Macquarie Infrastructure Corp
Form 10-Q
August 03, 2015

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, 2015

OR

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

For the Transition Period from ______ to ______

Commission File Number: 001-32384

MACQUARIE INFRASTRUCTURE CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

125 West 55th Street
New York, New York 10019

(Address of Principal Executive Offices) (Zip Code)

(212) 231-1000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

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

There were 79,590,014 shares of common stock, with $0.001 par value, outstanding at July 31, 2015.

MACQUARIE INFRASTRUCTURE CORPORATION

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

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Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this quarterly report on Form 10-Q (the Quarterly Report) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements may appear throughout this Quarterly Report, including without limitation, the Management s Discussion and Analysis of Financial Condition and Results of Operations section. We use words such as believe, intend, expect, anticipate, plan, may, wil estimate, potential, project and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to the risks identified in our Annual Report on the Form 10-K for the year ended December 31, 2014, and in other reports we file from time to time with the Securities and Exchange Commission (the SEC).

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

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PART I

FINANCIAL INFORMATION

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

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

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

Except as otherwise specified, all references in this Form 10-Q to MIC, we, us, and our refer (i) from and after th time of the Conversion, to Macquarie Infrastructure Corporation and its subsidiaries and (ii) prior to the Conversion, to our predecessor MIC LLC and its subsidiaries. Except as otherwise specified, all references in this Form 10-Q to common stock or shares refer (i) from and after the time of the Conversion, to common stock and (ii) prior to the Conversion, LLC interests. Macquarie Infrastructure Management (USA) Inc., which we refer to as our Manager, is part of the Macquarie Group, 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 services to businesses and individuals primarily in the U.S. The businesses we own and operate include:

International-Matex Tank Terminals (IMTT): a bulk liquid terminals business that provides bulk liquid storage, handling and other services at ten marine terminals in the United States and two in Canada and is one of the larger participants in this industry in the U.S., based on storage capacity;
Atlantic Aviation: a network of aviation fixed-base operations (FBOs) that provide fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) aircraft at 69 airports in the U.S.;
Contracted Power and Energy (CP&E) Segment: controlling interests in solar, wind and gas-fired power generation facilities in the U.S.; and
Hawaii Gas: a gas energy company processing and distributing gas and providing related services in Hawaii.

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

Overview

In 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 ability 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 that cash generation capability are required payments on debt facilities, cash taxes, capital expenditures necessary to maintain the productivity of the fixed assets of the businesses and pension contributions, among other items.

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

At Atlantic Aviation, our focus is on attracting and maintaining relationships with GA aircraft owners and pilots and encouraging them to purchase refueling and other services from our FBOs. Atlantic Aviation s revenue is correlated with the number of GA flight movements in the U.S. and the business ability to service a portion of the aircrafts involved in those operations.

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

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

Dividends

Since January 1, 2014, MIC has paid or declared the following dividends:

Declared	Period Covered	$ per Share	Record Date	Payable Date
July 30, 2015	Second quarter 2015	$ 1.11	August 13, 2015	August 18, 2015
April 30, 2015	First quarter 2015	$ 1.07	May 14, 2015	May 19, 2015
February 17, 2015	Fourth quarter 2014	$ 1.02	March 2, 2015	March 5, 2015
October 27, 2014	Third quarter 2014	$ 0.98	November 10, 2014	November 13, 2014
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

We intend to maintain, and where possible, increase our quarterly cash dividend to our shareholders. The MIC Board has authorized a quarterly cash dividend of $1.11 per share for the quarter ended June 30, 2015, or a 3.74% increase over the dividend for the quarter ended March 31, 2015. In determining whether to adjust the amount of our quarterly dividend, our Board will take into account such matters as the state of the capital markets and general business conditions, the Company s financial condition, results of operations, capital requirements, capital opportunities and any contractual, legal and regulatory restrictions on the payment of dividends by the Company to its shareholders or by its subsidiaries to the Company, and any other factors that it deems relevant, subject to maintaining a prudent level of reserves and without creating undue volatility in the amount of such dividends where possible. Moreover, the Company s senior secured credit facility and the debt commitments at our businesses contain restrictions that may limit the Company s ability to pay dividends. Although historically we have declared cash dividends on our shares, any one 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.

