

Macquarie Infrastructure Corp  
Form 10-Q  
August 01, 2018

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

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended June 30, 2018**

**OR**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-32384**

**MACQUARIE INFRASTRUCTURE CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

43-2052503  
(IRS Employer  
Identification No.)

**125 West 55<sup>th</sup> Street**  
**New York, New York 10019**

(Address of Principal Executive Offices) (Zip Code)

**(212) 231-1000**

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

Large Accelerated Filer  Accelerated Filer   
Non-accelerated Filer  Smaller Reporting Company  Emerging Growth Company   
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 85,370,832 shares of common stock, with \$0.001 par value, outstanding at July 31, 2018.



TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**

**TABLE OF CONTENTS**

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>1</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>30</u>
<u>Controls and Procedures</u>	<u>31</u>
<u>Consolidated Condensed Balance Sheets as of June 30, 2018 (Unaudited) and December 31, 2017</u>	<u>32</u>
<u>Consolidated Condensed Statements of Operations for the Quarters and Six Months Ended June 30, 2018 and 2017 (Unaudited)</u>	<u>34</u>
<u>Consolidated Condensed Statements of Comprehensive Income for the Quarters and Six Months Ended June 30, 2018 and 2017 (Unaudited)</u>	<u>35</u>
<u>Consolidated Condensed Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017 (Unaudited)</u>	<u>36</u>
<u>Notes to Consolidated Condensed Financial Statements (Unaudited)</u>	<u>38</u>
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1.</u>	<u>60</u>
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	<u>60</u>
<u>Risk Factors</u>	
<u>Item 2.</u>	<u>61</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3.</u>	<u>61</u>
<u>Defaults Upon Senior Securities</u>	
<u>Item 4.</u>	<u>61</u>
<u>Mine Safety Disclosures</u>	
<u>Item 5.</u>	<u>61</u>
<u>Other Information</u>	
<u>Item 6.</u>	<u>61</u>
<u>Exhibits</u>	<u>61</u>

**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.**



TABLE OF CONTENTS

## **Cautionary Note Regarding Forward-Looking Statements**

In addition to historical information, this quarterly report on Form 10-Q (Quarterly Report) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements may appear throughout this Quarterly Report, including without limitation, the Management's Discussion and Analysis of Financial Condition and Results of Operations section. We use words such as believe, intend, expect, anticipate, plan, may, will, should, 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, 2017, and in other reports we file from time to time with the Securities and Exchange Commission (SEC).

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

TABLE OF CONTENTS

**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 (MIC) should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein.

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

MIC is externally managed by Macquarie Infrastructure Management (USA) Inc. (our Manager), pursuant to the terms of a Management Services Agreement, that is subject to the oversight and supervision of our Board of Directors. The majority of the members of our Board of Directors, and each member of all Board Committees, is independent and has no affiliation with Macquarie. Our Manager is a member of the Macquarie Group of companies comprising the Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Securities Exchange.

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

**International-Matex Tank Terminals (IMTT):** a business providing bulk liquid terminalling to third parties at 17 terminals in the U.S. and two in Canada;

**Atlantic Aviation:** a provider of fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) jet aircraft at 70 airports throughout the U.S.;

**Contracted Power:** comprising electricity generating assets including a gas-fired facility and controlling interests in wind and solar facilities in the U.S.; and

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

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

**Overview**

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

In addition to our results under U.S. GAAP, we use certain non-GAAP measures to assess the performance and prospects of our businesses. In particular, we use EBITDA excluding non-cash items, Free Cash Flow and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect our proportionate interest in our wind and solar facilities.

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

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

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)*



TABLE OF CONTENTS

*excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* for further information on our calculation of EBITDA excluding non-cash items, Free Cash Flow and our proportionately combined metrics and for reconciliations of non-GAAP measures to the most comparable GAAP measures.

At IMTT, we focus on providing bulk liquid storage, handling and other services to 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. Contract lengths vary from 30 days to more than ten years.

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

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

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

**Dividends**

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

Declared	Period Covered	\$ per Share	Record Date	Payable Date
July 31, 2018	Second quarter 2018	\$1.00	August 13, 2018	August 16, 2018
May 1, 2018	First quarter 2018	1.00	May 14, 2018	May 17, 2018
February 19, 2018	Fourth quarter 2017	1.44	March 5, 2018	March 8, 2018
October 30, 2017	Third quarter 2017	1.42	November 13, 2017	November 16, 2017
August 1, 2017	Second quarter 2017	1.38	August 14, 2017	August 17, 2017
May 2, 2017	First quarter 2017	1.32	May 15, 2017	May 18, 2017
February 17, 2017	Fourth quarter 2016	1.31	March 3, 2017	March 8, 2017

We currently intend to maintain, and where possible, increase our quarterly cash dividend to our shareholders. The MIC Board has authorized a quarterly cash dividend of \$1.00 per share for the quarter ended June 30, 2018. MIC has been structured to provide investors with an opportunity to generate an attractive total return and we intend to distribute the majority of the cash generated from operations by our businesses as a quarterly dividend.

Our board of directors regularly reviews our dividend policy and payout ratio. In determining whether to adjust the amount of our quarterly dividend, our board will take into account such matters as the state of the capital markets and general business and economic conditions, the Company’s financial condition, results of operations, indebtedness levels, capital requirements, capital opportunities and any contractual, legal and regulatory restrictions on the payment of dividends by the Company to its stockholders or by its subsidiaries to the Company, and any other factors that it deems relevant, subject to maintaining a prudent level of reserves and without creating undue volatility in the amount

of such dividends where possible. Moreover, the Company's senior secured credit facility and the debt commitments at our businesses contain restrictions that may limit the Company's ability to pay dividends. Although historically we have declared cash dividends on our shares, any or all of these or other factors could result in the modification of our dividend policy, or the reduction, modification or elimination of our dividend in the future.

2

---

TABLE OF CONTENTS

**Recent Developments**

On July 27, 2018, our subsidiary within Contracted Power segment entered into an agreement to sell 100% of Bayonne Energy Center (BEC) to NHIP II Bayonne Holdings LLC for \$656.5 million in cash and the assumption of \$243.5 million in debt, subject to adjustment based on working capital and debt balances at the effective date. We will guarantee our subsidiary's payment and certain post-closing indemnity obligations under the purchase agreement. The transaction is expected to close in the fourth quarter of 2018, subject to receipt of required approvals including, among others, from the New York Public Service Commission and the Federal Energy Regulatory Commission. As a consequence, BEC's assets and liabilities are classified as held for sale on our consolidated condensed balance sheet at June 30, 2018.

We anticipate using part of the net proceeds of approximately \$650.0 million, after transaction fees and expenses, to reduce debt including \$150.0 million outstanding on the revolving credit facility at IMTT. We expect the use of proceeds from the BEC sale to reduce our ratio of net debt to EBITDA (leverage ratio) at December 31, 2018 to less than 4.5 times.

Proceeds not used to reduce debt will be available to fund a portion of our planned growth capital deployments. Our Board will consider options for returning any excess capital to shareholders.

We expect taxable gain from the sale of BEC to utilize the majority of our federal prior year Net Operating Loss (NOL) carry-forwards. However, we expect to be able to offset future federal taxable income with the tax benefits associated with capital deployments.

We are also undertaking a review of strategic options available to us with respect to certain other, smaller businesses in our portfolio. We may, as a result of this review, undertake to sell, or otherwise divest of these other businesses, although we cannot assure you whether, or on what terms, any such transaction(s) will occur.

In 2017, we completed the development of our shared service center to consolidate common back office functions across our businesses. We use an efforts model to allocate costs incurred by our shared services center to each of our operating and Corporate and Other segments. These costs are reflected in *Selling, general and administrative expenses*.

To date, we have realized approximately \$12.0 million of savings from our shared services center, of which approximately 65% is related to procurement and 35% is related to headcount reductions. These headcount reductions have been partially offset by increases in *Selling, general and administrative expenses* associated with acquisitions completed in 2017 and 2018 as well as additional functionality that we have added to our shared services center. Savings from our procurement initiative will be reflected in a reduction in *costs of services, cost of products sold, selling, general and administrative expenses* and capital expenditures and will not be evenly allocated to any individual operating segment.

TABLE OF CONTENTS

## **Results of Operations**

### **Consolidated**

Our consolidated results reflect a decrease in the contribution from IMTT primarily as a result of the deferred revenue recognized in 2017 in connection with the termination of a construction project and the decreased contribution from the previously disclosed non-renewal of certain contracts for bulk liquid storage and handling services in late 2017 and early 2018. These factors were partially offset by contributions from an acquisition completed by IMTT in 2017.

Our consolidated results also reflect increases in the contributions from our Atlantic Aviation and Contracted Power businesses. Atlantic Aviation benefitted from increases in GA flight activity, contributions from acquisitions of additional FBOs and the operational leverage inherent in the business. Results for Contracted Power were better than anticipated driven by, (i) the favorable weather conditions in New York City and an increase in generation capacity from the BEC expansion; and (ii) improved operations of certain of our renewable power generation assets from better wind and solar resources and the internalization of the oversight of day-to-day operations of these assets.

MIC Hawaii's results were below expectations primarily as a result of cost increases at Hawaii Gas and underperformance versus expectations on the part of our design-build mechanical contractor. The favorable outcome of the rate case is expected to generate incremental revenue and EBITDA by the regulated portion of Hawaii Gas in the third quarter of 2018 and thereafter.

Results for the second quarter of 2018 also reflect the absence of implementation costs related to shared services and the associated benefit of reductions in procurement costs. The absence of these expenses was partially offset by the cost of advisory services in connection with addressing shareholder matters.

Capital deployed in 2017 into acquisitions by each of IMTT and Atlantic Aviation, as well as growth investments generally, contributed an expected level of revenue and EBITDA to our overall results in the quarter and six months ended June 30, 2018. The 2017 acquisitions performed in line with their respective investment cases and the development of additional power generation capacity at BEC contributed modestly to our consolidated results in the second quarter.

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)	
	2018	2017	\$	%	2018	2017	\$	%
(\$ In Thousands, Except Share and Per Share Data) (Unaudited)								
<b>Revenue</b>								
Service revenue	\$375,997	\$345,045	30,952	9.0	\$778,606	\$708,849	69,757	9.8
Product revenue	102,083	93,945	8,138	8.7	201,030	181,598	19,432	10.7
Total revenue	478,080	438,990	39,090	8.9	979,636	890,447	89,189	10.0
<b>Costs and expenses</b>								
Cost of services	179,725	147,114	(32,611 )	(22.2 )	367,195	301,820	(65,375 )	(21.7 )
Cost of product sales	47,164	40,249	(6,915 )	(17.2 )	100,549	87,474	(13,075 )	(14.9 )
Selling, general and administrative	88,927	82,967	(5,960 )	(7.2 )	175,884	159,919	(15,965 )	(10.0 )
Fees to Manager-related party	10,852	18,433	7,581	41.1	23,780	36,656	12,876	35.1
Depreciation	61,086	57,063	(4,023 )	(7.1 )	122,444	114,744	(7,700 )	(6.7 )
Amortization of intangibles	18,224	15,898	(2,326 )	(14.6 )	35,440	33,591	(1,849 )	(5.5 )
Total operating expenses	405,978	361,724	(44,254 )	(12.2 )	825,292	734,204	(91,088 )	(12.4 )
Operating income	72,102	77,266	(5,164 )	(6.7 )	154,344	156,243	(1,899 )	(1.2 )
<b>Other income (expense)</b>								
Interest income	111	41	70	170.7	191	75	116	154.7
Interest expense <sup>(1)</sup>	(30,287 )	(35,356 )	5,069	14.3	(49,077 )	(60,838 )	11,761	19.3
Other income, net	6,248	1,738	4,510	NM	6,290	2,920	3,370	115.4
Net income before income taxes	48,174	43,689	4,485	10.3	111,748	98,400	13,348	13.6
Provision for income taxes	(11,895 )	(17,664 )	5,769	32.7	(28,674 )	(39,737 )	11,063	27.8
Net income	\$36,279	\$26,025	10,254	39.4	\$83,074	\$58,663	24,411	41.6
Less: net (loss) income attributable to noncontrolling interests	(2,087 )	5	2,092	NM	(32,126 )	(3,372 )	28,754	NM
Net income attributable to MIC	\$38,366	\$26,020	12,346	47.4	\$115,200	\$62,035	53,165	85.7
Basic income per share attributable to MIC	\$0.45	\$0.32	0.13	40.6	\$1.36	\$0.75	0.61	81.3
Weighted average number of shares outstanding: basic	85,082,209	82,430,324	2,651,885	3.2	84,952,551	82,285,053	2,667,498	3.2

NM Not meaningful

Interest expense includes gains on derivative instruments of \$5.9 million and \$21.0 million for the quarter and six (1) months ended June 30, 2018, respectively. For the quarter and six months ended June 30, 2017, interest expense includes losses on derivative instruments of \$7.7 million and \$6.8 million, respectively.

### **Revenue**

Consolidated revenues increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily as a result of, (i) an increase in the wholesale cost of jet fuel sold at Atlantic Aviation; (ii) an increase in the volume and wholesale cost of gas sold at Hawaii Gas and an increase in revenue from the design-build mechanical contractor at MIC Hawaii; (iii) improved operations and power production by our Contracted Power businesses; and, (iv) contributions from acquisitions. The increase in revenue for the quarter and six months ended June 30, 2018 was partially offset by deferred revenue recognized in 2017 in connection with the termination of a construction project at IMTT.

TABLE OF CONTENTS**Results of Operations: Consolidated (continued)****Cost of Services and Product Sales**

Consolidated cost of services and product sales increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to, (i) an increase in the wholesale cost of jet fuel at Atlantic Aviation; (ii) an increase in the wholesale cost of gas and lower margins at MIC Hawaii; and, (iii) incremental costs associated with acquired operations. The changes in consolidated cost of services and product sales were also attributable to unrealized gains and losses on commodity hedges at Hawaii Gas (see Results of Operations *MIC Hawaii* below).

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to, (i) incremental costs associated with acquired businesses; (ii) approximately \$2.0 million of costs incurred for advisory services in connection with addressing shareholder matters; and (iii) costs incurred in connection with the evaluation of various investment and acquisition/disposition opportunities. The increases were partially offset by the absence of costs incurred during 2017 in connection with the implementation of our shared services center.

**Fees to Manager**

Our Manager is entitled to a monthly base management fee based primarily on our market capitalization and potentially a quarterly performance fee based on total stockholder returns relative to a U.S. utilities index. For the quarter and six months ended June 30, 2018, we incurred base management fees of \$10.9 million and \$23.8 million, respectively, compared with \$18.4 million and \$36.7 million for the quarter and six months ended June 30, 2017, respectively. No performance fees were incurred in any of the above periods. The unpaid portion of base management fees and performance fees, if any, at the end of each reporting period is included in the line item *Due to Manager-related party* in our consolidated condensed balance sheets.

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

Period	Base Management Fee Amount (\$ in Thousands)	Performance Fee Amount (\$ in Thousands)	Shares Issued
<i>2018 Activities:</i>			
Second quarter 2018	\$ 10,852	\$	277,053 <sup>(1)</sup>
First quarter 2018	12,928		265,002
<i>2017 Activities:</i>			
Fourth quarter 2017	\$ 16,778	\$	248,162
Third quarter 2017	17,954		240,674
Second quarter 2017	18,433		233,394

First quarter 2017

18,223

232,398

Our Manager elected to reinvest all of the monthly base management fees for the second quarter of 2018 in shares. (1)The Company issued 277,053 shares for the quarter ended June 30, 2018, including 93,242 shares and 91,205 shares that were issued in July 2018 for the May and June 2018 monthly base management fee, respectively.

### **Depreciation**

Depreciation expense increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to contributions from acquisitions and assets placed in service.

6

---



TABLE OF CONTENTS

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

**Amortization of Intangibles**

Amortization of intangibles increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to contributions from acquisitions and a reassessment of the useful life of customer relationships at the design-build mechanical contractor in MIC Hawaii.

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

Interest expense includes gains on derivative instruments of \$5.9 million and \$21.0 million for the quarter and six months ended June 30, 2018, respectively, compared with losses on derivative instruments of \$7.7 million and \$6.8 million for the quarter and six months ended June 30, 2017, respectively. Gains and losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. Excluding the derivative adjustments, cash interest expense was \$31.8 million and \$61.6 million for the quarter and six months ended June 30, 2018, respectively, compared with \$26.4 million and \$52.3 million for the quarter and six months ended June 30, 2017, respectively. The increase reflects primarily higher average debt balances and an increase in the weighted average interest rate. See discussions of interest expense for each of our operating businesses below.

**Other Income, net**

Other income, net, increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 reflecting fees paid to us under a loan agreement with a developer of renewable power projects.

**Income Taxes**

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

For the year ending December 31, 2018, we expect any consolidated federal income tax liability our businesses may generate to be fully offset by NOL carryforwards. Our federal NOL balance at December 31, 2017 was \$347.3 million, which we believe we will be able to fully utilize. If the aforementioned sale of BEC does not close, we do not expect to make material federal income tax payments, with our current portfolio of businesses, any earlier than 2020 due to the availability of our federal prior year NOLs. If the sale of BEC closes, we expect to utilize a substantial amount of our federal prior year NOLs and may be required to make material federal income tax payments as early as 2019. Some or all of any current federal income tax liabilities otherwise arising in 2019 could be offset by capital deployed into assets that qualify for bonus depreciation.

