(5)</sup>	6.8	1,025,000	5.65	%
MIC Hawaii	Term Loan <sup>(5)</sup>	4.5	95,746	2.85	%
	Senior Notes	3.5	100,000	4.22	%
Total <sup>(6)</sup>		5.7	\$ 3,082,164	3.96	%

(1) Reflects annualized interest rate on all facilities including interest rate hedges.

The balance includes \$349.9 million of the 2.875% Convertible Senior Notes due July 2019. Using a portion of the (2) proceeds from the Atlantic Aviation refinancing in December 2018, we expect to repay the outstanding balance at maturity.

(3) On December 5, 2018, IMTT completed the amendment of its existing \$509.0 million Tax-Exempt bonds and extended the maturity to December 2025.

(4) On December 6, 2018, Atlantic Aviation completed the refinancing of its \$1,025.0 million Term Loan facility maturing on December 2025.

(5) The weighted average remaining life does not reflect the scheduled amortization on these facilities.

(6) Excludes debt obligations of \$306.2 million from discontinued operations.

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

The following table profiles each revolving credit facility from continuing operations at our businesses and at MIC Corporate as of February 15, 2019 (\$ in thousands):

Business	Debt	Weighted Average Remaining Life (in years)	Undrawn Amount	Interest Rate <sup>(1)</sup>	
MIC Corporate <sup>(2)</sup>	Revolving Facility	2.9	\$600,000	LIBOR + 1.75	%
IMTT <sup>(3)</sup>	USD Revolving Facility	4.8	550,000	LIBOR + 1.50	%
	CAD Revolving Facility	4.8	50,000	Bankers Acceptance Rate + 1.50	%
Atlantic Aviation <sup>(4)</sup>	Revolving Facility	4.8	350,000	LIBOR + 2.25	%
MIC Hawaii <sup>(5)</sup>	Revolving Facility	4.0	60,000	LIBOR + 1.25	%
Total <sup>(6)</sup>		4.1	\$1,610,000		

(1) Excludes commitment fees.

On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit (2) facility and extended its maturity to January 2022. The applicable margin on the interest rate is based on a ratings grid.

On December 5, 2018, IMTT completed the amendment of its \$550.0 million USD revolving credit facility and (3) \$50.0 million CAD revolving credit facility and extended the maturity for both facilities to December 2023. The applicable margin on the interest rate is based on a ratings and leverage grid.

On December 6, 2018, Atlantic Aviation completed the refinancing of its \$350.0 million revolving credit facility (4) and extended the maturity to December 2023. The applicable margin on the interest rate is based on a leverage grid.

On February 12, 2018, Hawaii Gas completed the refinancing of its existing \$60.0 million revolving credit facility (5) and extended its maturity to February 2023.

(6) Excludes letters of credit outstanding of \$35.7 million.

We will, in general, apply available cash to the repayment of revolving credit facility balances as a means of minimizing interest expense and draw on those facilities to fund growth projects and for general corporate purposes.

We use revolving credit facilities at each of our operating companies and the holding company as a means of maintaining access to sufficient liquidity to meet future requirements, managing interest expense and funding growth projects. We base our assessment of the sufficiency of our liquidity and capital resources on the assumptions that:

our businesses overall generate, and are expected to continue to generate, significant operating cash flow; the ongoing capital expenditures associated with our businesses are readily funded from their respective operating cash flow or available debt facilities; and we will be able to refinance, extend and/or repay the principal amount of maturing long-term debt on terms that can be supported by our businesses.

We capitalize our businesses in part using floating rate bank debt with medium-term maturities of between four and seven years. In general, we hedge any floating rate exposure for the majority of the term of these facilities. We also

use longer dated private placement debt and other forms of capital including bond or hybrid debt instruments to capitalize our businesses. In general, the debt facilities at our businesses are non-recourse to the holding company and there are no cross-collateralization or cross-guarantee provisions in these facilities.

TABLE OF CONTENTS**Liquidity and Capital Resources (continued)****COMMITMENTS AND CONTINGENCIES**

The following table summarizes our future obligations for continuing operations, by period due, as of December 31, 2018, under our various contractual obligations and commitments. We had no other off-balance sheet arrangement at that date or currently.

	Payments Due by Period				
	Total	Less than One Year	1 3 Years	3 5 Years	More than 5 Years
	(\$ In Thousands)				
Long-term debt <sup>(1)</sup>	\$3,082,164	\$361,166	\$22,575	\$605,262	\$2,093,161
Interest obligations <sup>(2)</sup>	815,533	124,652	237,803	237,494	215,584
Operating lease obligations <sup>(3)</sup>	673,446	47,679	85,430	79,349	460,988
Pension and post-retirement benefit obligations <sup>(4)</sup>	129,560	12,216	24,519	24,309	68,516
Purchase commitments	19,745	16,485	3,260		
Service commitments	4,750	1,893	1,839	292	726
Capital expenditure commitments	59,577	43,784	15,484	23	286
Other	1,035	239	184	179	433
Total contractual cash obligations <sup>(5)</sup>	\$4,785,810	\$608,114	\$391,094	\$946,908	\$2,839,694

The long-term debt represents the consolidated principal obligations to various lenders. The primary debt facilities are subject to certain covenants, the violation of which could result in acceleration of the maturity dates. For a (1) description of the material terms and debt covenants of MIC and its businesses, see Note 9, Long-Term Debt, in our consolidated financial statements in Financial Statements and Supplementary Data in Part II, Item 8, of this Form 10-K.

(2) The variable rate portion on the interest obligation on long-term debt was calculated using three months LIBOR forward spot rate at December 31, 2018.

(3) This represents the minimum annual rentals required to be paid under non-cancellable operating leases with terms in excess of one year.

(4) The pension and post-retirement benefit obligation is forecasted payments, by actuaries, for the next ten years.

(5) The above table does not reflect certain long-term obligations, such as deferred taxes, for which we are unable to estimate the period in which the obligation will be incurred.

In addition to these commitments and contingencies, we typically incur capital expenditures on a regular basis. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Classification of Maintenance Capital Expenditures and Growth Capital Expenditures* and Investing Activities below for further discussion of growth capital expenditures. Maintenance capital expenditures are discussed above in Results of Operations for each of our businesses.

We also have other contingencies, including pending or threatened legal and administrative proceedings that are not reflected above as amounts at this time are not ascertainable. See Legal Proceedings in Part I, Item 3.

Our sources of cash to meet these obligations are:

cash generated from our operations (see Operating Activities below);  
the issuance of shares or debt securities (see Financing Activities below);  
refinancing of our current credit facilities on or before maturity (see Financing Activities below);  
cash available from our undrawn credit facilities (see Financing Activities below); and  
if advantageous, the sale of all or part of any of our businesses (see Investing Activities below).

TABLE OF CONTENTS**Liquidity and Capital Resources (continued)****ANALYSIS OF CONSOLIDATED HISTORICAL CASH FLOWS FROM CONTINUING OPERATIONS**

The following section discusses our sources and uses of cash on a consolidated basis from continuing operations. All intercompany activities such as corporate allocations, capital contributions to our businesses and distributions from our businesses have been excluded from the tables as these transactions are eliminated on consolidation.

	Year Ended December 31,			Change		Change	
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	(From 2017 to 2018)	Favorable/ (Unfavorable)	(From 2016 to 2017)	Favorable/ (Unfavorable)
(\$ In Thousands)	\$	\$	\$	\$	%	\$	%
Cash provided by operating activities	473,160	464,106	488,127	9,054	2.0	(24,021 )	(4.9 )
Cash used in investing activities	(156,344)	(421,064)	(287,526)	264,720	62.9	(133,538)	(46.4 )
Cash (used in) provided by financing activities	(389,376)	70,462	(138,415)	(459,838)	NM	208,877	150.9

NM Not meaningful

Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 1230): Restricted Cash*. See Note 2, Summary of Significant Accounting Policies, in our Notes to Consolidated Financial Statements in Part II, Item 8, of this Form 10-K for recently issued accounting standards.

**Operating Activities from Continuing Operations**

Cash provided by (used in) operating activities is generally comprised of EBITDA excluding non-cash items (as defined by us), less cash interest, tax and pension payments, and changes in working capital. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations* for discussions around the components of EBITDA excluding non-cash items on a consolidated basis from continuing operations and for each of our businesses above.

The increase in consolidated cash provided by operating activities from continuing operations for the year ended December 31, 2018 compared with the year ended December 31, 2017 was primarily due to:

the improvement in collection of accounts receivable on higher balances from the increase in the cost of jet fuel at Atlantic Aviation and the increase in the cost of propane and synthetic natural gas at MIC Hawaii;  
 timing of prepaid expenses, primarily related to insurance premiums; and  
 collection of fee income and interest from a renewable developer on a revolving credit facility; partially offset by  
 a decrease in EBITDA excluding non-cash items;  
 an increase in interest expense; and  
 an increase in current state taxes.



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The decrease in consolidated cash provided by operating activities from continuing operations for the year ended December 31, 2017 compared with the year ended December 31, 2016 was primarily due to:

an increase in the cost of jet fuel at Atlantic Aviation and the increase in the cost of gas at MIC Hawaii;  
timing of payment of insurance premium; and  
an increase in current state taxes; partially offset by  
an absence of interest rate swap breakage fees and interest rate cap premiums paid in connection with the October 2016 refinancing at Atlantic Aviation;

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

improved operating results from existing businesses and contributions from acquisitions; and  
an absence of any voluntary pension contributions.

We believe our operating activities overall provide a source of sustainable and stable cash flows over the long-term with the opportunity for future growth as a result of:

consistent customer demand driven by the basic nature of the services provided;  
our strong competitive position due to factors including:  
high initial development and construction costs;  
difficulty in obtaining suitable land on which to operate (for example, airports, waterfront near ports);  
long-term concessions, leases or customer contracts;  
required government approvals, which may be difficult or time-consuming to obtain;  
lack of immediate cost-effective alternatives for the services provided; and  
product/service pricing that we expect will keep pace with cost increases as a result of:  
consistent demand;  
limited alternatives;  
contractual terms; and  
regulatory rate setting.

### **Investing Activities from Continuing Operations**

Cash provided by investing activities include proceeds from divestitures of businesses and fixed assets. Cash used in investing activities include acquisitions of businesses in new and existing segments and capital expenditures. Acquisitions of businesses are generally funded by raising additional equity and/or drawings on credit facilities.

In general, maintenance capital expenditures are funded by cash from operating activities and growth capital expenditures are funded by drawing on our available credit facilities or with equity capital. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations* for maintenance capital expenditures for each of our businesses.

The decrease in consolidated cash used in investing activities from continuing operations for the year ended December 31, 2018 compared with the year ended December 31, 2017 was primarily due to:

a larger amount of acquisition and investment activities completed in 2017;  
proceeds from the sale of businesses during 2018; and  
a decrease in capital expenditures.

The increase in consolidated cash used in investing activities from continuing operations for the year ended December 31, 2017 compared with the year ended December 31, 2016 was primarily due to:

larger acquisitions in 2017, primarily seven terminals at IMTT and two FBOs at Atlantic Aviation;  
the absence of insurance proceeds received by IMTT during 2016; and  
net borrowings by a third party renewables developer on a revolving credit facility.

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

### **Capital Deployment (includes both continuing and discontinued operations)**

Capital deployment includes growth capital expenditures and bolt-on acquisitions, the majority of which are expected to generate incremental earnings. For the years ended December 31, 2018, 2017 and 2016, we deployed \$174.9 million, \$637.4 million and \$336.7 million, respectively, of growth capital. Capital deployed from continuing operations in 2018 was \$147.9 million.

We continuously evaluate opportunities to prudently deploy capital in acquisitions and growth projects, whether in our existing businesses or new lines of business. We expect to undertake a number of capital projects related to the repurposing and repositioning of certain assets at IMTT and the enhancement of the capabilities of the businesses in our other segments and we estimate that the majority of our 2019 growth capital expenditures will be made in support of IMTT. In total, we expect to deploy approximately \$275.0 million to \$300.0 million of growth capital during 2019.

### **Financing Activities from Continuing Operations**

Cash provided by financing activities primarily includes new equity issuance and debt issuance related to acquisitions and capital expenditures. Cash used in financing activities primarily includes dividends to our stockholders and the repayment of debt principal balances on maturing debt.

The change in consolidated cash provided by financing activities from continuing operations for the year ended December 31, 2017 to cash used in financing activities from continuing operations for the year ended December 31, 2018 was primarily due to:

a net debt repayment in 2018 from the use of proceeds from BEC, refinancing at Atlantic Aviation and cash on hand; and

an increase in deferred financing costs paid in 2018; partially offset by a net debt borrowing in 2017 to partially fund acquisitions, growth capital expenditures and general corporate purposes; and

a decrease in dividends paid to stockholders in 2018.

The change in consolidated cash used in financing activities from continuing operations for the year ended December 31, 2016 to cash provided by financing activities from continuing operations for the year ended December 31, 2017 was primarily due to:

higher net debt borrowings during 2017 to partially fund acquisitions, growth capital expenditures and general corporate purposes; and

the absence of the purchase of the remaining 33.3% interest in IMTT's Quebec terminal that it did not previously own in March 2016; partially offset by cash proceeds from the issuance of the 2.00% Convertible Senior Notes due October 2023, net of deferred financing costs paid, in 2016;

an increase in dividends paid to stockholders during 2017; and  
a decrease in contributions received from noncontrolling interests during 2017.

**IMTT**

On December 5, 2018, IMTT amended its credit agreement. The amendment extended the maturity date of IMTT's \$600.0 million revolving credit facility from May 21, 2020 to December 5, 2023, and extended the maturity date of the \$509.0 million tax exempt bond purchase facility from May 21, 2022 to December 5, 2025.

Both of IMTT's revolving credit and tax exempt facilities are subject to either a ratings based or leverage-based pricing grid. At December 31, 2018, the pricing on the revolving credit facility was LIBOR plus 150 basis points. The interest rate on IMTT's tax exempt bonds decreased by approximately 40 basis points to 80% of the sum of one month LIBOR plus the applicable margin plus 45 basis points. This reduction in rate is expected to result in approximately \$2.0 million of reduced interest expense per year.

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

During the year ended December 31, 2018, IMTT drew down \$17.0 million for general corporate purposes and repaid \$227.0 million on its USD revolving credit facility using cash on hand and proceeds from the BEC sale. At December 31, 2018, IMTT had \$1.1 billion of debt outstanding consisting of \$600.0 million of senior notes and \$509.0 million of tax-exempt bonds. IMTT's \$600.0 million of revolving credit facilities remained undrawn at December 31, 2018. For the years ended December 31, 2018, 2017 and 2016, cash interest expense was \$45.8 million, \$40.5 million and \$39.3 million, respectively. At December 31, 2018, IMTT was in compliance with its financial covenants.

### **Atlantic Aviation**

On December 6, 2018, Atlantic Aviation entered into a credit agreement for a seven-year, \$1,025.0 million senior secured first lien term loan facility and a five-year, \$350.0 million senior secured first lien revolving credit facility. As part of the refinancing, Atlantic Aviation wrote-off approximately \$3.0 million in deferred financing costs associated with the October 2016 debt.

The term loan bears interest at a rate of LIBOR plus 375 basis points. The revolving credit facility is subject to a leverage-based pricing grid with an opening pricing of LIBOR plus 225 basis points. The all-in cost of the loan will be reduced to approximately 5.7% by a 1.0% LIBOR rate cap on a notional \$400.0 million of Atlantic Aviation debt.

During the year ended December 31, 2018, Atlantic Aviation drew down \$68.0 million primarily to fund an on-field consolidation of an FBO and for general corporate purposes and repaid \$326.0 million on its senior secured revolving credit facility using cash on hand and proceeds from the BEC sale. At December 31, 2018, Atlantic Aviation had \$1,025.0 million outstanding on its senior secured, first lien term loan facility. Atlantic Aviation's \$350.0 million revolving credit facility remained undrawn at December 31, 2018.

For the years ended December 31, 2018, 2017 and 2016, cash interest expense, excluding any interest rate swap breakage fees and interest rate cap premium, was \$28.8 million, \$20.7 million and \$25.9 million, respectively. Cash interest expense for the years ended December 31, 2018, 2017 and 2016 includes the cash interest paid on the \$402.5 million of MIC Corporate 2.00% Convertible Senior Notes issued in October 2016 through the refinancing of the business debt on December 6, 2018. The proceeds from this note issuance in October 2016 were used principally to reduce the drawn balance of Atlantic Aviation's revolving credit facility.

At December 31, 2018, Atlantic Aviation was in compliance with its financial covenants.

### **MIC Hawaii**

At December 31, 2018, MIC Hawaii had total debt outstanding of \$195.7 million in term loans and senior secured note borrowings and a \$60.0 million revolving credit facility that was undrawn. Cash interest expense was \$7.4 million, \$7.0 million and \$6.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

### **Hawaii Gas**

In February 2018, Hawaii Gas exercised the second of two one-year extensions related to its \$80.0 million secured term loan facility and its \$60.0 million revolving credit facility. The maturities have been extended to February 2023.

At December 31, 2018, Hawaii Gas had total debt outstanding of \$180.0 million in term loan and senior secured note borrowings and a revolving credit facility of \$60.0 million that was undrawn. Cash interest expense was \$6.8 million, \$6.3 million and \$6.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, Hawaii Gas was in compliance with its financial covenants.

### **Solar facilities**

At December 31, 2018, the solar facilities in Hawaii had \$15.7 million in outstanding term loan debt. At December 31, 2018, these solar facilities were in compliance with their financial covenants.

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**Liquidity and Capital Resources (continued)**

**MIC Corporate**

On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million and extended the maturity through January 3, 2022.

During the year ended December 31, 2018, MIC drew down \$277.0 million for general corporate purposes and repaid \$420.5 million on its senior secured revolving credit facility using cash on hand and proceeds from the BEC sale. At December 31, 2018, MIC's \$600.0 million senior secured revolving credit facility remained undrawn. At December 31, 2018, MIC also had \$349.9 million and \$402.5 million in convertible senior notes outstanding that bear interest at 2.875% and 2.00%, respectively.

Cash interest expense was \$16.5 million, \$12.0 million and \$11.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. Cash interest expense for the years ended December 31, 2018, 2017 and 2016 excludes the cash interest paid on the \$402.5 million of MIC Corporate 2.00% Convertible Senior Notes issued in October 2016 through the date of the refinancing of Atlantic Aviation's debt on December 6, 2018. The proceeds from this note issuance in October 2016 were used principally to reduce the drawn balance of Atlantic Aviation's revolving credit facility. Cash interest expense on this note issuance is included in MIC Corporate and Other subsequent to December 6, 2018.

At December 31, 2018, MIC Corporate was in compliance with its financial covenants.

For a description of the material terms of MIC and its businesses, see Note 9, Long-Term Debt, in our consolidated financial statements in Financial Statements and Supplementary Data in Part II, Item 8, of this Form 10-K.

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## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of our financial statements requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions and judgments and uncertainties, and potentially could result in materially different results under different conditions. Our critical accounting policies and estimates are discussed below. These estimates and policies are consistent with the estimates and accounting policies followed by the businesses we own and operate.

### **Business Combinations**

Our acquisitions of businesses that we control are accounted for under the purchase method of accounting. The amounts assigned to the identifiable assets acquired and liabilities assumed in connection with acquisitions are based on estimated fair values as of the date of the acquisition, with the remainder, if any, recorded as goodwill. The fair values are determined by our management, taking into consideration information supplied by the management of acquired entities and other relevant information. Such information includes valuations supplied by independent appraisal experts for significant business combinations. The valuations are generally based upon future cash flow projections for the acquired assets, discounted to a present value. The determination of fair values require significant judgment both by management and outside experts engaged to assist in this process.

### **Goodwill, Intangible Assets and Property, Plant and Equipment**

Significant assets acquired in connection with our acquisition of businesses include contractual arrangements, customer relationships, non-compete agreements, trademarks, property and equipment and goodwill.

#### **Goodwill and Trademarks**

Trademarks are generally considered to be indefinite life intangibles. Trademarks and goodwill are not amortized in most circumstances although it may be appropriate to amortize some trademarks. We are required to perform annual impairment reviews (or more frequently in certain circumstances) for unamortized intangible assets.

ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test, as discussed below. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test.

ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, simplifies the measurement of goodwill and no longer requires an entity to perform a hypothetical purchase price allocation when computing the estimated fair value to measure goodwill impairment. Instead, impairment will be assessed by quantifying the difference between the fair value of a reporting unit and its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, on condition that the charge doesn't exceed the total amount of goodwill allocated to that reporting unit.

If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if there is a triggering event that indicates impairment, the Company needs to perform a quantitative



impairment test. This requires management to make judgments in determining what assumptions to use in the calculation. The first step is to determine the estimated fair value of each reporting unit with goodwill. The reporting units of the Company, for purposes of the impairment test, are those components of operating segments for which discrete financial information is available and segment management regularly reviews the operating results of that component. When determining reporting units, components with similar economic characteristics are combined.

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The Company estimates the fair value of each reporting unit by estimating the present value of the reporting unit's future discounted cash flows or value expected to be realized in a third party sale. If the recorded net assets of the reporting unit are less than the reporting unit's estimated fair value, then no impairment is indicated. If the recorded amount of goodwill exceeds the estimated fair value, an impairment charge is recorded for the excess.

IMTT, Atlantic Aviation and the MIC Hawaii businesses are separate reporting units for purposes of this analysis. The impairment test for trademarks, which are not amortized, requires the determination of the fair value of such assets. If the fair value of the trademarks is less than their carrying value, an impairment loss is recognized in an amount equal to the difference. We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and/or intangible assets. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, or a material negative change in relationship with significant customers.