The payment of a dividend is supported by the Free Cash Flow generated by our businesses. We define Free Cash Flow as cash from operating activities, which reflects cash paid for interest, taxes 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. For the avoidance of doubt, any base management fees and performance fees, if any, are excluded from the calculation of Free Cash Flow whether paid in cash or stock. Over the long term, we believe we will distribute between 75% and 85% of the Free Cash Flow generated by our businesses as a cash dividend.

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 and Free Cash Flow* and *Summary of Our Proportionately Combined Results* for further information on our calculation of Free Cash Flow and our proportionately combined financial measures in Part I of this Form

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Recent Developments

Conversion to C-Corporation (Conversion)

On May 21, 2015, we completed the Conversion from a Delaware limited liability company to a Delaware corporation. The Conversion had no impact on the business or management of our company and has been treated as a tax-free exchange under relevant Internal Revenue Service regulations. Investors limited liability company interests were automatically converted to shares of common stock at the time of the Conversion. We undertook the Conversion in an effort to become eligible for consideration for inclusion in various stock indices and to permit investment by investors who may be precluded from investing in limited liability companies, or LLCs.

CP&E Bayonne Energy Center (BEC) Acquisition

On April 1, 2015, we completed the acquisition of a 100% interest in BEC for a purchase price of $724.3 million (subject to post-closing working capital adjustments), which consisted of $215.2 million in cash and the assumption of $509.1 million of debt, excluding transaction costs. In addition, we incurred approximately $9.1 million in acquisition-related costs. We funded the cash consideration for the acquisition by drawing on the MIC senior secured revolving credit facility and using cash on hand. BEC is a 512 megawatt gas-fired power generating facility located in Bayonne, New Jersey, adjacent to IMTT s Bayonne terminal. BEC has tolling agreements with a creditworthy off-taker for 62.5% of its power generating capacity and power produced is delivered to New York City via a dedicated transmission cable under New York Harbor. At June 30, 2015, tolling agreements have a megawatt-weighted average remaining life of approximately 12 years.

Results of Operations

Consolidated

Key Factors Affecting Operating Results:

contributions from acquisitions during 2014 and 2015, primarily the acquisition of the remaining 50% interest in IMTT (IMTT Acquisition);

improved gross profit primarily at Atlantic Aviation; and

improved terminal operations at IMTT (excluding heating); offset by;

performance fees incurred in 2015;

increased cash interest expense; and

decreased spill response activity at IMTT.

