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

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2014

OR

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

For the Transition Period from ______ to ______

Commission File Number: 001-32384

MACQUARIE INFRASTRUCTURE COMPANY LLC

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	43-2052503 (IRS Employer Identification No.)

125 West 55th Street
New York, New York 10019

(Address of Principal Executive Offices) (Zip Code)

(212) 231-1000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

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

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

MACQUARIE INFRASTRUCTURE COMPANY LLC

TABLE OF CONTENTS

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

i

PART I

FINANCIAL INFORMATION

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

The following discussion of the financial condition and results of operations of Macquarie Infrastructure Company LLC should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties and are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, and similar expressions id forward-looking statements. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and in this Form 10-Q Quarterly Report. Unless required by law, we can undertake no obligation to update forward-looking statements. Readers should also carefully review the risk factors set forth in other reports and documents filed from time to time with the Securities and Exchange Commission (the SEC).

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

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

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

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

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

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

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

Overview

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

1

TABLE OF CONTENTS

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

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

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

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

Dividends

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

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

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

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

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

TABLE OF CONTENTS

Recent Developments

District Energy Business Sale

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

Atlantic Aviation Acquisitions

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

Equity Offering

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

Convertible Senior Notes Offering

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

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

IMTT Acquisition of Remaining Interest

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

MIC Revolver

In July of 2014, we entered into a senior secured revolving credit facility with a syndicate of banks. The senior secured revolving credit facility provides for a five-year, $250.0 million senior secured first lien revolving credit facility that bears interest at LIBOR plus 1.75%. This facility is guaranteed by Macquarie Infrastructure Company Inc. (MIC Inc.), a direct wholly-owned subsidiary of the Company. At July 30, 2014, the senior secured revolving credit facility remains undrawn. Along with undrawn amounts on facilities at our businesses and other liquid resources, drawings on the revolving credit facility are available to fund growth projects and acquisitions by our existing businesses.

CP&E Acquisition

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

3

TABLE OF CONTENTS

Transaction Costs

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

Results of Operations

Consolidated

Key Factors Affecting Operating Results:

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

an increase in gross profit at IMTT;

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

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

lower performance fees.

4

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Our consolidated results of operations are as follows:

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2014	2013	$	%	2014	2013	$	%
	($ In Thousands) (Unaudited)							
Revenue								
Revenue from product sales	$188,087	$167,181	20,906	12.5	$371,888	$341,296	30,592	9.0
Revenue from product sales utility	37,117	34,193	2,924	8.6	72,262	71,114	1,148	1.6
Service revenue	55,029	50,286	4,743	9.4	111,531	102,401	9,130	8.9
Financing and equipment lease income	710	907	(197)	(21.7)	1,457	1,962	(505)	(25.7)
Total revenue	280,943	252,567	28,376	11.2	557,138	516,773	40,365	7.8
Costs and expenses								
Cost of product sales	121,332	109,594	(11,738)	(10.7)	244,249	226,587	(17,662)	(7.8)
Cost of product sales utility	31,926	29,464	(2,462)	(8.4)	61,306	60,953	(353)	(0.6)
Cost of services	12,836	12,073	(763)	(6.3)	23,732	23,007	(725)	(3.2)
Gross profit	114,849	101,436	13,413	13.2	227,851	206,226	21,625	10.5
Selling, general and administrative	56,836	52,120	(4,716)	(9.0)	112,300	101,329	(10,971)	(10.8)
Fees to manager-related party	14,495	32,493	17,998	55.4	23,489	61,670	38,181	61.9
Depreciation	12,428	9,436	(2,992)	(31.7)	24,582	18,691	(5,891)	(31.5)
Amortization of intangibles	9,456	8,620	(836)	(9.7)	18,221	17,248	(973)	(5.6)
Loss from customer contract termination		1,626	1,626	100.0		1,626	1,626	100.0
Loss on disposal of assets	866	3	(863)	NM	866	176	(690)	NM
Total operating expenses	94,081	104,298	10,217	9.8	179,458	200,740	21,282	10.6
Operating income (loss)	20,768	(2,862)	23,630	NM	48,393	5,486	42,907	NM
Other income (expense)								
Interest income	31	49	(18)	(36.7)	95	143	(48)	(33.6)
Interest expense[(1)]	(17,945)	(7,737)	(10,208)	(131.9)	(31,956)	(15,423)	(16,533)	(107.2)
Loss on extinguishment of debt		(2,472)	2,472	100.0		(2,472)	2,472	100.0
Equity in earnings and amortization charges of investee	10,799	11,289	(490)	(4.3)	25,086	21,751	3,335	15.3
Other income (expense), net	1,576	(313)	1,889	NM	2,257	(315)	2,572	NM
Net income (loss) before income taxes	15,229	(2,046)	17,275	NM	43,875	9,170	34,705	NM
(Provision) benefit for income taxes	(5,485)	1,090	(6,575)	NM	(13,971)	(3,412)	(10,559)	NM
Net income (loss)	$9,744	$(956)	10,700	NM	$29,904	$5,758	24,146	NM
Less: net income (loss) attributable to noncontrolling	44	(108)	(152)	(140.7)	(162)	735	897	122.0

interests								
Net income (loss) attributable to MIC LLC	$9,700	$(848)	10,548	NM	$30,066	$5,023	25,043	NM

NM Not meaningful

(1) Interest expense includes losses on derivative instruments of $8.6 million and $13.9 million for the quarter and six months ended June 30, 2014, respectively. For the quarter and six months ended June 30, 2013, interest expense includes losses on derivative instruments of $487,000 and $1.5 million, respectively.

Gross Profit

Consolidated gross profit increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 reflecting improved results at Atlantic Aviation and increased contributions from both CP&E and Hawaii Gas during the quarter ended June 30, 2014.