We test for goodwill impairment at the reporting unit level on an annual basis on October 1<sup>st</sup> of each year and between annual tests if a triggering event indicates impairment. We continuously monitor events which could trigger an interim impairment analysis, such as changing business conditions and industry and other economic factors. During the year, we experienced a sustained decline in market capitalization since February 2018, and during the third quarter of 2018, we concluded a sustained decline in our market capitalization had occurred, leading to the determination that a triggering event had occurred for all of our reporting units.

We performed an interim impairment analysis using financial information through September 30, 2018 and forecasts for cash flows developed using our strategic plan. The impairment analysis was performed using both the market and income approaches and weighting them based on their application to the reporting units. The interim impairment review was performed across all of our reporting units. As a result of this evaluation, the fair value of each of our reporting units exceeded the carrying value and no impairment was recorded.

At September 30, 2018, the fair value exceeded book value by \$2.2 billion, or approximately 36.0%, primarily from Atlantic Aviation, by approximately \$2.0 billion, and Hawaii Gas, by approximately \$250.0 million. IMTT's fair value at September 30, 2018 exceeded the book value by approximately \$20.0 million. The fair value of IMTT was impacted by the decline in short-term earnings related to the non-renewal of certain contracts for heavy and residual oil. The non-renewal of these contracts, or the renewal at lower rates, is partially attributable to changes in trade flows.

Unfavorable fluctuations in the discount rate or declines in forecasted storage revenues and margins could result in an impairment on IMTT. A 0.25% increase to the discount rate would change the valuation of IMTT by approximately \$80.0 million. Any increase in discount rate, in conjunction with any decrease to the long-term projections in cash flows for IMTT will negatively affect the current valuations. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the reporting units, and possibly result in impairment charges in future periods.

At December 31, 2018, there were no new triggering events that indicated impairment.

### **Property, Plant and Equipment and Intangible Assets**

Property and equipment is initially stated at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the property and equipment after consideration of historical results and anticipated results based on our current plans. Our estimated useful lives represent the period the asset remains in service assuming normal routine maintenance. We review the estimated useful lives assigned to property and equipment when our business experience suggests that they do not properly reflect the consumption of economic

benefits embodied in the property and equipment nor result in the appropriate matching of cost against revenue. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

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Significant intangibles, including contractual arrangements, customer relationships, non-compete agreements and technology are amortized using the straight-line method over the estimated useful lives of the intangible asset after consideration of historical results and anticipated results based on our current plans. With respect to contractual rights at Atlantic Aviation, the useful lives will generally match the remaining lease terms plus extensions under the business control.

We perform impairment reviews of property and equipment and intangibles subject to amortization when events or circumstances indicate that fair value of the assets are less than their carrying amount and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. In this circumstance, the impairment charge is determined based upon the amount by which the net book value of the assets exceeds their fair market value. Any impairment is measured by comparing the fair value of the asset to its carrying value.

The estimated fair value of reporting units and fair value of property and equipment and intangible assets is determined by our management and is generally based upon future cash flow projections for the acquired assets, discounted to present value. We use outside valuation experts when management considers that it is appropriate to do so.

We test for goodwill and indefinite-lived intangible assets annually as of October 1<sup>st</sup> or when there is an indicator of impairment. See Note 7, *Property, Equipment, Land and Leasehold Improvements*, and Note 8, *Intangible Assets*, in our consolidated financial statements in *Financial Statements and Supplementary Data* in Part II, Item 8, of this Form 10-K for financial information and further discussions.

## **Accounting Policies, Accounting Changes and Future Application of Accounting Standards**

See Note 2, *Summary of Significant Accounting Policies* in our consolidated financial statements in *Financial Statements and Supplementary Data* in Part II, Item 8, of this Form 10-K for financial information and further discussions, for a summary of the Company's significant accounting policies, including a discussion of recently adopted and issued accounting pronouncements.

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## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The discussion that follows describes our exposure to market risks and the use of derivatives to address those risks. See Note 10, Derivative Instruments and Hedging Activities in Part II, Item 8, of this Form 10-K for further discussions.

### **Interest Rate Risk**

We are exposed to interest rate risk in relation to the borrowings of our businesses. Our current policy is to enter into derivative financial instruments to fix variable-rate interest payments covering a portion of the interest rate risk associated with the borrowings of our businesses, subject to the requirements of our lenders. As of December 31, 2018, our continuing businesses had \$3.1 billion of current and long-term debt, of which \$947.1 million was economically hedged with interest rate contracts, \$1.5 billion was fixed rate debt and \$682.6 million was unhedged.

Changes in interest rates impact our interest expense on both the hedged and unhedged portion of our debt. Interest expense on the unhedged portion of our debt changes by the variation in interest rates applied to the outstanding balance of the debt. This has a corresponding impact on the amount of cash interest we pay and our effective cash interest rate. Interest expense on the hedged portion of our debt changes by the variation in the fair value of the underlying interest rate contracts. This has no impact on the amount of cash interest we pay or our effective cash interest rate.

### **IMTT**

At December 31, 2018, IMTT had \$509.0 million in tax exempt bonds outstanding, of which \$451.4 million is fixed with an interest rate swap contract and the remainder of the balance of \$57.6 million is unhedged. The interest rate swap fixes the interest rate at 2.90% through June 2021, prior to the mandatory tender of the tax exempt bonds in December 2025. A 10% decrease in interest rates would result in a \$1.9 million decrease in the fair market value of the interest rate swaps and a corresponding 10% increase would result in a \$2.1 million increase in the fair market value.

For the portion of the tax-exempt bonds that is not hedged, a 10% decrease in interest rate would result in a \$115,000 decrease in interest expense per year and a corresponding 10% increase would result in a \$115,000 increase in interest expense per year.

### **Atlantic Aviation**

At December 31, 2018, Atlantic Aviation had \$1,025.0 million of term loan debt outstanding. At December 31, 2018, the interest rate on the term loan floats at LIBOR plus 3.75%. A 10% decrease in interest rate would result in a \$2.6 million decrease in interest expense per year and a corresponding 10% increase would result in a \$2.6 million increase in interest expense per year.

The business has an interest rate cap agreement with a notional of \$400.0 million with a strike price of 1.0% through September 2021 that partially hedges the term loan debt prior to the maturity of the debt. A 10% decrease in interest rates would result in a \$3.0 million decrease in the fair market value of the interest rate caps and a corresponding 10% increase would result in a \$3.0 million increase in the fair market value.

**MIC Hawaii**

**Hawaii Gas**

At December 31, 2018, Hawaii Gas had \$80.0 million of term loan debt outstanding. The interest rate on this term loan facility floats at LIBOR plus 1.75% at December 31, 2018. This floating rate has been fixed at 2.74% using interest rate swap contract through February 2020, approximately three years prior to maturity. A 10% decrease in interest rates would result in a \$188,000 decrease in the fair market value of the interest rate swaps and a corresponding 10% increase would result in a \$248,000 increase in the fair market value.

**Other businesses**

At December 31, 2018, the solar facilities in Hawaii had \$15.7 million of term loan debt outstanding. The interest rate on this term loan facility floats at LIBOR plus 2.00%. This floating rate has been fixed at 3.38% using an interest rate swap contract through June 2026. A 10% decrease in interest rates would result in a \$212,000 decrease in the fair market value of the interest rate swaps and a corresponding 10% increase would result in a \$237,000 increase in the fair market value.

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**Commodity Price Risk**

**MIC Hawaii**

**Hawaii Gas**

The risk associated with fluctuations in the prices that Hawaii Gas pays for LPG is principally a result of market forces reflecting changes in supply and demand for LPG and other energy commodities. Hawaii Gas gross margin is sensitive to changes in LPG supply costs and Hawaii Gas may not always be able to pass through product cost increases fully or on a timely basis, particularly when product costs rise rapidly. In order to reduce the volatility of the business LPG market price risk, Hawaii Gas has used and expects to continue to use over-the-counter commodity derivative instruments including price swaps. Hawaii Gas does not use commodity derivative instruments for speculative or trading purposes. Over-the-counter derivative commodity instruments utilized by Hawaii Gas to hedge forecasted purchases of LPG are generally settled at expiration of the contract. The fair value of unsettled commodity price risk sensitive instruments at December 31, 2018 was a liability of \$2.6 million. A 10% increase in the market price of LPG would result in an increase in such fair value of approximately \$2.5 million. A 10% decrease in the market price of LPG would result in a decrease in such fair value of approximately \$2.4 million.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY  
DATA**

**MACQUARIE INFRASTRUCTURE CORPORATION**

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# Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Macquarie Infrastructure Corporation:

## Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Macquarie Infrastructure Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 20, 2019 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

## Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2004.

Dallas, Texas  
February 20, 2019



TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE CORPORATION****CONSOLIDATED BALANCE SHEETS  
(\$ in Thousands, Except Share Data)**

	As of December 31,	
	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$588,555	\$45,844
Restricted cash	23,316	10,295
Accounts receivable, less allowance for doubtful accounts of \$1,097 and \$895, respectively	95,161	146,621
Inventories	29,256	33,060
Prepaid expenses	12,647	10,885
Fair value of derivative instruments	10,516	11,965
Other current assets	13,200	12,061
Current assets held for sale <sup>(1)</sup>	647,652	36,914
Total current assets	1,420,303	307,645
Property, equipment, land and leasehold improvements, net	3,141,407	3,197,407
Investment in unconsolidated business	8,360	9,115
Goodwill	2,043,320	2,047,040
Intangible assets, net	788,761	851,751
Fair value of derivative instruments	14,536	22,011
Other noncurrent assets	27,094	23,034
Noncurrent assets held for sale <sup>(1)</sup>		1,550,948
Total assets	\$7,443,781	\$8,008,951
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Due to Manager related party	\$2,966	\$5,577
Accounts payable	38,178	58,883
Accrued expenses	85,867	79,576
Current portion of long-term debt	361,166	21,496
Other current liabilities	32,621	39,768
Current liabilities held for sale <sup>(1)</sup>	317,178	50,665
Total current liabilities	837,976	255,965
Long-term debt, net of current portion	2,652,748	2,991,654
Deferred income taxes	680,938	644,914
Other noncurrent liabilities	155,792	162,678
Noncurrent liabilities held for sale <sup>(1)</sup>		603,037
Total liabilities	4,327,454	4,658,248
Commitments and contingencies		

*See accompanying notes to the consolidated financial statements.*

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# MACQUARIE INFRASTRUCTURE CORPORATION

## CONSOLIDATED BALANCE SHEETS (continued)

### (\$ in Thousands, Except Share Data)

	As of December 31,	
	2018	2017
Stockholders' equity <sup>(2)</sup> :		
Common stock (\$0.001 par value; 500,000,000 authorized; 85,800,303 shares issued and outstanding at December 31, 2018 and 84,733,957 shares issued and outstanding at December 31, 2017)	\$86	\$85
Additional paid in capital	1,510,305	1,840,033
Accumulated other comprehensive loss	(30,271 )	(29,993 )
Retained earnings	1,484,482	1,343,567
Total stockholders' equity	2,964,602	3,153,692
Noncontrolling interests <sup>(3)</sup>	151,725	197,011
Total equity	3,116,327	3,350,703
Total liabilities and equity	\$7,443,781	\$8,008,951

(1) See Note 5, "Discontinued Operations and Dispositions", for further discussion on assets and liabilities held for sale.

(2) See Note 11, "Stockholders' Equity", for discussions on preferred stock and special stock.

Includes \$141.5 million and \$184.3 million of noncontrolling interest related to discontinued operations at (3) December 31, 2018 and 2017, respectively. See Note 5, "Discontinued Operations and Dispositions", for further discussions.

*See accompanying notes to the consolidated financial statements.*

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# MACQUARIE INFRASTRUCTURE CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year Ended December 31,		
	2018	2017	2016
<b>Revenue</b>			
Service revenue	\$1,515,149	\$1,445,832	\$1,288,562
Product revenue	246,384	222,955	213,470
Total revenue	1,761,533	1,668,787	1,502,032
<b>Costs and expenses</b>			
Cost of services	712,082	624,214	524,423
Cost of product sales	178,822	143,787	119,440
Selling, general and administrative	328,464	306,664	277,628
Fees to Manager related party	44,866	71,388	68,486
Goodwill impairment	3,215		
Depreciation	193,659	178,292	175,518
Amortization of intangibles	68,314	63,825	60,997
Total operating expenses	1,529,422	1,388,170	1,226,492
<b>Operating income</b>	232,111	280,617	275,540
<b>Other income (expense)</b>			
Interest income	788	83	86
Interest expense <sup>(1)</sup>	(112,626 )	(86,999 )	(95,613 )
Other (expense) income, net	(6,194 )	10,566	17,765
Net income from continuing operations before income taxes	114,079	204,267	197,778
(Provision) benefit for income taxes	(49,451 )	229,503	(69,313 )
<b>Net income from continuing operations</b>	\$64,628	\$433,770	\$128,465
<b>Discontinued Operations<sup>(2)</sup></b>			
Net income from discontinued operations before income taxes	\$31,748	\$17,691	\$28,348
(Provision) benefit for income taxes	(2,128 )	4,651	(1,944 )
<b>Net income from discontinued operations</b>	\$29,620	\$22,342	\$26,404
<b>Net income</b>	\$94,248	\$456,112	\$154,869
Net income from continuing operations	\$64,628	\$433,770	\$128,465
Less: net loss attributable to noncontrolling interests	(3,452 )	(409 )	(3,608 )
<b>Net income from continuing operations attributable to MIC</b>	\$68,080	\$434,179	\$132,073
Net income from discontinued operations	\$29,620	\$22,342	\$26,404
Less: net (loss) income attributable to noncontrolling interests	(38,821 )	5,319	2,096
<b>Net income from discontinued operations attributable to MIC</b>	\$68,441	\$17,023	\$24,308
<b>Net income attributable to MIC</b>	\$136,521	\$451,202	\$156,381
Basic income per share from continuing operations attributable	\$0.80	\$5.22	\$1.63

to MIC

Basic income per share from discontinued operations attributable to MIC	0.80	0.20	0.30
Basic income per share attributable to MIC	\$1.60	\$5.42	\$1.93
Weighted average number of shares outstanding: basic	85,233,989	83,204,404	80,892,654
Diluted income per share from continuing operations attributable to MIC	\$0.80	\$4.94	\$1.55
Diluted income per share from discontinued operations attributable to MIC	0.80	0.19	0.30
Diluted income per share attributable to MIC	\$1.60	\$5.13	\$1.85
Weighted average number of shares outstanding: diluted	85,249,865	91,073,362	82,218,627
Cash dividends declared per share	\$4.00	\$5.56	\$5.05

(1) Interest expense includes gains on derivative instruments of \$7.6 million and \$2.2 million and losses on derivative instruments of \$2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

(2) See Note 5, Discontinued Operations and Dispositions, for discussions on businesses classified as held for sale.

*See accompanying notes to the consolidated financial statements.*

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# MACQUARIE INFRASTRUCTURE CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

### (\$ in Thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	\$94,248	\$456,112	\$154,869
Other comprehensive income (loss), net of taxes:			
Change in post-retirement benefit plans <sup>(1)</sup>	8,973	(3,651 )	(2,017 )
Translation adjustment <sup>(2)(3)</sup>	(4,857 )	2,618	2,375
Other comprehensive income (loss)	4,116	(1,033 )	358
Comprehensive income	\$98,364	\$455,079	\$155,227
Less: comprehensive (loss) income attributable to noncontrolling interests <sup>(3)</sup>	(42,273 )	4,910	(78 )
Comprehensive income attributable to MIC	\$140,637	\$450,169	\$155,305

Change in post-retirement benefit plans is presented net of tax expense of \$3.5 million and net of tax benefit of (1) \$3.0 million and \$1.4 million for the years ended December 31, 2018, 2017 and 2016, respectively. See Note 11, Stockholders' Equity, for further discussions.

Translation adjustment is presented net of tax benefit of \$1.9 million and net of tax expense of \$2.0 million and (2) \$618,000 for the years ended December 31, 2018, 2017, and 2016, respectively. See Note 11, Stockholders' Equity, for further discussions.

On March 31, 2016, IMTT acquired the remaining 33.3% interest in its Quebec terminal that it did not previously own. As part of this transaction, the translation adjustment of \$4.6 million, net of taxes, was reclassified from (3) *noncontrolling interests to accumulated other comprehensive loss*. See Note 11, Stockholders' Equity, for disclosures on accumulated other comprehensive loss.

*See accompanying notes to the consolidated financial statements.*



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**MACQUARIE INFRASTRUCTURE CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS**  
**EQUITY**  
**(\$ in Thousands, Except Share Data)**

*See accompanying notes to the consolidated financial statements.*

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**MACQUARIE INFRASTRUCTURE CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS**  
**EQUITY (continued)**  
**(\$ in Thousands, Except Share Data)**

- (1) Excludes 100 shares of special stock issued to Manager. See Note 11, *Stockholders' Equity*, for further discussion.
- (2) See Note 11, *Stockholders' Equity*, for discussion on cash dividends paid on shares for each period.
- (3) Represents the stockholders' equity component of the \$402.5 million 2.00% Convertible Senior Notes due October 2023 recorded net of taxes of \$11.9 million. See Note 9, *Long-Term Debt*, for further discussions.
- (4) See Note 2, *Summary of Significant Accounting Policies - Recently Issued Accounting Standards*, for the Company's adoption of ASU No. 2018-02 during the year ended December 31, 2018.  
On March 31, 2016, IMTT acquired the remaining 33.3% interest in its Quebec terminal that it did not previously own. As part of this transaction, the translation adjustment of \$4.6 million, net of taxes, was reclassified from
- (5) *noncontrolling interests to accumulated other comprehensive loss*. See Note 11, *Stockholders' Equity*, for disclosures on accumulated other comprehensive loss.
- (6) Includes \$141.5 million, \$184.3 million and \$182.9 million of noncontrolling interest related to discontinued operations at December 31, 2018, 2017 and 2016, respectively. See Note 5, *Discontinued Operations and Dispositions*, for further discussions.

*See accompanying notes to the consolidated financial statements.*

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# MACQUARIE INFRASTRUCTURE CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### (\$ in Thousands)

	Year Ended December 31,		
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>
<b>Operating activities</b>			
Net income from continuing operations	\$64,628	\$433,770	\$128,465
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:			
Non-cash goodwill impairment	3,215		
Depreciation and amortization of property and equipment	193,659	178,292	175,518
Amortization of intangible assets	68,314	63,825	60,997
Amortization of debt financing costs	11,353	7,184	19,552
Amortization of debt discount	3,627	3,266	1,007
Adjustments to derivative instruments	11,490	(3,709 )	(49,787 )
Fees to Manager-related party	44,866	71,388	68,486
Deferred taxes	35,501	(240,534)	62,009
Pension expense	8,306	8,106	8,601
Other non-cash expense, net <sup>(2)</sup>	22,697	5,640	5,677
Changes in other assets and liabilities, net of acquisitions/ dispositions:			
Accounts receivable	14,057	(31,849 )	(7,488 )
Inventories	(1,568 )	(5,895 )	(2,363 )
Prepaid expenses and other current assets	(2,216 )	(5,495 )	8,070
Due to Manager related party	511	(130 )	135
Accounts payable and accrued expenses	421	(7,170 )	4,492
Income taxes payable	584	401	8,251
Pension contribution			(3,500 )
Other, net	(6,285 )	(12,984 )	5
Net cash provided by operating activities from continuing operations	473,160	464,106	488,127
<b>Investing activities</b>			
Acquisitions of businesses and investments, net of cash, cash equivalents and restricted cash acquired	(18,415 )	(200,850)	(37,091 )
Purchases of property and equipment	(177,156)	(214,224)	(257,198)
Proceeds from insurance claim			10,740
Loan to project developer	(19,400 )	(23,341 )	(5,000 )
Loan repayment from project developer	17,131	17,079	
Proceeds from sale of business, net of cash, cash equivalents and restricted cash divested	41,212		
Other, net	284	272	1,023

Net cash used in investing activities from continuing operations	(156,344)	(421,064)	(287,526)
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*See accompanying notes to the consolidated financial statements.*

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE CORPORATION****CONSOLIDATED STATEMENTS OF CASH  
FLOWS (continued)  
(\$ in Thousands)**

	Year Ended December 31,		
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>
<b>Financing activities</b>			
Proceeds from long-term debt	\$1,407,000	\$931,001	\$1,311,000
Payment of long-term debt	(1,384,945)	(412,646)	(1,452,480)
Proceeds from the issuance of shares	125	6,060	12,623
Dividends paid to common stockholders	(378,355 )	(452,949)	(396,093 )
Contributions received from noncontrolling interests	956	458	15,431
Purchase of noncontrolling interest			(9,909 )
Distributions paid to noncontrolling interests		(7 )	
Offering and equity raise costs paid	(243 )	(466 )	(1,601 )
Debt financing costs paid	(33,914 )	(708 )	(17,285 )
Proceeds from the issuance of convertible senior notes			402,500
Payment of capital lease obligations		(281 )	(2,601 )
Net cash (used in) provided by financing activities from continuing operations	(389,376 )	70,462	(138,415 )
Net change in cash, cash equivalents and restricted cash from continuing operations	(72,560 )	113,504	62,186
<b>Cash flows provided by (used in) discontinued operations:</b>			
Net cash provided by operating activities	46,268	64,928	71,668
Net cash provided by (used in) investing activities	614,892	(135,757)	(85,733 )
Net cash used in financing activities	(30,881 )	(32,359 )	(28,485 )
Net cash provided by (used in) discontinued operations	630,279	(103,188)	(42,550 )
Effect of exchange rate changes on cash and cash equivalents	(1,059 )	511	211
Net change in cash, cash equivalents and restricted cash	556,660	10,827	19,847
Cash, cash equivalents and restricted cash, beginning of period	72,084	61,257	41,410
Cash, cash equivalents and restricted cash, end of period	\$628,744	\$72,084	\$61,257
<b>Supplemental disclosures of cash flow information from continuing operations:</b>			
Non-cash investing and financing activities:			
Accrued financing costs	\$406	\$107	\$3
Accrued purchases of property and equipment	23,285	22,166	22,473
Issuance of shares to Manager	47,988	72,274	135,345
Issuance of shares to independent directors	750	681	750
Issuance of shares for acquisition of business		125,000	
Conversion of convertible senior notes to shares	8	20	4
Taxes paid (refund), net	12,386	10,640	(898 )

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Interest paid	98,215	85,128	84,112
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- (1) See Note 2, Summary of Significant Accounting Policies *Recently Issued Accounting Standards*, for the Company's adoption of ASU No. 2016-18.
- (2) Other non-cash expense, net, includes the write-down of the Company's investment in the previously owned design-build mechanical contractor business at MIC Hawaii for the year ended December 31, 2018.