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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)	
	2015	2014	$	%	2015	2014	$	%
	($ In Thousands) (Unaudited)							
Revenue								
Service revenue	$327,809	$205,269	122,540	59.7	$653,811	$407,708	246,103	60.4
Product revenue	95,880	74,964	20,916	27.9	168,376	147,973	20,403	13.8
Financing and equipment lease income		710	(710)	(100.0)		1,457	(1,457)	(100.0)
Total revenue	423,689	280,943	142,746	50.8	822,187	557,138	265,049	47.6
Costs and expenses								
Cost of services	148,417	115,497	(32,920)	(28.5)	281,834	228,451	(53,383)	(23.4)
Cost of product sales	45,247	50,597	5,350	10.6	84,374	100,836	16,462	16.3
Gross profit	230,025	114,849	115,176	100.3	455,979	227,851	228,128	100.1
Selling, general and administrative	81,064	56,836	(24,228)	(42.6)	151,717	112,300	(39,417)	(35.1)
Fees to manager related party	154,559	14,495	(140,064)	NM	319,832	23,489	(296,343)	NM
Depreciation	51,801	12,428	(39,373)	NM	109,223	24,582	(84,641)	NM
Amortization of intangibles	17,902	9,456	(8,446)	(89.3)	65,873	18,221	(47,652)	NM
Loss on disposal of assets	104	866	762	88.0	649	866	217	25.1
Total operating expenses	305,430	94,081	(211,349)	NM	647,294	179,458	(467,836)	NM
Operating (loss) income	(75,405)	20,768	(96,173)	NM	(191,315)	48,393	(239,708)	NM
Other income (expense)								
Dividend income	267		267	NM	798		798	NM
Interest income	7	31	(24)	(77.4)	13	95	(82)	(86.3)
Interest expense[(1)]	(22,342)	(17,945)	(4,397)	(24.5)	(53,863)	(31,956)	(21,907)	(68.6)
Equity in earnings and amortization charges of investee		10,799	(10,799)	(100.0)		25,086	(25,086)	(100.0)
Other income, net	425	1,576	(1,151)	(73.0)	1,471	2,257	(786)	(34.8)
Net (loss) income before income taxes	(97,048)	15,229	(112,277)	NM	(242,896)	43,875	(286,771)	NM
Benefit (provision) for income taxes	33,531	(5,485)	39,016	NM	88,864	(13,971)	102,835	NM
Net (loss) income	$(63,517)	$9,744	(73,261)	NM	$(154,032)	$29,904	(183,936)	NM
Less: net (loss) income attributable to noncontrolling interests	(421)	44	465	NM	(1,934)	(162)	1,772	NM
Net (loss) income attributable to MIC	$(63,096)	$9,700	(72,796)	NM	$(152,098)	$30,066	(182,164)	NM

NM Not meaningful

(1) Interest expense includes gains on derivative instruments of $3.1 million and losses on derivative instruments of $9.8 million for the quarter and six months ended June 30, 2015, respectively. For the quarter and six months ended June 30, 2014, interest expense includes losses on derivative instruments of $8.6 million and $13.9 million, respectively.

Gross Profit

Consolidated gross profit increased for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 primarily reflecting the consolidation of IMTT s results, improved results at Atlantic Aviation including the contribution from acquired FBOs and the contribution from the acquisition of BEC and wind power generation facilities. Consolidated gross profit also increased for the six month period due to improved results at Hawaii Gas resulting from an increase in gas sales. These increases were offset by the sale of the district energy business in August 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 primarily as a result of the consolidation of IMTT s results, the contributions from the 2015 and 2014 acquisitions at CP&E and Atlantic Aviation and costs associated with the Conversion.

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Results of Operations: *Consolidated* (continued)

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 shares relative to a U.S. utilities index. For the quarter and six months ended June 30, 2015, we incurred base management fees of $18.9 million and $35.5 million, respectively, and performance fees of $135.6 million and $284.4 million, respectively. 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. In all of these periods, excluding the performance fee for the quarter ended June 30, 2015, our Manager elected to reinvest these 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, except as noted:

Period	Base Management Fee Amount ($ in thousands)	Performance Fee Amount ($ in thousands)	Shares Issued
2015 Activities:			
Second quarter 2015	$ 18,918	$ 135,641	223,827 (1)
First quarter 2015	16,545	148,728	2,068,038
2014 Activities:			
Fourth quarter 2014	$ 14,192	$	208,122
Third quarter 2014	13,915	116,586	947,583 (2)
Second quarter 2014	9,535	4,960	243,329
First quarter 2014	8,994		164,546

(1) In July 2015, our Board requested, and our Manager agreed, that $67.8 million of the performance fee for the quarter ended June 30, 2015 would be and was settled in cash in July 2015 to minimize dilution. The remainder of the fee will be reinvested in our common stock in July 2016 using the June 2016 monthly volume weighted average price. We issued 223,827 shares, of which 73,986 shares were issued in July 2015 for the June 2015 base management fee.

(2) In October 2014, our Board requested, and our Manager agreed, that $65.0 million of the performance fee for the quarter ended September 30, 2014 be settled in cash using the proceeds from the sale of the district energy business to minimize dilution. The remainder of the fee of $51.6 million was reinvested in additional shares of MIC.