5

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily as a result of an increase in legal and transaction costs related to acquisition activities at Atlantic Aviation, CP&E and costs incurred in connection with the IMTT Acquisition. The increase was partially offset by a decrease in selling, general and administrative expenses at Hawaii Gas during 2014.

Fees to Manager

Our Manager is entitled to a monthly base management fee based primarily on our market capitalization, and potentially a quarterly performance fee, based on the performance of our stock relative to a U.S. utilities index. For the quarter and six months ended June 30, 2014, we incurred base management fees of $9.5 million and $18.5 million, respectively, and a performance fee of $5.0 million for the quarter ended June 30, 2014. For the quarter and six months ended June 30, 2013, we incurred base management fees of $8.1 million and $15.2 million, respectively, and performance fees of $24.5 million and $46.5 million, respectively. In all of these periods, our Manager elected to reinvest the base management and performance fees in additional shares.

The unpaid portion of the base management fees and performance fees, if any, at the end of each reporting period is included in due to manager-related party in the consolidated condensed balance sheets. The following table shows our Manager s election to reinvest its base management fees and performance fees, if any, in additional shares:

Period	Base Management Fee Amount ($ in thousands)	Performance Fee Amount ($ in thousands)	Shares Issued	
2014 Activities:				
Second quarter 2014	$ 9,535	$ 4,960	243,329	(1)
First quarter 2014	8,994		164,546	
2013 Activities:				
Fourth quarter 2013	$ 8,455	$	155,943	
Third quarter 2013	8,336	6,906	278,480	
Second quarter 2013	8,053	24,440	603,936	
First quarter 2013	7,135	22,042	522,638	

(1) Our Manager elected to reinvest the second quarter of 2014 base management fees and performance fee in shares. We issued 243,329 shares, of which 135,565 shares were issued in July of 2014 for the June of 2014 base management fee and the performance fee for the quarter ended June 30, 2014.

Depreciation

Depreciation expense increased for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily as a result of the depreciation associated with solar power generation facilities that became operational during 2013. Depreciation expense was also higher at Atlantic Aviation due to growth capital expenditures for supply chain logistics and acquisitions in 2013 and the first half of 2014.

Interest Expense and Loss on Derivative Instruments

Interest expense includes losses on derivative instruments of $8.6 million and $13.9 million for the quarter and six months ended June 30, 2014, respectively, and losses of $487,000 and $1.5 million for the quarter and six months ended June 30, 2013. Losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments and include the reclassification of amounts from accumulated other comprehensive loss into earnings. Excluding the derivative adjustments, interest expense increased primarily due to a higher interest rate on Atlantic Aviation s term loan that was

6

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

refinanced during the second quarter of 2013 and higher term loan balances in CP&E, partially offset by a lower average debt balance at Atlantic Aviation.

Equity in Earnings and Amortization Charges of Investee

The decrease in equity in earnings for the quarter ended June 30, 2014 compared with the quarter ended June 30, 2013 reflects our share of derivative losses for the quarter ended June 30, 2014 compared to our share of derivative gains for the quarter ended June 30, 2013, partially offset by improved operating results at IMTT.

The increase in equity in earnings for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 reflects our share of the improved operating results from IMTT in the current period, primarily due to an increase in gross profit, partially offset by a higher current tax provision and derivative losses for the six months ended June 30, 2014 compared to derivative gains for the six months ended June 30, 2013.

Income Taxes

We file a consolidated federal income tax return that includes the financial results for Hawaii Gas, Atlantic Aviation and our allocable share of the taxable income from our solar power generation facilities, within the CP&E segment, which are treated as partnerships for tax purposes. Prior to July 16, 2014, IMTT filed a separate federal income tax return and subsequent to that date will file as a part of our consolidated federal income tax return (see IMTT- *Income Taxes* below). Pursuant to tax sharing agreements, the individual businesses included in our consolidated federal income tax return pay MIC an amount equal to the federal income taxes each would have paid on a standalone basis as if they were not part of the MIC consolidated federal income tax return.

Prior to July 16, 2014, distributions received from IMTT were characterized as dividends, returns of capital or capital gains. 20% of any distribution characterized as dividend was included in our taxable income and subject to tax at our statutory rates. Distributions characterized as returns of capital were not subject to current tax. Distributions characterized as capital gain were subject to tax at statutory rates. Subsequent to July 16, 2014, distributions from IMTT will not be subject to tax.

For 2014, we expect any federal income taxes for our consolidated entities to be fully offset by our net operating loss, or NOL, carryforwards. At December 31, 2013, our federal NOL balance was $198.6 million, which is available to offset future taxable income, if any, through 2033. As a result of having federal NOL carryforwards, together with other planned tax strategies, we do not expect to make regular federal tax payments until after 2015. However, we expect to pay an Alternative Minimum Tax of approximately $1.0 million for 2014, which we expect will be available as a credit against regular federal income taxes in the future.

Absent the impact of transactions such as acquisitions and divestitures, we expect that our effective tax rate would be higher than the U.S. federal statutory rate of 35% primarily attributable to state and local income taxes. For 2014, we expect to pay $10.7 million in state and local income taxes, of which $3.8 million relates to IMTT for the period after July 16, 2014. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOL carryforwards, the utilization of which is not assured beyond a reasonable doubt. In addition, we expect to incur certain expenses that will not be deductible in determining state taxable income. Accordingly, these expenses have also been excluded in determining our state income tax expense.

Our district energy business files separate federal income tax returns. In April of 2014, we signed a Stock Purchase Agreement to sell our interest in this business and the sale is expected to conclude during the third quarter of 2014, subject to certain customary closing conditions. See CP&E *Income Taxes* below for further discussion on this business.