For the year ending December 31, 2018, we expect current year federal taxable income to be approximately \$80.0 million, excluding any gain from the sale of BEC. In addition, we expect our businesses collectively to pay state/provincial income taxes of approximately \$14.0 million for the year ending December 31, 2018. In calculating

our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOLs, the use of which is uncertain.

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

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

7

---

TABLE OF CONTENTS

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

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

**Noncontrolling Interest**

The increase in loss attributable to noncontrolling interest for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 was driven primarily by the change in tax rates imposed on certain entities within the Contracted Power segment by the Tax Cuts and Jobs Act.

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

In addition to our results under U.S. GAAP, we use certain non-GAAP measures to assess the performance and prospects of our businesses. In particular, we use EBITDA excluding non-cash items, Free Cash Flow and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect our proportionate interest in our wind and solar facilities.

We measure EBITDA excluding non-cash items as it reflects our businesses' ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses. We believe investors use EBITDA excluding non-cash items primarily as a measure of the operating performance of MIC's businesses and to make comparisons with the operating performance of other businesses whose depreciation and amortization expense may vary widely from ours, particularly where acquisitions and other non-operating factors are involved. We define EBITDA excluding non-cash items as net income (loss) or earnings *the most comparable GAAP measure* before interest, taxes, depreciation and amortization and non-cash items including impairments, unrealized derivative gains and losses, adjustments for other non-cash items and pension expense reflected in the statements of operations. EBITDA excluding non-cash items also excludes base management fees and performance fees, if any, whether paid in cash or stock.

Given our varied ownership levels in our Contracted Power and MIC Hawaii segments, together with our obligations to report the results of these businesses on a consolidated basis, GAAP measures such as net income (loss) do not fully reflect all of the items we consider in assessing the amount of cash generated based on our proportionate interest in our wind and solar facilities. We note that the proportionately combined metrics used may be calculated in a different manner by other companies and may limit their usefulness as a comparative measure. Therefore, proportionately combined metrics should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

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

We use Free Cash Flow as a measure of our ability to provide investors with an attractive risk-adjusted total return by sustaining and potentially increasing our quarterly cash dividend and funding a portion of our growth. GAAP metrics

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

TABLE OF CONTENTS

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

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

Free Cash Flow does not take into consideration required payments on indebtedness and other fixed obligations or other cash items that are excluded from our definition of Free Cash Flow. We note that Free Cash Flow may be calculated differently by other companies thereby limiting its usefulness as a comparative measure. Free Cash Flow should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

**Classification of Maintenance Capital Expenditures and Growth Capital Expenditures**

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

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

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

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

	Quarter Ended		Change		Six Months Ended June		Change	
	June 30,		Favorable/	(Unfavorable)	30,		Favorable/	(Unfavorable)
	2018	2017	\$	%	2018	2017	\$	%
	(\$ In Thousands) (Unaudited)							
Net income	\$36,279	\$26,025			\$83,074	\$58,663		
Interest expense, net <sup>(1)</sup>	30,176	35,315			48,886	60,763		
Provision for income taxes	11,895	17,664			28,674	39,737		
Depreciation	61,086	57,063			122,444	114,744		
Amortization of intangibles	18,224	15,898			35,440	33,591		
Fees to Manager-related party	10,852	18,433			23,780	36,656		
Pension expense <sup>(2)</sup>	1,937	1,627			4,190	4,321		
Other non-cash (income) expense, net <sup>(3)</sup>	(1,514 )	(1,101 )			3,366	2,764		
EBITDA excluding non-cash items	\$168,935	\$170,924	(1,989 )	(1.2)	\$349,854	\$351,239	(1,385 )	(0.4)
EBITDA excluding non-cash items	\$168,935	\$170,924			\$349,854	\$351,239		
Interest expense, net <sup>(1)</sup>	(30,176 )	(35,315 )			(48,886 )	(60,763 )		
Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	(4,706 )	5,930			(19,755 )	2,683		
Amortization of debt financing costs <sup>(1)</sup>	2,190	2,099			5,239	4,301		
Amortization of debt discount <sup>(1)</sup>	903	876			1,800	1,495		
Provision for current income taxes	(3,712 )	(2,618 )			(7,583 )	(6,339 )		
Changes in working capital <sup>(4)</sup>	(11,534 )	(20,853 )			(14,667 )	(43,979 )		
Cash provided by operating activities	121,900	121,043			266,002	248,637		
Changes in working capital <sup>(4)</sup>	11,534	20,853			14,667	43,979		
Maintenance capital expenditures	(9,490 )	(6,480 )			(19,352 )	(10,956 )		
Free cash flow	\$123,944	\$135,416	(11,472)	(8.5)	\$261,317	\$281,660	(20,343)	(7.2)

- (1) Interest expense, net, includes adjustments to derivative instruments, non-cash amortization of deferred financing fees and non-cash amortization of debt discount related to the 2.00% Convertible Senior Notes due October 2023.
- (2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.  
Other non-cash (income) expense, net, primarily includes non-cash amortization of tolling liabilities, unrealized gains (losses) on commodity hedges and non-cash gains (losses) related to disposal of assets. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.
- (3) Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. See Note 2, *Basis of Presentation*, in our Notes to Consolidated Condensed Financial Statements in Part I of this Form 10-Q for recently issued accounting standards.

10

---

TABLE OF CONTENTS

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

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

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2018	2017	\$	%	2018	2017	\$	%
	(\$ In Thousands) (Unaudited)							
Free Cash Flow Consolidated basis	\$123,944	\$135,416	(11,472)	(8.5)	\$261,317	\$281,660	(20,343)	(7.2)
100% of Contracted Power Free Cash Flow included in consolidated Free Cash Flow	(25,973)	(20,704)			(40,500)	(30,543)		
MIC's share of Contracted Power Free Cash Flow	24,027	18,462			36,126	26,633		
100% of MIC Hawaii Free Cash Flow included in consolidated Free Cash Flow	(7,226)	(9,295)			(17,976)	(24,231)		
MIC's share of MIC Hawaii Free Cash Flow	7,224	9,293			17,971	24,226		
Free Cash Flow Proportionately Combined basis	\$121,996	\$133,172	(11,176)	(8.4)	\$256,938	\$277,745	(20,807)	(7.5)

### Results of Operations: *IMTT*

The financial performance of IMTT is in large part a function of the amount of bulk liquid storage capacity under contract and the rates achieved on leases of that capacity. IMTT recorded financial results for the quarter and six months ended June 30, 2018 that reflects the deferred revenue recognized in 2017 in connection with the termination of a construction project, an expected decline in storage capacity utilization levels and slightly lower average storage rates, partially offset by contributions from an acquisition in 2017. Contract non-renewals reduced capacity utilization to an average of 86.1% for the quarter ended June 30, 2018 compared with 94.0% for the quarter ended June 30, 2017 and 88.1% for the quarter ended March 31, 2018. Storage pricing, although generally flat across the business as a whole, remains under pressure with respect to gasoline and distillates in New York Harbor.

IMTT is currently both involved in and evaluating repurposing and repositioning opportunities:



*Repurposing:* cleaning and repurposing up to approximately 3.0 million barrels of primarily heavy and residual oil capacity on the Lower Mississippi River to increase exposure to growth product segments with potentially better growth prospects.

Approximately 1.3 million barrels of IMTT storage capacity is currently being repurposed. Of that, 500,000 barrels were contracted in the second quarter and an additional 370,000 barrels were contracted in the third quarter. IMTT expects to invest approximately \$15.0 million in the repurposing of storage capacity in 2018 and had deployed approximately \$2.8 million through June 2018.

*Repositioning:* leveraging IMTT's existing geographic footprint to selectively increase capacity to meet customer demand and further diversify product mix (i.e. chemical and tropical oil).

Repositioning also includes enhancing connectivity by investing in truck, pipeline, marine and rail infrastructure that will enhance supply chain efficiencies for its customers and provide better integration with IMTT's facilities.

The successful implementation of these initiatives is, over time, expected to, (i) improve utilization and pricing, (ii) increase exposure to growth markets, (iii) generate a larger proportion of IMTT's revenue from longer-dated contracts, and (iv) reduce IMTT's exposure to heavy and residual oil storage demand.

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

In April 2018, IMTT sold its environmental response subsidiary (OMI Environmental Solutions).

	Quarter Ended		Change		Six Months Ended		Change	
	June 30, 2018	2017	Favorable/ (Unfavorable)		June 30, 2018	2017	Favorable/ (Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Revenue	129,363	137,144	(7,781 )	(5.7 )	268,752	275,961	(7,209 )	(2.6 )
Cost of services	49,716	49,224	(492 )	(1.0 )	104,141	99,070	(5,071 )	(5.1 )
Selling, general and administrative expenses	7,814	7,485	(329 )	(4.4 )	17,120	16,523	(597 )	(3.6 )
Depreciation and amortization	32,770	30,795	(1,975 )	(6.4 )	66,019	62,315	(3,704 )	(5.9 )
Operating income	39,063	49,640	(10,577)	(21.3)	81,472	98,053	(16,581)	(16.9)
Interest expense, net <sup>(1)</sup>	(10,933 )	(11,763 )	830	7.1	(18,672 )	(20,520 )	1,848	9.0
Other income, net	154	452	(298 )	(65.9)	450	1,160	(710 )	(61.2)
Provision for income taxes	(8,087 )	(15,716 )	7,629	48.5	(17,773 )	(32,264 )	14,491	44.9
Net income	20,197	22,613	(2,416 )	(10.7)	45,477	46,429	(952 )	(2.1 )
<b><i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i></b>								
Net income	20,197	22,613			45,477	46,429		
Interest expense, net <sup>(1)</sup>	10,933	11,763			18,672	20,520		
Provision for income taxes	8,087	15,716			17,773	32,264		
Depreciation and amortization	32,770	30,795			66,019	62,315		
Pension expense <sup>(2)</sup>	1,743	1,350			3,823	3,766		
Other non-cash expense, net	310	69			404	137		
EBITDA excluding non-cash items	74,040	82,306	(8,266 )	(10.0)	152,168	165,431	(13,263 )	(8.0 )
EBITDA excluding non-cash items	74,040	82,306			152,168	165,431		
Interest expense, net <sup>(1)</sup>	(10,933 )	(11,763 )			(18,672 )	(20,520 )		
Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	(1,351 )	1,587			(5,393 )	267		
Amortization of debt financing costs <sup>(1)</sup>	412	412			823	823		
Provision for current income taxes	(4,376 )	(1,155 )			(8,652 )	(3,413 )		
Changes in working capital	5,545	(16,881 )			10,634	(16,145 )		
Cash provided by operating activities	63,337	54,506			130,908	126,443		
Changes in working capital	(5,545 )	16,881			(10,634 )	16,145		

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

Maintenance capital expenditures	(5,483 )	(2,987 )			(12,472 )	(5,447 )		
Free cash flow	52,309	68,400	(16,091)	(23.5)	107,802	137,141	(29,339)	(21.4)

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

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

12

---

TABLE OF CONTENTS

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

**Revenue**

IMTT generates the majority of its revenue from contracts comprising a fixed monthly charge (that typically escalates annually with inflation) for access to or use of a specified amount of capacity and/or its infrastructure and land. Contract lengths vary from 30 days to more than ten years. We refer to revenue generated from such contracts or fixed charges as firm commitments. Firm commitments are generally of medium term duration and at June 30, 2018, had a revenue weighted average remaining life of 2.3 years. However, some customers storing certain petroleum products are renewing contracts for shorter durations that will increase the frequency with which contracts are renewed. Revenue from firm commitments comprised 80.5% and 79.8% of total revenue for the quarter and trailing twelve months ended June 30, 2018, respectively.

For the quarter and six months ended June 30, 2018, total revenue decreased by \$7.8 million and \$7.2 million, respectively, compared with the quarter and six months ended June 30, 2017 primarily due to the deferred revenue recognized in 2017 in connection with the termination of a construction project, the decline in utilization and slightly lower average storage rates. The decrease in revenue was partially offset by contributions from an acquisition.

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

Cost of services and selling, general and administrative expenses combined increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to incremental costs related to an acquisition and increased repair and maintenance expenses. The cost increases were partially offset by lower costs related to spill response activity primarily as a result of the sale of OMI Environmental Solutions in April 2018.

**Depreciation and Amortization**

Depreciation and amortization expense increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to an acquisition.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$1.6 million and \$5.6 million for the quarter and six months ended June 30, 2018, respectively, compared with losses on derivative instruments of \$2.2 million and \$1.7 million for the quarter and six months ended June 30, 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$11.8 million and \$23.2 million for the quarter and six months ended June 30, 2018, respectively, compared with \$9.7 million and \$19.4 million for the quarter and six months ended June 30, 2017, respectively. The increases reflect primarily higher average debt balances and a higher weighted average interest rate.

The interest rate on IMTT's tax-exempt Gulf Opportunity Zone Bonds (GO Zone Bonds) increased by 0.6% in 2018 as a result of the reduction in the corporate tax rate from 35% to 21% under the Tax Cuts and Jobs Act.

**Income Taxes**

The taxable income generated by IMTT is reported on our consolidated federal income tax return. The business files state/provincial income tax returns in the jurisdictions in which it operates. For the year ending December 31, 2018,

the business expects to pay state/provincial income taxes of approximately \$5.0 million. The *Provision for current income taxes* of \$8.7 million for the six months ended June 30, 2018 in the above table includes \$4.7 million of federal income tax expense and \$4.0 million of state/provincial income tax expense. Any current federal income tax payable is expected to be offset in consolidation with the application of NOLs at the MIC holding company level.

TABLE OF CONTENTS

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

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

**Maintenance Capital Expenditures**

During the six months ended June 30, 2018, IMTT incurred maintenance capital expenditures of \$12.5 million and \$12.9 million on an accrual basis and cash basis, respectively, compared with \$5.4 million and \$8.3 million on an accrual basis and cash basis, respectively, for the six months ended June 30, 2017. The increase for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 was primarily a result of the timing of tank and dock inspections and repairs. Maintenance capital expenditure for the six months ended June 30, 2018 also includes approximately \$1.8 million of capital expenditure associated with repurposing existing tanks. For the full year, IMTT anticipates spending up to \$15.0 million on repurposing existing tanks with approximately \$10.0 million of that being characterized as maintenance capital expenditures. The repurposing expenditures would be in addition to a forecast \$20.0 million to \$25.0 million of recurring maintenance capital expenditures.

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

A fundamental driver of the performance of Atlantic Aviation is the number of GA flight movements (take-offs and landings) in a given period. Industry-wide, domestic GA flight movements increased by 1.7% and 2.2% for the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017 according to data reported by the FAA. GA flight movements at airports on which Atlantic Aviation operates increased by 0.1% and 0.4% during the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017. The modest increase in flight movements at airports on which Atlantic Aviation operates reflects primarily decreased traffic at Santa Monica Municipal Airport in Santa Monica, CA as a result of the shortening of the runway. Flight movements at the remainder of the airports on which Atlantic Aviation operates increased by 1.3% and 1.6% during the quarter and six months ended June 30, 2018.

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

Atlantic Aviation seeks to extend FBO leases prior to their maturity in order to maintain visibility into the cash generating capacity of these assets over the long-term. Atlantic Aviation calculates a weighted average remaining lease life based on EBITDA excluding non-cash items in the prior calendar year adjusted for the impact of acquisitions/dispositions. The weighted average remaining lease life was 20.1 years at June 30, 2018 compared with 19.8 years at June 30, 2017. Notwithstanding the passage of one year, the length of the remaining lease life increased as a result of acquisitions and successful extensions of certain leaseholds.

	Quarter Ended		Change Favorable/ (Unfavorable)		Six Months Ended		Change Favorable/ (Unfavorable)	
	June 30, 2018	2017	\$	%	June 30, 2018	2017	\$	%
	(\$ In Thousands) (Unaudited)							
Revenue	232,931	196,939	35,992	18.3	480,133	409,692	70,441	17.2
Cost of services (exclusive of depreciation and amortization shown separately below)	115,994	86,957	(29,037)	(33.4)	232,687	180,879	(51,808)	(28.6)
Gross margin	116,937	109,982	6,955	6.3	247,446	228,813	18,633	8.1
Selling, general and administrative expenses	56,717	52,596	(4,121)	(7.8)	116,656	106,486	(10,170)	(9.6)
Depreciation and amortization	26,959	23,575	(3,384)	(14.4)	52,438	48,608	(3,830)	(7.9)
Operating income	33,261	33,811	(550)	(1.6)	78,352	73,719	4,633	6.3
Interest expense, net <sup>(1)</sup>	(4,242)	(5,907)	1,665	28.2	(4,311)	(9,353)	5,042	53.9
Other expense, net	(555)	(19)	(536)	NM	(499)	(105)	(394)	NM
Provision for income taxes	(7,600)	(11,077)	3,477	31.4	(19,711)	(25,627)	5,916	23.1
Net income	20,864	16,808	4,056	24.1	53,831	38,634	15,197	39.3
<b><i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i></b>								
Net income	20,864	16,808			53,831	38,634		
Interest expense, net <sup>(1)</sup>	4,242	5,907			4,311	9,353		
Provision for income taxes	7,600	11,077			19,711	25,627		
Depreciation and amortization	26,959	23,575			52,438	48,608		
Pension expense <sup>(2)</sup>	6	5			11	10		
Other non-cash expense (income), net	597	(22)			909	40		
EBITDA excluding non-cash items	60,268	57,350	2,918	5.1	131,211	122,272	8,939	7.3
EBITDA excluding non-cash items	60,268	57,350			131,211	122,272		
Interest expense, net <sup>(1)</sup>	(4,242)	(5,907)			(4,311)	(9,353)		
Convertible senior notes interest <sup>(3)</sup>	(2,013)	(2,013)			(4,025)	(3,757)		

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	(1,077 )	2,553			(5,444 )	2,686		
Amortization of debt financing costs <sup>(1)</sup>	283	221			562	535		
Provision for current income taxes	(7,207 )	(1,730 )			(13,740 )	(4,602 )		
Changes in working capital	4,572	784			10,591	(5,332 )		
Cash provided by operating activities	50,584	51,258			114,844	102,449		
Changes in working capital	(4,572 )	(784 )			(10,591 )	5,332		
Maintenance capital expenditures	(1,807 )	(1,981 )			(3,109 )	(2,906 )		
Free cash flow	44,205	48,493	(4,288 )	(8.8 )	101,144	104,875	(3,731 )	(3.6 )

NM Not meaningful



TABLE OF CONTENTS

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

- (1) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.
- (2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.
- (3) Represents the cash interest expense reclassified from MIC Corporate related to the 2.00% Convertible Senior Notes due October 2023, proceeds of which were used to pay down a portion of Atlantic Aviation's credit facility in October 2016.