Depreciation

Depreciation expense increased for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 primarily as a result of fixed assets acquired in conjunction with the IMTT Acquisition and the depreciation associated with other businesses acquired during 2015 and 2014.

Atlantic Aviation s depreciation expense increased during the quarter and six months ended June 30, 2015 due to the reassessment of the useful lives of its leasehold and land improvements related to leases at certain airports to generally match these useful lives with the remaining lease terms plus extensions under Atlantic Aviation s control. This change will generally accelerate depreciation expense at the affected sites. As a result of this reassessment, the business recorded an impairment of $2.8 million during the quarter ended March 31, 2015. The change in useful life also resulted in increased depreciation expense of $2.1 million for the six months ended June 30, 2015.

In addition, during the first quarter of 2015, an impairment charge of $4.2 million was recorded due to a change in the current lease contract at one of the sites.

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Results of Operations: *Consolidated* (continued)

Amortization of Intangibles

Amortization of intangibles increased for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 primarily at Atlantic Aviation and from the intangibles acquired in conjunction with the IMTT Acquisition.

The increase in amortization expense at Atlantic Aviation is attributable to the reassessment of the useful lives of its contractual arrangements related to leases at certain airports to generally match these useful lives with the remaining lease terms plus extensions under Atlantic Aviation s control. This change will generally accelerate amortization expense at the affected sites. As a result of this reassessment, the business recorded an impairment of $13.5 million for the quarter ended March 31, 2015. The change in useful life also resulted in increased amortization expense of $9.1 million for the six months ended June 30, 2015.

In addition, during the first quarter of 2015, an impairment charge of $17.8 million was recorded due to a change in the current lease contract at one of the sites.

Interest Expense and Gain (Loss) on Derivative Instruments

Interest expense includes gains on derivative instruments of $3.1 million and losses on derivative instruments of $9.8 million for the quarter and six months ended June 30, 2015, respectively, compared with losses on derivative instruments of $8.6 million and $13.9 million for the quarter and six months ended June 30, 2014, respectively. Gains and losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. For the quarter and six months ended June 30, 2014, losses on derivatives also included the reclassification of amounts from accumulated other comprehensive loss into earnings. Excluding the derivative adjustments, interest expense for quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 increased primarily due to the consolidation of IMTT, higher average debt balance at Atlantic Aviation and CP&E and interest expense associated with the convertible senior notes that were issued in July 2014.

As part of the refinancing of the IMTT debt in May 2015, IMTT paid $31.4 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. See further discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* .

Equity in Earnings and Amortization Charges of Investee

The decrease in equity in earnings for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 is due to the consolidation of IMTT s results from July 16, 2014 and thereafter compared with the equity method of accounting for IMTT s results prior to the acquisition date.

Income Taxes

We file a consolidated federal income tax return that includes the financial results for IMTT, Atlantic Aviation, BEC, Hawaii Gas and our allocable share of the taxable income (loss) from our solar and wind power generation facilities which are treated as partnerships for tax purposes. For 2015, we expect to incur federal taxable losses which will increase our net operating loss (NOL) carryforward balance at MIC. Notwithstanding MIC s NOLs, each business records federal taxes on a standalone basis. The current portion of the federal income taxes recorded by the businesses are eliminated upon consolidation with MIC s NOLs.

We believe that we will be able to utilize all of our federal prior year NOLs, which will begin to expire after 2021 and completely expire after 2034. Our federal NOL balance at December 31, 2014 was revised from $250.7 million to $286.7 million, which is available to offset future taxable income, if any. The revision relates to approximately $36.0 million for the election of bonus deprecation at IMTT for 2014. See *Results of Operations IMTT Income Taxes* below for further discussions. As a result of having federal NOL carryforwards, we do not expect to make regular federal tax payments until the second half of 2019.

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Results of Operations: *Consolidated* (continued)

The change from income tax expense for the quarter and six months ended June 30, 2014 to income tax benefit for the quarter and six months ended June 30, 2015 is primarily due to the performance fees incurred during 2015.