7

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

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

We have disclosed EBITDA excluding non-cash items for our Company and each of our operating segments in Note 10, Reportable Segments , in our consolidated condensed financial statements, as a key performance metric relied on by management in evaluating our performance. EBITDA excluding non-cash items is defined as earnings before interest, taxes, depreciation and amortization and non-cash items, which includes impairments, derivative gains and losses and adjustments for other non-cash items reflected in the statements of operations. We believe EBITDA excluding non-cash items provides additional insight into the performance of our operating businesses relative to each other and to similar businesses without regard to their capital structure, and to their ability to service or reduce debt, fund capital expenditures and/or support distributions to the holding company.

We also disclose Free Cash Flow, as defined by us, as a means of assessing the amount of cash generated by our businesses and supplementing other information provided in accordance with GAAP. We define Free Cash Flow as cash from operating activities, which includes cash paid for interest, taxes, pension contributions, less maintenance capital expenditures and excludes changes in working capital.

We believe that reporting Free Cash Flow will provide additional insight into our ability to deploy cash, as GAAP metrics such as net income and cash from operating activities do not reflect all of the items that our management considers in estimating the amount of cash generated by our operating entities. In this Quarterly Report on Form 10-Q, we have disclosed Free Cash Flow on a consolidated basis and for each of our operating segments.

We note that Free Cash Flow does not fully reflect our ability to freely deploy generated cash, as it does not reflect required payments to be made on our indebtedness and other fixed obligations or the other cash items excluded when calculating Free Cash Flow. We also note that Free Cash Flow may be calculated in a different manner by other companies, which limits its usefulness as a comparative measure. Therefore, our Free Cash Flow should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

A reconciliation of net income (loss) attributable to MIC LLC to EBITDA excluding non-cash items and EBITDA excluding non-cash items to Free Cash Flow, on a consolidated basis, is provided below.

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2014	2013	$	%	2014	2013	$	%
	($ In Thousands) (Unaudited)							
Net income (loss) attributable to MIC LLC[1]	$9,700	$(848)			$30,066	$5,023		
Interest expense, net[2]	17,914	7,688			31,861	15,280		
Provision (benefit) for income taxes	5,485	(1,090)			13,971	3,412		
Depreciation[3]	12,428	9,436			24,582	18,691		
Depreciation cost of services[3]	1,707	1,703			3,411	3,401		
Amortization of intangibles[4]	9,456	8,620			18,221	17,248		
Loss from customer contract termination		1,626				1,626		
Loss on extinguishment of debt		2,434				2,434		
Loss on disposal of assets	816				816	106		
Equity in earnings and amortization charges of investee	(10,799)	(11,289)			(25,086)	(21,751)		
Equity distributions from investee[5]	16,959	7,879			25,086	7,879		
Base management fees to be settled/settled in shares	9,535	8,053			18,529	15,188		
Performance fees to be settled/settled in shares	4,960	24,440			4,960	46,482		
Other non-cash (income) expense, net	(828)	377			(292)	(629)		
EBITDA excluding non-cash items	$77,333	$59,029	18,304	31.0	$146,125	$114,390	31,735	27.7
EBITDA excluding non-cash items	$77,333	$59,029			$146,125	$114,390		
Interest expense, net[2]	(17,914)	(7,688)			(31,861)	(15,280)		
Adjustments to derivative instruments recorded in interest expense[2]	4,273	(1,950)			5,367	(3,289)		
Amortization of debt financing costs[2]	1,100	950			2,141	1,897		
Equipment lease receivables, net	1,032	1,107			2,028	2,074		
Provision/benefit for income taxes, net of changes in deferred	(1,894)	(443)			(3,941)	(1,875)		

taxes								
Pension contribution[6]	(825)				(1,135)			
Changes in working capital	9,153	(7,577)			12,611	(20,820)		
Cash provided by operating activities	72,258	43,428			131,335	77,097		
Changes in working capital	(9,153)	7,577			(12,611)	20,820		
Maintenance capital expenditures	(3,638)	(5,954)			(6,463)	(8,571)		
Free cash flow	$59,467	$45,051	14,416	32.0	$112,261	$89,346	22,915	25.6

(1) Net income (loss) attributable to MIC LLC excludes net income attributable to noncontrolling interests of $44,000 and net loss attributable to noncontrolling interests of $162,000 for the quarter and six months ended June 30, 2014, respectively, and net loss attributable to noncontrolling interests of $108,000 and net income attributable to noncontrolling interests of $735,000 for the quarter and six months ended June 30, 2013, respectively.

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

9

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Depreciation cost of services includes depreciation expense for our district energy business, a component of CP&E segment, which is reported in cost of services in our consolidated condensed statements of operations.

(3) Depreciation and Depreciation - cost of services does not include acquisition-related step-up depreciation expense of $2.0 million and $3.9 million for each of the quarters and six months ended June 30, 2014 and 2013, respectively, in connection with our investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated condensed statements of operations.

(4) Amortization of intangibles does not include acquisition-related step-up amortization expense of $85,000 and $171,000 for each of the quarters and six months ended June 30, 2014 and 2013, respectively, in connection with our investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated condensed statements of operations.

(5) Equity distributions from investee in the above table includes distributions we received only up to our share of the earnings recorded in the calculation for EBITDA excluding non-cash items.

(6) For the quarter and six months ended June 30, 2013, pension contributions of $900,000 and $1.4 million, respectively, were reported in changes in working capital for those periods.