*See accompanying notes to the consolidated financial statements.*

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE CORPORATION****CONSOLIDATED STATEMENTS OF CASH  
FLOWS (continued)  
(\$ in Thousands)**

The following table provides a reconciliation of cash, cash equivalents and restricted cash from both continuing and discontinued operations reported within the consolidated balance sheets that sum to the total of the same amounts presented in the consolidated statements of cash flows:

	As of December 31,		
	2018	2017	2016
Cash and cash equivalents	\$588,555	\$45,844	\$42,727
Restricted cash – current	23,316	10,295	2,264
Cash, cash equivalents and restricted cash included in assets held for sale <sup>(3)</sup>	16,873	15,945	16,266
Total of cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	\$628,744	\$72,084	\$61,257

<sup>(3)</sup> Represents cash, cash equivalents and restricted cash related to businesses classified as held for sale. See Note 5, Discontinued Operations and Dispositions, for further discussion.

*See accompanying notes to the consolidated financial statements.*

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Description of Business

Macquarie Infrastructure Corporation (MIC) is a Delaware corporation formed on May 21, 2015. MIC's predecessor, Macquarie Infrastructure Company LLC, was formed on April 13, 2004. Macquarie Infrastructure Corporation, both on an individual entity basis and together with its consolidated subsidiaries, is referred to in these financial statements as the Company or MIC.

MIC is externally managed by Macquarie Infrastructure Management (USA) Inc. (the Manager) pursuant to the terms of a Management Services Agreement that is subject to the oversight and supervision of the board of directors. The majority of the members of the Board of Directors, and each member of all Board Committees, is independent and has no affiliation with Macquarie. The Manager is a member of the Macquarie Group of companies comprising the Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Securities Exchange.

The Company owns its businesses through its direct wholly-owned subsidiary MIC Ohana Corporation, the successor to Macquarie Infrastructure Company Inc. The Company owns and operates a portfolio of businesses that provide services to other businesses, government agencies and individuals primarily in the U.S. The businesses it owns and operates are organized into four segments:

**International-Matex Tank Terminals (IMTT):** a business providing bulk liquid terminalling services to third parties at 17 terminals in the U.S. 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) jet aircraft at 70 airports throughout the U.S.;

**MIC Hawaii:** comprising an energy company that processes and distributes gas and provides related services (Hawaii Gas) and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii; and

**Corporate and Other:** comprised of MIC Corporate (holding company), shared services center and other smaller businesses.

Effective October 1, 2018, the Bayonne Energy Center (BEC) and substantially all of the Company's portfolio of solar and wind power generation businesses were classified as discontinued operations and the Company's Contracted Power segment was eliminated. The remaining renewable power development businesses have been reported as components of Corporate and Other. All prior comparable periods have been restated to reflect this change. See Note 5, Discontinued Operations and Dispositions for further discussions.

### 2. Summary of Significant Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Company consolidates



investments where it has a controlling financial interest. The general condition for a controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule, ownership, directly or indirectly, of over 50% of the outstanding voting shares is a condition for consolidation. In addition, if the Company demonstrates that it has the ability to direct policies and management, this may be also an indication for consolidation. For investments in variable interest entities, the Company consolidates when it is determined to be the primary beneficiary of the variable interest entity.

As of December 31, 2018, the Company was the primary beneficiary in seven solar facilities and two wind facilities in the U.S. and consolidated these projects accordingly. Substantially all of these facilities were classified as discontinued operations for the periods presented. See Note 5, Discontinued Operations and Dispositions for further discussions.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (continued)

#### Investments

Investment in unconsolidated business of \$8.4 million and \$9.1 million at December 31, 2018 and 2017, respectively, represent primarily a 20% ownership interest in a joint venture acquired in conjunction with the IMTT Acquisition on July 16, 2014. This investment is accounted for at cost on the consolidated balance sheet. Dividend income from this investment is recorded in *Other (expense) income, net*, on the consolidated statements of operations.

#### Use of Estimates

The preparation of the consolidated financial statements, which are in conformity with generally accepted accounting principles (GAAP), requires the Company to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis and the estimates are based on experience, current and expected future conditions, third-party evaluations and various other assumptions that the Company believes are reasonable under the circumstances. Significant items subject to such estimates and assumptions include the carrying amount of property, equipment, land and leasehold improvements, intangibles and goodwill; assets and obligations related to employee benefits; and valuation of derivative instruments. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from the estimates and assumptions used in the financial statements and related notes.

#### Business Combinations

Acquisitions of businesses that the Company controls are accounted for under the purchase method of accounting. The amounts assigned to the identifiable assets acquired and liabilities assumed in connection with acquisitions are based on estimated fair values as of the date of the acquisition, with the remainder, if any, recorded as goodwill. The fair values are determined by the Company's management, taking into consideration information supplied by the management of acquired entities and other relevant information. Such information includes valuations supplied by independent appraisal experts for significant business combinations. The valuations are generally based upon future cash flow projections for the acquired assets, discounted to a present value. The determination of fair value requires significant judgment both by management and outside experts engaged to assist in this process.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

## **Restricted Cash**

Restricted cash consists primarily of deposits held by banks to secure certain letters of credit supporting the purchase of equipment for solar projects and other deposits designated for the construction and operation of solar projects as well as the payment of amounts related to project specific debt financings. Restricted cash is classified into current and non-current portions based on the terms of the deposits and the expiration date of the underlying restrictions, such as the maturity date of the corresponding letter of credit. In addition, restricted cash for project construction, operation and financing is classified as current or noncurrent based on the intended use of the restricted funds.

## **Allowance for Doubtful Accounts**

The Company uses estimates to determine the amount of allowance for doubtful accounts necessary to reduce accounts receivable to its net realizable value. The Company estimates the required allowance by

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (continued)

reviewing the status of past-due receivables and analyzing historical bad debt trends. Actual collection experience has not varied significantly from estimates primarily due to credit policies and a lack of concentration of accounts receivable. The Company writes off receivables deemed to be uncollectible to the allowance for doubtful accounts.

#### Inventory

Inventory consists principally of fuel purchased from various third-party vendors at Atlantic Aviation and Hawaii Gas and materials and supplies at all of the operating businesses. Fuel inventory is stated at the lower of cost or market. Materials and supplies inventory is valued at the lower of average cost or market. Inventory sold is recorded using the first-in-first-out method at Atlantic Aviation and an average cost method at Hawaii Gas. Cash flows related to the sale of inventory are classified in net cash provided by operating activities in the consolidated statements of cash flows.

The Company's inventory balance at December 31, 2018 comprised \$12.9 million of inventory for sale and \$16.4 million of materials and supplies. The Company's inventory balance at December 31, 2017 comprised \$16.6 million of inventory for sale and \$16.5 million of materials and supplies.

#### Property, Equipment, Land and Leasehold Improvements

Property, equipment and land are initially recorded at cost. Leasehold improvements are recorded at the initial present value of the minimum lease payments less accumulated amortization. Major renewals and improvements are capitalized while maintenance and repair expenditures are expensed when incurred. Interest expense relating to construction in progress is capitalized as an additional cost of the asset. The Company depreciates property, equipment and leasehold improvements over their estimated useful lives on a straight-line basis. Excluding the regulated business at MIC Hawaii, the estimated economic useful lives range according to the table below:

Buildings	20 to 30 years
Leasehold and land improvements	8 to 30 years
Machinery and equipment	3 to 30 years
Furniture and Fixtures	5 to 15 years

The estimated economic useful lives for the regulated business at MIC Hawaii ranges up to 68 years for buildings, leasehold and land improvements and machinery and equipment.

#### Goodwill and Intangible Assets

Goodwill consists of costs in excess of the aggregate purchase price over the fair value of tangible and identifiable intangible net assets acquired in business combinations. The cost of intangible assets with determinable useful lives is amortized over their estimated useful lives ranging as follows:

Customer relationships	5 to 30 years
Contractual arrangements	8 to 57 years
Non-compete agreements	3 to 10 years
Trade names	20 years
Technology	5 years

Contractual arrangements primarily relate to airport contract rights at Atlantic Aviation. The useful lives generally match the lease terms plus extensions under the business control.

### **Impairment of Long-lived Assets, Excluding Goodwill**

Long-lived assets, including amortizable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (continued)

results, changes in business plans, or changes in anticipated future cash flows. If an impairment indicator is present, the Company evaluates recoverability by comparing the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of discounted cash flows or value expected to be realized in a third party sale. The discount rate used in any estimate of discounted cash flows would be the rate required for a similar investment of like risk.

#### Impairment of Goodwill

Goodwill is tested for impairment at least annually on October 1<sup>st</sup> or when there is a triggering event that indicates impairment. For the annual impairment test, the Company can make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before performing a quantitative goodwill impairment test, as discussed below. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the quantitative impairment test.

If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if there is a triggering event that indicates impairment, the Company needs to perform a quantitative impairment test. This requires management to make judgments in determining what assumptions to use in the calculation. The first step is to determine the estimated fair value of each reporting unit with goodwill. The reporting units of the Company, for purposes of the impairment test, are those components of operating segments for which discrete financial information is available and segment management regularly reviews the operating results of that component. When determining reporting units, components with similar economic characteristics are combined.

The Company estimates the fair value of each reporting unit by estimating the present value of the reporting unit's future discounted cash flows or value expected to be realized in a third party sale. If the recorded net assets of the reporting unit are less than the reporting unit's estimated fair value, then no impairment is indicated. If the recorded amount of goodwill exceeds the estimated fair value, an impairment charge is recorded for the excess. The Company adopted ASU 2017-04 during the first quarter of 2018. See Note 8, Intangible Assets for further discussion on goodwill impairment testing performed for the year ended December 31, 2018.

#### Impairment of Indefinite-lived Intangibles, Excluding Goodwill

Indefinite-lived intangibles, which consist of trademarks, are considered impaired when the carrying amount of the asset exceeds its the estimated fair value. The Company estimates the fair value of each trademark using the relief from royalty method that discounts the estimated net cash flows the Company would have to pay to license the trademark under an arm's length licensing agreement. If the recorded indefinite-lived intangible is less than its estimated fair value, then no impairment is indicated. Alternatively, if the recorded intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

## **Deferred Financing Costs**

The Company capitalizes all direct costs incurred in connection with the issuance of debt as deferred financing costs. These costs are amortized over the contractual term of the debt instrument, which ranges from 4 to 12 years. At December 31, 2018, the weighted average remaining life of deferred financing costs was 6.1 years.

## **Derivative Instruments**

From time to time the Company enters into interest rate derivative agreements to minimize potential variations in cash flows resulting from fluctuations in interest rates and their impact on its variable-rate debt.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (continued)

Hawaii Gas, a business within the MIC Hawaii reportable segment, enters into commodity price hedges to mitigate the impact of fluctuations in propane prices on its cash flows.

The Company accounts for derivatives and hedging activities in accordance with Accounting Standard Codification (ASC) 815 *Derivatives and Hedging*, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. All movements in the fair value of derivative contracts are recorded directly through earnings. See Note 10, *Derivative Instruments and Hedging Activities*, for further discussion.

#### Financial Instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and variable-rate senior debt, are carried at cost, which approximates their fair value because of either the short-term maturity, or competitive interest rates assigned to these financial instruments. The fair values of the Company's other debt instruments fall within level 1 or level 2 of the fair value hierarchy.

#### Concentrations of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with financial institutions and its balances may exceed federally insured limits. The Company's accounts receivable are mainly derived from fuel and gas sales and services rendered under contract terms with commercial and private customers located primarily in the United States. At December 31, 2018 and 2017, there were no outstanding accounts receivable due from a single customer that accounted for more than 10% of the total accounts receivable. Additionally, no single customer accounted for more than 10% of the Company's revenue during the years ended December 31, 2018, 2017 and 2016.

#### Foreign Currency Translation

The assets and liabilities of IMTT's Newfoundland and Quebec locations are translated from their local currency (Canadian dollars) to U.S. dollars at exchange rates in effect at the end of the year and consolidated statement of operations accounts are translated at average exchange rates for the year. Translation gains or losses as a result of changes in the exchange rate are recorded as a component of other comprehensive income (loss).

#### Accrued Expenses

Accrued expenses of \$85.9 million and \$79.6 million at December 31, 2018 and 2017, respectively, primarily consisted of payroll and related liabilities, purchase of property and equipment, interest, non-income related taxes, insurance and other individually insignificant balances.



## Income per Share

The Company calculates income per share using the weighted average number of common shares outstanding during the period. Diluted income per share is computed using the weighted average number of dilutive common equivalent shares outstanding during the period. Common equivalent shares may consist of (i) shares issuable upon conversion of the Company's convertible senior notes (using the if-converted method); (ii) stock units granted to the Company's independent directors; and (iii) fees payable to the Manager that will be reinvested in shares by the Manager in a future period, if any. Common equivalent shares are excluded from the calculation if their effect is anti-dilutive.

## Comprehensive Income (Loss)

The Company follows the requirements of ASC 220 *Comprehensive Income*, for the reporting and presentation of comprehensive income (loss) and its components. This guidance requires unrealized gains or losses on the Company's foreign currency translation adjustments, minimum pension liability adjustments and changes in fair value of derivatives, where hedge accounting had been previously applied, to be included in other comprehensive income (loss).

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (continued)

#### Regulatory Assets and Liabilities

The utility operations of the Hawaii Gas business are subject to regulation with respect to rates, service, maintenance of accounting records, and various other matters by the Hawaii Public Utilities Commission (HPUC). The established accounting policies recognize the financial effects of the rate-making and accounting practices and policies of the HPUC. Regulated utility operations are subject to the provisions of ASC 980, *Regulated Operations*. This guidance requires regulated entities to disclose in their financial statements the authorized recovery of costs associated with regulatory decisions. Accordingly, certain costs that otherwise would normally be charged to expense may, in certain instances, be recorded as an asset in a regulatory entity's balance sheet. The Hawaii Gas business records regulatory assets as costs that have been deferred for which future recovery through customer rates has been approved by the HPUC. Regulatory liabilities represent amounts included in rates and collected from customers for costs expected to be incurred in the future.

ASC 980 may, at some future date, be deemed inapplicable because of changes in the regulatory and competitive environments or other factors. If the Company were to discontinue the application of this guidance, the Company would be required to write-off its regulatory assets and regulatory liabilities and would be required to adjust the carrying amount of any other assets, including property, plant and equipment, that would be deemed not recoverable related to these affected operations. The Company believes its regulated operations in the Hawaii Gas business continue to meet the criteria of ASC 980 and that the carrying value of its regulated property, plant and equipment is recoverable in accordance with established HPUC rate-making practices.

#### Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its more than 80% owned subsidiaries file a consolidated U.S. federal income tax return, including its allocated share of the taxable income from its solar and wind facilities. The investments in solar and wind facilities where the Company does not own 100% of the investment within discontinued operations and the MIC Hawaii segment are held in various LLCs, which are treated as partnerships for income tax purposes.

In assessing the need for a valuation allowance, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

## Reclassifications

Certain reclassifications were made to the financial statements for the prior periods to conform to current year presentation.

## Recently Issued Accounting Standards

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in ASU 2018-14 update disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this update are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company will include appropriate disclosures related to defined benefit plans in accordance with the standard when it adopts the provisions of this ASU.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in ASU 2018-13 update the disclosure requirements on fair value measurements, including the consideration of costs and benefits. The disclosure modifications focused on Level 3 fair value measurements, and also eliminate the *at a minimum* disclosure requirements. The amendments in this update are effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of the adoption of this ASU.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI)*. The amendments in ASU 2018-02 allow entities to reclassify from AOCI to retained earnings stranded tax effects resulting from passage of the Act. An entity that elects to reclassify these amounts must reclassify stranded tax effects related to the change in federal tax rate for all items accounted for in other comprehensive income (i.e. employee benefits, cumulative translation adjustments). Entities may also elect to reclassify other stranded tax effects that relate to the Act but do not directly relate to the change in the federal tax rate (i.e. state taxes). However, because the amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance requiring the effect of a change in tax laws or rates to be included in income from operations is not affected. Upon adoption of ASU 2018-02, entities are required to disclose their policy for releasing the income tax effects from AOCI. ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. During the quarter ended December 31, 2018, the Company adopted this ASU and made a \$4.4 million adjustment to reclassify stranded tax effects in AOCI to retained earnings.

On January 26, 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the measurement of goodwill subsequent to a business combination, and no longer requires an entity to perform a hypothetical purchase price allocation when computing implied fair value to measure goodwill impairment. Instead, impairment will be assessed by quantifying the difference between the fair value of a reporting unit and its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, on condition that the charge doesn't exceed the total amount of goodwill allocated to that reporting unit. The Company adopted this ASU on January 1, 2018 and had no impact to the consolidated financial statements.

On January 5, 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides a restrictive framework for determining whether business transactions should

be accounted for as acquisitions (or disposals) of assets or businesses. Determining whether a company acquires a set of assets or a business will impact the initial measurement, the accounting treatment of direct acquisition related costs, contingent considerations and the bargain purchase price. The Company adopted this ASU on January 1, 2018 and will apply this ASU prospectively for asset acquisitions and business combinations.

On November 17, 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. This reconciliation can be

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (continued)

presented either on the face of the statement of cash flows or in the notes to the financial statements. The Company adopted this ASU on January 1, 2018 and included the retrospective application of this ASU in the accompanying consolidated statement of cash flows.

On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require all leases with an initial term greater than one year to be recognized on the balance sheet as a right-of-use asset and a lease liability. The Company also serves as a lessor primarily through operating leases. The accounting for lessors is not expected to fundamentally change except for changes to conform and align existing guidance to the lessee guidance under ASU 2016-02, as well as to the new revenue recognition guidance in ASU 2014-09. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is allowed. The standard is to be applied using a modified retrospective approach, which includes a number of optional practical expedients. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) Targeted Improvements*, which allows lessees and lessors to recognize and measure leases at the beginning of the period of adoption without modifying the comparative period financial statements.

The Company has substantially completed evaluating its population of leases, and currently expects the most significant impact will be the recognition of right of use (ROU) assets and lease liabilities for operating leases at Atlantic Aviation for leases of land, buildings, and certain equipment. Based on the evaluation performed to-date, the Company currently estimates adoption of the new lease standard will result in recognition of ROU assets and corresponding lease liabilities of approximately \$375.0 million to \$425.0 million upon adoption. The Company does not expect a material impact on its consolidated statements of operations, liquidity or debt covenant compliance under its current agreements.

The Company plans to adopt the standard effective January 1, 2019, utilizing the modified retrospective method. The Company plans to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows the Company to carryforward the historical lease classification. The Company will also make an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet. Further, the Company does not expect the standard to have a material impact on the accounting and reporting requirements for existing operating leases where the Company is the lessor as it has elected the practical expedient whereby the Company will not separate a qualifying contract into its lease and non-lease components.

In December 2018, the FASB issued ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, that clarifies how to apply the new leases standard when accounting for sales taxes, certain lessor costs, and certain requirements related to variable payments in contracts. The Company has evaluated this ASU and believes that it will not have a material effect on the consolidated balance sheet, statement of operations or cash flows.

### **3. Implementation of ASU 2014-09**

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The Company has revenue that is derived from long-term contracts and leases that can span several years. The Company accounts for revenue in accordance with ASC Topic 606, *Revenue*, or ASC Topic 840, *Leases*, depending upon the terms of the agreements. See Note 4, *Long-Term Contracted Revenue*, for further discussions and disclosures.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. Implementation of ASU 2014-09 (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance sets forth a five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety. It is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. This ASU includes identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. To further assist with adoption and implementation of ASU 2014-09, the FASB issued and the Company considered the following ASUs:

ASU 2015-14 (Issued August 2015) *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*;

ASU 2016-08 (Issued March 2016) *Principal versus Agent Consideration (Reporting Revenue Gross versus Net)*;

ASU 2016-10 (Issued April 2016) *Identifying Performance Obligations and Licensing*;

ASU 2016-12 (Issued May 2016) *Narrow-Scope Improvements and Practical Expedients*; and

ASU 2016-20 (Issued December 2016) *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*.

The Company adopted ASU 2014-09 during the first quarter of 2018 using the modified retrospective method. There was no adjustment to the beginning balance of retained earnings and the adoption of this ASU did not have a significant impact to the Company's consolidated financial statements other than the additional required qualitative and quantitative disclosures. As part of the adoption, the Company has not elected to apply any practical expedients available under ASC Topic 606.

#### IMTT

Revenue from IMTT is generated from the following sources and recorded in service revenue.

*Lease.* These are contracts with predominantly non-cancelable terms for access to and the use of storage capacity at the various terminals owned and operated by the business. These contracts generally require payments in exchange for the provision of storage capacity and product movement (throughput) throughout their term based on a fixed rate per barrel of capacity leased. A majority of the contracts include terms that adjust the fixed rate annually for inflation.