For 2015, we expect our businesses to pay state income taxes of approximately $870,000. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOL carryforwards.

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. EBITDA excluding non-cash items also excludes any base management fees and performance fees, if any, whether paid in cash or stock. 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 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 believe that reporting Free Cash Flow will provide our investors with additional insight into our future ability to deploy cash, as GAAP metrics such as net income and cash from operating activities do not reflect all of the items that our management considers in estimating the amount of cash generated by our operating entities. In this Quarterly Report on Form 10-Q, we have disclosed Free Cash Flow for our consolidated results and for each of our operating segments.

We note that Free Cash Flow does not fully reflect our ability to freely deploy generated cash, as it does not reflect required payments to be made on our indebtedness 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.

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Results of Operations: *Consolidated* (continued)

A reconciliation of net (loss) income attributable to MIC 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)	
	2015	2014	$	%	2015	2014	$	%
	($ In Thousands) (Unaudited)							
Net (loss) income attributable to MIC(1)	$(63,096)	$9,700			$(152,098)	$30,066		
Interest expense, net(2)	22,335	17,914			53,850	31,861		
(Benefit) provision for income taxes	(33,531)	5,485			(88,864)	13,971		
Depreciation(3)	51,801	12,428			109,223	24,582		
Depreciation cost of services(3)		1,707				3,411		
Amortization of intangibles(4)	17,902	9,456			65,873	18,221		
Loss on disposal of assets	95	816			548	816		
Equity in earnings and amortization charges of investee		(10,799)				(25,086)		
Equity distributions from investee(5)		16,959				25,086		
Fees to manager-related party(6)	154,559	14,495			319,832	23,489		
Other non-cash expense (income), net	1,917	(828)			(1,138)	(292)		
EBITDA excluding non-cash items	$151,982	$77,333	74,649	96.5	$307,226	$146,125	161,101	110.2
EBITDA excluding non-cash items	$151,982	$77,333			$307,226	$146,125		
Interest expense, net(2)	(22,335)	(17,914)			(53,850)	(31,861)		
Adjustments to derivative instruments recorded in interest expense(2)	(12,387)	4,273			(7,034)	5,367		
Amortization of debt financing costs(2)	2,951	1,100			4,566	2,141		
Interest rate swap breakage fees	(31,385)				(31,385)			
Equipment lease receivable, net		1,032				2,028		
Benefit/provision for income taxes, net of changes in deferred taxes	357	(1,894)			(448)	(3,941)		
Pension contribution		(825)				(1,135)		
Changes in working capital(6)	(12,255)	9,153			(25,131)	12,611		
Cash provided by operating activities	76,928	72,258			193,944	131,335		
Changes in working capital(6)	12,255	(9,153)			25,131	(12,611)		
Maintenance capital expenditures	(11,390)	(3,638)			(17,505)	(6,463)		
Free cash flow	$77,793	$59,467	18,326	30.8	$201,570	$112,261	89,309	79.6

(1) Net (loss) income attributable to MIC excludes net loss attributable to noncontrolling interests of $421,000 and $1.9 million for the quarter and six months ended June 30, 2015, respectively, and 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.

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

(3) Depreciation cost of services includes depreciation expense for our previously owned district energy business, a component of CP&E segment, which is reported in cost of services in our consolidated condensed statements of operations. Depreciation and Depreciation cost of services does not include acquisition-related step-up depreciation expense $2.0 million and $3.9 million for the quarter and six months ended June 30, 2014, respectively, in connection with our previous 50% 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 the quarter and six months ended June 30, 2014, respectively, in connection with our previous 50% investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated condensed statements of operations.

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Results of Operations: *Consolidated* (continued)

(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) In July 2015, our Board requested, and our Manager agreed, that $67.8 million of the performance fee for the second quarter of 2015 would be and was settled in cash in July 2015 to minimize dilution. The remainder of the fee will be reinvested in our common stock in July 2016 using the June 2016 monthly volume weighted average price.