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

The following table is a reconciliation from Free Cash Flow on a consolidated basis to Free Cash Flow on a proportionately combined basis (in proportion to our interests). See Results of Operations *Consolidated* above for a reconciliation of Free Cash Flow Consolidated basis to cash provided by operating activities, the most comparable GAAP measure. See Results of Operations below for each of our segments for a reconciliation of Free Cash Flow for each segment to cash provided by operating activities for such segment. See Results of Operations *Summary of Our Proportionately Combined Results* for further discussions on Free Cash Flow and our proportionately combined financial measures in Part I of this Form 10-Q.

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2014	2013	$	%	2014	2013	$	%
	($ In Thousands) (Unaudited)							
Free Cash Flow Consolidated basis	$59,467	$45,051	14,416	32.0	$112,261	$89,346	22,915	25.6
Equity distributions from investee[1]	(16,959)	(7,879)			(25,086)	(7,879)		
100% of CP&E Free Cash Flow included in consolidated Free Cash Flow	(4,048)	(4,682)			(6,823)	(7,410)		
MIC s share of IMTT Free Cash Flow	16,111	12,145			37,527	29,345		
MIC s share of CP&E Free Cash Flow	2,128	2,343			3,740	3,658		
Free Cash Flow Proportionately Combined basis	$56,699	$46,978	9,721	20.7	$121,619	$107,060	14,559	13.6

(1) Equity distributions from investee represents the portion of distributions received from IMTT that are recorded in cash from operating activities. The distribution for the fourth quarter of 2013 from IMTT was received in the first quarter of 2014, as customary. Conversely, the distribution for the fourth quarter of 2012 from IMTT was received in the same period.

10

TABLE OF CONTENTS

Results of Operations: *IMTT*

Through June 30, 2014, we accounted for our 50% interest in IMTT using the equity method. To enable meaningful analysis of IMTT s performance across periods, IMTT s overall performance is discussed below, rather than IMTT s contribution to our consolidated results.

Key Factors Affecting Operating Results:

terminal gross profit increased principally due to:
an increase in revenue from firm commitments; and
weather related increase in heating gross profit; partially offset by
higher costs primarily related to the reversal of casualty losses in the quarter ended June 30, 2013; and
higher environmental response gross profit due to increased levels of spill response.

11

TABLE OF CONTENTS

Results of Operations: *IMTT* (continued)

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2014	2013			2014	2013		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenue								
Terminal revenue	120,912	119,520	1,392	1.2	254,602	240,852	13,750	5.7
Environmental response revenue	21,606	6,301	15,305	NM	35,994	16,454	19,540	118.8
Total revenue	142,518	125,821	16,697	13.3	290,596	257,306	33,290	12.9
Costs and expenses								
Terminal operating costs[1]	49,790	44,906	(4,884)	(10.9)	101,637	95,210	(6,427)	(6.8)
Environmental response operating costs	15,682	5,573	(10,109)	(181.4)	26,922	13,460	(13,462)	(100.0)
Total operating costs	65,472	50,479	(14,993)	(29.7)	128,559	108,670	(19,889)	(18.3)
Terminal gross profit	71,122	74,614	(3,492)	(4.7)	152,965	145,642	7,323	5.0
Environmental response gross profit	5,924	728	5,196	NM	9,072	2,994	6,078	NM
Gross profit	77,046	75,342	1,704	2.3	162,037	148,636	13,401	9.0
General and administrative expenses	10,497	7,854	(2,643)	(33.7)	18,363	16,336	(2,027)	(12.4)
Depreciation and amortization	19,646	18,636	(1,010)	(5.4)	37,920	37,058	(862)	(2.3)
Casualty losses, net[1]		6,500	6,500	100.0		6,500	6,500	100.0
Operating income	46,903	42,352	4,551	10.7	105,754	88,742	17,012	19.2
Interest expense, net[2]	(8,813)	(1,117)	(7,696)	NM	(15,946)	(7,723)	(8,223)	(106.5)
Other income	1,377	442	935	NM	1,871	1,184	687	58.0
Provision for income taxes	(15,455)	(16,592)	1,137	6.9	(36,557)	(33,713)	(2,844)	(8.4)
Noncontrolling interest	(9)	(101)	92	91.1	(138)	(176)	38	21.6
Net income	24,003	24,984	(981)	(3.9)	54,984	48,314	6,670	13.8
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income	24,003	24,984			54,984	48,314		
Interest expense, net[2]	8,813	1,117			15,946	7,723		
Provision for income taxes	15,455	16,592			36,557	33,713		
Depreciation and amortization	19,646	18,636			37,920	37,058		
Casualty losses, net[1]		6,500				6,500		
Other non-cash expenses[3]	1,518	101			3,501	176		
EBITDA excluding non-cash items	69,435	67,930	1,505	2.2	148,908	133,484	15,424	11.6
EBITDA excluding non-cash items	69,435	67,930			148,908	133,484		
Interest expense, net[2]	(8,813)	(1,117)			(15,946)	(7,723)		

Adjustments to derivative instruments recorded in interest expense(2)	(2,513)	(9,607)			(6,649)	(14,016)		
Amortization of debt financing costs(2)	843	500			1,687	1,166		
Provision for income taxes, net of changes in deferred taxes	(11,612)	(6,538)			(26,721)	(8,223)		
Changes in working capital	(10,189)	18,803			(4,941)	1,416		
Cash provided by operating activities	37,151	69,971			96,338	106,104		
Changes in working capital	10,189	(18,803)			4,941	(1,416)		
Maintenance capital expenditures(4)	(15,119)	(26,878)			(26,226)	(45,999)		
Free cash flow	32,221	24,290	7,931	32.7	75,053	58,689	16,364	27.9

12

TABLE OF CONTENTS

Results of Operations: *IMTT* (continued)

NM Not meaningful

(1) Casualty losses, net, includes $2.5 million and $1.5 million related to the quarters ended December 31, 2012 and March 31, 2013, respectively, which were recorded in terminal operating costs in those periods. These amounts have been included in the quarter and six months ended June 30, 2013.