These contracts are accounted for as operating leases and the related lease income is recognized in service revenue over the term of the contract based upon the rate specified. Revenue is recognized in accordance with ASC 840,

*Leases.*

*Other terminal services.* Revenue from the provision of ancillary services includes activities such as heating, mixing, and blending, and is recognized as the related services are performed based on contract rates. Revenue from other terminal services is recognized at a point in time as services are performed. Other terminal services also include payments received prior to the related services being performed or as a reimbursement for specific fixed asset additions or improvements related to a customer's contract and are recorded as deferred revenue and ratably recognized as revenues over the contract term.



*Other.* Other revenue is comprised primarily of environmental response service activities through the date of sale and railroad operations. These revenues are generally recognized at a point in time as services are performed.

### **Atlantic Aviation**

Revenue from Atlantic Aviation is recorded in service revenue. Services provided by Atlantic Aviation include:

*Fuel.* Fuel services are recognized when fuel has been delivered to the customer, collection of the resulting receivable is probable, persuasive evidence of an arrangement exists and the fee is fixed or

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. Implementation of ASU 2014-09 (continued)

determinable. Fuel services are recorded net of volume discounts and rebates. Revenue from fuel sales are recognized at a point in time as services are performed.

*Hangar.* Hangar rentals includes both month-to-month rentals and rentals from longer term contracts. Hangar rental revenue excludes transient customer overnight hangar usage (see *Other FBO services* below).

*Other FBO services.* Other fixed based operation (FBO) services consisting principally of de-icing services, landing, concession, transient overnight hangar usage, terminal use and fuel distribution fees that are recognized as sales of services. Revenue from these transactions is recorded based on the service fee earned and does not include the cost of fuel.

#### MIC Hawaii

Revenue from Hawaii Gas is recorded in product revenue. Hawaii Gas recognizes revenue when products are delivered. Sales of gas to customers are billed on a monthly-cycle basis. Earned but unbilled revenue is accrued and included in accounts receivable and revenue based on the amount of gas that has been delivered but not billed to customers from the latest meter reading or billed delivery date to the end of an accounting period. The related costs are charged to expense.

#### Renewables Businesses

The renewables businesses within MIC Hawaii and discontinued operations sell substantially all of the electricity generated at a fixed price to primarily electric utility customers pursuant to long-term (typically 20 – 25 years) power purchase agreements (PPAs). Substantially all of the PPAs are accounted for as operating leases and have no minimum lease payments and all of the lease income under these leases is recorded within product revenue when the electricity is delivered.

### 4. Long-Term Contracted Revenue

Long-term contracted revenue consists of revenue from future minimum lease revenue accounted in accordance with ASC 840, *Leases*, and estimated revenue to be recognized in the future related to performance conditions that are unsatisfied or partially unsatisfied in accordance with ASC 606, *Revenue*. The recognition pattern for contracts that are considered leases is generally consistent with the recognition pattern that would apply if such contracts were not accounted for as leases and were instead accounted for under ASC Topic 606. Accordingly, the Company has combined the required lessor disclosures for future lease income with the disclosures for contracted revenue in the table below. The following long-term contracted revenue were in existence at December 31, 2018 (\$ in thousands):

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	Lease Revenue (ASC 840)	Contract Revenue (ASC 606)	Total Long-Term Revenue
2019	\$ 251,359	\$ 60,551	\$ 311,910
2020	135,733	35,069	170,802
2021	74,223	28,389	102,612
2022	51,839	24,058	75,897
2023	32,650	16,730	49,380
Thereafter	101,250	17,608	118,858
Total	\$ 647,054	\$ 182,405	\$ 829,459

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. Long-Term Contracted Revenue (continued)

The above table does not include the future minimum rental revenue from the renewable business within the MIC Hawaii reportable segment. The payments from these leases are considered variable as they are based on the output of the underlying assets (i.e. energy generated).

### 5. Discontinued Operations and Dispositions

The Company accounts for disposals that represent a strategic shift that should have or will have a major effect on operations as discontinued operations. The results of discontinued operations are reported in discontinued operations in the consolidated statement of operations for current and prior periods commencing in the period in which the business or group of businesses meets the criteria of a discontinued operation. These results include any gain or loss recognized on disposal or adjustment of the carrying amount to fair value less cost to sell.

On October 12, 2018, the Company concluded the sale of BEC and received cash of \$657.4 million, net of the assumption of the outstanding debt balance of \$243.5 million by the buyer and subject to post-closing working capital adjustments, resulting in a loss of approximately \$17.0 million. Any adjustment for working capital adjustments is not expected to be significant. The Company incurred \$9.4 million in professional fees in relation to this transaction, which is included in *selling, general and administrative expenses* in the consolidated statement of operations. The Company has guaranteed its subsidiary's payment and certain post-closing indemnity obligations under the purchase agreement. In addition, during the fourth quarter of 2018, the Company commenced a sale process involving substantially all of its portfolio of solar and wind facilities within the former Contracted Power segment. The transaction is expected to close in the second quarter of 2019.

The combination of the disposal of BEC and the commencement of the sale process of substantially all of its portfolio of solar and wind facilities represented a strategic shift for the Company that will have a major effect on operations. Accordingly, beginning in the fourth quarter of 2018, these businesses were classified as discontinued operations and the Contracted Power segment was eliminated. There was no write-down of the carrying amount of the solar and wind facility assets as a result of this change in classification. The assets and liabilities of BEC and the solar and wind facilities have been classified as held for sale in the consolidated balance sheets up until the date those assets are disposed. All prior periods have been restated to reflect these changes.

The remaining renewable power development businesses within the former Contracted Power segment have been reclassified as components of Corporate and Other.

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The following is a summary of the assets and liabilities held for sale included in the Company's consolidated balance sheets related to its former Contracted Power segment as of December 31, 2018 and 2017 (\$ in thousands):

	As of December 31,	
	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 2,930	\$ 1,277
Restricted cash	13,943	14,668
Accounts receivable	9,291	11,531
Other current assets	4,959	9,438
Total current assets	31,123	36,914
Property, equipment, land and leasehold improvements, net	606,352	1,462,207
Goodwill		21,628
Intangible assets, net	8,905	62,347
Other noncurrent assets	1,272	4,766
Total assets	\$ 647,652	\$ 1,587,862
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 6,927	\$ 11,622
Current portion of long-term debt	20,431	29,339
Other current liabilities	724	9,704
Total current liabilities	28,082	50,665
Long term debt, net of current portion	283,285	538,657
Tolling agreements - noncurrent		52,595
Other noncurrent liabilities	5,811	11,785
Total liabilities	\$ 317,178	\$ 653,702
Noncontrolling interests	\$ 141,495	\$ 184,286

Summarized financial information for discontinued operations included in the Company's consolidated statement of operations for the years ended December 31, 2018, 2017 and 2016 are as follows (\$ in thousands):

	Year Ended December 31,		
	2018	2017	2016
Product revenue	\$ 150,218	\$ 145,926	\$ 149,699
Cost of product sales	(23,820 )	(20,524 )	(23,291 )
Selling, general & administrative expenses	(25,320 )	(24,681 )	(25,405 )
Depreciation and amortization	(38,517 )	(60,300 )	(55,402 )
Interest expense, net	(17,094 )	(23,487 )	(21,274 )
Other (expense) income, net <sup>(1)</sup>	(13,719 )	757	4,021

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Net income from discontinued operations before income taxes	\$31,748	\$17,691	\$28,348
(Provision) benefit for income taxes	(2,128 )	4,651	(1,944 )
Net income from discontinued operations	\$29,620	\$22,342	\$26,404
Less: net (loss) income attributable to noncontrolling interests	(38,821 )	5,319	2,096
Net income from discontinued operations attributable to MIC	\$68,441	\$17,023	\$24,308

(1) For the year ended December 31, 2018, *other (expense) income, net* includes non-cash loss of approximately \$17.0 million from the sale of BEC.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. Discontinued Operations and Dispositions (continued)

#### Other Dispositions

The Company continues to review strategic options available, including with respect to certain other, smaller businesses in its portfolio in an effort to rationalize its portfolio and enhance the infrastructure characteristics of its businesses. Consistent with this, the Company sold (i) OMI Environmental Solutions, a subsidiary within IMTT, in

April 2018; (ii) its equity interests in projects involving two properties in May 2018; and (iii) a design-build mechanical contractor business within MIC Hawaii in November 2018. Collectively, the sale of these business are insignificant and do not qualify for discontinued operations.

Prior to the execution of the sale agreement for the design-build mechanical contractor business, the Company wrote-down the value of its investment in this business to reflect its underperformance during the third quarter of 2018. In total, the Company wrote-down approximately \$30.0 million, including fixed assets and intangible assets of approximately \$9.0 million, as well as reserving for certain contract related amounts recorded in other current liabilities and other expenses.

### 6. Income per Share

Following is a reconciliation of the basic and diluted income per share computations (\$ in thousands, except share and per share data):

	Year Ended December 31,		
	2018	2017	2016
<b>Numerator:</b>			
Net income from continuing operations attributable to MIC	\$68,080	\$434,179	\$132,073
Interest expense attributable to 2.875% Convertible Senior Notes due July 2019, net of taxes		7,811	
Interest expense attributable to 2.00% Convertible Senior Notes due October 2023, net of taxes		8,068	(4,523 )
Diluted net income from continuing operations attributable to MIC	\$68,080	\$450,058	\$127,550
Basic and diluted net income from discontinued operations attributable to MIC	\$68,441	\$17,023	\$24,308
<b>Denominator:</b>			
Weighted average number of shares outstanding: basic	85,233,989	83,204,404	80,892,654
Dilutive effect of restricted stock unit grants	15,876	9,495	9,589

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Dilutive effect of fees to Manager-related party			549,404
Dilutive effect of 2.875% Convertible Senior Notes due July 2019		4,252,609	
Dilutive effect of 2.00% Convertible Senior Notes due October 2023		3,606,854	766,980
Weighted average number of shares outstanding: diluted	85,249,865	91,073,362	82,218,627

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. Income per Share (continued)

	Year Ended December 31,		
	2018	2017	2016
<b>Income per share:</b>			
Basic income per share from continuing operations attributable to MIC	\$0.80	\$ 5.22	\$ 1.63
Basic income per share from discontinued operations attributable to MIC	0.80	0.20	0.30
Basic income per share attributable to MIC	\$1.60	\$ 5.42	\$ 1.93
Diluted income per share from continuing operations attributable to MIC	\$0.80	\$ 4.94	\$ 1.55
Diluted income per share from discontinued operations attributable to MIC	0.80	0.19	0.30
Diluted income per share attributable to MIC	\$ 1.60	\$ 5.13	\$ 1.85

The effect of potentially dilutive shares for the year ended December 31, 2018 is calculated assuming that (i) the restricted stock unit grants totaling 4,416 provided to the two newly appointed independent directors on September 5, 2018 and the 19,230 restricted stock unit grants provided to the independent directors on June 7, 2018, which all will vest during the second quarter of 2019, had been fully converted to shares on those grant dates; and (ii) the 9,435 restricted stock unit grants provided to the independent directors on May 17, 2017, which vested during the second quarter of 2018, had been fully converted to shares on the grant date. The 2.875% Convertible Senior Notes due July 2019 and 2.00% Convertible Senior Notes due October 2023 were anti-dilutive for the year ended December 31, 2018.

The effect of potentially dilutive shares for the year ended December 31, 2017 is calculated assuming that (i) the restricted stock unit grants totaling 9,435 provided to the independent directors on May 17, 2017, which vested during the second quarter of 2018, had been fully converted into shares on the grant date; (ii) the 8,604 restricted stock unit grants (net of 2,151 restricted stock unit grants forfeited on September 30, 2016) provided to the independent directors on May 18, 2016 and restricted stock unit grants of 991 provided to a new independent director on November 1, 2016, which vested during the second quarter of 2017, had been fully converted to shares on those grant dates; and (iii) the 2.875% Convertible Senior Notes due July 2019 and the 2.00% Convertible Senior Notes due October 2023 had been fully converted into shares on the date of issuance.

The effect of potentially dilutive shares for the year ended December 31, 2016 is calculated assuming that (i) the restricted stock unit grants totaling 8,604 (net of 2,151 restricted stock unit grants forfeited on September 30, 2016) provided to the independent directors on May 18, 2016 and restricted stock units grants of 991 provided to a new independent director on November 1, 2016, which vested during the second quarter of 2017, had been fully converted to shares on those grant dates; (ii) the 8,660 restricted stock unit grants provided to the independent directors on June 18, 2015, which vested during the second quarter of 2016, had been fully converted to shares on the grant date; (iii) the \$67.8 million of the performance fee for the quarter ended June 30, 2015, which was reinvested in shares by the

Manager on August 1, 2016, had been reinvested in shares by the Manager in July 2015; and (iv) the 2.00% Convertible Senior Notes due October 2023 had been fully converted into shares on the date of issuance. The 2.875% Convertible Senior Notes due July 2019 were anti-dilutive for the year ended December 31, 2016.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. Income per Share (continued)

The following represents the weighted average potential dilutive shares of common stock that were excluded from the diluted income per share calculation:

	Year Ended December 31,		
	2018	2017	2016
2.875% Convertible Senior Notes due July 2019	4,368,725		4,177,097
2.00% Convertible Senior Notes due October 2023	3,631,850		
Total	8,000,575		4,177,097

### 7. Property, Equipment, Land and Leasehold Improvements

Property, equipment, land and leasehold improvements at December 31, 2018 and 2017 consist of the following (\$ in thousands):

	As of December 31,	
	2018	2017
Land	\$ 318,976	\$ 338,843
Easements	131	131
Buildings	40,184	40,846
Leasehold and land improvements	769,772	705,537
Machinery and equipment	2,783,507	2,705,133
Furniture and fixtures	44,666	39,386
Construction in progress	112,910	130,133
	4,070,146	3,960,009
Less: accumulated depreciation	(928,739 )	(762,602 )
Property, equipment, land and leasehold improvements, net	\$ 3,141,407	\$ 3,197,407

### 8. Intangible Assets

Intangible assets at December 31, 2018 and 2017 consist of the following (\$ in thousands):

	As of December 31,	
	2018	2017
Contractual arrangements	\$ 920,874	\$ 914,768
Non-compete agreements	13,665	14,014
Customer relationships	353,004	361,623
Leasehold rights	100	100

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Trade names	16,091	16,091
Technology	8,760	8,760
	1,312,494	1,315,356
Less: accumulated amortization	(523,733 )	(463,605 )
Intangible assets, net	\$788,761	\$851,751

At December 31, 2018, the Company had \$13.3 million in trade names net of accumulated amortization, of which \$7.5 million relates to Atlantic Aviation and are considered to be indefinite-lived. The remaining balance of \$5.8 million relates to The Gas Company trade name and is being amortized over its estimated useful life.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 8. Intangible Assets (continued)

Amortization expense of intangible assets for the years ended December 31, 2018, 2017 and 2016 totaled \$68.3 million, \$63.8 million and \$61.0 million, respectively. The estimated future amortization expense for amortizable intangible assets to be recognized are (\$ in thousands):

2019	\$ 58,946
2020	50,162
2021	44,906
2022	43,392
2023	41,885
Thereafter	541,979
Total	\$ 781,270

The goodwill balance as of December 31, 2018 is comprised of the following (\$ in thousands):

Goodwill acquired in business combinations, net of disposals, at December 31, 2017	\$ 2,193,478
Accumulated impairment charges	(123,200 )
Other	(1,610 )
Reclassification to assets held for sale <sup>(1)</sup>	(21,628 )
Balance at December 31, 2017	2,047,040
Goodwill impairment	(3,215 )
Other	(505 )
Balance at December 31, 2018	\$ 2,043,320

(1) Goodwill classified to assets held for sale related to BEC, which was sold on October 12, 2018. See Note 5, Discontinued Operations and Dispositions for further discussion.

The Company tests for goodwill impairment at the reporting unit level on an annual basis on October 1<sup>st</sup> of each year and between annual tests if a triggering event indicates impairment. The Company continuously monitors events which could trigger an interim impairment analysis, such as changing business conditions and industry and other economic factors. The Company experienced a sustained decline in market capitalization since February 2018, and during the third quarter of 2018, the Company concluded a sustained decline in its market capitalization had occurred, leading to the determination that a triggering event had occurred for all reporting units.

The Company performed an interim impairment analysis using financial information through September 30, 2018 and forecasts for cash flows developed using the Company's strategic plan. The impairment analysis was performed using both the market and income approaches and weighting them based on their application to the reporting units. The interim impairment review was performed across all reporting units. As a result of this evaluation, the fair value of each of the Company's reporting units exceeded the carrying value and no impairment was recorded.

At September 30, 2018, the fair value exceeded book value by \$2.2 billion, or approximately 36.0%, primarily from Atlantic Aviation, by approximately \$2.0 billion, and Hawaii Gas, by approximately \$250.0 million. IMTT's fair value at September 30, 2018 exceeded the book value by approximately \$20.0 million. The fair value of IMTT was impacted by the decline in short-term earnings related to the non-renewal of certain contracts for heavy and residual oil. The non-renewal of these contracts, or the renewal at lower rates, is partially attributable to changes in trade flows.

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Unfavorable fluctuations in the discount rate or declines in forecasted storage revenues and margins could result in an impairment on IMTT. A 0.25% increase to the discount rate would change the valuation of IMTT by approximately \$80.0 million. Any increase in discount rate, in conjunction with any decrease to the long-term projections in cash flows for IMTT will negatively affect the current valuations. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the reporting units, and possibly result in impairment charges in future periods.

At December 31, 2018, there were no new triggering events that indicated impairment.

**9. Long-Term Debt**

The Company capitalizes its businesses in part using floating rate bank debt with medium-term maturities primarily between four and seven years. In general, the Company hedges the floating rate exposure for the majority of the term of these facilities. The Company also uses longer dated private placement debt and other forms of capital including bond or hybrid debt instruments to capitalize its businesses. In general, the debt facilities at the businesses are non-recourse to the holding company and there are no cross-collateralization or cross-guarantee provisions in these facilities. All of the term debt facilities of the Company's operating businesses described below contain customary financial covenants, including maintaining or exceeding certain financial ratios, and limitations on capital expenditures and additional debt. The facilities include events of default, representations and warranties and other covenants that are customary for facilities of this type, including change of control, which will occur if the Macquarie Group, or any fund or entity managed by the Macquarie Group, fails to control a majority of the Borrower. For a description of related party transactions associated with the Company's long-term debt, see Note 13, Related Party Transactions .

At December 31, 2018 and 2017, the Company's consolidated long-term debt comprised the following (\$ in thousands):

	As of December 31,	
	2018	2017
IMTT	\$1,108,975	\$1,318,975
Atlantic Aviation	1,025,000	648,000
MIC Hawaii	195,746	199,282
MIC Corporate	733,595	873,477
Total	3,063,316	3,039,734
Current portion	(361,166 )	(21,496 )
Long-term portion	2,702,150	3,018,238
Unamortized deferred financing costs <sup>(1)</sup>	(49,402 )	(26,584 )

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Long-term portion less unamortized debt discount and deferred financing costs	\$2,652,748	\$2,991,654
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(1) The weighted average remaining life of the deferred financing costs at December 31, 2018 was 6.1 years. At December 31, 2018, the total undrawn capacity on the revolving credit facilities was \$1.6 billion excluding letters of credits outstanding of \$34.6 million.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table represents the future maturities of long-term debt balances at December 31, 2018 and includes the unamortized debt discount of \$18.8 million related to the 2.00% Convertible Senior Notes due October 2023.

2019	\$ 361,166
2020	11,265
2021	11,310
2022	111,357
2023	493,905
Thereafter	2,093,161
Total	\$ 3,082,164

#### MIC Corporate

##### Senior Secured Revolving Credit Facility

In July 2014, the Company entered into a five-year, \$250.0 million senior secured revolving credit facility with a syndicate of banks and subsequently increased the aggregate commitments under its revolving credit facility to \$410.0 million, with all terms remaining the same. On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million and extended the maturity through January 3, 2022.

The revolving credit facility is guaranteed by MIC Ohana Corporation and is secured by a pledge of the Company's directly held equity interests and all intercompany debt owed to the Company (the security may fall away when certain conditions are met). The revolving credit facility includes customary negative covenants, and a financial covenant based on a ratio of cash flow available for debt service to net cash interest expense.

At December 31, 2018, the senior secured revolving credit facility was undrawn compared with \$143.5 million outstanding at December 31, 2017. During the year ended December 31, 2018, MIC borrowed \$277.0 million for general corporate purposes and repaid \$420.5 million on its revolving credit facility using cash on hand and proceeds from the BEC sale.

##### 2.875% Convertible Senior Notes due July 2019

In July 2014, the Company completed an underwritten public offering of a five-year, \$350.0 million aggregate principal amount of 2.875% Convertible Senior Notes due July 2019 to partially fund the IMTT Acquisition and for general corporate purposes. The notes are convertible, at the holder's option, into the Company's shares, initially at a conversion rate of 11.7942 shares per \$1,000 principal amount (equivalent to an initial conversion price of approximately \$84.79 per share, subject to adjustment), at any time on or prior to the close of business on the second scheduled trading day immediately preceding the maturity date.

On July 15, 2018, the conversion rate increased to 12.5258 shares of common stock per \$1,000 principal amount. The adjustment was made, in accordance with the indenture governing the senior notes, on the anniversary of the convertible senior notes issuance and reflects the impact of dividends paid by the Company.

At December 31, 2018 and 2017, the Company had \$349.9 million and \$350.0 million, respectively, of aggregate principal outstanding. On July 15, 2018, the Company reclassified these notes due July 2019 to current portion of long-term debt. At December 31, 2018, the fair value of these convertible senior notes was approximately \$345.0 million.