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

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

**Revenue and Gross Margin**

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

Revenue and gross margin are driven, in part, by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales. Revenue increased by 18.3% and 17.2% for the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017 as a result of increases in the wholesale cost of fuel and contributions from acquisitions. The increased wholesale cost of fuel was largely offset by a corresponding increase in cost of services, resulting in an increase in gross margin of 6.3% and 8.1% for the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017.

Our discussion of same store results in the current and prior comparable periods reflects contributions from FBOs that have been in operation for the same full months in each period, and excludes the costs of acquiring, integrating or disposing of FBOs. On a same store basis, gross margin increased by 2.9% and 4.1% in the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017 driven in part by an increase in hangar rentals and ancillary services.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily as a result of incremental costs associated with acquisitions, higher salaries and benefit costs and rent increases.

**Depreciation and Amortization**

Depreciation and amortization expense increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily as a result of contributions from acquisitions and assets placed in service.

TABLE OF CONTENTS

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

**Operating Income**

Operating income decreased for the quarter ended June 30, 2018 compared with the quarter ended June 30, 2017 due to the increase in selling, general and administrative expenses and the increase in depreciation and amortization expense, partially offset by the increase in gross margin. Operating income increased for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 due to the increase in gross margin, partially offset by the increase in selling, general and administrative expenses and the increase in depreciation and amortization expense.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$2.0 million and \$7.0 million for the quarter and six months ended June 30, 2018, respectively, compared with losses on derivative instruments of \$2.5 million and \$2.7 million for the quarter and six months ended June 30, 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$7.0 million and \$13.2 million for the quarter and six months ended June 30, 2018, respectively, compared with \$5.2 million and \$9.9 million for the quarter and six months ended June 30, 2017, respectively. The increases reflect primarily higher average debt balances and a higher weighted average interest rate.

Cash interest expense for the quarter and six months ended June 30, 2018 and 2017 includes the cash interest expense on the \$402.5 million of the MIC Corporate 2.00% Convertible Senior Notes due October 2023, proceeds of which were used in part to reduce the drawn balance of Atlantic Aviation's revolving credit facility in October 2016.

**Income Taxes**

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

For the year ending December 31, 2018, the business expects to pay state income taxes of approximately \$8.0 million.

The *Provision for current income taxes* of \$13.7 million for the six months ended June 30, 2018 in the above table includes \$9.5 million of federal income tax expense and \$4.2 million of state income tax expense. Any current federal income tax payable is expected to be offset in consolidation with the application of NOLs at the MIC holding company level.

**Maintenance Capital Expenditures**

For the six months ended June 30, 2018, Atlantic Aviation incurred maintenance capital expenditures of \$3.1 million and \$3.4 million on an accrual basis and cash basis, respectively, compared with \$2.9 million both on an accrual basis and cash basis for the six months ended June 30, 2017.

TABLE OF CONTENTS**Results of Operations: *Contracted Power***

The performance of our Contracted Power segment is a function, broadly, of the availability of wind and solar resources and the demand for peaking power in New York City. Segment results for the quarter and six months ended June 30, 2018 exceeded expectations primarily as a result of improved renewable resources versus the prior comparable periods and weather conditions in and around New York City that resulted in an increase in power demand. In addition, we received fees pursuant to a loan agreement with a developer of renewable power projects during the second quarter. Results for the period also reflect a contribution from the recently completed BEC expansion project and increased tariff-based ancillary services revenue.

	Quarter Ended		Change		Six Months Ended		Change	
	June 30, 2018	2017	(Unfavorable)		June 30, 2018	2017	(Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Product revenue	41,403	40,166	1,237	3.1	76,690	68,236	8,454	12.4
Cost of product sales	5,862	5,498	(364 )	(6.6 )	11,699	10,357	(1,342 )	(13.0 )
Selling, general and administrative expenses	7,510	6,244	(1,266)	(20.3)	15,022	11,409	(3,613)	(31.7 )
Depreciation and amortization	14,519	14,861	342	2.3	30,046	30,201	155	0.5
Operating income	13,512	13,563	(51 )	(0.4 )	19,923	16,269	3,654	22.5
Interest expense, net <sup>(1)</sup>	(4,832 )	(8,767 )	3,935	44.9	(5,717 )	(14,150)	8,433	59.6
Other income, net	6,721	1,341	5,380	NM	7,726	2,106	5,620	NM
Provision for income taxes	(3,654 )	(1,845 )	(1,809)	(98.0)	(4,604 )	(1,872 )	(2,732 )	(145.9)
Net income	11,747	4,292	7,455	173.7	17,328	2,353	14,975	NM
Less: net (loss) income attributable to noncontrolling interest	(2,003 )	16	2,019	NM	(32,059)	(3,333 )	28,726	NM
Net income attributable to MIC	13,750	4,276	9,474	NM	49,387	5,686	43,701	NM
<b><i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i></b>								
Net income	11,747	4,292			17,328	2,353		
Interest expense, net <sup>(1)</sup>	4,832	8,767			5,717	14,150		
Provision for income taxes	3,654	1,845			4,604	1,872		
Depreciation and amortization	14,519	14,861			30,046	30,201		
Other non-cash income, net <sup>(2)</sup>	(1,690 )	(2,232 )			(3,578 )	(4,256 )		
EBITDA excluding non-cash items	33,062	27,533	5,529	20.1	54,117	44,320	9,797	22.1
EBITDA excluding non-cash items	33,062	27,533			54,117	44,320		
Interest expense, net <sup>(1)</sup>	(4,832 )	(8,767 )			(5,717 )	(14,150)		
Adjustments to derivative instruments recorded in interest	(2,178 )	1,474			(8,148 )	(360 )		

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

expense <sup>(1)</sup>								
Amortization of debt financing costs <sup>(1)</sup>	379	379			758	758		
(Provision) benefit for current income taxes	(54 )	85			(70 )	(3 )		
Changes in working capital <sup>(3)</sup>	(12,694)	(7,621 )			(11,775)	(8,206 )		
Cash provided by operating activities	13,683	13,083			29,165	22,359		
Changes in working capital <sup>(3)</sup>	12,694	7,621			11,775	8,206		
Maintenance capital expenditures	(404 )				(440 )	(22 )		
Free cash flow	25,973	20,704	5,269	25.4	40,500	30,543	9,957	32.6

NM Not meaningful

TABLE OF CONTENTS

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

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

Other non-cash income, net, primarily includes amortization of tolling liabilities. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.

(2) Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. See Note 2, *Basis of Presentation*, in our Notes to Consolidated Condensed Financial Statements in Part I of this Form 10-Q for recently issued accounting standards.

**Revenue**

Revenue increased by \$1.2 million and \$8.5 million for the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017. Revenue from BEC increased due to, (i) higher ancillary services and transmission congestion revenue; (ii) an increase in generation capacity; and, (iii) higher capacity prices that positively impacts the merchant portion of BEC. Revenue from our renewable facilities increased primarily due to strong wind resources for the six months ended June 30, 2018.

**Cost of Product Sales**

Cost of product sales increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 due to the BEC expansion completed in May 2018. For the six months ended June 30, 2018, the increase in cost of product sales also reflects higher generation levels at BEC resulting in an increase in gas consumed and higher variable operations and maintenance expenses.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to the expansion of BEC and development-related expenses. These increases were partially offset by lower insurance costs at BEC.

**Other Income, Net**

Other income, net, increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 reflecting fees paid to Contracted Power pursuant to a loan agreement with a developer of renewable power projects.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$2.0 million and \$7.4 million for the quarter and six months ended June 30, 2018, respectively, compared with losses on derivative instruments of \$2.7 million and \$2.3 million for the quarter and six months ended June 30, 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$6.6 million and \$13.1 million for the quarter and six months ended June 30, 2018, respectively, compared with \$7.0 million and \$13.8 million for the quarter and six months ended June 30, 2017, respectively. The decreases reflect primarily lower average debt balances on all facilities.

### **Income Taxes**

Our wind and solar facilities are held in limited liability companies that are treated as pass through entities for tax purposes. As such, these entities do not pay federal or state income taxes on a standalone basis, but each owner pays federal and state income taxes on its allocable share of taxable income. For the year ending December 31, 2018, MIC expects its share of the federal taxable income from these facilities to be a loss of approximately \$1.2 million. For 2017, MIC's share of the federal taxable income from these facilities was a loss of approximately \$10.7 million.

TABLE OF CONTENTS

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

The taxable income generated by BEC's operations is included in our consolidated federal income tax return and is subject to New York state income tax as part of a combined return. For the year ending December 31, 2018, if the aforementioned sale of BEC does not close, the business does not expect to have a federal or a state income tax liability. Future current federal taxable income attributable to BEC may be offset in consolidation with the application of NOLs at the MIC holding company level.

If the aforementioned sale of BEC does close, the business expects to have a state income tax liability in New Jersey and New York.

**Noncontrolling Interest**

The increase in loss attributable to noncontrolling interest for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 was driven primarily by the change in tax rates imposed on certain entities by the Tax Cuts and Jobs Act.

**Results of Operations: *MIC Hawaii***

MIC Hawaii generated results for the quarter and six months ended June 30, 2018 that were below both our expectations and results in the prior year. The underperformance was driven primarily by higher operating costs at Hawaii Gas and at the design-build mechanical contractor.

In August 2017, Hawaii Gas filed a general rate case with the Hawaii Public Utilities Commission (HPUC). On June 27, 2018, the HPUC issued an Interim Decision and Order providing the regulated utility operations of Hawaii Gas with interim rate relief. New rates reflecting the decision went into effect on July 1, 2018. The Interim Decision and Order approves an increase in regulated revenue over present rates of \$8.9 million, or 8.4%, annually and infers a post-tax return on the equity invested in the utility of 9.75%. The HPUC is expected to issue a Final Decision and Order subject to, among other things, the completion by Hawaii Gas of the Honouliuli Waste Water Treatment Plant Biogas Project, which is currently estimated to be completed in the fourth quarter of 2018.



TABLE OF CONTENTS**Results of Operations: MIC Hawaii (continued)**

	Quarter Ended		Change		Six Months Ended		Change	
	2018	2017	(Unfavorable)		2018	2017	(Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Product revenue	60,680	53,779	6,901	12.8	124,340	113,362	10,978	9.7
Service revenue	14,935	12,193	2,742	22.5	32,184	25,650	6,534	25.5
Total revenue	75,615	65,972	9,643	14.6	156,524	139,012	17,512	12.6
Cost of product sales (exclusive of depreciation and amortization shown separately below)	41,302	34,751	(6,551)	(18.9)	88,850	77,117	(11,733)	(15.2)
Cost of services (exclusive of depreciation and amortization shown separately below)	14,015	10,944	(3,071)	(28.1)	30,367	21,884	(8,483)	(38.8)
Cost of revenue total	55,317	45,695	(9,622)	(21.1)	119,217	99,001	(20,216)	(20.4)
Gross margin	20,298	20,277	21	0.1	37,307	40,011	(2,704)	(6.8)
Selling, general and administrative expenses	7,974	6,770	(1,204)	(17.8)	15,203	12,855	(2,348)	(18.3)
Depreciation and amortization	4,896	3,730	(1,166)	(31.3)	9,051	7,211	(1,840)	(25.5)
Operating income	7,428	9,777	(2,349)	(24.0)	13,053	19,945	(6,892)	(34.6)
Interest expense, net <sup>(1)</sup>	(1,887)	(2,207)	320	14.5	(3,177)	(3,918)	741	18.9
Other income (expense), net	6	(36)	42	116.7	(1,313)	(241)	(1,072)	NM
Provision for income taxes	(2,144)	(2,563)	419	16.3	(2,949)	(5,942)	2,993	50.4
Net income	3,403	4,971	(1,568)	(31.5)	5,614	9,844	(4,230)	(43.0)
Less: net loss attributable to noncontrolling interests	(84)	(11)	73	NM	(67)	(39)	28	71.8
Net income attributable to MIC	3,487	4,982	(1,495)	(30.0)	5,681	9,883	(4,202)	(42.5)
<b>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</b>								
Net income	3,403	4,971			5,614	9,844		
Interest expense, net <sup>(1)</sup>	1,887	2,207			3,177	3,918		
Provision for income taxes	2,144	2,563			2,949	5,942		
Depreciation and amortization	4,896	3,730			9,051	7,211		
Pension expense <sup>(2)</sup>	128	272			255	545		
Other non-cash (income) expense, net <sup>(3)</sup>	(954)	897			5,245	6,468		
EBITDA excluding non-cash items	11,504	14,640	(3,136)	(21.4)	26,291	33,928	(7,637)	(22.5)
EBITDA excluding non-cash items	11,504	14,640			26,291	33,928		
Interest expense, net <sup>(1)</sup>	(1,887)	(2,207)			(3,177)	(3,918)		

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	(100 )	316			(770 )	90		
Amortization of debt financing costs <sup>(1)</sup>	95	99			192	204		
Provision for current income taxes	(590 )	(2,041 )			(1,229 )	(3,492 )		
Changes in working capital <sup>(4)</sup>	(11 )	(1,812 )			(6,150 )	(10,539 )		
Cash provided by operating activities	9,011	8,995			15,157	16,273		
Changes in working capital <sup>(4)</sup>	11	1,812			6,150	10,539		
Maintenance capital expenditures	(1,796 )	(1,512 )			(3,331 )	(2,581 )		
Free cash flow	7,226	9,295	(2,069)	(22.3 )	17,976	24,231	(6,255 )	(25.8)

NM Not meaningful

TABLE OF CONTENTS

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

- (1) Interest expense, net, includes adjustments to derivative instruments related to interest rate swaps and non-cash amortization of deferred financing fees.
- (2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.  
Other non-cash (income) expense, net, primarily includes non-cash adjustments related to unrealized gains (losses) on commodity hedges and non-cash gains (losses) related to disposal of assets. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.
- (3) Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. See Note 2, *Basis of Presentation*, in our Notes to Consolidated Condensed Financial Statements in Part I of this Form 10-Q for recently issued accounting standards.
- (4) MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii. The businesses of MIC Hawaii generate revenue primarily from the provision of gas services to commercial, residential and governmental customers, the generation of power and the design and construction of building mechanical systems.

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

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

**Revenue and Gross Margin**

Revenue increased by \$9.6 million and \$17.5 million for the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017. The increase was primarily attributable to increases in the volume of utility and nonutility gas sold and a higher average price per therm of utility gas sold by Hawaii Gas, as well as higher revenue at the design-build mechanical contractor. These were partially offset by lower average revenue per therm of non-utility gas sold by Hawaii Gas. On an underlying basis, adjusting for changes in customer inventory, the volume of gas sold increased by 7.1% and 6.3% in the quarter and six months ended June 30, 2018, respectively, compared with the quarter and six months ended June 30, 2017.

Gross margin was flat for the quarter ended June 30, 2018 compared with the quarter ended June 30, 2017 and decreased by \$2.7 million for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. The performance was attributable primarily to lower margins at Hawaii Gas and the design-build mechanical contractor, partially offset by favorable movements on commodity hedges.

Gross margins were lower at Hawaii Gas due to increases in production and transmission and distribution costs. Unrealized changes in commodity hedges included a gain of \$985,000 and a loss of \$3.3 million for the quarter and six months ended June 30, 2018, respectively, compared with unrealized losses of \$481,000 and \$5.7 million for the quarter and six months ended June 30, 2017, respectively. Lower margins on the design-build mechanical contractor projects resulted from increased costs on fixed revenue contracts attributable to higher labor costs, project delays and general construction cost escalation in Hawaii.

TABLE OF CONTENTS

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

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily driven by higher costs at the design-build mechanical contractor and higher salaries and benefit costs.

**Depreciation and Amortization**

Depreciation and amortization expense increased for the quarter and six months ended June 30, 2018 compared with the quarter and six months ended June 30, 2017 primarily due to a reassessment of the useful life of customer relationships at the design-build mechanical contractor and additional assets placed in service during 2017.