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

(3) IMTT management s calculation of IMTT s EBITDA includes various non-cash items, unlike MIC s other businesses. In order to ensure IMTT s EBITDA excluding non-cash items does in fact excludes non-cash items, and to promote consistency across its reporting segments, MIC has excluded known non-cash items when calculating IMTT s EBITDA excluding non-cash items including primarily the non-cash pension expense of $1.5 million and $3.3 million for the quarter and six months ended June 30, 2014, respectively. The non-cash pension expense of $2.8 million and $5.6 million was reported in changes in working capital for the quarter and six months ended June 30, 2013, respectively.

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

Revenue and Gross Profit

As expected, terminal revenue increased 1.2% and 5.7%, respectively, during the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013. The increase for the quarter ended June 30, 2014 compared with the quarter ended June 30, 2013 was primarily attributable to an increase in firm commitments. The increase for the six months ended June 30, 2014 compared with the six months ended June 30, 2013 was primarily attributable to higher revenues from heating, firm commitments and other weather-related services.

Capacity utilization was 91.6% and 92.1% for the quarter and six months ended June 30, 2014, respectively, due to the continued scheduled cleaning and inspection of large tanks, as previously disclosed. There were more than 700,000 barrels of storage capacity out of service for cleaning and inspection during the quarter ended June 30, 2014. Firm-wide utilization rates are expected to rise as and when these barrels are returned to service, subject to all other capacity remaining in service. Offsetting this inspection-related decline in utilization, firm commitments increased primarily due to an increase in rates. The pricing environment for IMTT has not changed for the past four quarters.

The increase in heating and other weather-related services for the first quarter of 2014 was primarily due to higher activity levels resulting from the cold weather as well as higher natural gas prices, which were passed through to customers. Heating and other weather-related services were lower for the quarter ended June 30, 2014 compared with the quarter ended June 30, 2013.

Terminal operating costs were higher for the quarter ended June 30, 2014 as compared with the quarter ended June 30, 2013 primarily due to higher costs related to the reversal of casualty losses in the quarter ended June 30, 2013. Terminal operating costs were higher for the six months ended June 30, 2014 as compared with the six months ended June 30, 2013, primarily due to increased repairs and maintenance costs and increased product heating costs which are typically passed through to customers.

Gross profit from environmental response services increased due to a higher level of spill response activity during the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013.

General and Administrative Expenses

General and administrative expenses increased for the quarter and six months ended June 30, 2014 as compared with the quarter and six months ended June 30, 2013 primarily due to increased environmental response activities and higher legal costs.

13

TABLE OF CONTENTS

Results of Operations: *IMTT* (continued)

Casualty Losses, Net

During 2013, casualty losses, net, were recorded as a result of fixed asset write-offs associated with Hurricane Sandy, net of insurance recoveries. Casualty losses, net, includes $2.5 million and $1.5 million related to the quarters ended December 31, 2012 and March 31, 2013, respectively, which were recorded in terminal operating costs in those periods. These amounts have been included in the quarter and six months ended June 30, 2013.

Interest Expense, Net

Interest expense includes losses on derivative instruments of $2.1 million and $2.5 million for the quarter and six months ended June 30, 2014, respectively, and gains of $5.0 million and $5.1 million for the quarter and six months ended June 30, 2013, respectively. Excluding the derivative adjustments, interest expense increased due to higher debt balances.

Cash interest paid totaled $10.3 million and $20.5 million for the quarter and six months ended June 30, 2014, respectively, and $9.3 million and $18.1 million for the quarter and six months ended June 30, 2013, respectively. The increase in cash interest paid during the quarter and six months ended June 30, 2014 was due to higher debt balances.

Income Taxes

IMTT filed a consolidated federal income tax return for tax periods through and including July 16, 2014, the date of the IMTT Acquisition, and state income tax returns in the states in which it operates. Subsequent to July 16, 2014, IMTT will become part of the MIC consolidated federal taxpayer group.

The Provision for income taxes, net of changes in deferred taxes of $26.7 million for the six months ended June 30, 2014 in the table above, includes $21.5 million of federal income taxes and $5.2 million of state income taxes. The increase in current income taxes payable is due to higher taxable income and changes in federal tax laws.

We expect IMTT s current federal income taxes for its short tax year ending July 16, 2014 to be approximately $28.0 million, and its current state income taxes for that period to be approximately $5.2 million. The increase in federal taxes from July 1, 2014 through July 16, 2014 as compared to the provision for income taxes for the six months ended June 30, 2014 is primarily attributable to disproportionate revenue in the pre-close period, and disproportionate expenses, including capital expenditures, in the post-close period. Subsequent to the IMTT Acquisition, we do not expect to have any 2014 current federal income taxes attributable to IMTT and we expect to incur approximately $3.8 million in current state income taxes for the remaining period ending December 31, 2014. Any future current federal income taxes attributable to IMTT are eligible to be offset in consolidation by MIC NOLs. IMTT s actual federal tax liability could be higher or lower depending on the cost and timing of the capital assets placed in service during the year or tax legislation.

For the full year 2013, IMTT recorded $48.8 million of federal income tax expense and $12.3 million of state income tax expense. This includes $13.8 million and $4.7 million of current federal and state income taxes, respectively. The federal income tax expense exceeded the cash taxes primarily due to the benefit of accelerated tax depreciation.

Hawaii Gas

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

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

TABLE OF CONTENTS

Results of Operations: *Hawaii Gas* (continued)

Key Factors Affecting Operating Results:

- an increase in the volume of non-utility therms sold;
- an increase in non-utility contribution margin per therm; and
- a decrease in operating costs.