### **2.00% Convertible Senior Notes due October 2023**

In October 2016, the Company completed an underwritten public offering of a seven year, \$402.5 million aggregate principal amount of 2.00% Convertible Senior Notes due October 2023. The net proceeds of \$392.4 million were used to repay a portion of the drawn balance under the revolving credit facility under the

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

prior AA Credit Agreement and to fully repay the outstanding balances on both the MIC senior secured and IMTT revolving credit facilities. The remaining proceeds were used for general corporate purposes. The notes are convertible, at the holder's option, only upon satisfaction of one or more conditions set forth in the indenture governing the notes. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of Company's common stock or a combination thereof, at the Company's election. The initial conversion rate was 8.9364 shares per \$1,000 principal amount (equivalent to an initial conversion price of approximately \$111.90 per share, subject to adjustment).

The \$402.5 million of 2.00% Convertible Senior Notes due October 2023 had an initial value of the principal amount recorded as a liability of \$375.8 million, using an effective interest rate of 3.1%. The remaining \$26.7 million of principal amount was allocated to the conversion feature and recorded in *additional paid in capital* as a component of stockholders' equity. This amount represents a discount to the debt to be amortized through interest expense using the effective interest method through the maturity of the convertible senior notes. The Company also recorded \$11.0 million in deferred financing costs from the issuance of the convertible senior notes, of which \$729,000 was recorded as equity issuance costs as a component of stockholders' equity.

On October 13, 2018, the conversion rate increased to 9.0290 shares of common stock per \$1,000 principal amount. The adjustment was made, in accordance with the indenture governing the senior notes, on the anniversary of the convertible senior notes issuance and reflects the impact of dividends paid by the Company.

At December 31, 2018 and 2017, the Company had \$383.7 million and \$380.0 million, respectively, outstanding on these convertible senior notes. The fair value of liability component of these convertible senior notes at December 31, 2018 was approximately \$335.0 million.

At December 31, 2018 and 2017, the 2.00% Convertible Senior Notes due October 2023 consisted of the following (\$ in thousands):

	As of December 31,	
	2018	2017
Liability Component:		
Principal	\$ 402,500	\$ 402,500
Unamortized debt discount	(18,848 )	(22,475 )
Long-term debt, net of unamortized debt discount	383,652	380,025
Unamortized deferred financing costs	(7,140 )	(8,643 )
Net carrying amount	\$ 376,512	\$ 371,382
Equity Component	\$ 26,748	\$ 26,748

For the years ended December 31, 2018, 2017 and 2016, total interest expense recognized related to the 2.00% Convertible Senior Notes due October 2023 consisted of the following (\$ in thousands):

	Year Ended December 31,		
	2018	2017	2016
Contractual interest expense	\$ 8,050	\$ 7,782	\$ 1,969
Amortization of debt discount	3,627	3,266	1,007
Amortization of deferred financing costs	1,503	1,509	306
Total interest expense	\$ 13,180	\$ 12,557	\$ 3,282

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The key terms of the senior secured revolving credit facility and the convertible senior notes are summarized in the table below.

Facility Terms	Senior Secured Revolving Credit Facility	2.875% Convertible Senior Notes due July 2019	2.00% Convertible Senior Notes due October 2023
Total Committed Amount	\$600.0 million		
Amount Outstanding at December 31, 2018	Undrawn	\$349.9 million	\$383.7 million, net of unamortized discount of \$18.8 million
Maturity	January 2022	July 2019	October 2023
Amortization	Revolving, payable at maturity	Payable at maturity or convertible at the holder's option into the Company's shares	Payable at maturity or convertible at the holder's option into cash, the Company's shares or a combination thereof only upon satisfaction of one or more conditions set forth in the indenture
Interest Rate	LIBOR plus 1.75% at December 31, 2018	2.875% payable on January 15 <sup>th</sup> and July 15 <sup>th</sup> of each year	2.00% payable on April 1 <sup>st</sup> and October 1 <sup>st</sup> of each year
Commitment Fees	0.275% at December 31, 2018		
Security	Secured (may fall away if certain ratings and other conditions are met)	Unsecured	Unsecured

### IMTT

On December 5, 2018, ITT Holdings LLC (ITT LLC), a wholly owned direct subsidiary of IMTT Holdings LLC and a wholly owned indirect subsidiary of the Company, entered into the Second Amendment to Credit Agreement (the Amendment), among ITT LLC, IMTT-Quebec Inc. and IMTT-NTL, Ltd. as Canadian borrowers, the guarantors party thereto, SunTrust Bank, as administrative agent, and the lenders party thereto, to the Credit Agreement, dated as of May 21, 2015, as amended (the IMTT Credit Agreement). The Amendment provides for (i) a \$550.0 million revolving credit facility for ITT LLC, (ii) the Canadian dollar equivalent of a \$50.0 million revolving credit facility for the

Canadian borrowers and (iii) a \$509.0 million bond purchase facility.

The Amendment extends the maturity date of the revolving credit facilities from May 21, 2020 to December 5, 2023, and extends the maturity date of the bond purchase facility from May 21, 2022 to December 5, 2025. The Amendment also increases certain baskets under the covenants in the IMTT Credit Agreement and modifies certain related definitions in a manner generally favorable to the borrowers. In connection with the Amendment, supplemental indentures were entered into with respect to the \$509.0 million of outstanding Gulf Opportunity Zone Bonds, Louisiana Public Facilities Authority Revenue Bonds, Industrial Development Board of the Parish of Ascension Revenue Bonds and New Jersey Economic Development Authority Bonds (collectively, the Tax Exempt Bonds). The Tax Exempt Bonds were reissued and sold to certain lenders under the IMTT Credit Agreement pursuant to the bond purchase facility. The supplemental indentures provide for (i) an interest rate on the Tax Exempt Bonds of 80% of one month LIBOR plus applicable margin plus 0.45% and (ii) an extension of the date on which holders have the right to require repurchase of the Tax Exempt Bonds from May 21, 2022 to December 5, 2025.

On June 1, 2015, IMTT, as part of the IMTT refinancing in May 2015, entered into interest rate swap contracts, maturing in June 2021, with a total notional amount of \$361.1 million. These swaps partially hedged the floating LIBOR interest rate risk associated with the tax-exempt bonds for six years at 1.677%.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On May 21, 2015, ITT LLC entered into a Note Purchase Agreement for the issuance of \$325.0 million aggregate principal amount of 3.92% Guaranteed Senior Notes, Series A due 2025, and \$275.0 million aggregate principal amount of 4.02% of Guaranteed Senior Notes, Series B due 2027 (together the senior notes). The terms of the Note Purchase Agreement remain unchanged from the December 2018 Amendment. At December 31, 2018, the fair value of the senior notes was approximately \$575.0 million. The senior notes fall within Level 1 of the fair value hierarchy.

#### Revolving Credit Facilities

At December 31, 2018, the IMTT revolving credit facilities was undrawn compared with \$210.0 million outstanding at December 31, 2017. During the year ended December 31, 2018, IMTT borrowed \$17.0 million for general corporate purposes and repaid \$227.0 million on its USD revolving credit facility using cash on hand and proceeds from the BEC sale.

The key terms of IMTT's U.S. dollar and Canadian dollar denominated revolving credit facilities are summarized in the table below.

Facility Terms	USD Revolving Credit Facility	CAD Revolving Credit Facility
Total Committed Amount	\$550.0 million	\$50.0 million
Amount Outstanding at December 31, 2018	Undrawn	Undrawn
Maturity	December 2023	December 2023
Amortization	Revolving, payable at maturity	Revolving, payable at maturity
Interest Rate	LIBOR plus 1.50% at December 31, 2018	Bankers' Acceptances Rate plus 1.50% at December 31, 2018
Commitment Fees	0.20% at December 31, 2018	0.20% at December 31, 2018
Security	Unsecured	Unsecured

#### Senior Notes

The key terms of the senior notes are summarized in the table below.

Facility Terms	Senior Notes, Series A	Senior Notes, Series B
Amount Outstanding at December 31, 2018	\$325.0 million	\$275.0 million
Maturity	May 2025	May 2027
Amortization	Payable at maturity	Payable at maturity
Interest Rate	3.92%	4.02%
Security	Unsecured	Unsecured

### IMTT Tax Exempt Bonds

The key terms of the IMTT tax exempt bonds are summarized in the table below.

Facility Terms	Tax Exempt Bonds
Amount Outstanding at December 31, 2018	\$509.0 million
Maturity	December 2027 to August 2046
Amortization	Payable at maturity, subject to mandatory tender in December 2025
Interest Rate	One-month LIBOR plus Revolving Credit Facility margin plus 0.45% multiplied by 80%
Security	Unsecured

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Atlantic Aviation

On December 6, 2018, Atlantic Aviation FBO Inc. (AA FBO), a wholly-owned indirect subsidiary of the Company, entered into a credit agreement (the New AA Credit Agreement), among AA FBO, Atlantic Aviation FBO Holdings LLC (Holdings), the direct parent of AA FBO, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent and the several lenders party thereto. The New AA Credit Agreement provides for a seven-year, \$1,025.0 million senior secured first lien term loan facility and a five-year, \$350.0 million senior secured first lien revolving credit facility. The New AA Credit Agreement is guaranteed on a senior secured first lien basis by Holdings and certain subsidiaries of AA FBO. As part of the refinancing, Atlantic Aviation wrote-off approximately \$3.0 million in deferred financing costs associated with the October 2016 debt.

The additional proceeds from the Atlantic Aviation refinancing are expected to be used to repay the Company's 2.875% Convertible Senior Notes due July 2019 and for general corporate purposes.

At December 31, 2018, the Atlantic Aviation revolving credit facility was undrawn compared with \$258.0 million outstanding at December 31, 2017. During the year ended December 31, 2018, Atlantic Aviation borrowed \$68.0 million primarily to fund an on-field consolidation of an FBO and for general corporate purposes and repaid \$326.0 million on its revolving credit facility using cash on hand and proceeds from the BEC sale and its refinancing.

The key terms of the term loan and revolving credit facilities are summarized in the table below.

Facility Terms	Term Loan Facility	Revolving Credit Facility
Facilities	\$1,025.0 million senior secured first lien term loan (fully drawn at December 31, 2018)	\$350.0 million senior secured first lien revolving credit facility (undrawn at December 31, 2018)
Maturity	December 2025	December 2023
Amortization	1.0% of the initial principal balance per annum	Revolving, payable at maturity
Interest Rate	LIBOR plus 3.75% or Alternate Base Rate (ABR) plus 2.75%. ABR is the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5% and (iii) one-month LIBOR plus 1.0%	LIBOR plus 1.50% to 2.25% or ABR plus 0.50% to 1.25%, in each case depending on total leverage ratio
Commitment Fees		0.25% to 0.35% on the undrawn portion, depending on total leverage ratio

Security

Secured

Secured

## **MIC Hawaii**

### **Hawaii Gas**

On February 10, 2016, Hawaii Gas completed the refinancing of its existing \$80.0 million term loan and \$60.0 million revolving credit facility. The \$80.0 million term loan bears interest at a variable rate of LIBOR plus an applicable margin between 1.00% and 1.75%. The variable rate component of the debt is fixed at 0.99% at December 31, 2018 using an interest rate swap contract through February 2020. The revolving credit facility bears interest at a variable rate of LIBOR plus an applicable margin between 1.00% and 1.75% and is unhedged. In February 2018, Hawaii Gas exercised the second of two one-year extensions related to its \$80.0 million secured term loan facility and its \$60.0 million revolving credit facility extending their respective maturities to February 2023.

At December 31, 2018 and 2017, the Hawaii Gas revolving credit facility was undrawn. During the year ended December 31, 2018, Hawaii Gas borrowed \$20.0 million for general corporate purposes and repaid \$20.0 million on its revolving credit facility using cash on hand and proceeds from the BEC sale. In addition, at December 31, 2018, Hawaii Gas had \$100.0 million of fixed rate senior notes outstanding, which approximates the fair value.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The key terms of the term loan, senior secured notes and revolving credit facility of Hawaii Gas are summarized in the table below.

Facility Terms	Holding Company Debt	Operating Company Debt	
Borrowers	HGC Holdings LLC (HGC)	The Gas Company, LLC (TGC)	
Facilities	\$80.0 million Term Loan (fully drawn at December 31, 2018)	\$100.0 million Senior Secured Notes (fully drawn at December 31, 2018)	\$60.0 million Revolving Credit Facility (undrawn at December 31, 2018)
Maturity	February 2023	August 2022	February 2023
Amortization	Payable at maturity	Payable at maturity	Revolving, payable at maturity
Interest Rate	LIBOR plus 1.75% or Base Rate: 0.75% above the greater of the prime rate or the federal funds rate plus 0.5%	4.22% payable semi-annually	LIBOR plus 1.25% or Base Rate: 0.25% above the greater of the prime rate or the federal funds rate plus 0.5%
Commitment Fees	—	—	0.225% on the undrawn portion
Collateral	First lien on all assets of HGC and its subsidiaries	First lien on all assets of TGC and its subsidiaries	First lien on all assets of TGC and its subsidiaries

During the quarters ended March 31, 2018 and June 30, 2018, Hawaii Gas was not in compliance with certain credit agreement provisions. During the quarter ended September 30, 2018, the business received waivers from its syndicate of lenders relating to the non-compliance. At September 30, 2018 and December 31, 2018, Hawaii Gas was again in compliance with its credit agreement having received waivers from its lenders.

#### Solar Facilities

In July 2016, the solar facilities in Hawaii entered into a ten year, \$18.0 million amortizing term loan facility. The interest rate on this term loan facility floats at LIBOR plus 2.0%. The interest rate was fixed at 3.38% using an interest rate swap contract through June 30, 2026. At December 31, 2018, the outstanding balance on the term loan was \$15.7 million.

### 10. Derivative Instruments and Hedging Activities

From time to time, the Company enters into interest rate agreements to minimize potential variations in cash flows resulting from fluctuations in interest rates and their impact on its variable-rate debt. The Company does not enter into derivative instruments for any purpose other than economic interest rate hedging. That is, the Company does not speculate using derivative instruments. In addition, Hawaii Gas, a business within the Company's MIC Hawaii reportable segment, enters into commodity price hedges to mitigate the impact of fluctuations in LPG prices on its cash flows.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. Conversely, when the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with creditworthy counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. Derivative Instruments and Hedging Activities (continued)

#### Interest Rate Contracts

The Company and certain of its businesses have in place variable-rate debt. Management believes that it is prudent to limit the variability of a portion of the business interest payments. To meet this objective, the Company enters into interest rate agreements, primarily using interest rate swaps and from time to time using interest rate caps, to manage fluctuations in cash flows resulting from interest rate risk on a portion of its debt with a variable-rate component. Interest rate swaps change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt for the portion of the debt that is swapped.

At December 31, 2018, the Company had \$3.1 billion of current and long-term debt, of which \$947.1 million was economically hedged with interest rate contracts, \$1.5 billion was fixed rate debt and \$682.6 million was unhedged.

At December 31, 2017, the Company had \$3.1 billion of current and long-term debt, of which \$1.0 billion was economically hedged with interest rate contracts, \$1.5 billion was fixed rate debt and \$601.5 million was unhedged.

The Company does not use hedge accounting. All movements in the fair value of the interest rate derivatives are recorded directly through earnings.

#### IMTT

On June 1, 2015, IMTT, as part of the IMTT refinancing in May 2015, entered into interest rate swap contracts, maturing in June 2021, with a total notional amount of \$361.1 million. These swaps partially hedged the floating LIBOR interest rate risk associated with the tax-exempt bonds for six years at 1.677%.

On December 5, 2018, IMTT entered into the Amendment on its tax-exempt bonds. The Amendment provided for the change in interest rate to 80% of one month LIBOR plus an applicable margin plus 0.45% and an extension of maturity from May 2022 to December 2025. The interest rate swap was not amended and therefore increased the unhedged component of the tax-exempt bonds by approximately \$57.6 million. See Note 9, Long-Term Debt, for further details on the Amendment.

#### Atlantic Aviation

In October 2016, Atlantic Aviation entered into \$400.0 million notional interest rate caps with a strike price of 1.0% to hedge the one month LIBOR floating rate interest exposure on the business term loan or revolving credit facility. The notional amount on the interest rate cap will remain at \$400.0 million through its maturity in September 2021.

On December 6, 2018, Atlantic Aviation refinanced its term loan and revolving credit facility under the New AA Credit Agreement. The existing interest rate cap will remain in place and will be used to partially hedge the Atlantic Aviation term loan facility under the New AA Credit Agreement. See Note 9, Long-Term Debt, for further details on

the New AA Credit Agreement.

### **MIC Hawaii**

In February 2016, in conjunction with a refinancing, Hawaii Gas entered into a new interest rate swap contract for an \$80.0 million notional that took effect on August 8, 2016, upon the maturity of the existing interest rate swap, and expires on February 8, 2020. At December 31, 2018, the interest rate swap fixes the interest rate on the \$80.0 million term loan at 2.74%.

In July 2016, the solar facilities in MIC Hawaii entered into a ten year, \$18.0 million amortizing term loan facility. The interest rate on this term loan facility floats at LIBOR plus 2.0%. Concurrently, it entered into an amortizing interest rate swap contract with an original notional value of \$18.0 million. The contract is scheduled to amortize concurrently with the term loan and fixes the interest rate at 3.38% as of December 31, 2018.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****10. Derivative Instruments and Hedging Activities (continued)****Commodity Price Hedges**

The risks associated with fluctuations in the prices that Hawaii Gas, a business within MIC Hawaii reportable segment, pays for liquefied petroleum gas (LPG) is principally a result of market forces reflecting changes in supply and demand for LPG and other energy commodities. Hawaii Gas gross margin (revenue less cost of product sales excluding depreciation and amortization) is sensitive to changes in LPG supply costs and Hawaii Gas may not always be able to pass through product cost increases fully or on a timely basis, particularly when product costs rise rapidly. In order to reduce the volatility of the business LPG market price risk, Hawaii Gas has used and expects to continue to use over-the-counter commodity derivative instruments including price swaps. Hawaii Gas does not use commodity derivative instruments for speculative or trading purposes. Over-the-counter derivative commodity instruments used by Hawaii Gas to hedge forecasted purchases of LPG are generally settled at expiration of the contract. At December 31, 2018, Hawaii Gas had 39.1 million gallons hedged that expire in December 2020.

**Financial Statement Location Disclosure for Derivative Instruments**

The Company measures derivative instruments at fair value using the income approach which discounts the future net cash settlements expected under the derivative contracts to a present value. These valuations use primarily observable (level 2) inputs, including contractual terms, interest rates and yield curves observable at commonly quoted intervals.

The Company's fair value measurements of its derivative instruments and the related location of the assets and liabilities within the consolidated balance sheets at December 31, 2018 and 2017 were (\$ in thousands):

Balance Sheet Location		Assets (Liabilities)	
		at Fair Value as of	
		December 31,	
		2018	2017
Fair value of derivative instruments	current assets	\$ 10,516	\$ 11,965
Fair value of derivative instruments	noncurrent assets	14,536	22,011
Total derivative contracts assets		\$ 25,052	\$ 33,976
Fair value of derivative instruments	other current liabilities	\$ (2,508 )	\$
Fair value of derivative instruments	other noncurrent liabilities	(58 )	
Total derivative contracts liabilities		\$ (2,566 )	\$

The Company's hedging activities for the years ended December 31, 2018, 2017 and 2016 and the related location within the consolidated statement of operations were (\$ in thousands):

Financial Statement Account	Amount of Gain (Loss) Recognized in Consolidated Statements of Operations		
	Year Ended December 31,		
	2018	2017	2016
Interest expense interest rate caps	\$ 3,758	\$ 120	\$ 8,124
Interest expense interest rate swaps	3,852	2,119	(10,638 )
Cost of product sales commodity swaps	(5,030 )	6,791	13,914
Total	\$ 2,580	\$ 9,030	\$ 11,400

All of the Company's derivative instruments are collateralized by the assets of the respective businesses.



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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. Stockholders Equity

#### Classes of Stock

The Company is authorized to issue (i) 500,000,000 shares of common stock, par value \$0.001 per share, (ii) 100 shares of special stock, par value \$0.001 per share and (iii) 100,000,000 shares of preferred stock, par value \$0.001 per share. At December 31, 2018, the Company had 85,800,303 shares of common stock issued and outstanding and 100 shares of special stock issued to its Manager and outstanding. There was no preferred stock issued or outstanding at December 31, 2018. Each outstanding share of common stock of the Company is entitled to one vote on any matter with respect to which holders of shares are entitled to vote.

The sole purpose for the special stock was to preserve the Manager's right to appoint one director to serve as the chairman of the board of directors. The special stock is not listed on any stock exchange and is non-transferable. Holders of special stock are not entitled to any dividends or to share in any distribution of assets upon the liquidation or dissolution of the Company.

#### 2016 Omnibus Employee Incentive Plan

On May 18, 2016, the Company adopted the 2016 Omnibus Employee Incentive Plan (Plan). The Plan provides for the issuance of equity awards covering up to 500,000 shares of common stock to attract, retain, and motivate employees, consultants and others who perform services for the Company and its subsidiaries. Under the Plan, the Compensation Committee determines the persons who will receive awards, the time at which they are granted and the terms of the awards. Type of awards include stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, cash-based awards and other stock-based awards. At December 31, 2018, there were no awards outstanding under this Plan.