**Operating Income**

Operating income decreased for the quarter ended June 30, 2018 compared with the quarter ended June 30, 2017 due to the increase in selling, general and administrative expenses and the increase in depreciation and amortization expenses, partially offset by the marginal increase in gross margin.

Operating income decreased for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 due to the decrease in gross margin, increase in selling, general and administrative expenses and the increase in depreciation and amortization expenses.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$309,000 and \$1.1 million for the quarter and six months ended June 30, 2018, respectively, compared with losses on derivative instruments of \$329,000 and \$173,000 for the quarter and six months ended June 30, 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$1.9 million and \$3.8 million for the quarter and six months ended June 30, 2018, respectively, compared with \$1.8 million and \$3.6 million for the quarter and six months ended June 30, 2017, respectively. The increases reflect primarily higher average debt balances outstanding.

**Income Taxes**

The taxable income generated by the MIC Hawaii businesses is reported on our consolidated federal income tax return and is subject to Hawaii state income tax on a stand-alone basis. The tax expense in the table above includes both state tax and the portion of the consolidated federal tax liability attributable to the businesses. For the year ending December 31, 2018, the business expects to pay state income taxes of approximately \$800,000. The *Provision for current income taxes* of \$1.2 million for the six months ended June 30, 2018 in the above table includes \$1.9 million of federal income tax expense offset by \$708,000 of state income tax benefits. Any current federal income tax payable is expected to be offset in consolidation with the application of NOLs at the MIC holding company level.

**Maintenance Capital Expenditures**

For the six months ended June 30, 2018, MIC Hawaii incurred maintenance capital expenditures of \$3.3 million and \$3.2 million on an accrual basis and cash basis, respectively, compared with \$2.6 million and \$3.0 million on an

accrual basis and cash basis, respectively, for the six months ended June 30, 2017.

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

Corporate and Other includes expenses paid by the holding company, including base management fees and performance fees, if any, professional fees and costs associated with being a public company.

	Quarter Ended		Change		Six Months Ended		Change	
	June 30, 2018	2017	Favorable/ (Unfavorable)		June 30, 2018	2017	Favorable/ (Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Fees to Manager-related party	10,852	18,433	7,581	41.1	23,780	36,656	12,876	35.1
Selling, general and administrative expenses <sup>(1)</sup>	10,144	11,092	948	8.5	14,346	15,087	741	4.9
Depreciation	166		(166 )	NM	330		(330 )	NM
Operating loss	(21,162)	(29,525)	8,363	28.3	(38,456)	(51,743)	13,287	25.7
Interest expense, net <sup>(2)</sup>	(8,282 )	(6,671 )	(1,611)	(24.1)	(17,009)	(12,822)	(4,187 )	(32.7)
Other expense, net	(78 )		(78 )	NM	(74 )		(74 )	NM
Benefit for income taxes	9,590	13,537	(3,947)	(29.2)	16,363	25,968	(9,605 )	(37.0)
Net loss	(19,932)	(22,659)	2,727	12.0	(39,176)	(38,597)	(579 )	(1.5 )
<b>Reconciliation of net loss to EBITDA excluding non-cash items and a reconciliation of cash used in operating activities to Free Cash Flow:</b>								
Net loss	(19,932)	(22,659)			(39,176)	(38,597)		
Interest expense, net <sup>(2)</sup>	8,282	6,671			17,009	12,822		
Benefit for income taxes	(9,590 )	(13,537)			(16,363)	(25,968)		
Depreciation	166				330			
Fees to Manager-related party	10,852	18,433			23,780	36,656		
Pension expense <sup>(3)</sup>	60				101			
Other non-cash expense, net	223	187			386	375		
EBITDA excluding non-cash items	(9,939 )	(10,905)	966	8.9	(13,933)	(14,712)	779	5.3
EBITDA excluding non-cash items	(9,939 )	(10,905)			(13,933)	(14,712)		
Interest expense, net <sup>(2)</sup>	(8,282 )	(6,671 )			(17,009)	(12,822)		
Convertible senior notes interest <sup>(4)</sup>	2,013	2,013			4,025	3,757		
Amortization of debt financing costs <sup>(2)</sup>	1,021	988			2,904	1,981		
Amortization of debt discount <sup>(2)</sup>	903	876			1,800	1,495		
Benefit for current income taxes	8,515	2,223			16,108	5,171		
Changes in working capital	(8,946 )	4,677			(17,967)	(3,757 )		
Cash used in operating activities	(14,715)	(6,799 )			(24,072)	(18,887)		
Changes in working capital	8,946	(4,677 )			17,967	3,757		
Free cash flow	(5,769 )	(11,476)	5,707	49.7	(6,105 )	(15,130)	9,025	59.6

NM Not meaningful

(1) For the quarter and six months ended June 30, 2018, selling, general and administrative expenses included \$4.7 million and \$5.6 million, respectively, of costs incurred in connection with the evaluation of various investment and acquisition/disposition opportunities, compared with \$4.9 million for the quarter and six months ended June 30, 2017. For the quarter and six months ended June 30, 2017, selling, general and administrative expenses also included \$3.1 million and \$5.4 million, respectively, of costs related to the implementation of a shared service center.

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

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

(4) Represents the cash interest expense reclassified to Atlantic Aviation related to the 2.00% Convertible Senior Notes due October 2023, proceeds of which were used to pay down a portion of Atlantic Aviation's credit facility in October 2016.

24

---



TABLE OF CONTENTS**Liquidity and Capital Resources****General**

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

At June 30, 2018, including BEC debt classified as held for sale in our consolidated condensed balance sheet, our consolidated debt outstanding totaled \$3,679.0 million (excluding adjustments for unamortized debt discounts), our consolidated cash balance totaled \$54.0 million and consolidated available capacity under our revolving credit facilities totaled \$980.5 million, excluding letters of credit outstanding of \$48.1 million. With the proceeds from the BEC sale, we expect to reduce our ratio of net debt to EBITDA (leverage ratio) at December 31, 2018 to less than 4.5 times.

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

The following table shows MIC's proportionate debt obligations at July 31, 2018 (\$ in thousands):

Business	Debt	Weighted Average Remaining Life (in years)	Balance Outstanding <sup>(1)</sup>	Weighted Average Rate <sup>(2)</sup>
MIC Corporate	Revolving Facility	3.4	\$ 141,500	3.83%
	Convertible Senior Notes	3.2	752,445	2.41%
IMTT	Senior Notes	7.7	600,000	3.97%
	Tax-Exempt Bonds	3.8	508,975	3.34%
	Revolving Facility	1.8	217,000	3.58%
Atlantic Aviation	Term Loan	3.2	380,000	2.75%
	Revolving Facility	3.2	291,000	3.83%
Contracted Power	Renewables Project Finance	13.9	254,759	4.84%
	BEC Term Loan <sup>(4)</sup>	4.0	246,000	3.91%
MIC Hawaii <sup>(5)</sup>	Term Loan	5.1	96,051	2.85%
	Senior Notes	4.0	100,000	4.22%
	Revolving Facility	4.5	15,000	3.33%
Total		4.8	\$ 3,602,730	3.42%

(1) Proportionate to MIC's ownership interest.

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

(3) Interest rate reflects the impact of the Tax Cuts and Jobs Act.

(4) The BEC Term Loan balance of \$246.0 million was classified as *Liabilities held for sale* on the Consolidated Condensed Balance Sheets for June 30, 2018.

(5) Excludes \$2.3 million of equipment loans at the MIC Hawaii business.



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

The following table profiles each revolving credit facility at our businesses and at MIC Corporate as of July 31, 2018 (\$ in thousands):

Business	Debt	Weighted Average Remaining Life (in years)	Undrawn Amount	Interest Rate <sup>(1)</sup>
MIC Corporate <sup>(2)</sup>	Revolving Facility	3.4	\$458,500	LIBOR + 1.750%
IMTT	USD Revolving Facility	1.8	333,000	LIBOR + 1.500%
	CAD Revolving Facility	1.8	50,000	Bankers Acceptance Rate + 1.500%
Atlantic Aviation	Revolving Facility	3.2	59,000	LIBOR + 1.750%
Contracted Power	BEC Revolving Facility	4.0	25,000	LIBOR + 2.125%
Contracted Power	Renewables Revolving Facility	1.4	19,980	LIBOR + 2.000%
MIC Hawaii <sup>(3)</sup>	Revolving Facility	4.5	45,000	LIBOR + 1.250%
Total <sup>(4)</sup>		2.8	\$990,480	

(1) Excludes commitment fees.

(2) On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility and extended its maturity to January 2022.

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

(4) Excludes letters of credit outstanding of \$50.3 million.

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

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

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

We capitalize our businesses in part using floating rate bank debt with medium-term maturities between five and seven years. In general, we hedge the floating rate exposure for the majority of the term of these facilities. We also use longer dated private placement debt and other forms of capital including bond or hybrid debt instruments to capitalize our businesses. In general, the debt facilities at our businesses are non-recourse to the holding company and there are no cross-collateralization or cross-guarantee provisions in these facilities.

Our wind and solar facilities are financed primarily with fully amortizing non-recourse project finance style debt with maturities prior to or coterminous with the expiration of the underlying PPAs.

26

---

TABLE OF CONTENTS

## Liquidity and Capital Resources (continued)

### Analysis of Consolidated Historical Cash Flows

The following section discusses our sources and uses of cash on a consolidated basis. All intercompany activities such as corporate allocations, capital contributions to our businesses and distributions from our businesses have been excluded from the table as these transactions are eliminated on consolidation.

(\$ In Thousands)	Six Months Ended June		Change	
	30, 2018	2017 <sup>(1)</sup>	Favorable/(Unfavorable)	
	\$	\$	\$	%
Cash provided by operating activities	266,002	248,637	17,365	7.0
Cash used in investing activities	(82,294 )	(209,890)	127,596	60.8
Cash used in financing activities	(171,520)	(47,951 )	(123,569 )	NM

NM Not meaningful

Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 1)230: Restricted Cash*. See Note 2, *Basis of Presentation*, in our Notes to Consolidated Condensed Financial Statements in Part I of this Form 10-Q for recently issued accounting standards.

### Operating Activities

Cash provided by (used in) operating activities is generally comprised of EBITDA excluding non-cash items (as defined by us), less cash interest, tax and pension payments, and changes in working capital. See *Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations* for discussions around the components of EBITDA excluding non-cash items on a consolidated basis and for each of our businesses above.

The increase in consolidated cash provided by operating activities for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 was primarily due to:

the improvement in collection of accounts receivable on higher balances from the increase in the cost of jet fuel at Atlantic Aviation and the increase in the cost of gas at MIC Hawaii;

timing of payment of insurance premiums; and

collection of interest receivable from a renewables developer on a revolving credit facility provided by our Contracted Power business; partially offset by

an increase in interest expense; and

an increase in current state taxes.

### Investing Activities

Cash provided by investing activities include proceeds from divestitures of businesses and fixed assets. Cash used in investing activities include acquisitions of businesses in new and existing segments and capital expenditures.

Acquisitions of businesses are generally funded by raising additional equity and/or drawings on credit facilities.

In general, maintenance capital expenditures are funded by cash from operating activities and growth capital expenditures are funded by drawing on our available credit facilities or with equity capital. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Results of Operation* for maintenance capital expenditures for each of our businesses.

TABLE OF CONTENTS

## **Liquidity and Capital Resources (continued)**

The decrease in consolidated cash used in investing activities for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 was primarily due to:

a larger amount of acquisition and investment activities completed in 2017;  
proceeds from the sale of businesses during 2018;  
a decrease in capital expenditures generally; and

a decrease in net borrowings by a renewables developer on a revolving credit facility provided by our Contracted Power business.

### **Capital Deployment**

Capital deployment includes growth capital expenditures and bolt-on acquisitions, the majority of which are expected to generate incremental earnings. For the six months ended June 30, 2018 and 2017, we deployed \$102.3 million and \$182.5 million, respectively, of growth capital in our existing businesses including an on-field consolidation (acquisition) of an FBO for \$11.4 million during the first quarter of 2018.

We continuously evaluate opportunities to prudently deploy capital in acquisitions and growth projects, whether in our existing businesses or new lines of business. We expect to undertake a number of capital projects related to the repurposing and repositioning of certain assets at IMTT and the improvement in capacity and capabilities of the businesses in our other segments. As noted in our discussion of our financial results for the first quarter of 2018, we expect to deploy, or commit to deploy, approximately \$300.0 million of capital into growth projects and bolt-on acquisitions during the year.

### **Financing Activities**

Cash provided by financing activities primarily includes new equity issuance and debt issuance related to acquisitions and capital expenditures. Cash used in financing activities primarily includes dividends to our stockholders and the repayment of debt principal balances on maturing debt.

The increase in consolidated cash used in financing activities for the six months ended June 30, 2018 compared with the six months ended June 30, 2017 was primarily due to:

decreased net borrowings used partially to fund capital deployment and general corporate purposes; partially offset by a decrease in dividends paid to stockholders in 2018.

### **IMTT**

During the six months ended June 30, 2018, IMTT borrowed \$17.0 million and repaid \$10.0 million on its revolving credit facility primarily for general corporate purposes. At June 30, 2018, IMTT had \$1.3 billion of total debt outstanding consisting of \$600.0 million of senior notes, \$509.0 million of tax-exempt bonds and \$217.0 million drawn on its revolving credit facility. IMTT has access to \$600.0 million of revolving credit facilities, of which \$383.0 million remained undrawn at June 30, 2018.

Cash interest expense was \$23.2 million and \$19.4 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, IMTT was in compliance with its financial covenants.

**Atlantic Aviation**

During the six months ended June 30, 2018, Atlantic Aviation borrowed \$33.0 million on its revolving credit facility primarily to fund an on-field consolidation of an FBO and for general corporate purposes. At June 30, 2018, Atlantic Aviation had total debt outstanding of \$671.0 million comprised of a \$380.0 million senior secured, first lien term loan facility and a \$291.0 million balance outstanding on its senior secured, first lien revolving credit facility. Atlantic Aviation has access to a \$350.0 million revolving credit facility, of which \$59.0 million remained undrawn at June 30, 2018.



TABLE OF CONTENTS

## **Liquidity and Capital Resources (continued)**

Cash interest expense was \$13.2 million and \$9.9 million for the six months ended June 30, 2018 and 2017, respectively. Cash interest expense for the six months ended June 30, 2018 and 2017 includes the cash interest expense on the \$402.5 million of the MIC Corporate 2.00% Convertible Senior Notes due October 2023, proceeds of which were used in part to reduce the drawn balance of Atlantic Aviation's revolving credit facility in October 2016.

At June 30, 2018, Atlantic Aviation was in compliance with its financial covenants.

### **Contracted Power**

At June 30, 2018, the businesses within our Contracted Power segment had \$564.6 million in term loans outstanding, of which \$246.0 million related to BEC and was classified as held for sale in the consolidated condensed balance sheet. Cash interest expense paid by these businesses was \$13.1 million and \$13.8 million for the six months ended June 30, 2018 and 2017, respectively.

At June 30, 2018, BEC had \$246.0 million outstanding on an amortizing term loan facility and access to a revolving credit facility of \$25.0 million that was undrawn. Cash interest expense was \$5.1 million and \$5.3 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, BEC was in compliance with its financial covenants.

At June 30, 2018, our wind and solar facilities had an aggregate \$318.6 million in term loan debt outstanding. Cash interest expense totaled \$8.0 million and \$8.5 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, all of the wind and solar facilities were in compliance with their respective financial covenants.

### **MIC Hawaii**

At June 30, 2018, the businesses of MIC Hawaii had total debt outstanding of \$213.5 million comprising \$198.5 million in term loans and \$15.0 million outstanding on revolving credit facilities. Cash interest expense totaled \$3.8 million and \$3.6 million for the six months ended June 30, 2018 and 2017, respectively.

In February 2018, Hawaii Gas exercised the second of two one-year extensions related to its \$80.0 million secured term loan facility and its \$60.0 million revolving credit facility extending their respective maturities to February 2023.

At June 30, 2018, Hawaii Gas had total debt outstanding of \$180.0 million in term loan and senior secured note borrowings and \$15.0 million outstanding on its revolving credit facility. During the six months ended June 30, 2018, Hawaii Gas borrowed \$20.0 million for general corporate purposes and repaid \$5.0 million. Cash interest expense was \$3.4 million and \$3.3 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, Hawaii Gas was in compliance with its financial covenants.

At June 30, 2018, the other businesses within MIC Hawaii had \$18.5 million of debt outstanding, consisting primarily of \$16.2 million term loan debt related to our solar facilities. At June 30, 2018, these businesses were in compliance with their financial covenants.

### **MIC Corporate**

At June 30, 2018, MIC had \$350.0 million and \$402.5 million in convertible senior notes outstanding that bear interest at 2.875% and 2.00%, respectively. At June 30, 2018, the outstanding balance on the senior secured revolving

credit facility was \$151.5 million resulting in an undrawn balance of \$448.5 million. In July 2018, the Company repaid \$10.0 million on the outstanding balance on its revolving credit facility.

Cash interest expense was \$8.3 million and \$5.6 million for the six months ended June 30, 2018 and 2017, respectively. Cash interest expense in both periods excludes the cash interest expense related to the \$402.5 million of 2.00% Convertible Senior Notes due October 2023, proceeds of which were used in part to reduce the drawn balance of Atlantic Aviation's revolving credit facility in October 2016. See Atlantic Aviation above. At June 30, 2018, MIC Corporate was in compliance with its financial covenants.