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2014	2013			2014	2013		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Contribution margin								
Revenue non-utility	32,017	28,420	3,597	12.7	66,223	60,505	5,718	9.5
Cost of revenue non-utility	14,588	13,333	(1,255)	(9.4)	31,551	26,687	(4,864)	(18.2)
Contribution margin non-utility	17,429	15,087	2,342	15.5	34,672	33,818	854	2.5
Revenue utility	37,117	34,193	2,924	8.6	72,262	71,114	1,148	1.6
Cost of revenue utility	27,469	24,726	(2,743)	(11.1)	52,698	51,380	(1,318)	(2.6)
Contribution margin utility	9,648	9,467	181	1.9	19,564	19,734	(170)	(0.9)
Total contribution margin	27,077	24,554	2,523	10.3	54,236	53,552	684	1.3
Production	2,397	2,667	270	10.1	4,781	5,382	601	11.2
Transmission and distribution[1]	5,280	4,740	(540)	(11.4)	10,083	10,606	523	4.9
Gross profit	19,400	17,147	2,253	13.1	39,372	37,564	1,808	4.8
Selling, general and administrative expenses	4,771	5,989	1,218	20.3	10,394	11,321	927	8.2
Depreciation and amortization	2,295	2,190	(105)	(4.8)	4,553	4,348	(205)	(4.7)
Operating income	12,334	8,968	3,366	37.5	24,425	21,895	2,530	11.6
Interest expense, net[2]	(1,891)	(1,238)	(653)	(52.7)	(3,678)	(2,943)	(735)	(25.0)
Other expense	(57)	(73)	16	21.9	(139)	(105)	(34)	(32.4)
Provision for income taxes	(4,092)	(2,995)	(1,097)	(36.6)	(8,119)	(7,478)	(641)	(8.6)
Net income[3]	6,294	4,662	1,632	35.0	12,489	11,369	1,120	9.9
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income[3]	6,294	4,662			12,489	11,369		
Interest expense, net[2]	1,891	1,238			3,678	2,943		
Provision for income taxes	4,092	2,995			8,119	7,478		
Depreciation and amortization	2,295	2,190			4,553	4,348		
Other non-cash expenses[1]	408	326			1,132	988		
EBITDA excluding non-cash items	14,980	11,411	3,569	31.3	29,971	27,126	2,845	10.5
EBITDA excluding non-cash items	14,980	11,411			29,971	27,126		
Interest expense, net[2]	(1,891)	(1,238)			(3,678)	(2,943)		
Adjustments to derivative instruments recorded in interest expense[2]	153	(617)			146	(695)		

Amortization of debt financing costs[(2)]	121	123			239	229		
Provision for income taxes, net of changes in deferred taxes	(2,625)	(775)			(5,336)	(3,867)		
Pension contribution[(4)]	(825)				(1,135)			
Changes in working capital	1,711	9,780			(3,777)	(787)		
Cash provided by operating activities	11,624	18,684			16,430	19,063		
Changes in working capital	(1,711)	(9,780)			3,777	787		
Maintenance capital expenditures	(2,133)	(2,415)			(3,791)	(3,421)		
Free cash flow	7,780	6,489	1,291	19.9	16,416	16,429	(13)	(0.1)

(1) For the quarter and six months ended June 30, 2013, transmission and distribution includes non-cash income of $518,000 for asset retirement obligation credit that is not expected to recur. This non-cash income is excluded when calculating EBITDA excluding non-cash items.

15

TABLE OF CONTENTS

Results of Operations: *Hawaii Gas* (continued)

(2) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.
(3) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.
(4) For the quarter and six months ended June 30, 2013, pension contributions of $900,000 and $1.4 million, respectively, were reported in changes in working capital for those periods.

Contribution Margin and Operating Income

Non-utility volume increased by 5.6% and 1.9% for the quarter and six months ended June 30, 2014, respectively, compared with the quarter and six months ended June 30, 2013, driven by new commercial customers and an increase in average customer inventory. Non-utility contribution margin increased during the quarter and six months ended June 30, 2014 as the result of volume gains and selected price increases implemented mid-way through the first quarter of 2014, offset partially by higher LPG costs. The volume of gas sold by the utility business decreased by 1.1% and 1.8% for the quarter and six months ended June 30, 2014, respectively, compared with the quarter and six months ended June 30, 2013 as a result of reduced demand from certain large commercial customers and overall lower residential consumption.

Hawaii Gas purchased approximately 63% and 66% of its LPG from off-island sources in the quarter and six months ended June 30, 2014, respectively, compared with 95% and 81% for the quarter and six months ended June 30, 2013, respectively. The significantly higher share of off-island LPG purchases in 2013 was attributable to the shut-down of operations at the local refineries in May and June of 2013. Local LPG production reliability improved in the second quarter of 2014, however long-term reliability remains uncertain and may continue to impact the sourcing of Hawaii Gas s LPG supplies. Hawaii Gas sources its naphtha feedstock for its synthetic natural gas plant from Hawaiian Independent Energy and on May 1, 2014, the naphtha feedstock agreement automatically extended for an additional 90 days through September 27, 2014. The business continues pursuing several initiatives to mitigate future volatility in naphtha and LPG prices and supply, including expanding storage and diversifying the supply base.

Production, transmission and distribution and selling, general and administrative expenses comprise primarily labor related expenses and professional fees. Collectively, these costs were lower for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 due to absence of severance costs and lower welfare and benefit costs.