#### Accumulated Other Comprehensive Loss

The following represents the changes and balances to the components of accumulated other comprehensive loss for the years ended December 31, 2018, 2017 and 2016 (\$ in thousands):

	Post-Retirement Benefit Plans, net of taxes <sup>(1)</sup>	Translation Adjustment, net of taxes <sup>(2)</sup>	Total Accumulated Other Comprehensive Loss, net of taxes	Noncontrolling Interests	Total Stockholders Accumulated Other Comprehensive Loss, net of taxes
Balance at December 31, 2015	\$(14,788 )	\$(14,530 )	\$(29,318 )	\$ 6,023	\$(23,295 )
Change in post-retirement benefit plans	(2,017 )		(2,017 )		(2,017 )

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Translation adjustment		2,375	2,375	(1,434 )	941
Purchase of noncontrolling interest <sup>(3)</sup>				(4,589 )	(4,589 )
Balance at December 31, 2016	\$(16,805 )	\$(12,155 )	\$(28,960 )	\$	\$(28,960 )
Change in post-retirement benefit plans	(3,651 )		(3,651 )		(3,651 )
Translation adjustment		2,618	2,618		2,618
Balance at December 31, 2017	\$(20,456 )	\$(9,537 )	\$(29,993 )	\$	\$(29,993 )
Cumulative effect of change in accounting principle <sup>(4)</sup>	(4,139 )	(255 )	(4,394 )		(4,394 )
Change in post-retirement benefit plans	8,973		8,973		8,973
Translation adjustment		(4,857 )	(4,857 )		(4,857 )
Balance at December 31, 2018	\$(15,622 )	\$(14,649 )	\$(30,271 )	\$	\$(30,271 )

(1) Change in post-retirement benefit plans is presented net of tax expense of \$3.5 million and net of tax benefit of \$3.0 million and \$1.4 million for the years ended December 31, 2018, 2017, and 2016, respectively.

(2) Translation adjustment is presented net of tax benefit of \$1.9 million and net of tax expense of \$2.0 million and \$618,000 for the years ended December 31, 2018, 2017, and 2016, respectively.

(3) On March 31, 2016, IMTT acquired the remaining 33.3% interest in its Quebec terminal that it did not previously own. As part of this transaction, the translation adjustment of \$4.6 million, net of taxes, was reclassified from *noncontrolling interests to accumulated other comprehensive loss*.

(4) See Note 2, Summary of Significant Accounting Policies *Recently Issued Accounting Standards*, for the Company's adoption of ASU No. 2018-02 during the year ended December 31, 2018.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. Stockholders Equity (continued)

**Dividends**

The Company's board of directors have made or declared the following dividends during the years ended December 31, 2018, 2017 and 2016:

Declared	Period Covered	\$ per Share	Record Date	Payable Date
February 14, 2019	Fourth quarter 2018	\$ 1.00	March 4, 2019	March 7, 2019
October 30, 2018	Third quarter 2018	1.00	November 12, 2018	November 15, 2018
July 31, 2018	Second quarter 2018	1.00	August 13, 2018	August 16, 2018
May 1, 2018	First quarter 2018	1.00	May 14, 2018	May 17, 2018
February 19, 2018	Fourth quarter 2017	1.44	March 5, 2018	March 8, 2018
October 30, 2017	Third quarter 2017	1.42	November 13, 2017	November 16, 2017
August 1, 2017	Second quarter 2017	1.38	August 14, 2017	August 17, 2017
May 2, 2017	First quarter 2017	1.32	May 15, 2017	May 18, 2017
February 17, 2017	Fourth quarter 2016	1.31	March 3, 2017	March 8, 2017
October 27, 2016	Third quarter 2016	1.29	November 10, 2016	November 15, 2016
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

The board of directors regularly reviews the Company's dividend policy and payout ratio. In determining whether to adjust the amount of the quarterly dividend, the board will take into account such matters as the state of the capital markets and general business and economic conditions, the Company's financial condition, results of operations, indebtedness levels, capital requirements, capital opportunities and any contractual, legal and regulatory restrictions on the payment of dividends by the Company to its stockholders 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. In particular, each of the Company's businesses has debt commitments and restrictive covenants, which must be satisfied before any of them can make distributions to the Company. In addition, the Company's senior secured credit facility contains restrictions on the Company's ability to pay dividends. Although historically the Company has declared cash dividends on its shares, any or all of these factors or other factors could result in the modification of the dividend policy, or the reduction, modification or elimination of its dividend in the future.

The dividends paid have been recorded as a reduction to *additional paid in capital* in the stockholders' equity section of the consolidated balance sheets.

### **Independent Director Equity Plan**

In 2014, MIC adopted, and MIC's stockholders approved, the 2014 Independent Directors Equity Plan (2014 Plan) to replace the 2004 Independent Directors Equity Plan, which expired in December 2014. The purpose of this plan is to promote the long-term growth and financial success of the Company by attracting, motivating and retaining independent directors of outstanding ability. Only the Company's independent directors may participate in the 2014 Plan. The only type of award that may be granted under the 2014 Plan is an award of director shares. Each share is an unsecured promise to transfer one share on the settlement date, subject to satisfaction of the applicable terms and conditions. The maximum number of shares available for issuance under the 2014 Plan is 300,000 shares, of which 248,664 shares remained available for issuance at December 31, 2018. The aggregate grant date fair value of awards granted to an independent director during any single fiscal year (excluding awards made at the election of the independent director in lieu of all or a portion of annual and committee cash retainers) may not exceed \$350,000. The 2014 Plan does not provide a

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. Stockholders Equity (continued)

formula for the determination of awards and the Compensation Committee will have the authority to determine the size of all awards under the 2014 Plan, subject to the limits on the number of shares that may be granted annually.

Since 2016, the Company has granted and issued the following stock to the board of directors under the Plans:

Date of Grant	Stock Units Granted	Price of Stock Units Granted	Date of Vesting
May 18, 2016 <sup>(1)</sup>	8,604	69.72	May 16, 2017
November 1, 2016 <sup>(2)</sup>	991	81.93	May 16, 2017
May 17, 2017	9,435	79.51	May 15, 2018
June 7, 2018	19,230	39.00	(3)
September 5, 2018 <sup>(2)</sup>	4,416	47.03	(3)

(1) Restricted stock unit grants are net of forfeitures of 2,151 restricted stock unit grants due to the retirement of an independent director on September 30, 2016.

(2) Represents additional restricted stock unit grants to new independent directors during the respective years.

(3) Date of vesting will be the day immediately preceding the 2019 annual meeting of the Company's stockholders.

### 12. Reportable Segments

At December 31, 2018, the Company's businesses consist of four reportable segments: IMTT, Atlantic Aviation, MIC Hawaii and Corporate and Other.

Effective October 1, 2018, BEC and substantially all of the Company's portfolio of solar and wind power generation businesses were classified as discontinued operations and the Company's Contracted Power segment was eliminated. The remaining renewable power development businesses have been reported as components of Corporate and Other.

All prior comparable periods have been restated to reflect this change. See Note 5, "Discontinued Operations and Dispositions" for further discussions.

#### IMTT

IMTT provides bulk liquid storage, handling and other services in North America through 17 terminals located in the United States, one terminal in Quebec, Canada and one partially owned terminal in Newfoundland, Canada. IMTT derives the majority of its revenue from storage and handling of petroleum products, various chemicals, renewable fuels, and vegetable and tropical oils. Based on storage capacity, IMTT operates one of the largest third-party bulk liquid terminals businesses in the United States. Revenue from IMTT is included in service revenue.

**Atlantic Aviation**

Atlantic Aviation derives the majority of its revenue from fuel delivery services and from other airport services, including de-icing and aircraft hangar rental. All of the revenue of Atlantic Aviation is generated at airports in the U.S. The business currently operates at 70 airports. Revenue from Atlantic Aviation is included in service revenue.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Reportable Segments (continued)

#### MIC Hawaii

MIC Hawaii comprises of (i) Hawaii Gas, Hawaii's only government-franchised gas utility and an unregulated liquefied petroleum gas distribution business providing gas and related services to commercial, residential and governmental customers; and (ii) controlling interests in two solar facilities on Oahu. Revenue from Hawaii Gas and the solar facilities are recorded in product revenue.

Revenue from the Hawaii Gas business is generated from the distribution and sales of synthetic natural gas (SNG), liquefied petroleum gas (LPG) and liquefied natural gas (LNG). Revenue is primarily a function of the volume of SNG, LPG and LNG consumed by customers and the price per British Thermal Unit or gallon charged to customers. Revenue levels, without organic growth, will generally track global commodity prices, namely petroleum and natural gas, as its products are derived from these commodities.

The renewables businesses within MIC Hawaii sell substantially all of the electricity generated at a fixed price to primarily electric utility customers pursuant to long-term (20 years) PPAs. Substantially all of the PPAs are accounted for as operating leases and have no minimum lease payments and all of the lease income under these leases is recorded within product revenue when the electricity is delivered.

#### Corporate and Other

Corporate and Other comprises of MIC Corporate (holding company), shared services center and other smaller businesses.

All of the MIC business segments are managed separately and management has chosen to organize the Company around the distinct products and services offered. Selected information by segment is presented in the following tables.

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

	Year Ended December 31, 2018					Total
	IMTT	Atlantic Aviation	MIC Hawaii	Corporate and Other	Intercompany Adjustments	Reportable Segments
Service Revenue						
Terminal Services	\$89,630	\$	\$	\$	\$(23)	\$89,607
Lease	402,395				(4,402)	397,993
Fuel		704,249				704,249
Hangar		88,239				88,239

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Construction			42,819			42,819
Other <sup>(1)</sup>	18,758	170,004	3,438	42		192,242
Total Service Revenue	\$510,783	\$962,492	\$46,257	\$ 42	\$ (4,425 )	\$1,515,149
Product Revenue						
Lease	\$	\$	\$4,594	\$	\$	\$4,594
Gas			229,436			229,436
Other			11,502	852		12,354
Total Product Revenue	\$	\$	\$245,532	\$ 852	\$	\$246,384
Total Revenue	\$510,783	\$962,492	\$291,789	\$ 894	\$ (4,425 )	\$1,761,533

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Reportable Segments (continued)

	Year Ended December 31, 2017				Total Reportable Segments
	IMTT	Atlantic Aviation	MIC Hawaii	Intercompany Adjustments	
Service Revenue					
Terminal Services	\$85,062	\$	\$	\$ (45 )	\$85,017
Lease	431,449			(4,889 )	426,560
Fuel		614,739			614,739
Hangar		77,584			77,584
Construction			53,587		53,587
Other <sup>(1)</sup>	32,911	154,108	1,326		188,345
Total Service Revenue	\$549,422	\$846,431	\$54,913	\$ (4,934 )	\$1,445,832
Product Revenue					
Lease	\$	\$	\$3,001	\$	\$3,001
Gas			208,684		208,684
Other			11,270		11,270
Total Product Revenue	\$	\$	\$222,955	\$	\$222,955
Total Revenue	\$549,422	\$846,431	\$277,868	\$ (4,934 )	\$1,668,787

	Year Ended December 31, 2016				Total Reportable Segments	
	IMTT	Atlantic Aviation	MIC Hawaii	Corporate and Other		Intercompany Adjustments
Service Revenue						
Terminal Services	\$80,607	\$	\$	\$	\$ (90 )	\$80,517
Lease	418,762				(4,791 )	413,971
Fuel		528,950				528,950
Hangar		68,939				68,939
Construction			20,762			20,762
Other <sup>(1)</sup>	33,103	142,320				175,423
Total Service Revenue	\$532,472	\$740,209	\$20,762	\$	\$ (4,881 )	\$1,288,562
Product Revenue						
Lease	\$	\$	\$1,040	\$311	\$	\$1,351
Gas			200,965			200,965
Other			11,154			11,154
Total Product Revenue	\$	\$	\$213,159	\$311	\$	\$213,470
Total Revenue	\$532,472	\$740,209	\$233,921	\$311	\$ (4,881 )	\$1,502,032

(1) See Note 3, Implementation of ASU 2014-09 , for revenues disclosed in Other.

In accordance with FASB ASC 280, *Segment Reporting*, the Company has disclosed earnings before interest, taxes, depreciation and amortization (EBITDA) excluding non-cash items as a key performance indicator for the businesses. EBITDA excluding non-cash items is reflective of the businesses' ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of its businesses. The Company defines 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, adjustments for other non-cash items and pension expense reflected in the statements of operations.

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EBITDA excluding non-cash items for the Company's consolidated reportable segments from continuing operations is shown in the tables below (\$ in thousands). Allocations of corporate expenses, intercompany fees and the tax effect have been excluded as they are eliminated in consolidation.

	Year Ended December 31, 2018				Total
	IMTT	Atlantic Aviation	MIC Hawaii	Corporate and Other	Reportable Segments
Net income (loss)	\$ 65,284	\$ 96,419	\$ (13,125 )	\$ (83,950 )	\$ 64,628
Interest expense, net	45,502	25,833	7,984	32,519	111,838
Provision (benefit) for income taxes	35,885	35,222	(6,769 )	(14,887 )	49,451
Goodwill impairment			3,215		3,215
Depreciation	115,896	60,046	17,037	680	193,659
Amortization of intangibles	15,506	45,904	6,671	233	68,314
Fees to Manager - related party				44,866	44,866
Pension expense	7,662	21	438	185	8,306
Other non-cash expense <sup>(1)</sup>	867	1,221	21,810	1,280	25,178
EBITDA excluding non-cash items	\$ 286,602	\$ 264,666	\$ 37,261	\$ (19,074 )	\$ 569,455

(1) Other non-cash expense includes the write-down of the Company's investment in the design-build mechanical contractor business at MIC Hawaii for the year ended December 31, 2018.

	Year Ended December 31, 2017				Total
	IMTT	Atlantic Aviation	MIC Hawaii	Corporate and Other	Reportable Segments
Net income (loss)	\$ 363,049	\$ 124,370	\$ 25,416	\$ (79,065 )	\$ 433,770
Interest expense, net	38,357	14,512	7,041	27,006	86,916
(Benefit) provision for income taxes	(209,464 )	6,509	9,287	(35,835 )	(229,503 )
Depreciation	113,558	50,797	13,776	161	178,292
Amortization of intangibles	12,905	49,393	1,527		63,825
Fees to Manager - related party				71,388	71,388
Pension expense	6,996	20	1,090		8,106
Other non-cash expense	767	1,642	2,494	831	5,734
EBITDA excluding non-cash items	\$ 326,168	\$ 247,243	\$ 60,631	\$ (15,514 )	\$ 618,528



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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Reportable Segments (continued)

	Year Ended December 31, 2016				Total Reportable Segments
	IMTT	Atlantic Aviation	MIC Hawaii	Corporate and Other	
Net income (loss)	\$ 83,142	\$ 59,538	\$ 35,744	\$ (49,959)	\$ 128,465
Interest expense, net	38,752	33,961	5,559	17,255	95,527
Provision (benefit) for income taxes	57,736	39,889	20,441	(48,753)	69,313
Depreciation	123,346	41,493	10,533	146	175,518
Amortization of intangibles	11,039	49,166	792		60,997
Fees to Manager - related party				68,486	68,486
Pension expense	7,219	110	1,272		8,601
Other non-cash expense (income)	657	905	(11,539)	681	(9,296)
EBITDA excluding non-cash items	\$ 321,891	\$ 225,062	\$ 62,802	\$ (12,144)	\$ 597,611
Reconciliation of total reportable segments EBITDA excluding non-cash items to consolidated net income from continuing operations before income taxes were (\$ in thousands):					

	Year Ended December 31,		
	2018	2017	2016
Total reportable segments EBITDA excluding non-cash items	\$569,455	\$618,528	\$597,611
Interest income	788	83	86
Interest expense	(112,626)	(86,999)	(95,613)
Goodwill impairment	(3,215)		
Depreciation	(193,659)	(178,292)	(175,518)
Amortization of intangibles	(68,314)	(63,825)	(60,997)
Fees to Manager - related party	(44,866)	(71,388)	(68,486)
Pension expense	(8,306)	(8,106)	(8,601)
Other (expense) income, net	(25,178)	(5,734)	9,296
Total consolidated net income from continuing operations before income taxes	\$ 114,079	\$ 204,267	\$ 197,778
Capital expenditures, on a cash basis, for the Company's reportable segments were (\$ in thousands):			

IMTT	Year Ended December 31,		
	2018	2017	2016
Atlantic Aviation	\$ 63,518	\$ 73,802	\$ 96,865
	67,445	82,249	113,092

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MIC Hawaii	22,664	29,373	35,459
Corporate and other	23,529	28,800	11,782
Total capital expenditures of reportable segments	\$ 177,156	\$ 214,224	\$ 257,198

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Reportable Segments (continued)

Property, equipment, land and leasehold improvements, net, goodwill and total assets for the Company's reportable segments and its reconciliation to consolidated total assets as of December 31<sup>st</sup> were (\$ in thousands):

	Property, Equipment, Land and Leasehold Improvements, net		Goodwill		Total Assets	
	2018	2017	2018	2017	2018	2017
	IMTT	\$2,249,758	\$2,305,440	\$1,427,108	\$1,427,863	\$4,020,508
Atlantic Aviation	564,859	559,597	496,019	495,769	1,675,717	1,710,535
MIC Hawaii	299,923	302,220	120,193	123,408	501,142	532,144
Corporate and other	26,867	30,150			598,762	68,962
Total assets of reportable segments	\$3,141,407	\$3,197,407	\$2,043,320	\$2,047,040	\$6,796,129	\$6,421,089
Assets held for sale					647,652	1,587,862
Total consolidated assets	\$3,141,407	\$3,197,407	\$2,043,320	\$2,047,040	\$7,443,781	\$8,008,951

### 13. Related Party Transactions

#### Management Services

At December 31, 2018 and 2017, the Manager held 12,477,438 shares and 5,435,442 shares, respectively, of the Company's common stock. Pursuant to the terms of the Third Amended and Restated Management Agreement (Management Agreement), the Manager may sell these shares at any time. Under the Management Agreement, the Manager, at its option, may reinvest base management fees and performance fees, if any, in shares of the Company. From May 2018 through September 2018, the Manager bought 5,987,100 shares in the open market. The Manager's holdings at December 31, 2018 represented 14.54% of our outstanding common stock.

Since January 1, 2016, the Company paid the Manager cash dividends on shares held for the following periods:

Declared	Period Covered	\$ per Share	Record Date	Payable Date	Cash Paid to Manager (in thousands)
February 14, 2019	Fourth quarter 2018	\$ 1.00	March 4, 2019	March 7, 2019	(1)
October 30, 2018	Third quarter 2018	1.00			\$ 12,317

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			November 12, 2018	November 15, 2018	
July 31, 2018	Second quarter 2018	1.00	August 13, 2018	August 16, 2018	10,711
May 1, 2018	First quarter 2018	1.00	May 14, 2018	May 17, 2018	6,213
February 19, 2018	Fourth quarter 2017	1.44	March 5, 2018	March 8, 2018	8,067
October 30, 2017	Third quarter 2017	1.42	November 13, 2017	November 16, 2017	7,484
August 1, 2017	Second quarter 2017	1.38	August 14, 2017	August 17, 2017	6,941
May 2, 2017	First quarter 2017	1.32	May 15, 2017	May 18, 2017	6,332
February 17, 2017	Fourth quarter 2016	1.31	March 3, 2017	March 8, 2017	6,080
October 27, 2016	Third quarter 2016	1.29	November 10, 2016	November 15, 2016	5,620
July 28, 2016	Second quarter 2016	1.25	August 11, 2016	August 16, 2016	8,743
April 28, 2016	First quarter 2016	1.20	May 12, 2016	May 17, 2016	6,981
February 18, 2016	Fourth quarter 2015	1.15	March 3, 2016	March 8, 2016	6,510

(1) The amount of dividend payable to the Manager for the fourth quarter of 2018 will be determined on March 04, 2019, the record date.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. Related Party Transactions (continued)

Under the Management Agreement, subject to the oversight and supervision of the Company's board of directors, the Manager is responsible for and oversees the management of the Company's operating businesses. In addition, the Manager has the right to appoint the Chairman of the Board of the Company, subject to minimum equity ownership, and to assign, or second, to the Company, two of its employees to serve as chief executive officer and chief financial officer of the Company and seconds or makes other personnel available as required.

In accordance with the Management Agreement, the Manager is entitled to a monthly base management fee based primarily on the Company's market capitalization, and potentially a quarterly performance fee based on total shareholder returns relative to a U.S. utilities index. Currently, the Manager has elected to reinvest the future base management fees and performance fees, if any, in additional shares. For the years ended December 31, 2018, 2017 and 2016, the Company incurred base management fees of \$44.9 million, \$71.4 million and \$68.5 million, respectively. The Company did not incur any performance fees for the years ended December 31, 2018, 2017 and 2016.

Effective November 1, 2018, the Manager waived two portions of the base management fee to which it was entitled under the terms of the Management Agreement. In effect, the waivers cap the base management fee at 1% of the Company's equity market capitalization less any cash balances at the holding company. The waiver applies only to the calculation of the base management fees and not to the remainder of the Management Agreement. MIMUSA reserves the right to revoke the waivers and revert to the prior terms of the Management Agreement, subject to providing the Company with not less than a one year notice. A revocation of the waiver would not trigger a recapture of previously waived fees.