TABLE OF CONTENTS

## **Liquidity and Capital Resources (continued)**

For a description of the material terms and debt covenants of MIC and its businesses, see Note 7, Long-Term Debt, in Part II, Item 8, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

## **Commitments and Contingencies**

Except as noted above, at June 30, 2018, there were no material changes in our commitments and contingencies compared with those at December 31, 2017. At June 30, 2018, we did not have any material purchase obligations. For a discussion of our other future obligations, due by period, under the various contractual obligations, off-balance sheet arrangements and commitments, please see Liquidity and Capital Resources Commitments and Contingencies in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018.

At June 30, 2018, we did not have any material reserves for contingencies. We have other contingencies occurring in the normal course of business, including pending legal and administrative proceedings that are not reflected at this time as they are not ascertainable.

Our sources of cash to meet these obligations include:

cash generated from our operations (see Operating Activities in Liquidity and Capital Resources);  
issuance of shares or debt securities (see Financing Activities in Liquidity and Capital Resources);  
refinancing of our current credit facilities at or before maturity (see Financing Activities in Liquidity and Capital Resources);

undrawn balances on credit facilities (see Financing Activities in Liquidity and Capital Resources); and  
if advantageous, sale of all or part of any of our businesses (see Investing Activities in Liquidity and Capital Resources).

As described above under Recent Developments, on July 27, 2018, our subsidiary within Contracted Power segment entered into an agreement to sell 100% of BEC for \$656.5 million in cash and the assumption of \$243.5 million in debt, subject to adjustment based on working capital and debt balances at the effective date. The buyer and seller have agreed to indemnify each other for breaches of representations, warranties and covenants in the purchase agreement, subject to certain exceptions and limitations. We will guarantee one subsidiary's payment and certain post-closing indemnity obligations.

## **Critical Accounting Policies and Estimates**

For critical accounting policies and estimates, see Critical Accounting Policies and Estimates in Part II, Item 7 and Note 2 Summary of Significant Accounting Policies in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and see Note 2, Basis of Presentation, in our Notes to Consolidated Condensed Financial Statements in Part I of this Form 10-Q for recently issued accounting standards. Our critical accounting policies and estimates have not changed materially from the description contained in our Annual Report.

## **Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Our

exposure to market risk has not changed materially since February 21, 2018, the filing date for our Annual Report on Form 10-K.

TABLE OF CONTENTS

## **Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Under the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. The purpose of disclosure controls is to ensure that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## CONSOLIDATED CONDENSED BALANCE SHEETS

(\$ in Thousands, Except Share Data)

	June 30, 2018	December 31, 2017
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$53,976	\$47,121
Restricted cash	27,509	24,963
Accounts receivable, less allowance for doubtful accounts of \$1,143 and \$895, respectively	128,629	158,152
Inventories	31,495	36,955
Prepaid expenses	10,073	14,685
Fair value of derivative instruments	15,893	11,965
Other current assets	14,261	13,804
Assets held for sale <sup>(1)</sup>	951,982	
Total current assets	1,233,818	307,645
Property, equipment, land and leasehold improvements, net	3,760,023	4,659,614
Investment in unconsolidated business	9,073	9,526
Goodwill	2,046,896	2,068,668
Intangible assets, net	833,325	914,098
Fair value of derivative instruments	26,652	24,455
Other noncurrent assets	26,527	24,945
Total assets	\$7,936,314	\$8,008,951
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Due to Manager-related party	\$7,435	\$5,577
Accounts payable	42,187	60,585
Accrued expenses	71,293	89,496
Current portion of long-term debt	42,676	50,835
Fair value of derivative instruments	730	1,710
Other current liabilities	39,709	47,762
Liabilities held for sale <sup>(1)</sup>	307,149	
Total current liabilities	511,179	255,965
Long-term debt, net of current portion	3,342,260	3,530,311
Deferred income taxes	651,080	632,070
Fair value of derivative instruments	1,705	4,668
Tolling agreements noncurrent		52,595
Other noncurrent liabilities	186,020	182,639

Total liabilities	4,692,244	4,658,248
Commitments and contingencies		

*See accompanying notes to the consolidated condensed financial statements.*

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE CORPORATION**

**CONSOLIDATED CONDENSED BALANCE  
SHEETS (continued)  
(\$ in Thousands, Except Share Data)**

	June 30, 2018	December 31, 2017
	(Unaudited)	
Stockholders' equity <sup>(1)</sup> :		
Common stock (\$0.001 par value; 500,000,000 authorized; 85,186,385 shares issued and outstanding at June 30, 2018 and 84,733,957 shares issued and outstanding at December 31, 2017)	\$85	\$85
Additional paid in capital	1,655,367	1,840,033
Accumulated other comprehensive loss	(33,466 )	(29,993 )
Retained earnings	1,458,767	1,343,567
Total stockholders' equity	3,080,753	3,153,692
Noncontrolling interests	163,317	197,011
Total equity	3,244,070	3,350,703
Total liabilities and equity	\$7,936,314	\$8,008,951

(1) See Note 2, "Basis of Presentation", for further discussion on assets and liabilities held for sale.

The Company is authorized to issue 100,000,000 shares of preferred stock, par value \$0.001 per share. At June 30, 2018 and December 31, 2017, no preferred stock were issued or outstanding. The Company had 100 shares of special stock issued and outstanding to its Manager at June 30, 2018 and December 31, 2017.

*See accompanying notes to the consolidated condensed financial statements.*



TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**

**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

**(Unaudited)**

**(\$ in Thousands, Except Share and Per Share Data)**

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Revenue</b>				
Service revenue	\$375,997	\$345,045	\$778,606	\$708,849
Product revenue	102,083	93,945	201,030	181,598
Total revenue	478,080	438,990	979,636	890,447
<b>Costs and expenses</b>				
Cost of services	179,725	147,114	367,195	301,820
Cost of product sales	47,164	40,249	100,549	87,474
Selling, general and administrative	88,927	82,967	175,884	159,919
Fees to Manager-related party	10,852	18,433	23,780	36,656
Depreciation	61,086	57,063	122,444	114,744
Amortization of intangibles	18,224	15,898	35,440	33,591
Total operating expenses	405,978	361,724	825,292	734,204
<b>Operating income</b>	72,102	77,266	154,344	156,243
<b>Other income (expense)</b>				
Interest income	111	41	191	75
Interest expense <sup>(1)</sup>	(30,287 )	(35,356 )	(49,077 )	(60,838 )
Other income, net	6,248	1,738	6,290	2,920
Net income before income taxes	48,174	43,689	111,748	98,400
Provision for income taxes	(11,895 )	(17,664 )	(28,674 )	(39,737 )
Net income	\$36,279	\$26,025	\$83,074	\$58,663
Less: net (loss) income attributable to noncontrolling interests	(2,087 )	5	(32,126 )	(3,372 )
Net income attributable to MIC	\$38,366	\$26,020	\$115,200	\$62,035
Basic income per share attributable to MIC	\$0.45	\$0.32	\$1.36	\$0.75
Weighted average number of shares outstanding: basic	85,082,209	82,430,324	84,952,551	82,285,053
Diluted income per share attributable to MIC	\$0.45	\$0.32	\$1.34	\$0.75
Weighted average number of shares outstanding: diluted	85,091,945	82,439,840	89,316,951	82,294,608
Cash dividends declared per share	\$1.00	\$1.38	\$2.00	\$2.70

(1) Interest expense includes gains on derivative instruments of \$5.9 million and \$21.0 million for the quarter and six months ended June 30, 2018, respectively. For the quarter and six months ended June 30, 2017, interest expense

includes losses on derivative instruments of \$7.7 million and \$6.8 million, respectively.

*See accompanying notes to the consolidated condensed financial statements.*

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**

**CONSOLIDATED CONDENSED STATEMENTS OF**

**COMPREHENSIVE INCOME**

**(Unaudited)**

**(\$ in Thousands)**

	Quarter Ended June		Six Months Ended June	
	30,		30,	
	2018	2017	2018	2017
Net income	\$36,279	\$ 26,025	\$83,074	\$ 58,663
Other comprehensive (loss) income, net of taxes:				
Translation adjustment <sup>(1)</sup>	(2,109 )	1,097	(3,473 )	1,097
Other comprehensive (loss) income	(2,109 )	1,097	(3,473 )	1,097
Comprehensive income	\$34,170	\$ 27,122	\$79,601	\$ 59,760
Less: comprehensive (loss) income attributable to noncontrolling interests	(2,087 )	5	(32,126 )	(3,372 )
Comprehensive income attributable to MIC	\$36,257	\$ 27,117	\$111,727	\$ 63,132

Translation adjustment is presented net of tax benefit of \$794,000 and \$1.3 million for the quarter and six months (1)ended June 30, 2018, respectively. For the quarter and six months ended June 30, 2017, translation adjustment is presented net of tax expense of \$755,000.

*See accompanying notes to the consolidated condensed financial statements.*

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited) (\$ in Thousands)

	Six Months Ended	
	June 30,	
	2018	2017 <sup>(1)</sup>
<b>Operating activities</b>		
Net income	\$83,074	\$58,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	122,444	114,744
Amortization of intangible assets	35,440	33,591
Amortization of debt financing costs	5,239	4,301
Amortization of debt discount	1,800	1,495
Adjustments to derivative instruments	(16,424 )	8,382
Fees to Manager-related party	23,780	36,656
Deferred taxes	21,091	33,398
Pension expense	4,190	4,321
Other non-cash expense (income), net	35	(2,935 )
Changes in other assets and liabilities, net of acquisitions/dispositions:		
Accounts receivable	9,603	(7,871 )
Inventories	(1,816 )	(4,256 )
Prepaid expenses and other current assets	324	(2,529 )
Due to Manager-related party	(18 )	(122 )
Accounts payable and accrued expenses	(15,637 )	(15,782 )
Income taxes payable	517	(1,506 )
Other, net	(7,640 )	(11,913 )
Net cash provided by operating activities	266,002	248,637
<b>Investing activities</b>		
Acquisitions of businesses and investments, net of cash acquired	(12,420 )	(66,321 )
Purchases of property and equipment	(109,830)	(130,351)
Loan to project developer	(17,800 )	(14,675 )
Loan repayment from project developer	16,561	1,396
Proceeds from sale of business, net of cash divested	41,038	
Other, net	157	61
Net cash used in investing activities	(82,294 )	(209,890)

*See accompanying notes to the consolidated condensed financial statements.*

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**

**CONSOLIDATED CONDENSED STATEMENTS OF**

**CASH FLOWS (continued)**

**(Unaudited)**

**(\$ in Thousands)**

	Six Months Ended	
	June 30,	
	2018	2017 <sup>(1)</sup>
<b>Financing activities</b>		
Proceeds from long-term debt	\$ 208,500	\$ 264,500
Payment of long-term debt	(168,223 )	(98,542 )
Proceeds from the issuance of shares	125	5,321
Dividends paid to common stockholders	(207,344 )	(216,508 )
Contributions received from noncontrolling interests	373	
Distributions paid to noncontrolling interests	(1,943 )	(2,040 )
Offering and equity raise costs paid	(80 )	(182 )
Debt financing costs paid	(2,874 )	(447 )
Payment of capital lease obligations	(54 )	(53 )
Net cash used in financing activities	(171,520 )	(47,951 )
Effect of exchange rate changes on cash and cash equivalents	(670 )	188
Net change in cash, cash equivalents and restricted cash	11,518	(9,016 )
Cash, cash equivalents and restricted cash, beginning of period	72,084	61,257
Cash, cash equivalents and restricted cash, end of period	\$ 83,602	\$ 52,241
<b>Supplemental disclosures of cash flow information</b>		
Non-cash investing and financing activities:		
Accrued equity offering costs	\$ 27	\$ 44
Accrued purchases of property and equipment	\$ 23,489	\$ 41,354
Issuance of shares to Manager	\$ 21,905	\$ 36,927
Issuance of shares to independent directors	\$ 750	\$ 681
Conversion of convertible senior notes to shares	\$ 6	\$ 17
Distributions payable to noncontrolling interests	\$ 21	\$
Taxes paid, net	\$ 7,862	\$ 7,845
Interest paid	\$ 62,541	\$ 54,601

(1) Conformed to current period presentation. See Note 2, *Basis of Presentation*, for Recently Issued Accounting Standards adopted during the six months ended June 30, 2018.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated condensed balance sheets that sum to the total of the same amounts presented in the consolidated condensed statements of cash flows:

	As of June 30,	
	2018	2017
Cash and cash equivalents	\$53,976	\$ 28,873
Restricted cash - current	27,509	23,368
Restricted cash held for sale <sup>(2)</sup>	2,117	
Total of cash, cash equivalents and restricted cash shown in the consolidated condensed statement of cash flows	\$83,602	\$ 52,241

(2) Represents restricted cash related to BEC, which were classified as held for sale at June 30, 2018. See Note 2, Basis of Presentation , for further discussion.

*See accompanying notes to the consolidated condensed financial statements.*

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

## 1. Organization and Description of Business

Macquarie Infrastructure Corporation (MIC) is a Delaware corporation formed on May 21, 2015. MIC's predecessor, Macquarie Infrastructure Company LLC, was formed on April 13, 2004. Macquarie Infrastructure Corporation, both on an individual entity basis and together with its consolidated subsidiaries, is referred to in these financial statements as the Company or MIC.

MIC is externally managed by Macquarie Infrastructure Management (USA) Inc. (the Manager), pursuant to the terms of a Management Services Agreement, that is subject to the oversight and supervision of the board of directors. The majority of the members of the Board of Directors, and each member of all Board Committees, is independent and has no affiliation with Macquarie. The Manager is a member of the Macquarie Group of companies comprising the Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Securities Exchange.

The Company owns its businesses through its direct wholly-owned subsidiary MIC Ohana Corporation, the successor to Macquarie Infrastructure Company Inc. The Company owns and operates a diversified portfolio of businesses that provide services to other businesses, government agencies and individuals primarily in the U.S. The businesses it owns and operates are organized into four segments:

**International-Matex Tank Terminals (IMTT):** a business providing bulk liquid terminalling to third parties at 17 terminals in the U.S. and two in Canada;

**Atlantic Aviation:** a provider of fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) jet aircraft at 70 airports throughout the U.S.;

**Contracted Power:** comprising electricity generating assets including a gas-fired facility and controlling interests in wind and solar facilities in the U.S.; and

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

## 2. Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair



presentation have been included.

The consolidated balance sheet at December 31, 2017 has been derived from audited financial statements but does not include all of the information and notes required by GAAP for complete financial statements. Certain reclassifications were made to the financial statements for the prior period to conform to current period presentation.

The interim financial information contained herein should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K, as filed with the SEC on February 21, 2018. Operating results for the quarter and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any future interim periods.

38

---

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
**(Unaudited)**

**2. Basis of Presentation (continued)**

**Use of Estimates**

The preparation of unaudited consolidated condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures related thereto at the date of the unaudited consolidated condensed financial statements and the reported amounts of revenue and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited interim consolidated condensed financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from estimates.

**Financial Instruments**

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and variable-rate senior debt, are carried at cost, which approximates their fair value because of either the short-term maturity, or competitive interest rates assigned to these financial instruments.

**Assets and Liabilities Held for Sale**

During the quarter ended March 31, 2018, the Company announced that it was exploring the potential sale of a portion or all of Bayonne Energy Center (BEC), a business within the Contracted Power segment. At June 30, 2018, the Company classified \$952.0 million as assets held for sale, of which approximately \$850.0 million related to property, equipment, land and leasehold improvements and approximately \$50.0 million related to intangible assets, and \$307.1 million as liabilities held for sale, of which \$246.0 million related to total debt, on the consolidated condensed balance sheet. On July 27, 2018, a wholly owned subsidiary within the Contracted Power segment of the Company entered into an agreement to sell 100% of BEC to NHIP II Bayonne Holdings LLC for \$656.5 million in cash and the assumption of \$243.5 million in debt, subject to adjustment based on working capital and debt balances at the effective date. The Company will guarantee its subsidiary's payment and certain post-closing indemnity obligations under the purchase agreement. The transaction is expected to close in the fourth quarter of 2018, subject to receipt of required regulatory approvals and satisfaction of other closing conditions.

The sale of BEC will not qualify for discontinued operation presentation under ASC 205-20, *Presentation of Financial Statements - Discontinued Operations*.

### **Recently Issued Accounting Standards**

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI)*. The amendments in ASU 2018-02 allow entities to reclassify from AOCI to retained earnings stranded tax effects resulting from passage of the Act. An entity that elects to reclassify these amounts must reclassify stranded tax effects related to the change in federal tax rate for all items accounted for in other comprehensive income (i.e. employee benefits, cumulative translation adjustments). Entities may also elect to reclassify other stranded tax effects that relate to the Act but do not directly relate to the change in the federal tax rate (i.e. state taxes). However, because the amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance requiring the effect of a change in tax laws or rates to be included in income from operations is not affected. Upon adoption of ASU 2018-02, entities are required to disclose their policy for releasing the income tax effects from AOCI. ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The amendments in 2018-02 may be applied retrospectively to each period in which the effect of

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
**(Unaudited)**

**2. Basis of Presentation (continued)**

the Act is recognized or an entity may elect to apply the amendments in the period of adoption. The Company is currently evaluating the impact of the adoption of this ASU.