On March 6, 2014, Hawaii Gas received approval from the Hawaii Public Utilities Commission (HPUC) to land containerized liquefied natural gas (LNG) in Hawaii as a back-up fuel for its synthetic natural gas distribution system on Oahu. Hawaii Gas is currently the only company with regulatory approval to land and utilize LNG in Hawaii. On April 2, 2014, Hawaii Gas received its first shipment of LNG which was subsequently re-gasified and injected into the utility pipeline network. Hawaii Gas continues to work with stakeholders throughout the state to pursue both a containerized LNG delivery program and a large-scale bulk storage and distribution program to supply multiple end markets including power generation, ground and marine transportation.

Interest Expense, Net

Interest expense includes losses on derivative instruments of $695,000 and $1.3 million for the quarter and six months ended June 30, 2014, respectively, and gains of $13,000 and losses of $516,000 for the quarter and six months ended June 30, 2013, respectively. Excluding the derivative adjustments, interest expense decreased during the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 primarily due to a lower average debt balance in the current periods.

Cash interest paid totaled $585,000 and $3.3 million for the quarter and six months ended June 30, 2014, respectively, and $706,000 and $3.4 million for the quarter and six months ended June 30, 2013, respectively.

TABLE OF CONTENTS

Results of Operations: *Hawaii Gas* (continued)

Income Taxes

Income from Hawaii Gas is included in our consolidated federal income tax return, and is subject to Hawaii state income taxes. The tax expense in the table above includes both state taxes and the portion of the consolidated federal tax liability attributable to the business. For the year ending December 31, 2014, the business expects to pay state income taxes of approximately $1.5 million. The Provision for income taxes, net of changes in deferred taxes of $5.3 million for the six months ended June 30, 2014 in the above table, includes $4.6 million of federal income taxes payable to MIC and $773,000 of state income taxes. Any current federal income tax liability is expected to be offset in consolidation by the application of NOLs.

Atlantic Aviation

Key Factors Affecting Operating Results:

contribution from acquired FBOs;
increases in margin per gallon and volume of gallons sold; and
increased rental and de-icing revenue; partially offset by
higher selling, general and administrative expenses due to acquisition related expenses and weather; and
higher cash interest expense driven by higher average cost of debt, partially offset by reduced average debt levels.

17

TABLE OF CONTENTS

Results of Operations: *Atlantic Aviation* (continued)

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2014	2013			2014	2013		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenue								
Fuel revenue	150,240	135,929	14,311	10.5	296,177	276,273	19,904	7.2
Non-fuel revenue	42,972	38,573	4,399	11.4	90,996	82,369	8,627	10.5
Total revenue	193,212	174,502	18,710	10.7	387,173	358,642	28,531	8.0
Cost of revenue								
Cost of revenue-fuel	102,661	93,038	(9,623)	(10.3)	204,719	192,823	(11,896)	(6.2)
Cost of revenue-non-fuel	4,091	3,625	(466)	(12.9)	8,785	8,346	(439)	(5.3)
Total cost of revenue	106,752	96,663	(10,089)	(10.4)	213,504	201,169	(12,335)	(6.1)
Fuel gross profit	47,579	42,891	4,688	10.9	91,458	83,450	8,008	9.6
Non-fuel gross profit	38,881	34,948	3,933	11.3	82,211	74,023	8,188	11.1
Gross profit	86,460	77,839	8,621	11.1	173,669	157,473	16,196	10.3
Selling, general and administrative expenses	47,067	42,910	(4,157)	(9.7)	94,310	86,387	(7,923)	(9.2)
Depreciation and amortization	15,607	13,974	(1,633)	(11.7)	30,540	27,845	(2,695)	(9.7)
Loss on disposal of assets	866	3	(863)	NM	866	176	(690)	NM
Operating income	22,920	20,952	1,968	9.4	47,953	43,065	4,888	11.4
Interest expense, net[(1)]	(13,352)	(4,626)	(8,726)	(188.6)	(22,917)	(8,725)	(14,192)	(162.7)
Loss on extinguishment of debt		(2,472)	2,472	100.0		(2,472)	2,472	100.0
Other (expense) income	(15)	4	(19)	NM	(13)		(13)	NM
Provision for income taxes	(3,855)	(5,426)	1,571	29.0	(8,770)	(12,824)	4,054	31.6
Net income[(2)]	5,698	8,432	(2,734)	(32.4)	16,253	19,044	(2,791)	(14.7)
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income[(2)]	5,698	8,432			16,253	19,044		
Interest expense, net[(1)]	13,352	4,626			22,917	8,725		
Provision for income taxes	3,855	5,426			8,770	12,824		
Depreciation and amortization	15,607	13,974			30,540	27,845		
Loss on extinguishment of debt		2,434				2,434		
Loss on disposal of assets	816				816	106		
Other non-cash expense (income)	88	(47)			156	(115)		
EBITDA excluding non-cash items	39,416	34,845	4,571	13.1	79,452	70,863	8,589	12.1
EBITDA excluding non-cash items	39,416	34,845			79,452	70,863		
Interest expense, net[(1)]	(13,352)	(4,626)			(22,917)	(8,725)		

Adjustments to derivative instruments recorded in interest expense[1]	5,679	28			8,305	53		
Amortization of debt financing costs[1]	785	648			1,516	1,309		
Provision for income taxes, net of changes in deferred taxes	(882)	(1,127)			(2,126)	(5,175)		
Changes in working capital	(1,274)	1,735			(2,245)	4,893		
Cash provided by operating activities	30,372	31,503			61,985	63,218		
Changes in working capital	1,274	(1,735)			2,245	(4,893)		
Maintenance capital expenditures	(1,182)	(3,436)			(1,999)	(4,901)		
Free cash flow	30,464	26,332	4,132	15.7	62,231	53,424	8,807	16.5

18

TABLE OF CONTENTS

Results of Operations: *Atlantic Aviation* (continued)

NM Not meaningful

(1) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.
(2) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.