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 balance sheets. The following table shows the Manager's reinvestment of its base management fees and performance fees, if any, in shares:

Period	Base Management Fee Amount (\$ in Thousands)	Performance Fee Amount (\$ in Thousands)	Shares Issued
<i>2018 Activities:</i>			
Fourth quarter 2018	\$ 8,753	\$	220,208 <sup>(1)</sup>
Third quarter 2018	12,333		269,286
Second quarter 2018	10,852		277,053
First quarter 2018	12,928		265,002
<i>2017 Activities:</i>			
Fourth quarter 2017	\$ 16,778	\$	248,162

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Third quarter 2017	17,954		240,674
Second quarter 2017	18,433		233,394
First quarter 2017	18,223		232,398
<i>2016 Activities:</i>			
Fourth quarter 2016	\$ 18,916	\$	230,773
Third quarter 2016	18,382		232,488
Second quarter 2016	16,392		232,835
First quarter 2016	14,796		234,179

The Manager elected to reinvest all of the monthly base management fees for the fourth quarter of 2018 in shares.  
 (1) The Company issued 220,208 shares for the quarter ended December 31, 2018, including 60,048 shares that were issued in January 2019 for the December 2018 monthly base management fee.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. Related Party Transactions (continued)

For the quarter ended June 30, 2015, the Company incurred \$135.6 million in performance fee. In July 2015, the board requested, and the Manager agreed, that \$67.8 million of the performance fee 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 the Manager on August 1, 2016 using the June 2016 volume weighted average share price of \$71.84.

The Manager is not entitled to any other compensation and all costs incurred by the Manager, including compensation of seconded staff, are paid by the Manager out of its base management fee. However, the Company is responsible for other direct costs including, but not limited to, expenses incurred in the administration or management of the Company and its subsidiaries, income taxes, audit and legal fees, acquisitions and dispositions and its compliance with applicable laws and regulations. During the years ended December 31, 2018, 2017 and 2016, the Manager charged the Company \$1.1 million, \$892,000 and \$714,000, respectively, for reimbursement of out-of-pocket expenses. The unpaid portion of the out-of-pocket expenses at the end of the reporting period is included in *Due to Manager-related party* in the consolidated balance sheets.

#### Other Services

The Company uses the resources of the Macquarie Group with respect to a range of advisory, procurement, insurance, hedging, lending and other services. Engagements involving members of the Macquarie Group are reviewed and approved by the Audit Committee of the Company's board of directors. Macquarie Group affiliates are engaged on an arm's length basis and frequently as a member of syndicate of providers whose other members establish the terms of the interaction.

#### Advisory Services

The Macquarie Group, and wholly-owned subsidiaries within the Macquarie Group, including Macquarie Bank Limited (MBL) and Macquarie Capital (USA) Inc. (MCUSA) have provided various advisory and other services and incurred expenses in connection with the Company's equity raising activities, acquisitions and debt structuring for the Company and its businesses. Underwriting fees are recorded in stockholders' equity as a direct cost of equity offerings. Advisory fees and out-of-pocket expenses relating to acquisitions are expensed as incurred. Debt arranging fees are deferred and amortized over the term of the credit facility.

In October 2016, the Company completed an underwritten public offering of \$402.5 million of aggregate principal amount of convertible senior notes. MCUSA served as an underwriter in this offering and received \$403,000 from the Company for such services.

### Long-Term Debt

In January 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million from \$410.0 million and extended the maturity through January 3, 2022. As part of the refinancing and upsizing, MIHI LLC's \$50.0 million commitment was replaced by a \$40.0 million commitment from Macquarie Capital Funding LLC. As part of the closing, the Company paid Macquarie Capital Funding LLC \$80,000 in closing fees.

Prior to the refinancing in January 2018, the Company incurred \$4,000, \$285,000 and \$236,000 in interest expense for the years ended December 31, 2018, 2017 and 2016, respectively, related to MIHI LLC's portion of the MIC senior secured revolving credit facility. Subsequent to the refinancing in January 2018, the Company incurred \$454,000 in interest expense related to Macquarie Capital Funding LLC's portion of the MIC senior secured revolving credit facility for the year ended December 31, 2018.

Atlantic Aviation's previous \$70.0 million revolving credit facility was provided by various financial institutions, including MBL which provided \$15.7 million. For the year ended December 31, 2016, Atlantic Aviation incurred and paid \$90,000 in interest expense related to MBL's portion of the revolving credit

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. Related Party Transactions (continued)

facility. The revolving credit facility was terminated in conjunction with the completion of the October 2016 refinancing of Atlantic Aviation's credit facilities.

#### Other Transactions

In May 2018, the Company sold its equity interest in projects involving two properties to Macquarie Infrastructure and Real Assets, Inc. (MIRA Inc.), an affiliate of the Manager, for their cost of approximately \$27.1 million. The Company retained the right to 20% of any gain on a subsequent sale by MIRA Inc. to a third party of a more than 50% interest in either or both of the projects.

Macquarie Energy North America Trading, Inc. (MENAT), an indirect subsidiary of Macquarie Group Limited, entered into contracts with IMTT to lease capacity. These contracts expired during the quarter ended June 30, 2017. For the years ended December 31, 2017 and 2016, IMTT recognized \$907,000 and \$3.9 million, respectively, in revenues pursuant to these agreements.

### 14. Income Taxes

The Company and its subsidiaries are subject to income taxes. The Company files a consolidated U.S. income tax return with its wholly-owned subsidiaries, including its allocated share of the taxable income from the solar and wind facilities. The Company and its subsidiaries file separate and combined state income tax returns.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law and included provisions that have an impact on the Company's federal taxable income. The most significant of these are 100% bonus depreciation on qualifying assets (which is scheduled to phase down ratably to 0% between 2023 and 2027) and a reduction in the federal corporate tax rate from 35% to 21%.

The Tax Cuts and Jobs Act also includes a new limitation on the deductibility of net interest expense that generally limits the deduction to 30% of adjusted taxable income. For years before 2022, adjusted taxable income is defined as taxable income computed without regard to certain items, including net business interest expense, the amount of any NOL deduction, tax depreciation and tax amortization. The Company does not expect to incur net interest expense that is greater than 30% of adjusted taxable income prior to 2022.

In the third quarter of 2018, the Company completed its data gathering and analysis based on the Tax Cuts and Jobs Act and its guidance issued to date as it relates to the remeasurement of existing deferred tax balances. The Company has not identified any material change to the net one-time charge for the year ended December 31, 2017 related to the Tax Cuts and Jobs Act.

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Components of the Company's income tax provision (benefit) related to the income from continuing operations for the years ended December 31, 2018, 2017 and 2016 were (\$ in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current taxes:			
State	\$ 13,950	\$ 11,031	\$ 7,304
Total current tax provision	\$ 13,950	\$ 11,031	\$ 7,304
Deferred taxes:			
Federal	\$ 30,886	\$ (247,077)	\$ 78,722
State	8,977	5,409	(2,049 )
Total deferred tax provision (benefit)	39,863	(241,668)	76,673
Change in valuation allowance	(4,362 )	1,134	(14,664)
Total tax provision (benefit)	\$ 49,451	\$ (229,503)	\$ 69,313

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities from continuing operations at December 31, 2018 and 2017, were (\$ in thousands):

	At December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	\$25,916	\$43,866
Deferred revenue	6,891	8,854
Accrued compensation	2,658	6,156
Accrued expenses	25,573	25,008
Investment and foreign tax credits	3,744	12,338
Other	531	499
Total gross deferred tax assets	65,313	96,721
Less: valuation allowance	(1,091 )	(5,453 )
Net deferred tax assets	\$64,222	\$91,268
Deferred tax liabilities:		
Intangible assets	\$(93,207 )	\$(91,020 )
Investment basis difference	(18,929 )	(19,954 )
Property and equipment	(623,799)	(609,817)
Unrealized gains on derivative instruments, net	(1,595 )	(6,479 )
Equity component of convertible senior notes	(6,515 )	(7,761 )
Prepaid expenses	(1,115 )	(1,151 )
Total deferred tax liabilities	(745,160)	(736,182)
Net deferred tax liabilities	\$(680,938)	\$(644,914)

At December 31, 2018, the Company and its wholly owned subsidiaries had federal income tax NOL carryforwards of \$152.0 million, which are available to offset future taxable income, if any, through 2036. The Company's NOL balance begins to expire in 2029. Approximately \$28.0 million of these NOLs may be limited, on an annual basis, due to the change of control for tax purposes of the respective subsidiaries in which such losses were incurred. The Company generated federal consolidated taxable income for the year ended December 31, 2018, which decreased the NOL carryforward. The Company believes that it will be able to utilize all federal prior year NOLs.

In addition, the Company and its subsidiaries have state NOL carryforwards. 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.

In assessing the need for a valuation allowance, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

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Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. For the year ended December 31, 2018, the Company decreased the valuation allowance by \$4.4 million.

As of December 31, 2018, the Company had \$680.9 million in noncurrent deferred tax liabilities from continuing operations. A significant portion of the Company's deferred tax liabilities relates to tax basis temporary differences of both property and equipment and intangible assets. The Company records the acquisitions of consolidated businesses under the purchase method of accounting and accordingly recognizes a significant increase to the value of the property and equipment and to intangible assets. For tax purposes, the

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. Income Taxes (continued)

Company may assume the existing tax basis of the acquired businesses, in which case the Company records a deferred tax liability to reflect the increase in the purchase accounting basis of the assets acquired over the carryover income tax basis. This liability will reduce in future periods as these temporary differences reverse.

For the years ended December 31, 2018, 2017 and 2016, the Company recorded an income tax expense of \$49.5 million, an income tax benefit of \$229.5 million and an income tax expense of \$69.3 million, respectively, from continuing operations. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the Tax Cuts and Jobs Act, the Company revalued its ending net deferred tax liabilities at December 31, 2017 and recognized a \$316.4 million tax benefit from continuing operations in the Company's consolidated statement of income for the year ended December 31, 2017. These amounts are different from the amounts computed by applying the U.S. federal income tax rate for the period to pretax income as a result of the following (\$ in thousands):

	Year Ended December 31,		
	2018	2017	2016
Tax provision at U.S. statutory rate	\$ 23,957	\$ 71,493	\$ 69,222
Permanent differences and other	3,962	10,381	8,078
State income taxes, net of federal benefit	18,620	11,443	8,392
Income attributable to noncontrolling interest	695	621	(259 )
Change in investment and foreign tax credits	6,579	(8,139 )	(1,456 )
Change in U.S. tax law		(316,436)	
Change in valuation allowance	(4,362 )	1,134	(14,664)
Total tax provision (benefit)	\$ 49,451	\$ (229,503)	\$ 69,313

### Uncertain Tax Positions

The amount of unrecognized tax benefits at December 31, 2018 and 2017 are not significant. The Company does not expect that the amount of unrecognized tax benefits will change in the next 12 months. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense in the statements of operations, which is consistent with the recognition of these items in prior reporting periods.

The federal statute of limitations on the assessment of additional income tax liabilities has lapsed for all returns filed for years ended on or before December 31, 2015. The various state statutes of limitations on the assessment of additional income taxes have lapsed on all returns filed for the years ended on or before December 31, 2014.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 15. Leases

The Company leases land, buildings, office space and certain office equipment under non-cancellable operating lease agreements that expire through March 2071.

Future minimum rental commitments at December 31, 2018 are (\$ in thousands):

2019	\$ 47,679
2020	44,152
2021	41,278
2022	39,824
2023	39,525
Thereafter	460,988
Total	\$ 673,446

Rent expense under all operating leases was \$54.0 million, \$50.9 million and \$49.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

### 16. Employee Benefit Plans

#### 401(k) Savings Plan

IMTT, Atlantic Aviation and the Hawaii Gas business each have a defined contribution plan under Section 401(k) of the Internal Revenue Code, allowing eligible employees to contribute a percentage of their annual compensation up to an annual amount as set by the IRS.

The employer contribution to these plans ranges from 0% to 6% of eligible compensation. Employer contributions were \$4.9 million, \$3.9 million and \$2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

#### IMTT DB Plan

Except for a plan covering certain employees covered by a collective-bargaining agreement at IMTT-Illinois (see below), substantially all employees of IMTT are eligible to participate in a defined benefit pension plan (IMTT DB Plan). Benefits under the IMTT DB Plan are based on years of service and the employees' highest average compensation for a consecutive five year period. IMTT's contributions to the plan are based on the recommendations of its consulting actuary.

On January 1, 2017, the IMTT DB Plan was frozen to new participants, except for the union employees of Bayonne, for whom it was subsequently frozen on January 1, 2018.

## Hawaii Gas Union Pension Plan

Hawaii Gas has a defined benefit pension plan for Classified Employees of GASCO, Inc. (HG DB Plan) that accrues benefits pursuant to the terms of a collective-bargaining agreement. The plan was frozen to new participants in 2008 in connection with an agreement to increase participant benefits over a three year period after which there will be no further increases to the flat rate as described herein. The HG DB Plan is non-contributory and covers all bargaining unit employees who have met certain service and age requirements. The benefits are based on a flat rate per year of service through the date of employment termination or retirement. Future contributions will be made to meet ERISA funding requirements. The HG DB Plan's trustee handles the plan assets and, as an investment manager, invests them in a diversified portfolio of primarily equity and fixed-income securities.

### Other Plan Benefits

IMTT, Hawaii Gas and Atlantic Aviation have other insignificant plans that are comprised of the following. These plans are shown below collectively as Other Plan Benefits .

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**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Employee Benefit Plans (continued)**

**IMTT**

IMTT is the sponsor of a defined benefit plan covering union employees at IMTT-Illinois (IMTT-Illinois Union Plan).

Monthly benefits under this plan are computed based on a benefit rate in effect at the date of the participant's termination multiplied by the number of years of service. IMTT's contributions to the plan are based on the recommendations of its consulting actuary. On January 1, 2018, the IMTT-Illinois Union Plan was frozen to new participants.

IMTT provides post-retirement life insurance (coverage equal to 25% of final year compensation not to exceed \$25,000) and health benefits (coverage for early retirees at least 62 years old on early retirement to age 65, reimbursement of Medicare premiums for the Bayonne terminal employees and some smaller health benefits no longer offered) to retired employees.

**Hawaii Gas**

Hawaii Gas has a postretirement plan. The GASCO, Inc. Hourly Postretirement Medical and Life Insurance Plan (the PMLI Plan) covers all bargaining unit participants who were employed by Hawaii Gas on April 30, 1999 and who retire after the attainment of age 62 with 15 years of service. Under the provisions of the PMLI Plan, Hawaii Gas pays for medical premiums of the retirees and spouses through the age of 64. After age 64, Hawaii Gas pays for medical premiums up to a maximum of \$150 per month. The retirees are also provided \$1,000 of life insurance benefits.

Hawaii Gas also has a retiree life insurance program for certain nonunion retirees. This plan is closed to future participants.

**Atlantic Aviation**

Atlantic Aviation sponsors a retiree medical and life insurance plan available to certain employees. Currently, the plan is funded as required to pay benefits and the plan has no assets. The Company accounts for postretirement healthcare and life insurance benefits in accordance with ASC 715, *Compensation - Retirement Benefits*, which requires the accrual of the cost of providing postretirement benefits during the active service period of the employee.

Additional information about the fair value of the benefit plan assets, the components of net periodic cost and the projected benefit obligation as of and for the years ended December 31, 2018 and 2017 are (\$ in thousands).

HG DB		IMTT DB		Other		Total	
Plan Benefits		Plan Benefits		Plan Benefits			
2018	2017	2018	2017	2018	2017	2018	2017

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Change in benefit obligation:									
Benefit obligation beginning of year	\$53,344	\$50,933	\$161,805	\$140,853	\$29,294	\$26,808	\$244,443	\$218,594	
Service cost	728	753	5,784	5,316	1,239	1,041	7,751	7,110	
Interest cost	1,868	1,982	5,718	5,808	1,055	1,087	8,641	8,877	
Plan amendments						243		243	
Participant contributions					103	62	103	62	
Actuarial (gains) losses	(4,088 )	2,082	(21,733 )	16,964	(2,533 )	1,384	(28,354 )	20,430	
Benefits paid	(2,584 )	(2,406 )	(8,546 )	(8,177 )	(1,494 )	(1,331 )	(12,624 )	(11,914 )	
Special termination benefits				1,041				1,041	
Benefit obligation end of year	\$49,268	\$53,344	\$143,028	\$161,805	\$27,664	\$29,294	\$219,960	\$244,443	

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	HG DB Plan Benefits		IMTT DB Plan Benefits		Other Plan Benefits		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Change in plan assets:								
Fair value of plan assets beginning of year	\$50,866	\$46,717	\$101,776	\$95,938	\$9,429	\$8,371	\$162,071	\$151,026
Actual return on plan assets	(2,144 )	6,555	(5,081 )	14,015	(580 )	1,305	(7,805 )	21,875
Employer contributions					1,098	1,022	1,098	1,022
Participant contributions					103	62	103	62
Benefits paid	(2,584 )	(2,406 )	(8,546 )	(8,177 )	(1,494)	(1,331)	(12,624 )	(11,914 )
Fair value of plan assets end of year	\$46,138	\$50,866	\$88,149	\$101,776	\$8,556	\$9,429	\$142,843	\$162,071

During the years ended December 31, 2018 and 2017, there were no contributions made to any of the plans. Hawaii Gas made a \$3.5 million voluntary contribution to the HG DB Plan during the year ended December 31, 2016. As of December 31, 2018, IMTT is not expected to make any cash contribution to the IMTT DB Plan until 2021. As of December 31, 2018, Hawaii Gas is not expected to make any cash contribution to the HG DB Plan until 2023. The annual amount of any cash contributions will be dependent upon a number of factors such as market conditions and changes to regulations.

The funded status at December 31, 2018 and 2017, are presented in the following table (\$ in thousands):

	HG DB Plan Benefits		IMTT DB Plan Benefits		Other Plan Benefits		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Funded status								
Funded status at end of year	\$(3,130)	\$(2,478)	\$(54,879)	\$(60,029)	\$(19,108)	\$(19,865)	\$(77,117)	\$(82,372)
Net amount recognized in balance sheet <sup>(1)</sup>	\$(3,130)	\$(2,478)	\$(54,879)	\$(60,029)	\$(19,108)	\$(19,865)	\$(77,117)	\$(82,372)
Amounts recognized in balance sheet consisting of:								
Current liabilities	\$	\$	\$	\$	\$(1,267 )	\$(1,224 )	\$(1,267 )	\$(1,224 )
Noncurrent liabilities	(3,130)	(2,478)	(54,879)	(60,029)	(17,841)	(18,641)	(75,850)	(81,148)
Net amount recognized in balance sheet <sup>(1)</sup>	\$(3,130)	\$(2,478)	\$(54,879)	\$(60,029)	\$(19,108)	\$(19,865)	\$(77,117)	\$(82,372)

(1) Generally accepted accounting principles require measurement of defined benefit pension liabilities utilizing current discount rates. Statutory funding formulas permit measurement of defined benefit pension liabilities

utilizing discount rates based on a 25-year average of those rates, which more closely matches the expected payout period for those liabilities. The IMTT and Hawaii Gas defined benefit pension plans both exceed 100% of the statutory funding target as of December 31, 2018.

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Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss for the years ended December 31, 2018 and 2017 are presented in the following table (\$ in thousands):

	HG DB Plan Benefits		IMTT DB Plan Benefits		Other Plan Benefits		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Prior service cost	\$	\$	\$	\$	\$(161 )	\$(163 )	\$(161 )	\$(163 )
Accumulated loss	(9,798)	(9,407)	(7,147 )	(18,320)	(4,190 )	(5,865 )	(21,135)	(33,592)
Accumulated other comprehensive loss	(9,798)	(9,407)	(7,147 )	(18,320)	(4,351 )	(6,028 )	(21,296)	(33,755)
Net periodic benefit cost in excess (deficit) of cumulative employer contributions	6,668	6,929	(47,732)	(41,709)	(14,757)	(13,837)	(55,821)	(48,617)
Net amount recognized in balance sheet	\$(3,130)	\$(2,478)	\$(54,879)	\$(60,029)	\$(19,108)	\$(19,865)	\$(77,117)	\$(82,372)

The components of net periodic benefit cost and other changes in other comprehensive loss (income) for the plans are shown below (\$ in thousands):

The estimated amounts that will be amortized from accumulated other comprehensive loss (income) over the next year are presented in the following table (\$ in thousands):

	HG DB Plan Benefits		IMTT DB Plan Benefits		Other Plan Benefits		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Amortization of prior service cost	\$	\$	\$	\$	\$ 2	\$ 2	\$ 2	\$ 2
Amortization of net loss	696	563	188	105	225	801	976	



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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. Employee Benefit Plans (continued)

The assumptions used in accounting for the HG DB Plan Benefits, IMTT DB Plan Benefits and Other Plan Benefits are:

(1) Only applies to IMTT post-retirement life insurance plan.

(2) Only applies to IMTT-Illinois Union Plan.

Pension asset investment decisions are made with assistance of an outside paid advisor to achieve the multiple goals of high rate of return, diversification and safety. The business has instructed the trustee, the investment manager, to maintain the allocation of the defined benefit plans assets between equity mutual fund securities, fixed income mutual fund securities, mixed equity and fixed income mutual fund securities, money market funds and cash within the pre-approved parameters set by the management. The weighted average asset allocation at December 31, 2018 and 2017 was:

	HG DB Plan Benefits		IMTT DB Plan Benefits		Other Plan Benefits	
	2018	2017	2018	2017	2018	2017
Equity securities	23 %	36 %	42 %	43 %	45 %	45 %
Fixed income securities	71 %	58 %	41 %	44 %	44 %	46 %
Private equity			7 %	4 %	1 %	
Global Real Estate Fund	4 %	5 %	6 %	7 %	6 %	7 %
Cash	2 %	1 %	4 %	2 %	4 %	2 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

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The expected returns on plan assets were estimated based on the allocation of assets and management's expectations regarding future performance of the investments held in the investment portfolios. The asset allocations as of December 31, 2018 and 2017 measurement dates were (\$ in thousands):

## Fair Value Measurements at December 31, 2018

## Pension Benefits Plan Assets

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Asset category:					
Cash and money market	\$4,618	\$ 4,618	\$	\$	\$
Equity securities	51,662		51,662		
Fixed income securities	73,359		73,359		
Global Real Estate Fund	7,319		7,319		
Domestic private equity	5,885				5,885
Total	\$142,843	\$ 4,618	\$ 132,340	\$	\$ 5,885

## Fair Value Measurements at December 31, 2017

## Pension Benefits Plan Assets

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Asset category:					
Cash and money market	\$3,177	\$ 3,177	\$	\$	\$
Equity securities	66,741		66,741		
Fixed income securities	78,242		78,242		
Global real estate fund	9,607		9,607		
Domestic private equity	4,304				4,304
Total	\$162,071	\$ 3,177	\$ 154,590	\$	\$ 4,304

The estimated future benefit payments for the next ten years are (\$ in thousands):

	HG DB Plan Benefits	IMTT DB Plan Benefits	Other Plan Benefits	Total
2019	\$ 3,001	\$ 7,552	\$ 1,663	\$ 12,216
2020	3,072	8,383	1,784	13,239
2021	3,116	6,422	1,742	11,280
2022	3,132	7,301	1,681	12,114
2023	3,152	7,304	1,739	12,195
Thereafter	15,743	43,176	9,597	68,516
Total	\$ 31,216	\$ 80,138	\$ 18,206	\$ 129,560

## 17. Legal Proceedings and Contingencies

The Company and its subsidiaries are subject to legal proceedings arising in the ordinary course of business. In management's opinion, the Company has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions, and does not believe the outcome of any pending legal proceedings will be material to the Company's financial position or result of operations.