On January 26, 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the measurement of goodwill subsequent to a business combination, and no longer requires an entity to perform a hypothetical purchase price allocation when computing implied fair value to measure goodwill impairment. Instead, impairment will be assessed by quantifying the difference between the fair value of a reporting unit and its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, on condition that the charge doesn't exceed the total amount of goodwill allocated to that reporting unit. The guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 for public issuers and shall be applied prospectively. Early adoption is permitted. The Company adopted this ASU during the first quarter of 2018. There was no goodwill impairment recorded during the six months ended June 30, 2018 or 2017.

On January 5, 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides a restrictive framework for determining whether business transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Determining whether a company acquires a set of assets or a business will impact the initial measurement, the accounting treatment of direct acquisition related costs, contingent considerations and the bargain purchase price. The guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 for public issuers and shall be applied prospectively. The Company adopted this ASU during the quarter ended March 31, 2018 and will apply this ASU prospectively for asset acquisitions and business combinations.

On November 17, 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. The guidance will be applied retrospectively and is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company adopted this ASU during the quarter ended March 31, 2018 and included the retrospective application of this ASU in the accompanying consolidated condensed statement of cash flows.

On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the

balance sheet, ASU 2016-02 will require all leases with an initial term greater than one year to be recognized on the balance sheet as a right-of-use asset and a lease liability. The Company also serves as a lessor primarily through operating leases. The accounting for lessors is not expected to fundamentally change except for changes to conform and align existing guidance to the lessee guidance under ASU 2016-02, as well as to the new revenue recognition guidance in ASU 2014-09. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is allowed. The standard is to be applied using a modified retrospective approach. The Company has begun evaluating and planning for the adoption and implementation of ASU 2016-02, including assessing the overall impact. ASU 2016-02 will have a material impact on the Company's consolidated balance sheets; however, the full impact to the overall financial statements has not yet been determined. The Company plans on adopting ASU 2016-02 as of the first quarter of 2019 and is currently evaluating the impact that this standard will have on the Company's results of operations, the changes to its systems, processes and internal controls to meet the reporting and disclosure requirements.

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
**(Unaudited)**

**3. Implementation of ASU 2014-09**

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The Company has revenue that is derived from long-term contracts and leases that can span several years. The Company accounts for revenue in accordance with ASC Topic 606, *Revenue*, or ASC Topic 840, *Leases*, depending upon the terms of the agreements. See Note 11, *Long-Term Contracted Revenue*, for further discussions and disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance sets forth a five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety. It is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. This ASU includes identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. To further assist with adoption and implementation of ASU 2014-09, the FASB issued and the Company considered the following ASUs:

ASU 2015-14 (Issued August 2015) *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*;

ASU 2016-08 (Issued March 2016) *Principal versus Agent Consideration (Reporting Revenue Gross versus Net)*;

ASU 2016-10 (Issued April 2016) *Identifying Performance Obligations and Licensing*;

ASU 2016-12 (Issued May 2016) *Narrow-Scope Improvements and Practical Expedients*; and

ASU 2016-20 (Issued December 2016) *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*.

The Company adopted ASU 2014-09 during the first quarter of 2018 using the modified retrospective method. There was no adjustment to the beginning balance of retained earnings and the adoption of this ASU did not have a significant impact to the Company's consolidated financial statements other than the additional required qualitative and quantitative disclosures. As part of the adoption, the Company has not elected to apply any practical expedients available under ASC Topic 606.

**IMTT**

Revenue from IMTT is generated from the following sources and recorded in service revenue.

*Lease.* These are contracts with predominantly non-cancelable terms of 30 days to 10 years for access to and the use of storage capacity at the various terminals owned and operated by the business. These contracts generally require payments in exchange for the provision of storage capacity and product movement (thruput) throughout their term based on a fixed rate per barrel of capacity leased. A majority of the contracts include terms that adjust the fixed rate

annually for inflation. These contracts are accounted for as operating leases and the related lease income is recognized in service revenue over the term of the contract based upon the rate specified. Revenue is recognized in accordance with ASC 840, *Leases*.

*Other terminal services.* Revenue from the provision of ancillary services includes activities such as heating, mixing, and blending, and is recognized as the related services are performed based on contract rates. Revenue from other terminal services is recognized at a point in time as services are performed. Other terminal services also include payments received prior to the related services being performed or as a reimbursement for specific fixed asset additions or improvements related to a customer's contract and are recorded as deferred revenue and ratably recognized as revenues over the contract term.

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
**(Unaudited)**

**3. Implementation of ASU 2014-09 (continued)**

*Other.* Other revenue is comprised primarily of environmental response service activities through the date of sale and railroad operations. These revenues are generally recognized at a point in time as services are performed.

**Atlantic Aviation**

Revenue from Atlantic Aviation is recorded in service revenue. Services provided by Atlantic Aviation include:

*Fuel.* Fuel services are recognized when fuel has been delivered to the customer, collection of the resulting receivable is probable, persuasive evidence of an arrangement exists and the fee is fixed or determinable. Fuel services are recorded net of volume discounts and rebates. Revenue from fuel sales are recognized at a point in time as services are performed.

*Hangar.* Hangar rentals includes both month-to-month rentals and rentals from longer term contracts. Hangar rental revenue excludes transient customer overnight hangar usage (see *Other FBO services* below).

*Other FBO services.* Other FBO services consisting principally of de-icing services, landing, concession, transient overnight hangar usage, terminal use and fuel distribution fees that are recognized as sales of services. Revenue from these transactions is recorded based on the service fee earned and does not include the cost of fuel.

**Contracted Power**

BEC revenue is derived from contracts that are accounted for as operating leases that do not have minimum lease payments. This revenue is recorded within product revenue as electricity is delivered.

With respect to BEC's contracted capacity, revenue is recognized as energy, capacity and ancillary services are sold to the off-taker under the third-party tolling agreements. The agreements are based on a fixed rate per megawatt (MW) of capacity and not subject to dispatch or utilization. A portion of the revenues under the tolling agreements are subject to annual price increases. Revenue under the tolling agreements is subject to availability of capacity (subject to a historical rolling average forced outage factor). Variable operating and major maintenance revenue under the tolling agreements is a function of net plant output and a negotiated rate, which is adjusted annually based on historical plant experience.

With respect to BEC's residual capacity, revenue is recognized as energy, capacity and ancillary services are sold into the New York Independent System Operator (NYISO) energy market. Revenue for such services is based on prevailing market rates at the time such services are sold. Volumes of energy and ancillary services sold are subject to



BECS market based dispatch from NYISO.

Owners of the wind and solar facilities sell substantially all of the electricity generated at a fixed price to primarily electric utility customers pursuant to long-term (typically 20–25 years) power purchase agreements (PPAs). Substantially all of the PPAs are accounted for as operating leases and have no minimum lease payments and all of the lease income under these leases is recorded within product revenue when the electricity is delivered.

### **MIC Hawaii**

Revenue from Hawaii Gas is recorded in product revenue. Hawaii Gas recognizes revenue when products are delivered. Sales of gas to customers are billed on a monthly-cycle basis. Earned but unbilled revenue is accrued and included in accounts receivable and revenue based on the amount of gas that has been delivered but not billed to customers from the latest meter reading or billed delivery date to the end of an accounting period. The related costs are charged to expense.

The other businesses within MIC Hawaii consist of primarily a design-build mechanical contractor focused on designing and constructing energy efficient building infrastructure and controlling interests in

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

### 3. Implementation of ASU 2014-09 (continued)

renewable and distributed power facilities including two facilities on Oahu. Revenue generated by the design-build mechanical contractor business is recognized from long-term construction contracts (commonly referred to as the percentage-of-completion method) and is recorded in service revenue. PPAs at the renewable facilities are accounted for as operating leases and the related lease income is recorded in product revenues when the electricity is delivered.

### 4. Income per Share

Following is a reconciliation of the basic and diluted income per share computations (\$ in thousands, except share and per share data):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Numerator:</b>				
Net income attributable to MIC	\$38,366	\$26,020	\$115,200	\$62,035
Interest expense attributable to 2.875% Convertible Senior Notes due July 2019, net of taxes			4,719	
Diluted net income attributable to MIC	\$38,366	\$26,020	\$119,919	\$62,035
<b>Denominator:</b>				
Weighted average number of shares outstanding: basic	85,082,209	82,430,324	84,952,551	82,285,053
Dilutive effect of restricted stock unit grants	9,736	9,516	9,587	9,555
Dilutive effect of 2.875% Convertible Senior Notes due July 2019			4,354,813	
Weighted average number of shares outstanding: diluted	85,091,945	82,439,840	89,316,951	82,294,608
<b>Income per share:</b>				
Basic income per share attributable to MIC	\$0.45	\$0.32	\$1.36	\$0.75
Diluted income per share attributable to MIC	\$0.45	\$0.32	\$1.34	\$0.75

The effect of potentially dilutive shares for the quarter ended June 30, 2018 is calculated assuming that the restricted stock unit grants totaling 19,230 provided to the independent directors on June 7, 2018, which will vest during the second quarter of 2019, and the 9,435 restricted stock unit grants provided to the independent directors on May 17, 2017, which vested during the second quarter of 2018, had been fully converted to shares on those grant dates. The 2.875% Convertible Senior Notes due July 2019 and the 2.00% Convertible Senior Notes due October 2023 were

anti-dilutive for the quarter ended June 30, 2018.

The effect of potentially dilutive shares for the six months ended June 30, 2018 is calculated assuming that (i) the restricted stock unit grants totaling 19,230 provided to the independent directors on June 7, 2018, which will vest during the second quarter of 2019, and the 9,435 restricted stock unit grants provided to the independent directors on May 17, 2017, which vested during the second quarter of 2018, had been fully converted to shares on those grant dates; and (ii) the 2.875% Convertible Senior Notes due July 2019 had been fully converted into shares on the date of issuance. The 2.00% Convertible Senior Notes due October 2023 were anti-dilutive for the six months ended June 30, 2018.

The effect of potentially dilutive shares for the quarter and six months ended June 30, 2017 is calculated assuming that the restricted stock unit grants totaling 9,435 provided to the independent directors on May 17, 2017, which vested during the second quarter of 2018, and the 8,604 restricted stock unit grants (net of 2,151 restricted stock unit grants forfeited on September 30, 2016) provided to the independent directors on May 18, 2016 and restricted stock units grants of 991 provided to a new independent director on November 1, 2016,

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 4. Income per Share (continued)

which all vested during the second quarter of 2017, had been fully converted to shares on those grant dates. The 2.875% Convertible Senior Notes due July 2019 and the 2.00% Convertible Senior Notes due October 2023 were anti-dilutive for the quarter and six months ended June 30, 2017.

The following represents the weighted average potential dilutive shares of common stock that were excluded from the diluted income per share calculation:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
2.875% Convertible Senior Notes due July 2019	4,371,233	4,259,535		4,241,059
2.00% Convertible Senior Notes due October 2023	3,634,173	3,596,901	3,629,489	3,596,901
Total	8,005,406	7,856,436	3,629,489	7,837,960

#### 5. Property, Equipment, Land and Leasehold Improvements

Property, equipment, land and leasehold improvements at June 30, 2018 and December 31, 2017 consisted of the following (\$ in thousands):

	June 30, 2018 <sup>(1)</sup>	December 31, 2017
Land	\$ 319,266	\$ 339,148
Easements	131	131
Buildings	41,856	41,776
Leasehold and land improvements	743,210	834,241
Machinery and equipment	3,459,970	4,092,624
Furniture and fixtures	41,612	39,386
Construction in progress	121,694	246,422
	4,727,739	5,593,728
Less: accumulated depreciation	(967,716 )	(934,114 )
Property, equipment, land and leasehold improvements, net	\$ 3,760,023	\$ 4,659,614

(1)

Property, equipment, land and leasehold improvements excludes assets related to BEC, which were classified as held for sale at June 30, 2018. See Note 2, Basis of Presentation, for further discussion.

## 6. Intangible Assets and Goodwill

Intangible assets at June 30, 2018 and December 31, 2017 consisted of the following (\$ in thousands):

	June 30, 2018 <sup>(1)</sup>	December 31, 2017
Contractual arrangements	\$932,391	\$989,228
Non-compete agreements	14,014	14,014
Customer relationships	360,978	361,623
Leasehold rights	350	350
Trade names	16,091	16,091
Technology	8,760	8,760
	1,332,584	1,390,066
Less: accumulated amortization	(499,259 )	(475,968 )
Intangible assets, net	\$833,325	\$914,098

<sup>(1)</sup> Intangible assets excludes assets related to BEC, which were classified as held for sale at June 30, 2018. See Note 2, Basis of Presentation, for further discussion.

44

---

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 6. Intangible Assets and Goodwill (continued)

The goodwill balance as of June 30, 2018 is comprised of the following (\$ in thousands):

Goodwill acquired in business combinations, net of disposals, at December 31, 2017	\$2,193,478
Accumulated impairment charges	(123,200 )
Other	(1,610 )
Balance at December 31, 2017	2,068,668
Goodwill related to 2018 acquisition	121
Other	(265 )
Reclassification to assets held for sale <sup>(1)</sup>	(21,628 )
Balance at June 30, 2018	\$2,046,896

(1) Goodwill classified as held for sale related to BEC. See Note 2, *Basis of Presentation*, for further discussion. The Company tests for goodwill impairment at the reporting unit level on an annual basis on October 1<sup>st</sup> of each year and between annual tests if a triggering event indicates impairment. There were no triggering events indicating impairment for the six months ended June 30, 2018 or 2017.

#### 7. Long-Term Debt

At June 30, 2018 and December 31, 2017, the Company's consolidated long-term debt balance comprised of the following (\$ in thousands):

	June 30, 2018 <sup>(1)</sup>	December 31, 2017
IMTT	\$1,325,975	\$1,318,975
Atlantic Aviation	671,000	648,000
Contracted Power	318,590	576,558
MIC Hawaii	213,530	199,282
MIC Corporate	883,270	873,477
Total	3,412,365	3,616,292
Current portion	(42,676 )	(50,835 )
Long-term portion	3,369,689	3,565,457

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

Unamortized deferred financing costs <sup>(2)</sup>	(27,429 )	(35,146 )
Long-term portion less unamortized debt discount and deferred financing costs	\$3,342,260	\$3,530,311

(1) Excludes the current and long-term portion of debt related to BEC, which were classified as held for sale at June 30, 2018. See Note 2, Basis of Presentation, for further discussion.

(2) The weighted average remaining life of the deferred financing costs at June 30, 2018 was 5.4 years. At June 30, 2018, the total undrawn capacity on the revolving credit facilities was \$955.5 million excluding letters of credit outstanding of \$37.5 million.

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
**(Unaudited)**

**7. Long-Term Debt (continued)**

**MIC Corporate**

**Senior Secured Revolving Credit Facility**

On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million and extended the maturity through January 3, 2022.

At June 30, 2018 and December 31, 2017, MIC had \$151.5 million and \$143.5 million, respectively, outstanding on its senior secured revolving credit facility. During the six months ended June 30, 2018, MIC borrowed \$138.5 million for general corporate purposes and repaid \$130.5 million on its revolving credit facility. At June 30, 2018, the undrawn balance on the senior secured revolving credit facility was \$448.5 million. In July 2018, the Company repaid \$10.0 million on its revolving credit facility.

**2.875% Convertible Senior Notes due July 2019**

At June 30, 2018 and December 31, 2017, the Company had \$350.0 million aggregate principal outstanding on its five-year, 2.875% convertible senior notes due July 2019. On July 15, 2018, the Company reclassified the 2.875% Convertible Senior Notes due July 2019 to current portion of long-term debt. At June 30, 2018, the fair value of these convertible senior notes was approximately \$345.0 million. These convertible senior notes fall within Level 1 of the fair value hierarchy.

On July 15, 2018, the Company increased the conversion rate to 12.5258 shares of common stock per \$1,000 principal amount. The adjustment was made, in accordance with the indenture governing the senior notes, on the anniversary of the convertible senior notes issuance and reflects the impact of dividends paid by the Company.

**2.00% Convertible Senior Notes due October 2023**

At June 30, 2018 and December 31, 2017, the Company had \$373.9 million and \$371.4 million, respectively, outstanding on its seven year, 2.00% convertible senior notes due October 2023. At June 30, 2018, the fair value of the liability component of these convertible senior notes was approximately \$340.0 million. These convertible senior notes fall within Level 1 of the fair value hierarchy.

The 2.00% Convertible Senior Notes due October 2023 consisted of the following (\$ in thousands):



Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

	June 30, 2018	December 31, 2017
Liability Component:		
Principal	\$ 402,500	\$ 402,500
Unamortized debt discount	(20,675 )	(22,475 )
Long-term debt, net of unamortized debt discount	381,825	380,025
Unamortized deferred financing costs	(7,891 )	(8,643 )
Net carrying amount	\$ 373,934	\$ 371,382
Equity Component	\$ 26,748	\$ 26,748

For the quarters and six months ended June 30, 2018 and 2017, total interest expense recognized related to the 2.00% Convertible Senior Notes due October 2023 consisted of the following (\$ in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Contractual interest expense	\$ 2,013	\$ 2,013	\$ 4,025	\$ 3,757
Amortization of debt discount	903	876	1,800	1,495
Amortization of deferred financing costs	376	376	752	757
Total interest expense	\$ 3,292	\$ 3,265	\$ 6,577	\$ 6,009

46

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
**(Unaudited)**

**7. Long-Term Debt (continued)**

**IMTT**

At June 30, 2018 and December 31, 2017, IMTT had \$217.0 million and \$210.0 million outstanding on its revolving credit facilities, respectively. During the six months ended June 30, 2018, IMTT borrowed \$17.0 million and repaid \$10.0 million on its USD revolving credit facility primarily for general corporate purposes. At June 30, 2018, the undrawn portion on its USD revolving credit facility and CAD revolving credit facility were \$333.0 million and \$50.0 million, respectively.