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 (used in) 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)	
	2015	2014	$	%	2015	2014	$	%
	($ In Thousands) (Unaudited)							
Free Cash Flow-Consolidated basis	$77,793	$59,467	18,326	30.8	$201,570	$112,261	89,309	79.6
Equity distributions from investee[1]		(16,959)				(25,086)		
100% of CP&E Free Cash Flow included in consolidated Free Cash Flow	(4,341)	(4,048)			(7,030)	(6,823)		
MIC's share of IMTT Free Cash Flow[2]		16,111				37,527		
MIC's share of CP&E Free Cash Flow	2,863	2,128			4,456	3,740		
Free Cash Flow Proportionately Combined basis	$76,315	$56,699	19,616	34.6	$198,996	$121,619	77,377	63.6

(1) Equity distributions from investee represent the portion of distributions received from IMTT that are recorded in cash from operating activities prior to the IMTT Acquisition on July 16, 2014.

(2) Represents our proportionate share of IMTT's Free Cash Flow prior to the IMTT Acquisition on July 16, 2014.

Results of Operations: *IMTT*

Prior to July 16, 2014, we accounted for our 50% interest in IMTT using the equity method of accounting. As of July 16, 2014, we have consolidated IMTT on a 100% basis. 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 for the first six months of 2014.

Key Factors Affecting Operating Results:

gross profit increased primarily due to:
a decrease in operating expenses; and
an increase in revenue from firm commitments; partially offset by
a decrease in gross profit from heating charges; and
a decrease in levels of spill response activity.

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Results of Operations: *IMTT* (continued)

	Quarter Ended June 30, 2015	2014	Change Favorable/ (Unfavorable)		Six Months Ended June 30, 2015	2014	Change Favorable/ (Unfavorable)	
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	142,384	142,518	(134)	(0.1)	280,445	290,596	(10,151)	(3.5)
Cost of services	61,052	65,472	4,420	6.8	114,643	128,559	13,916	10.8
Gross Profit	81,332	77,046	4,286	5.6	165,802	162,037	3,765	2.3
General and administrative expenses	8,302	10,497	2,195	20.9	16,006	18,363	2,357	12.8
Depreciation and amortization	31,673	19,646	(12,027)	(61.2)	67,552	37,920	(29,632)	(78.1)
Operating income	41,357	46,903	(5,546)	(11.8)	82,244	105,754	(23,510)	(22.2)
Interest expense, net[1]	(6,263)	(8,813)	2,550	28.9	(13,169)	(15,946)	2,777	17.4
Other income, net	769	1,377	(608)	(44.2)	1,401	1,871	(470)	(25.1)
Provision for income taxes	(14,659)	(15,455)	796	5.2	(28,748)	(36,557)	7,809	21.4
Noncontrolling interest	(108)	(9)	(99)	NM	(358)	(138)	(220)	(159.4)
Net income[2]	21,096	24,003	(2,907)	(12.1)	41,370	54,984	(13,614)	(24.8)
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income[2]	21,096	24,003			41,370	54,984		
Interest expense, net[1]	6,263	8,813			13,169	15,946		
Provision for income taxes	14,659	15,455			28,748	36,557		
Depreciation and amortization	31,673	19,646			67,552	37,920		
Other non-cash expenses	1,957	1,518			3,213	3,501		
EBITDA excluding non-cash items	75,648	69,435	6,213	8.9	154,052	148,908	5,144	3.5
EBITDA excluding non-cash items	75,648	69,435			154,052	148,908		
Interest expense, net[1]	(6,263)	(8,813)			(13,169)	(15,946)		
Adjustments to derivative instruments recorded in interest expense[1]	(3,955)	(2,513)			(6,334)	(6,649)		
Amortization of debt financing costs[1]	1,416	843			1,529	1,687		
Interest rate swap breakage fees	(31,385)				(31,385)			
Provision for income taxes, net of changes in deferred taxes	473	(11,612)			(104)	(26,721)		
Changes in working capital	(6,741)	(10,189)			(18,353)	(4,941)		
Cash provided by operating activities	29,193	37,151			86,236	96,338		
Changes in working capital	6,741	10,189			18,353	4,941		