Revenue and Gross Profit

The majority of the revenue and gross profit earned by Atlantic Aviation is generated through fueling GA aircraft at facilities located at 68 U.S. airports at which Atlantic Aviation operates. Revenue is categorized according to who owns the fuel used to service these aircraft. If Atlantic Aviation owns the fuel, it records the cost to purchase that fuel as cost of revenue-fuel. The business corresponding fuel revenue is its cost to purchase that fuel plus a margin. The business generally pursues a strategy of maintaining and, where appropriate, increasing dollar-based margins. Generally, fluctuations in the cost of fuel are passed through to the customer.

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

The business fuel-related revenue and gross profit are driven by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales. This applies to revenue and gross profit generated through both fuel and into-plane sales. Purchases of fuel by individual customers may be from Atlantic Aviation directly, another party or both in a given period.

Atlantic Aviation completed the Galaxy Acquisitions on April 30, 2014. Together with the acquisition of Kansas City FBO in December of 2013, these acquisitions are performing in-line with or better than expectations and are the primary drivers in increases in revenue/gross profit and costs for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013.

The increase in total gross profit for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013 was the result of increased fuel gross profit along with increased rental revenue and de-icing gross profit. On a same store basis, total gross profit increased 5.1% and 6.9% for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013, respectively.

Atlantic Aviation seeks to extend FBO leases prior to their maturity and to increase the portfolio s weighted average lease life. The weighted average lease life increased from 18.5 years at June 30, 2013 to 19.5 years at June 30, 2014, notwithstanding the passage of one year.

Selling, General and Administrative Expenses

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

On a same store basis, costs were 2.9% and 4.6% higher for the quarter and six months ended June 30, 2014, respectively, primarily due to costs associated with the colder weather in the Northeast U.S. during the first quarter of 2014 and increased employee benefit costs incurred during the six months ended June 30, 2014.

TABLE OF CONTENTS

Results of Operations: *Atlantic Aviation* (continued)

Interest Expense, Net

Interest expense includes losses on derivative instruments of $7.6 million and $12.1 million for the quarter and six months ended June 30, 2014, respectively, and losses of $28,000 and $53,000 for the quarter and six months ended June 30, 2013, respectively.

Excluding the derivative adjustments, interest expense increased due to the lower cost of debt in the prior comparable period, as the principal was unhedged until it was refinanced on May 31, 2013, partially offset by lower average debt levels in the current period. The weighted average interest rate of all outstanding debt facilities, including any interest rate swaps, was 4.63% and 4.70% for the quarters ended June 30, 2014 and 2013, respectively. Cash interest paid was $7.0 million and $13.2 million for the quarter and six months ended June 30, 2014, respectively, and $4.0 million and $7.3 million for the quarter end six months ended June 30, 2013, respectively.

Income Taxes

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

During the first quarter of 2014, Atlantic Aviation completed a tax planning initiative which is expected to reduce state taxes by approximately $2.0 million over the next several years. For 2014, the business expects to pay state income taxes of approximately $3.7 million. The Provision for income taxes, net of changes in deferred taxes of $2.1 million for the six months ended June 30, 2014 in the above table, includes $635,000 of federal income taxes payable to MIC and $1.5 million of state income taxes.

Contracted Power and Energy

Key Factors Affecting Operating Results:

revenue generated by the incremental increase in generating capacity; partially offset by
legal and professional expenses primarily relating to transaction costs.

20

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

	Quarter Ended June 30, 2014	2013	Change Favorable/ (Unfavorable)		Six Months Ended June 30, 2014	2013	Change Favorable/ (Unfavorable)	
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Product sales	5,830	2,832	2,998	105.9	9,488	4,518	4,970	110.0
Service revenue	12,057	11,713	344	2.9	20,535	20,032	503	2.5
Finance lease revenue	710	907	(197)	(21.7)	1,457	1,962	(505)	(25.7)
Total revenue	18,597	15,452	3,145	20.4	31,480	26,512	4,968	18.7
Cost of revenue product	863	554	(309)	(55.8)	1,723	662	(1,061)	(160.3)
Cost of revenue service[1]	8,745	8,448	(297)	(3.5)	14,947	14,661	(286)	(2.0)
Cost of revenue total	9,608	9,002	(606)	(6.7)	16,670	15,323	(1,347)	(8.8)
Gross profit	8,989	6,450	2,539	39.4	14,810	11,189	3,621	32.4
Selling, general and administrative expenses	2,765	1,117	(1,648)	(147.5)	4,317	2,342	(1,975)	(84.3)
Depreciation	3,656	1,561	(2,095)	(134.2)	7,062	3,078	(3,984)	(129.4)
Amortization of intangibles	326	331	5	1.5	648	668	20	3.0
Loss from customer contract termination		1,626	1,626	100.0		1,626	1,626	100.0
Operating income	2,242	1,815	427	23.5	2,783	3,475	(692)	(19.9)
Interest expense, net[2]	(2,690)	(1,865)	(825)	(44.2)	(5,335)	(3,742)	(1,593)	(42.6)
Other income (expense), net	1,648	(254)	1,902	NM	2,409	2,236	173	7.7
(Provision) benefit for income taxes	(616)	548	(1,164)	NM	(1,215)	(1,415)	200	14.1
Noncontrolling interest	570	172	398	NM	1,097	(256)	1,353	NM
Net income (loss)	1,154	416	738	177.4	(261)	298	(559)	(187.6)
Reconciliation of net income (loss) to EBITDA excluding non-cash items and cash provided by (used in) operating activities to Free Cash Flow:								