At June 30, 2018, IMTT had \$600.0 million of fixed rate senior notes outstanding. At June 30, 2018, the fair value of the senior notes was approximately \$580.0 million. The senior notes fall within Level 1 of the fair value hierarchy.

**Atlantic Aviation**

At June 30, 2018 and December 31, 2017, Atlantic Aviation had \$291.0 million and \$258.0 million outstanding on its revolving credit facility, respectively. During the six months ended June 30, 2018, Atlantic Aviation borrowed \$33.0 million on its revolving credit facility primarily to fund an on-field consolidation of an FBO and for general corporate purposes. At June 30, 2018, the undrawn portion on its revolving credit facility was \$59.0 million.

**Contracted Power**

At June 30, 2018, Contracted Power had \$183.7 million of fixed rate term loans outstanding. At June 30, 2018, the fair value of the term loans was approximately \$180.0 million. The term loans fall within Level 2 of the fair value hierarchy.

**MIC Hawaii**

In February 2018, Hawaii Gas exercised the second of two one-year extensions related to its \$80.0 million secured term loan facility and its \$60.0 million revolving credit facility extending their respective maturities to February 2023.

At June 30, 2018, Hawaii Gas had \$15.0 million outstanding on its revolving credit facility. At December 31, 2017, Hawaii Gas revolving credit facility was undrawn. During the six months ended June 30, 2018, Hawaii Gas borrowed \$20.0 million for general corporate purposes and repaid \$5.0 million on its revolving credit facility. At June 30, 2018, the undrawn portion on its revolving credit facility was \$45.0 million.

At June 30, 2018, Hawaii Gas had \$100.0 million of fixed rate senior notes outstanding. At June 30, 2018, the fair value of the senior notes was approximately \$100.0 million. The senior notes fall within Level 1 of the fair value hierarchy.

## **8. Derivative Instruments and Hedging Activities**

### **Interest Rate Contracts**

The Company and certain of its businesses have in place variable-rate debt. Management believes that it is prudent to limit the variability of a portion of the business interest payments. To meet this objective, the Company enters into interest rate agreements, primarily using interest rate swaps and from time to time using interest rate caps, to manage fluctuations in cash flows resulting from interest rate risk on a portion of its debt with a variable-rate component. Interest rate swaps change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt for the portion of the debt that is swapped.

At June 30, 2018, the Company had \$3.4 billion of current and long-term debt, of which \$1.1 billion was economically hedged with interest rate contracts, \$1.6 billion was fixed rate debt and \$739.1 million was

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 8. Derivative Instruments and Hedging Activities (continued)

unhedged. The Company does not use hedge accounting. All movements in the fair value of the interest rate derivatives are recorded directly through earnings.

#### Commodity Price Hedges

The risks associated with fluctuations in the prices that Hawaii Gas, a business within the MIC Hawaii reportable segment, pays for propane is principally a result of market forces reflecting changes in supply and demand for propane and other energy commodities. Hawaii Gas gross margin (revenue less cost of product sales excluding depreciation and amortization) is sensitive to changes in propane supply costs and Hawaii Gas may not always be able to pass through product cost increases fully or on a timely basis, particularly when product costs rise rapidly. In order to reduce the volatility of the business propane market price risk, Hawaii Gas has used and expects to continue to use over-the-counter commodity derivative instruments including price swaps. Hawaii Gas does not use commodity derivative instruments for speculative or trading purposes. Over-the-counter derivative commodity instruments used by Hawaii Gas to hedge forecasted purchases of propane are generally settled at expiration of the contract.

#### Financial Statement Location Disclosure for Derivative Instruments

The Company measures derivative instruments at fair value using the income approach which discounts the future net cash settlements expected under the derivative contracts to a present value. These valuations use primarily observable (level 2) inputs, including contractual terms, interest rates and yield curves observable at commonly quoted intervals.

The Company's fair value measurements of its derivative instruments and the related location of the assets and liabilities within the consolidated condensed balance sheets at June 30, 2018 and December 31, 2017 were (\$ in thousands):

Balance Sheet Location		Assets (Liabilities) at Fair Value	
		June 30, 2018 <sup>(1)</sup>	December 31, 2017
Fair value of derivative instruments	current assets	\$ 15,893	\$ 11,965
Fair value of derivative instruments	noncurrent assets	26,652	24,455
Total derivative contracts assets		\$ 42,545	\$ 36,420
Fair value of derivative instruments	current liabilities	\$ (730 )	\$ (1,710 )
Fair value of derivative instruments	noncurrent liabilities	(1,705 )	(4,668 )

Total derivative contracts liabilities \$ (2,435 ) \$ (6,378 )

(1) Fair value of derivative instruments excludes assets related to BEC, which were classified as held for sale at June 30, 2018. See Note 2, Basis of Presentation, for further discussion.

The Company's hedging activities for the quarters and six months ended June 30, 2018 and 2017 and the related location within the consolidated condensed statements of operations were (\$ in thousands):

Financial Statement Account	Amount of Gain (Loss) Recognized in Consolidated Condensed Statements of Operations			
	Quarter ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Interest expense interest rate caps	\$ 2,018	\$ (2,536 )	\$ 7,001	\$ (2,669 )
Interest expense interest rate swaps	3,877	(5,195 )	14,034	(4,108 )
Cost of product sales commodity swaps	2,845	369	802	(3,615 )
Total	\$ 8,740	\$ (7,362 )	\$ 21,837	\$ (10,392 )

All of the Company's derivative instruments are collateralized by the assets of the respective businesses.

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

### 9. Stockholders Equity

#### 2016 Omnibus Employee Incentive Plan

On May 18, 2016, the Company adopted the 2016 Omnibus Employee Incentive Plan (Plan). The Plan provides for the issuance of equity awards covering up to 500,000 shares of common stock to attract, retain, and motivate employees, consultants and others who perform services for the Company and its subsidiaries. Under the Plan, the Compensation Committee determines the persons who will receive awards, the time at which they are granted and the terms of the awards. Type of awards include stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, cash-based awards and other stock-based awards. At June 30, 2018, there were no awards outstanding under this Plan.

#### Accumulated Other Comprehensive Loss

The following represents the changes and balances to the components of accumulated other comprehensive loss for the six months ended June 30, 2018 and 2017 (\$ in thousands):

	Post-Retirement Benefit Plans, net of taxes	Translation Adjustment, net of taxes <sup>(1)</sup>	Total Stockholders Accumulated Other Comprehensive Loss, net of taxes
Balance at December 31, 2016	\$ (16,805 )	\$ (12,155 )	\$ (28,960 )
Translation adjustment		1,097	1,097
Balance at June 30, 2017	\$ (16,805 )	\$ (11,058 )	\$ (27,863 )
Balance at December 31, 2017	\$ (20,456 )	\$ (9,537 )	\$ (29,993 )
Translation adjustment		(3,473 )	(3,473 )
Balance at June 30, 2018	\$ (20,456 )	\$ (13,010 )	\$ (33,466 )

(1) Translation adjustment is presented net of tax benefit of \$1.3 million and tax expense of \$755,000 for the six months ended June 30, 2018 and 2017, respectively.

## 10. Reportable Segments

At June 30, 2018, the Company's businesses consisted of four reportable segments: IMTT, Atlantic Aviation, Contracted Power and MIC Hawaii.

### IMTT

IMTT provides bulk liquid storage, handling and other services in North America through seventeen terminals located in the United States, one terminal in Quebec, Canada and one partially owned terminal in Newfoundland, Canada.

IMTT derives the majority of its revenue from storage and handling of petroleum products, various chemicals, renewable fuels, and vegetable and tropical oils. Based on storage capacity, IMTT operates one of the largest third-party bulk liquid terminals businesses in the United States. Revenue from IMTT is included in service revenue.

### Atlantic Aviation

Atlantic Aviation derives the majority of its revenue from fuel delivery services and from other airport services, including de-icing and aircraft hangar rental. All of the revenue of Atlantic Aviation is generated at airports in the U.S. The business currently operates at 70 airports. Revenue from Atlantic Aviation is included in service revenue.

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL**  
**STATEMENTS**  
**(Unaudited)**

**10. Reportable Segments (continued)**

**Contracted Power**

At June 30, 2018, the Contracted Power business segment has controlling interests in seven utility-scale solar photovoltaic facilities, two wind facilities and 100% ownership of a gas-fired facility that are in operations in the United States. The wind and solar facilities that are operational at June 30, 2018 have an aggregate generating capacity of 345 megawatt (MW) of wholesale electricity to utilities. Revenue from the wind, solar and gas-fired power facilities are included in product revenue.

These projects are held in LLCs, and are treated as partnerships for income tax purposes, with co-investors. The acquisition price on these projects can vary depending on, among other things, factors such as the size of the project, PPA terms, eligibility for tax incentives, debt package, operating cost structure and development stage. A completed project takes out all of the construction risk, testing and costs associated with construction contracts.

The Company has certain rights to make decisions over the management and operations of these wind and solar facilities. The Company has determined that it is appropriate to consolidate these projects, with the co-investors interest reflected as *Noncontrolling interests* in the consolidated condensed financial statements.

The Company owns 100% of BEC, a 644 MW gas-fired facility located in Bayonne, New Jersey, adjacent to IMTT's Bayonne facility. A 132 MW expansion that increased the nameplate capacity from 512 MW to 644 MW commenced commercial operations in May 2018. Power produced by BEC is delivered to New York City via a dedicated transmission cable under New York Harbor. BEC has tolling agreements with a creditworthy off-taker for approximately 50% of its power generating capacity. The tolling agreements generate revenue whether or not the facility is in use for power production. In addition to revenue from the tolling agreements and capacity payments from the grid operator, BEC generates an energy margin when the facility is dispatched. Revenue produced by BEC is accounted for as an operating lease that does not have minimum lease payments. All of the lease income under the lease is recorded within product revenue when natural gas transportation services are performed.

At June 30, 2018, the assets and liabilities of BEC are classified as held for sale on the consolidated condensed balance sheet. See Note 2, *Basis of Presentation*, for further discussions.

**MIC Hawaii**

MIC Hawaii comprises: Hawaii Gas, Hawaii's only government-franchised gas utility and an unregulated liquefied petroleum gas distribution business providing gas and related services to commercial, residential and governmental customers; a design-build mechanical contractor focused on designing and constructing energy efficient and related



building infrastructure; and controlling interests in two solar facilities on Oahu. Revenue from Hawaii Gas and the solar facilities are recorded in product revenue (see above in Contracted Power for further discussion on revenue from PPAs). Revenue from the design-build mechanical contractor business is recorded in service revenue.

Revenue from the Hawaii Gas business is generated from the distribution and sales of synthetic natural gas (SNG), liquefied petroleum gas (LPG) and liquefied natural gas (LNG). Revenue is primarily a function of the volume of SNG, LPG and LNG consumed by customers and the price per British Thermal Unit or gallon charged to customers. Revenue levels, without organic growth, will generally track global commodity prices, namely petroleum and natural gas, as its products are derived from these commodities.

All of the MIC business segments are managed separately and management has chosen to organize the Company around the distinct products and services offered. Selected information by segment is presented in the following tables.

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 10. Reportable Segments (continued)

Revenue from external customers for the Company's consolidated reportable segments were (\$ in thousands):

	Quarter Ended June 30, 2018					Total Reportable Segments
	IMTT	Atlantic Aviation	Contracted Power	MIC Hawaii	Intersegment Revenue	
Service Revenue						
Terminal Services	\$ 21,339	\$	\$	\$	\$	\$ 21,339
Lease	101,530				(1,232 )	100,298
Fuel		173,890				173,890
Hangar		21,815				21,815
Construction				13,964		13,964
Other <sup>(1)</sup>	6,494	37,226		971		44,691
Total Service Revenue	\$ 129,363	\$ 232,931	\$	\$ 14,935	\$ (1,232 )	\$ 375,997
Product Revenue						
Lease	\$	\$	\$ 37,391	\$ 1,019	\$	\$ 38,410
Gas				56,948		56,948
Other			4,012	2,713		6,725
Total Product Revenue	\$	\$	\$ 41,403	\$ 60,680	\$	\$ 102,083
Total Revenue	\$ 129,363	\$ 232,931	\$ 41,403	\$ 75,615	\$ (1,232 )	\$ 478,080

	Quarter Ended June 30, 2017					Total Reportable Segments
	IMTT	Atlantic Aviation	Contracted Power	MIC Hawaii	Intersegment Revenue	
Service Revenue						
Terminal Services	\$ 21,290	\$	\$	\$	\$	\$ 21,290
Lease	109,257				(1,231 )	108,026
Fuel		144,380				144,380
Hangar		18,996				18,996
Construction				11,855		11,855
Other <sup>(1)</sup>	6,597	33,563		338		40,498
Total Service Revenue	\$ 137,144	\$ 196,939	\$	\$ 12,193	\$ (1,231 )	\$ 345,045

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

Product Revenue						
Lease	\$	\$	\$ 36,426	\$ 766	\$	\$ 37,192
Gas				50,080		50,080
Other			3,740	2,933		6,673
Total Product Revenue	\$	\$	\$ 40,166	\$ 53,779	\$	\$ 93,945
Total Revenue	\$ 137,144	\$ 196,939	\$ 40,166	\$ 65,972	\$ (1,231 )	\$ 438,990

(1) See Note 3, Implementation of ASU 2014-09 , for revenues disclosed in Other.

51

---

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 10. Reportable Segments (continued)

	Six Months Ended June 30, 2018					
	IMTT	Atlantic Aviation	Contracted Power	MIC Hawaii	Intersegment Revenue	Total Reportable Segments
Service Revenue						
Terminal Services	\$ 47,334	\$	\$	\$	\$	\$ 47,334
Lease	205,913				(2,463 )	203,450
Fuel		351,354				351,354
Hangar		43,557				43,557
Construction				30,207		30,207
Other <sup>(1)</sup>	15,505	85,222		1,977		102,704
Total Service Revenue	\$ 268,752	\$ 480,133	\$	\$ 32,184	\$ (2,463 )	\$ 778,606
Product Revenue						
Lease	\$	\$	\$ 69,026	\$ 2,099	\$	\$ 71,125
Gas				116,707		116,707
Other			7,664	5,534		13,198
Total Product Revenue	\$	\$	\$ 76,690	\$ 124,340	\$	\$ 201,030
Total Revenue	\$ 268,752	\$ 480,133	\$ 76,690	\$ 156,524	\$ (2,463 )	\$ 979,636

	Six Months Ended June 30, 2017					
	IMTT	Atlantic Aviation	Contracted Power	MIC Hawaii	Intersegment Revenue	Total Reportable Segments
Service Revenue						
Terminal Services	\$ 43,005	\$	\$	\$	\$	\$ 43,005
Lease	217,051				(2,454 )	214,597
Fuel		296,866				296,866
Hangar		36,852				36,852
Construction				25,020		25,020
Other <sup>(1)</sup>	15,905	75,974		630		92,509
Total Service Revenue	\$ 275,961	\$ 409,692	\$	\$ 25,650	\$ (2,454 )	\$ 708,849
Product Revenue						
Lease	\$	\$	\$ 61,027	\$ 1,424	\$	\$ 62,451

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

Gas				106,221		106,221
Other			7,209	5,717		12,926
Total Product Revenue	\$	\$	\$ 68,236	\$ 113,362	\$	\$ 181,598
Total Revenue	\$ 275,961	\$ 409,692	\$ 68,236	\$ 139,012	\$ (2,454 )	\$ 890,447

(1) See Note 3, Implementation of ASU 2014-09 , for revenues disclosed in Other.

In accordance with FASB ASC 280, *Segment Reporting*, the Company has disclosed earnings before interest, taxes, depreciation and amortization (EBITDA) excluding non-cash items as a key performance indicator for the businesses. EBITDA excluding non-cash items is reflective of the businesses' ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of its businesses. The Company defines EBITDA excluding non-cash items as net income (loss) or earnings *the most comparable GAAP measure* before interest, taxes, depreciation and amortization and non-cash items including impairments, unrealized derivative gains and losses, adjustments for other non-cash items and pension expense reflected in the statements of operations.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE CORPORATION****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****10. Reportable Segments (continued)**

EBITDA excluding non-cash items for the Company's consolidated reportable segments is shown in the tables below (\$ in thousands). Allocations of corporate expenses, intercompany fees and the tax effect have been excluded as they are eliminated in consolidation.