### IMTT Bayonne Remediation

The Bayonne, New Jersey terminal, portions of which have been acquired over a 30-year period, have pervasive remediation requirements that were assumed at the time of purchase from the various former

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 17. Legal Proceedings and Contingencies (continued)

owners. One former owner retained environmental remediation responsibilities for a purchased site and shares in other remediation costs. These remediation requirements are documented in two memoranda of agreement and an administrative consent order with the State of New Jersey. Remediation efforts entail removal of free product, soil treatment, repair/replacement of sewer systems, and the implementation of containment and monitoring systems. These remediation activities are estimated to span a period of ten to twenty or more years and cost from \$30.0 million to \$65.0 million. The cost of the remediation activities at the terminal are estimated based on currently available information, in undiscounted U.S. dollars and is inherently subject to relatively large fluctuation.

#### Shareholder Litigation

On April 23, 2018, a complaint captioned *City of Riviera Beach General Employees Retirement System v. Macquarie Infrastructure Corp., et al.*, Case 1:18-cv-03608 (VSB), was filed in the United States District Court for the Southern District of New York. A substantially identical complaint captioned *Daniel Fajardo v. Macquarie Infrastructure Corporation, et al.*, Case No. 1:18-cv-03744 (VSB) was filed in the same court on April 27, 2018. Both complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder on behalf of a putative class consisting of all purchasers of MIC common stock between February 22, 2016 and February 21, 2018. The named defendants in both cases are the Company and four current or former officers of MIC and one of its subsidiaries, IMTT Holdings LLC. The complaints in both actions allege that the Company and the individual defendants knowingly made material misstatements and omitted material facts in its public disclosures concerning the Company's and IMTT's business and the sustainability of the Company's dividend to stockholders. On January 30, 2019, the Court issued an opinion and order consolidating the two cases, appointing Moab Partners, L.P. (Moab) as Lead Plaintiff, approving Moab's selection of lead counsel, and directing Moab to file a consolidated amended complaint within 30 days. The Company intends to vigorously contest the claims asserted in the consolidated cases, which the Company believes are entirely meritless.

On August 9, 2018, a shareholder derivative complaint captioned *Phyllis Wright v. Liam Stewart, et al.*, Case No. 1:18-cv-07174 (VSB), was filed in the United States District Court for the Southern District of New York. A substantially identical complaint captioned *Raymond Greenlee v. James Hooke, et al.*, Case No. 1:18-cv-09339 (VSB) was filed in the same court on October 12, 2018. A third and substantially similar shareholder derivative complaint captioned *Kim Johnson v. Liam Stewart, et al.*, Case No. 1:18-cv-011062 (VSB) was filed in the same court on November 27, 2018. Each of the shareholder derivative complaints assert derivative claims on behalf of the Company against certain of its current and former officers and directors arising out of the same subject matter at issue in the *City of Riviera Beach* and *Fajardo* complaints discussed above. The causes of action asserted include violation of Section 14(a) of the Securities Exchange Act of 1934, breach of fiduciary duties, waste of corporate assets, unjust enrichment, and aiding and abetting breach of fiduciary duty. A motion to consolidate the three actions is currently pending. Proceedings in the *Wright*, *Greenlee* and *Johnson* cases are otherwise stayed pending resolution of an anticipated motion to dismiss the securities class actions described above. The Company expects that the named defendants will vigorously contest the claims asserted in the *Wright*, *Greenlee* and *Johnson* complaints.

## 18. Subsequent Events

### Dividend

On February 14, 2019, the board of directors declared a dividend of \$1.00 per share for the quarter ended December 31, 2018, which is expected to be paid on March 7, 2019 to holders of record on March 4, 2019.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 19. Quarterly Data (Unaudited)

The following table represents the summary of financial data from both continuing and discontinued operations for the quarters related to the years ended December 31, 2018 and 2017.

Quarter ended	March 31	June 30	September 30	December 31
	(In Thousands, except per share data)			
<b>2018</b>				
Revenue from continuing operations	\$466,269	\$436,677	\$420,830	\$437,757
Operating income from continuing operations	75,379	58,251	51,912	46,569
Net income (loss) from continuing operations attributable to MIC	39,672	27,647	1,474	(713 )
Net income from discontinued operations attributable to MIC <sup>(1)</sup>	37,162	10,719	20,230	330
<b>Per share information attributable to MIC:</b>				
Basic income (loss) per share from continuing operations attributable to MIC	\$0.47	\$0.32	\$0.02	\$(0.01 )
Basic income per share from discontinued operations attributable to MIC <sup>(1)</sup>	0.44	0.13	0.23	
Basic income (loss) per share attributable to MIC	0.91	0.45	0.25	(0.01 )
Diluted income (loss) per share from continuing operations attributable to MIC <sup>(2)</sup>	\$0.47	\$0.32	\$0.02	\$(0.01 )
Diluted income per share from discontinued operations attributable to MIC <sup>(1)(2)</sup>	0.44	0.13	0.23	
Diluted income (loss) per share attributable to MIC	0.91	0.45	0.25	(0.01 )
Cash dividends declared per share	\$1.00	\$1.00	\$1.00	\$1.00
<b>2017</b>				
Revenue from continuing operations	\$423,387	\$398,824	\$410,616	\$435,960
Operating income from continuing operations	76,271	63,703	69,894	70,749
Net income from continuing operations attributable to MIC	32,437	19,180	27,912	354,650
Net income (loss) from discontinued operations attributable to MIC <sup>(1)</sup>	3,578	6,840	12,183	(5,578 )
<b>Per share information attributable to MIC:</b>				
Basic income per share from continuing operations attributable to MIC	\$0.39	\$0.23	\$0.33	\$4.19
Basic income (loss) per share from discontinued operations attributable to MIC <sup>(1)</sup>	0.05	0.09	0.15	(0.06 )

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Basic income per share attributable to MIC	0.44	0.32	0.48	4.13
Diluted income per share from continuing operations attributable to MIC <sup>(2)</sup>	\$0.39	\$0.23	\$0.33	\$3.88
Diluted income (loss) per share from discontinued operations attributable to MIC <sup>(1)(2)</sup>	0.05	0.09	0.15	(0.06 )
Diluted income per share attributable to MIC	0.44	0.32	0.48	3.82
Cash dividends declared per share	\$1.32	\$1.38	\$1.42	\$1.44

(1) See Note 5, Discontinued Operations and Dispositions , for discussions on businesses classified as held for sale for the periods presented above.

(2) See Note 6, Income per Share , for further discussions for potentially dilutive shares.

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Management's Evaluation of Disclosure Controls and Procedures**

Our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e)) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding required disclosure. Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that due to the material weakness in our internal control over financial reporting described below under Management's Annual Report on Internal Control over Financial Reporting, our disclosure controls and procedures were not effective as of December 31, 2018.

Notwithstanding a material weakness in internal control over financial reporting, our management concluded that our consolidated financial statements in this annual report on Form 10-K present fairly, in all material respects, the Company's consolidated financial position, results of operations and cash flows as of the dates, and for the periods presented, in conformity with GAAP.

**Management's Annual Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide



reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management used the framework set forth in the report entitled *Internal Control-Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission (referred to as COSO) to evaluate the effectiveness of the Company's internal control over financial reporting as of December 31, 2018.

As a result of its evaluation, management has identified the following control deficiencies at our Atlantic Aviation business. Control activities designed to ensure the completeness and accuracy of fuel gallons and

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retail prices used in fuel sales transactions made on account and reported as revenues were not operating effectively and timely as of December 31, 2018. This resulted because Atlantic Aviation did not establish appropriate authorities and responsibilities in alignment with the objectives of internal control over financial reporting for certain employees at our fixed based operation (FBO) locations and did not perform ongoing monitoring activities to evaluate whether control activities over the completeness and accuracy of fuel revenues were designed, implemented and operating effectively.

The Company did not identify misstatements in fuel revenue as a result of these control deficiencies in our consolidated financial statements as of and for the year ended December 31, 2018. However, the control deficiencies created a reasonable possibility that a material misstatement to the consolidated financial statements would not be prevented or detected on a timely basis. As a result, management concluded that the deficiencies represent a material weakness and accordingly our internal control over financial reporting was not effective as of December 31, 2018.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report appearing on page 156, which expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018.

## **Remediation**

Management is implementing measures to ensure that the control deficiencies contributing to the material weakness discussed above are remediated. The remediation measures at Atlantic Aviation include:

- (i) reinforcing the importance of the performance of the fuel gallon and pricing management review procedures and controls;
- (ii) developing and maintaining documentation to be utilized by FBO personnel in performing revenue procedures and controls;
- (iii) training control owners on revenue procedures and controls;
- (iv) re-enforcing accountability for compliance with internal control policies and procedure; and
- (v) enhancing the existing centralized revenue control monitoring function.

We believe that these actions will be sufficient to remediate the material weakness and strengthen our internal control over financial reporting. The weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this weakness will be completed prior to the year ending December 31, 2019.

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

Other than the material weakness described above, there have been no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) identified in connection with the evaluation described above during the fiscal quarter ended December 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**(c) Attestation Report of Registered Public Accounting Firm**  
**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Macquarie Infrastructure Corporation:

**Opinion on Internal Control Over Financial Reporting**

We have audited Macquarie Infrastructure Corporation and subsidiaries (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated February 20, 2019 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness impacting fuel revenue at the Atlantic Aviation business related to ineffective assignment of internal control over financial reporting authorities and responsibilities, ineffective process level control activities, and ineffective ongoing monitoring activities over those control activities has been identified and is included in management's assessment. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was

maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas  
February 20, 2019

## **ITEM 9B. OTHER INFORMATION**

Not Applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The Company will furnish to the Securities and Exchange Commission a definitive proxy statement not later than 120 days after the end of the fiscal year ended December 31, 2018.

The information required by this Item 10 is included under the captions Election of Directors , Governance Information and Section 16(A) Beneficial Ownership Reporting Compliance in our proxy statement for our 2019 annual meeting of stockholders and is incorporated herein by reference.

Our Code of Business Conduct applies to all of our directors, officers and employees as well as all directors, officers and employees of our Manager involved in the management of the Company and its businesses. Our Code of Business Conduct is posted on the Governance page of our website, [www.macquarie.com/mic](http://www.macquarie.com/mic). You may request a copy of our Code of Business Conduct by contacting Investor Relations at 125 West 55<sup>th</sup> Street, New York, NY 10019 ((212) 231-1000). We will post any amendment to the Code of Business Conduct, and any waivers that are required to be disclosed by the rules of either the SEC or the NYSE, on our website.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is included under the captions Director Compensation , Compensation Discussion and Analysis , Executive Compensation , Governance Information and Compensation Committee Report in our proxy statement for our 2018 annual meeting of stockholders and is incorporated herein by reference.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item 12 is included under the caption **Share Ownership of Directors, Executive Officers and Principal Stockholders** in our proxy statement for our 2019 annual meeting of stockholders and is incorporated herein by reference.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is included under the caption **Certain Relationships and Related Party Transactions** and **Governance Information** in our proxy statement for our 2019 annual meeting of stockholders and is incorporated herein by reference.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item 14 is included under the caption **Ratification of Selection of Independent Auditor** in our proxy statement for our 2019 annual meeting of stockholders and is incorporated herein by reference.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Financial Statements and Schedules**

The consolidated financial statements in Part II, Item 8, and schedule listed in the accompanying exhibit index are filed as part of this report.

**Exhibits**

The exhibits listed on the accompanying exhibit index are filed as a part of this report.

**ITEM 16. FORM 10-K SUMMARY**

None.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Macquarie Infrastructure Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 20, 2019.

**MACQUARIE INFRASTRUCTURE  
CORPORATION**

(Registrant)

By:

/s/ Christopher Frost

Chief Executive Officer

We, the undersigned directors and executive officers of Macquarie Infrastructure Corporation, hereby severally constitute Christopher Frost and Liam Stewart, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Macquarie Infrastructure Corporation and in the capacities indicated on the 20<sup>th</sup> day of February 2019.

Signature	Title
/s/ Christopher Frost	Chief Executive Officer and Director (Principal Executive Officer)
Christopher Frost	
/s/ Liam Stewart	Chief Financial Officer (Principal Financial Officer)
Liam Stewart	
/s/ Robert Choi	Principal Accounting Officer
Robert Choi	
/s/ Martin Stanley	Chairman of the Board of Directors
Martin Stanley	
/s/ Norman H. Brown, Jr.	Director
Norman H. Brown, Jr.	
/s/ George W. Carmany III	Director
George W. Carmany III	Director



/s/ Amanda Brock

Amanda Brock

/s/ Ronald Kirk

Director

Ronald Kirk

/s/ Maria J. Dreyfus

Director

Maria J. Dreyfus

/s/ Henry E. Lentz

Director

Henry E. Lentz

/s/ Ouma Sananikone

Director

Ouma Sananikone

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**EXHIBIT INDEX**

<u>2.1</u>	<u>Purchase and Sale Agreement, dated as of July 27, 2018, by and among MIC Thermal Power Holdings, LLC and NHIP II Bayonne Holdings LLC (incorporated by reference to Exhibit 2.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018).</u>
<u>3.1</u>	<u>Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on May 21, 2015).</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of the Registrant, dated as of February 18, 2016 (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 23, 2016).</u>
<u>4.1</u>	<u>Senior Debt Securities Indenture, dated as of July 15, 2014, by and among Macquarie Infrastructure Company LLC and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on July 18, 2014).</u>
<u>4.2</u>	<u>First Supplemental Indenture, dated as of July 15, 2014, by and among Macquarie Infrastructure Company LLC and Wells Fargo Bank, National Association, as Trustee (including the form of 2.875% Convertible Senior Notes due 2019) (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the SEC on July 18, 2014).</u>
<u>4.3</u>	<u>Second supplemental indenture, dated as of May 21, 2015, by and between Macquarie Infrastructure Corporation and Wells Fargo, National Association, as Trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed with the SEC on May 21, 2015).</u>
<u>4.4</u>	<u>Third Supplemental Indenture, dated as of October 13, 2016, by and among Macquarie Infrastructure Corporation and Wells Fargo Bank, National Association, as Trustee (including the form of 2.00% Convertible Senior Note due 2023) (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on October 14, 2016).</u>
<u>10.1</u>	<u>Third Amended and Restated Management Services Agreement by and among the Registrant, MIC Ohana Corporation and Macquarie Infrastructure Management (USA) Inc. (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on May 21, 2015).</u>
<u>10.2</u>	<u>Limited Waiver, dated October 30, 2018, of Macquarie Infrastructure Management (USA) Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on October 31, 2018).</u>
<u>10.3</u>	<u>Amended and Restated Registration Rights Agreement between the Registrant and Macquarie Infrastructure Management (USA) Inc. (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the SEC on May 21, 2015).</u>
<u>10.4</u>	<u>Amended and Restated Credit Agreement, dated as of January 3, 2018, among Macquarie Infrastructure Corporation, as borrower, MIC Ohana Corporation, as guarantor, J.P. Morgan Chase Bank, N.A., as administrative agent and the lenders party thereto (incorporated by reference to Exhibit 10.3 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017)</u>
<u>10.5*</u>	<u>Macquarie Infrastructure Company LLC 2014 Independent Directors Equity Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed on April 4, 2014).</u>
<u>10.6*</u>	

Macquarie Infrastructure Corporation 2016 Omnibus Employee Incentive Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed on April 1, 2016).

10.7

Credit Agreement, dated as of May 21, 2015, among ITT Holdings LLC, IMTT-Quebec Inc. and IMTT-NTL Ltd., SunTrust Bank as administrative agent and the lenders party thereto (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).

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<u>10.8**</u>	<u>Second Amendment to Credit Agreement, dated as of December 5, 2018, among ITT Holdings LLC, IMTT-Quebec Inc. and IMTT-NTL, Ltd. as Canadian borrowers, the guarantors party thereto, SunTrust Bank, as administrative agent and the lenders party thereto, to the Credit Agreement dated as of May 21, 2015, as amended.</u>
<u>10.9</u>	<u>Note Purchase Agreement, dated May 8, 2015, among ITT Holdings LLC and the purchasers named therein, with respect to the issuance of 3.92% Guaranteed Senior Notes, Series A, due 2025 and 4.02% Guaranteed Senior Notes, Series B, due 2027 (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).</u>
<u>10.10</u>	<u>Amended and Restated Loan Agreement, dated as of May 1, 2015, among Louisiana Public Facilities Authority and IMTT-Finco, LLC and Wells Fargo Bank, National Association, as trustee. (Series 2010A) (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).</u>
<u>10.11</u>	<u>Amended and Restated Loan Agreement, dated as of May 1, 2015, among Louisiana Public Facilities Authority and IMTT-Finco, LLC and Wells Fargo Bank, National Association, as trustee. (Series 2010) (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).</u>
<u>10.12</u>	<u>Amended and Restated Loan Agreement, dated as of May 1, 2015, among Louisiana Public Facilities Authority and IMTT-Finco, LLC and Wells Fargo Bank, National Association, as trustee. (Series 2010B) (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).</u>
<u>10.13</u>	<u>Amended and Restated Loan Agreement, dated as of May 1, 2015, among Louisiana Public Facilities Authority and International-Matex Tank Terminals and Wells Fargo Bank, National Association, as trustee. (Series 2007) (incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).</u>
<u>10.14</u>	<u>Amended and Restated Lease Agreement, dated as of May 1, 2015, among The Industrial Development Board of the Parish of Ascension, Louisiana, Inc. and IMTT-Geismar and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).</u>
<u>10.15</u>	<u>Loan Agreement, dated as of May 1, 2015, among New Jersey Economic Development Authority and Bayonne Industries, Inc., IMTT-Bayonne and IMTT-BC and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).</u>
<u>10.16</u>	<u>Credit Agreement, dated as of October 8, 2010, as amended, among Idaho Wind Partners 1, LLC and The Bank of Tokyo-Mitsubishi UFJ, LTD., as administrative agent, ING Capital LLC, as DSR Letter of Credit issuing bank, Norddeutsche Landesbank Girozentrale, as joint lead arranger, Union Bank, N.A., as collateral agent, and the lender parties thereto (incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015).</u>
<u>10.17**</u>	<u>Credit Agreement, dated as of December 6, 2018, among Atlantic Aviation FBO Inc., Atlantic Aviation FBO Holdings LLC, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent and the lenders party thereto.</u>
<u>10.18</u>	<u>Note Purchase Agreement, dated as of August 8, 2012, among The Gas Company, LLC and the purchasers named therein, with respect to the issuance of 4.22% Senior Secured Notes due 2022 (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the September 2012 Quarterly Report)).</u>
<u>10.19</u>	

Credit Agreement, dated as of February 10, 2016, among HGC Holdings LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).

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10.20 Credit Agreement, dated as of February 10, 2016, among The Gas Company LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).

10.21 Amendment No. 1, dated as of February 21, 2017, to the Amended and Restated Credit Agreement, dated as of February 10, 2016, among HGC Holdings LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).

10.22 Amendment No. 1, dated as of February 21, 2017, to the Amended and Restated Credit Agreement, dated as of February 10, 2016, among The Gas Company LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).

10.23 Amendment No. 2, dated as of February 12, 2018, to the Amended and Restated Credit Agreement, dated as of February 10, 2016, among HGC Holdings LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.24 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017).

10.24 Amendment No. 2, dated as of February 12, 2018, to the Amended and Restated Credit Agreement, dated as of February 10, 2016, among The Gas Company LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017).

21.1\*\* Subsidiaries of the Registrant

23.1\*\* Consent of KPMG LLP

24.1 Powers of Attorney (included in signature pages)

31.1\*\* Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer

31.2\*\* Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer

32.1\*\*\* Section 1350 Certification of Chief Executive Officer

32.2\*\*\* Section 1350 Certification of Chief Financial Officer

101.0\*\* The following materials from the Annual Report on Form 10-K of Macquarie Infrastructure Corporation for the year ended December 31, 2018, filed on February 20, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets as of December 31, 2018 and December 31, 2017, (ii) the Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (iv) the Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016 and (vi) the Notes to Consolidated Financial Statements.

\* Management contract, compensatory plan or arrangement.  
 \*\* Filed herewith.

A signed original of this written statement required by Section 906 has been provided to Macquarie Infrastructure Corporation and will be retained by Macquarie Infrastructure Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The Registrant does not deem this agreement material pursuant to Regulation S-K Item 601(b)(10).