Maintenance capital expenditures	(6,043)	(15,119)			(8,514)	(26,226)		
Free cash flow	29,891	32,221	(2,330)	(7.2)	96,075	75,053	21,022	28.0

NM Not meaningful

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

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

Revenue

For the quarter and six months ended June 30, 2015, revenue decreased as a result of reduced spill response activity and heating revenues compared with the prior comparable periods, partially offset by increased firm commitments primarily attributable to higher utilization rates. OMI Environmental Solutions was involved in smaller emergency response projects in the first half of 2015 compared with the first half of 2014 resulting in a reduction in revenue of approximately $8.3 million. Heating revenue and gross profit was $1.0 million and $580,000 lower for the quarter ended June 30, 2015, respectively, compared to $6.1 million and $4.5 million lower for the six months ended June 30, 2015, respectively. The extreme weather conditions in the 2014 period, commonly known as the Polar Vortex, benefited heating revenue and gross profit in the first six months of 2014.

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Results of Operations: *IMTT* (continued)

IMTT generates the majority of its revenue from contracts that typically comprise a fixed monthly charge (that escalates annually with inflation) for access to or use of IMTT s infrastructure. We refer to revenues generated from such charges as firm commitments.

Capacity utilization was 94.5% for the quarter ended June 30, 2015 compared with 91.6% for the quarter ended June 30, 2014 as tanks came back into service following scheduled cleaning and inspection. Capacity utilization remained consistent with historical levels.

The inflation adjustment provisions in IMTT s take-or-pay storage contracts continued to drive overall pricing higher during the second quarter of 2015. However, the ongoing volatility in commodity prices saw customers seek contracts with shorter durations in both the quarter and year to date periods.

Costs

For the quarter and six months ended June 30, 2015, costs were 8.7% and 11.1% lower, respectively, compared with the quarter and six months ended June 30, 2014. The reduction in costs was primarily the result of improved cost controls and the realization of efficiencies following the IMTT Acquisition, reduced spill response activity, and lower costs associated with heating heavy products. The reduced level of spill response activity contributed $565,000 and $4.8 million, respectively, to the cost improvement while heating costs were down $455,000 and $1.7 million, respectively, for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014.

Depreciation and Amortization

Depreciation and amortization expense increased for the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 primarily due to remeasuring the fixed assets and intangible assets to fair value in connection with the IMTT Acquisition in July 2014.

Interest Expense, Net

Interest expense includes gains on derivative instruments of $811,000 and losses on derivative instruments of $1.3 million for the quarter and six months ended June 30, 2015, respectively, and losses on derivative instruments of $2.1 million and $2.5 million for the quarter and six months ended June 30, 2014, respectively. The weighted average interest rate on all outstanding debt facilities, including any interest rate swaps, was 3.46% at June 30, 2015.

Cash interest paid totaled $6.3 million and $15.5 million for the quarter and six months ended June 30, 2015, respectively, compared with $10.3 million and $20.5 million for the quarter and six months ended June 30, 2014, respectively. Excluding the derivative adjustments, interest expense and cash interest paid decreased during the quarter and six months ended June 30, 2015 compared with the quarter and six months ended June 30, 2014 due to lower average debt balances. MIC used excess cash on hand to reduce IMTT s revolving credit balance prior to refinancing IMTT's entire debt facility in May 2015.

As part of the refinancing of the IMTT debt in May 2015, IMTT paid $31.4 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. See further discussion in Management s Discussion and Analysis of Financial Condition and Results of

Operations *Liquidity and Capital Resources* .

Income Taxes

Subsequent to July 16, 2014, IMTT has been part of our consolidated federal taxpayer group. The business will continue to file state income tax returns in the states in which it operates. For the six months ended June 30, 2015, the tax provision 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, 2015, the business expects to pay $208,000 in state income taxes. The Provision for income taxes, net of changes in deferred taxes of $104,000 for the six months ended June 30, 2015 in the table above, relates entirely to state income taxes. We do not believe that IMTT will have a current federal income tax liability in 2015. Future current federal taxable income attributable to IMTT is eligible to be offset upon consolidation with MIC s NOLs.

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Results of Operations: *IMTT* (continued)

In December 2014, the Tax Increase Prevention Act of 2014 (the 2014 Tax Act) was signed and became a law. The 2014 Tax Act retroactively extends several tax provisions applicable to corporations, including the extension of 50% bonus depreciation for certain assets placed in service in 2014. During the quarter ended March 31, 2015, IMTT determined that it will elect to apply the 50% bonus depreciation for eligible assets placed in service in 2014. The election resulted in an increase in MIC s consolidated NOL balance by $36.0 million to $286.7 million at December 31, 2014.

Maintenance Capital Expenditures

For the six months ended June 30, 2015, IMTT incurred maintenance capital expenditures of $8.5 million and $6.9 million on an accrual basis and cash basis, respectively. This is compared to $26.2 million and $29.4 million on an accrual basis and cash basis, respectively, for the six months ended June 30, 2014.

The decrease in the accrued basis from the six months ended June 30, 2014 to the six months ended June 30, 2015 primarily reflects improved controls and processes and the timing of projects. Notwithstanding the reduced expenditure in the first half of 2015, IMTT expects to deploy approximately $40.0 million to $45.0 million during 2015 on maintenance projects, depending on the timing of certain projects.

Results of Operations: *Atlantic Aviation*

Key Factors Affecting Operating Results:

increases in same store gross profit; and
contribution from acquired FBOs; partially offset by
higher selling, general and administrative expenses primarily related to acquired FBOs; and
higher cash interest expense.

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Results of Operations: *Atlantic Aviation* (continued)

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2015	2014			2015	2014		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	185,425	193,212	(7,787)	(4.0)	373,366	387,173	(13,807)	(3.6)
Cost of services	87,365	106,752	19,387	18.2	167,191	213,504	46,313	21.7
Gross Profit	98,060	86,460	11,600	13.4	206,175	173,669	32,506	18.7
Selling, general and administrative expenses	50,037	47,067	(2,970)	(6.3)	102,046	94,310	(7,736)	(8.2)
Depreciation and amortization	21,810	15,607	(6,203)	(39.7)	81,525	30,540	(50,985)	(166.9)
Loss on disposal of assets	104	866	762	88.0	649	866	217	25.1
Operating income	26,109	22,920	3,189	13.9	21,955	47,953	(25,998)	(54.2)
Interest expense, net[(1)]	(5,605)	(13,352)	7,747	58.0	(18,690)	(22,917)	4,227	18.4
Other income (expense)	39	(15)	54	NM	12	(13)	25	192.3
(Provision) benefit for income taxes	(8,335)	(3,855)	(4,480)	(116.2)	7,304	(8,770)	16,074	183.3
Net income[(2)]	12,208	5,698	6,510	114.3	10,581	16,253	(5,672)	(34.9)
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income[(2)]	12,208	5,698			10,581	16,253		
Interest expense, net[(1)]	5,605	13,352			18,690	22,917		
Provision (benefit) for income taxes	8,335	3,855			(7,304)	8,770		
Depreciation and amortization	21,810	15,607			81,525	30,540		
Loss on disposal of assets	95	816			548	816		
Other non-cash expenses	653	88			925	156		
EBITDA excluding non-cash items	48,706	39,416	9,290	23.6	104,965	79,452	25,513	32.1
EBITDA excluding non-cash items	48,706	39,416			104,965	79,452		
Interest expense, net[(1)]	(5,605)	(13,352)			(18,690)	(22,917)		
Adjustments to derivative instruments recorded in interest expense[(1)]	(2,485)	5,679			2,581	8,305		
Amortization of debt financing costs[(1)]	806	785			1,614	1,516		
Provision/benefit for income taxes, net of changes in deferred taxes	(278)	(882)						