	Quarter Ended June 30, 2018				Total
	IMTT	Atlantic Aviation	Contracted Power	MIC Hawaii	Reportable Segments
Net income	\$ 20,197	\$ 20,864	\$ 11,747	\$ 3,403	\$ 56,211
Interest expense, net	10,933	4,242	4,832	1,887	21,894
Provision for income taxes	8,087	7,600	3,654	2,144	21,485
Depreciation	28,891	15,113	13,412	3,504	60,920
Amortization of intangibles	3,879	11,846	1,107	1,392	18,224
Pension expense	1,743	6		128	1,877
Other non-cash expense (income)	310	597	(1,690 )	(954 )	(1,737 )
EBITDA excluding non-cash items	\$ 74,040	\$ 60,268	\$ 33,062	\$ 11,504	\$ 178,874

	Quarter Ended June 30, 2017				Total
	IMTT	Atlantic Aviation	Contracted Power	MIC Hawaii	Reportable Segments
Net income	\$ 22,613	\$ 16,808	\$ 4,292	\$ 4,971	\$ 48,684
Interest expense, net	11,763	5,907	8,767	2,207	28,644
Provision for income taxes	15,716	11,077	1,845	2,563	31,201
Depreciation	28,036	11,925	13,754	3,348	57,063
Amortization of intangibles	2,759	11,650	1,107	382	15,898
Pension expense	1,350	5		272	1,627
Other non-cash expense (income)	69	(22 )	(2,232 )	897	(1,288 )
EBITDA excluding non-cash items	\$ 82,306	\$ 57,350	\$ 27,533	\$ 14,640	\$ 181,829

Six Months Ended June 30, 2018  
IMTT

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

		Atlantic Aviation	Contracted Power	MIC Hawaii	Total Reportable Segments
Net income	\$ 45,477	\$ 53,831	\$ 17,328	\$ 5,614	\$ 122,250
Interest expense, net	18,672	4,311	5,717	3,177	31,877
Provision for income taxes	17,773	19,711	4,604	2,949	45,037
Depreciation	58,262	28,743	27,832	7,277	122,114
Amortization of intangibles	7,757	23,695	2,214	1,774	35,440
Pension expense	3,823	11		255	4,089
Other non-cash expense (income)	404	909	(3,578 )	5,245	2,980
EBITDA excluding non-cash items	\$ 152,168	\$ 131,211	\$ 54,117	\$ 26,291	\$ 363,787

53

---

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

### 10. Reportable Segments (continued)

	Six Months Ended June 30, 2017				Total Reportable Segments
	IMTT	Atlantic Aviation	Contracted Power	MIC Hawaii	
Net income	\$ 46,429	\$ 38,634	\$ 2,353	\$ 9,844	\$ 97,260
Interest expense, net	20,520	9,353	14,150	3,918	47,941
Provision for income taxes	32,264	25,627	1,872	5,942	65,705
Depreciation	56,796	23,514	27,987	6,447	114,744
Amortization of intangibles	5,519	25,094	2,214	764	33,591
Pension expense	3,766	10		545	4,321
Other non-cash expense (income)	137	40	(4,256 )	6,468	2,389
EBITDA excluding non-cash items	\$ 165,431	\$ 122,272	\$ 44,320	\$ 33,928	\$ 365,951

Reconciliations of total reportable segments EBITDA excluding non-cash items to consolidated net income before income taxes were (\$ in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total reportable segments EBITDA excluding non-cash items	\$178,874	\$181,829	\$363,787	\$365,951
Interest income	111	41	191	75
Interest expense	(30,287 )	(35,356 )	(49,077 )	(60,838 )
Depreciation	(61,086 )	(57,063 )	(122,444 )	(114,744 )
Amortization of intangibles	(18,224 )	(15,898 )	(35,440 )	(33,591 )
Selling, general and administrative expenses Corporate and Other	(10,144 )	(11,092 )	(14,346 )	(15,087 )
Fees to Manager-related party	(10,852 )	(18,433 )	(23,780 )	(36,656 )
Pension expense	(1,877 )	(1,627 )	(4,089 )	(4,321 )
Other income (expense), net	1,659	1,288	(3,054 )	(2,389 )
Total consolidated net income before income taxes	\$48,174	\$43,689	\$111,748	\$98,400

Capital expenditures, on a cash basis, for the Company's reportable segments were (\$ in thousands):



Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

	Quarter Ended June		Six Months Ended June	
	30, 2018	2017	30, 2018	2017
IMTT	\$ 15,155	\$ 16,796	\$ 24,332	\$ 32,059
Atlantic Aviation	17,740	14,851	36,447	34,096
Contracted Power	21,593	30,321	34,201	49,500
MIC Hawaii	4,722	7,335	10,669	13,450
Total capital expenditures of reportable segments	\$ 59,210	\$ 69,303	\$ 105,649	\$ 129,105
Corporate and other	2,439	1,179	4,181	1,246
Total consolidated capital expenditure	\$ 61,649	\$ 70,482	\$ 109,830	\$ 130,351

54

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

### 10. Reportable Segments (continued)

Property, equipment, land and leasehold improvements, net, goodwill and total assets for the Company's reportable segments and its reconciliation to consolidated total assets were (\$ in thousands):

	Property, Equipment, Land and Leasehold Improvements, net		Goodwill		Total Assets	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
IMTT	\$2,262,089	\$2,305,440	\$1,427,348	\$1,427,863	\$4,040,543	\$4,109,448
Atlantic Aviation	566,384	559,597	496,140	495,769	1,705,033	1,710,535
Contracted Power	629,138	1,466,139		21,628	696,137	1,617,658
MIC Hawaii	298,515	302,220	123,408	123,408	531,934	532,144
Total assets of reportable segments	\$3,756,126	\$4,633,396	\$2,046,896	\$2,068,668	\$6,973,647	\$7,969,785
Corporate and other Assets held for sale <sup>(1)</sup>	3,897	26,218			10,685	39,166
Total consolidated assets	\$3,760,023	\$4,659,614	\$2,046,896	\$2,068,668	\$7,936,314	\$8,008,951

(1) At June 30, 2018, Property, Equipment, Land and Leasehold Improvements, net, and Goodwill excludes balances related to BEC, which were classified as held for sale. See Note 2, "Basis of Presentation", for further discussion.

### 11. Long-Term Contracted Revenue

Long-term contracted revenue consists of revenue from future minimum lease revenue accounted in accordance with ASC 840, *Leases*, and estimated revenue to be recognized in the future related to performance conditions that are unsatisfied or partially unsatisfied accounted in accordance with ASC 606, *Revenue*. The recognition pattern for contracts that are considered leases is generally consistent with the recognition pattern that would apply if such contracts were not accounted for as leases and were instead accounted for under ASC Topic 606. Accordingly, the Company has combined the required lessor disclosures for future lease income with the disclosures for contracted revenue in the table below. The following long-term contracted revenue were in existence at June 30, 2018 (\$ in thousands):

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

	Lease Revenue (ASC 840)	Contract Revenue (ASC 606)	Total Long-Term Revenue
2018 remaining	\$ 168,785	\$ 37,095	\$ 205,880
2019	210,425	42,902	253,327
2020	120,099	32,664	152,763
2021	66,232	26,761	92,993
2022	45,972	22,936	68,908
2023	28,943	15,720	44,663
Thereafter	50,842	16,056	66,898
Total	\$ 691,298	\$ 194,134	\$ 885,432

The above table does not include the future minimum lease revenue from the Company's Contracted Power and the renewable businesses within the MIC Hawaii reportable segments. The payments from these leases are considered variable as they are based on the output of the underlying assets (i.e. energy generated).

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 11. Long-Term Contracted Revenue (continued)

In addition, the above table excludes contract revenue from the design-build mechanical contractor business in the MIC Hawaii reportable segment. Revenue generated by the design-build mechanical contractor business is recognized from long-term construction contracts (commonly referred to the percentage-of-completion method). At June 30, 2018, this business had a backlog of approximately \$27.0 million of future contract revenue which primarily is expected to be recognized within one to two years.

#### 12. Related Party Transactions

##### Management Services

At June 30, 2018 and December 31, 2017, the Manager held 9,631,251 shares and 5,435,442 shares, respectively, of the Company. Pursuant to the terms of the Third Amended and Restated Management Services Agreement (Management Agreement), the Manager may sell these shares at any time. Under the Management Agreement, the Manager, at its option, may reinvest base management fees and performance fees, if any, in shares of the Company. During the quarter ended June 30, 2018, the Manager bought 3,754,806 shares in the open market and increased its holdings to 11.31% at June 30, 2018.

Since January 1, 2017, the Company paid the Manager cash dividends on shares held for the following periods:

Declared	Period Covered	\$ per Share	Record Date	Payable Date	Cash Paid to Manager (in thousands)
July 31, 2018	Second quarter 2018	\$ 1.00	August 13, 2018	August 16, 2018	(1)
May 1, 2018	First quarter 2018	1.00	May 14, 2018	May 17, 2018	\$ 6,213
February 19, 2018	Fourth quarter 2017	1.44	March 5, 2018	March 8, 2018	8,067
October 30, 2017	Third quarter 2017	1.42	November 13, 2017	November 16, 2017	7,484
August 1, 2017	Second quarter 2017	1.38	August 14, 2017	August 17, 2017	6,941

Edgar Filing: Macquarie Infrastructure Corp - Form 10-Q

May 2, 2017	First quarter 2017	1.32	May 15, 2017	May 18, 2017	6,332
February 17, 2017	Fourth quarter 2016	1.31	March 3, 2017	March 8, 2017	6,080

(1) The amount of dividend payable to the Manager for the second quarter of 2018 will be determined on August 13, 2018, the record date.

Under the Management Agreement, subject to the oversight and supervision of the Company's board of directors, the Manager is responsible for and oversees the management of the Company's operating businesses. In addition, the Manager has the right to appoint the Chairman of the Board of the Company, subject to minimum equity ownership, and to assign, or second, to the Company, two of its employees to serve as chief executive officer and chief financial officer of the Company and seconds or makes other personnel available as required.

In accordance with the Management Agreement, the Manager is entitled to a monthly base management fee based primarily on the Company's market capitalization, and potentially a quarterly performance fee based on total shareholder returns relative to a U.S. utilities index. Currently, the Manager has elected to reinvest the future base management fees and performance fees, if any, in new primary shares. For the quarter and six months ended June 30, 2018, the Company incurred base management fees of \$10.9 million and \$23.8 million, respectively. For the quarter and six months ended June 30, 2017, the Company incurred base management fees of \$18.4 million and \$36.7 million, respectively. For the quarter and six months ended June 30, 2018 and 2017, the Company did not incur any performance fees.

TABLE OF CONTENTS

# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

## 12. Related Party Transactions (continued)

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.

Period	Base Management Fee Amount (\$ in Thousands)	Performance Fee Amount (\$ in Thousands)	Shares Issued
<i>2018 Activities:</i>			
Second quarter 2018	\$ 10,852	\$	277,053 <sup>(1)</sup>
First quarter 2018	12,928		265,002
<i>2017 Activities:</i>			
Fourth quarter 2017	\$ 16,778	\$	248,162
Third quarter 2017	17,954		240,674
Second quarter 2017	18,433		233,394
First quarter 2017	18,223		232,398

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

(1) The Company issued 277,053 shares for the quarter ended June 30, 2018, including 93,242 shares and 91,205 shares that were issued in July 2018 for the May and June 2018 monthly base management fee, respectively.

The Manager is not entitled to any other compensation and all costs incurred by the Manager, including compensation of seconded staff, are paid by the Manager out of its base management fee. However, the Company is responsible for other direct costs including, but not limited to, expenses incurred in the administration or management of the Company and its subsidiaries, income taxes, audit and legal fees, acquisitions and dispositions and its compliance with applicable laws and regulations. During the quarter and six months ended June 30, 2018, the Manager charged the Company \$141,000 and \$409,000, respectively, for reimbursement of out-of-pocket expenses compared with \$156,000 and \$445,000, respectively, for the quarter and six months ended June 30, 2017. The unpaid portion of the out-of-pocket expenses at the end of the reporting period is included in *Due to Manager-related party* in the consolidated condensed balance sheets.

### Other Services

The Company uses the resources of the Macquarie Group with respect to a range of advisory, procurement, insurance, hedging, lending and other services. Engagements involving members of the Macquarie Group are reviewed and

approved by the Audit Committee of the Company's board of directors. Macquarie Group affiliates are engaged on an arm's length basis and frequently as a member of a syndicate of providers whose other members establish the terms of the interaction.

### **Advisory Services**

The Macquarie Group, and wholly-owned subsidiaries within the Macquarie Group, including Macquarie Bank Limited (MBL) and Macquarie Capital (USA) Inc. (MCUSA) have provided various advisory and other services and incurred expenses in connection with the Company's equity raising activities, acquisitions and debt structuring for the Company and its businesses. Underwriting fees are recorded in stockholders' equity as a direct cost of equity offerings. Advisory fees and out-of-pocket expenses relating to acquisitions are expensed as incurred. Debt arranging fees are deferred and amortized over the term of the credit facility.

The Company entered into an equity distribution agreement with sales agents, including MCUSA, providing for the sale of shares of its common stock, par value \$0.001 per share, from time to time having an aggregate gross offering price of up to \$400.0 million. The equity distribution agreement also provides for

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**12. Related Party Transactions (continued)**

sales of shares to any sales agent as principal for its own account at a price agreed upon at the time of the sale. For the six months ended June 30, 2018 and 2017, the Company did not engage MCUSA for such activities.

**Long-Term Debt**

In January 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million from \$410.0 million and extended the maturity through January 3, 2022. As part of the refinancing and upsizing, MIHI LLC's \$50.0 million commitment was replaced by a \$40.0 million commitment from Macquarie Capital Funding LLC. As part of the closing, the Company paid Macquarie Capital Funding LLC \$80,000 in closing fees.

Prior to the refinancing in January 2018, the Company incurred \$4,000 in interest expense related to MIHI LLC's portion of the MIC senior secured revolving credit facility. For the quarter and six months ended June 30, 2017, the Company incurred \$35,000 and \$69,000, respectively, in interest expense related to MIHI LLC's portion of the MIC senior secured revolving credit facility. Subsequent to the refinancing in January 2018, the Company incurred \$130,000 and \$237,000, respectively, in interest expense related to Macquarie Capital Funding LLC's portion of the MIC senior secured revolving credit facility for the quarter and six months ended June 30, 2018.

**Other Transactions**

In May 2018, the Company sold its equity interest in projects involving two properties to Macquarie Infrastructure and Real Assets, Inc. (MIRA Inc.), an affiliate of the Manager, for their cost of approximately \$27.1 million. The Company retained the right to 20% of any gain on a subsequent sale by MIRA Inc. to a third party of a more than 50% interest in either or both of the projects.

Macquarie Energy North America Trading, Inc. (MENAT), an indirect subsidiary of Macquarie Group Limited, entered into contracts with IMTT to lease barrels of capacity. At March 31, 2017, MENAT leased 200,000 barrels of capacity from IMTT. During the quarter and six months ended June 30, 2017, IMTT recognized \$294,000 and \$907,000, respectively, in revenues from MENAT. The contracts expired during the quarter ended June 30, 2017.

**13. Income Taxes**

The Company expects to incur federal consolidated taxable income for the year ending December 31, 2018, which will be fully offset by the Company's net operating loss (NOL) carryforwards. The Company believes that it will be able to utilize all of its federal prior year NOLs, which will begin to expire after 2029 and completely expire after



2035.

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

In response to the Tax Cuts and Jobs Act, on December 22, 2017 the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), to provide guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. The SEC Staff noted in SAB 118 that in these cases a company should continue to apply Topic 740, *Income Taxes*, based on the provisions of the tax laws that were in effect immediately prior to the Tax Cuts and Jobs Act being enacted. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Cuts and Jobs Act enactment date for companies to complete the accounting under Topic 740. While the Company was able to make reasonable estimates of the impact of the changes to provisions of the Internal Revenue Code related to its foreign entities on its tax provision for the year ended December 31, 2017 and for the six months ended

58

---

TABLE OF CONTENTS

**MACQUARIE INFRASTRUCTURE CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**13. Income Taxes (continued)**

June 30, 2018, the final impact of the Tax Cuts and Jobs Act may differ from these estimates, due to, among other things, changes in the interpretations and assumptions of the Tax Cuts and Jobs Act, and additional guidance that may be issued by the Internal Revenue Service. As a result, the Company will continue to gather additional information to determine the final impact of these changes.

The Tax Cuts and Jobs Act also includes a new limitation on the deductibility of net interest expense that generally limits the deduction to 30% of adjusted taxable income. For years before 2022, adjusted taxable income is defined as taxable income computed without regard to certain items, including net business interest expense, the amount of any NOL deduction, tax depreciation and tax amortization. The Company does not expect to incur net interest expense that is greater than 30% of adjusted taxable income prior to 2022.

**14. Legal Proceedings and Contingencies**

The Company and its subsidiaries are subject to legal proceedings arising in the ordinary course of business. In management's opinion, the Company has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions, and does not believe the outcome of any pending legal proceedings will be material to the Company's financial position or result of operations.

**Shareholder Derivative Suits**

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

## 15. Subsequent Events

### Dividend

On July 31, 2018, the board of directors declared a dividend of \$1.00 per share for the quarter ended June 30, 2018, which is expected to be paid on August 16, 2018 to holders of record on August 13, 2018.

59

---

TABLE OF CONTENTS

## **PART II**

### **OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

There have been no changes to legal proceedings set forth under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018 and under Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, except for the following:

In June 2018, BEC entered into an Administrative Consent Order (ACO) with the New Jersey Department of Environmental Protection (NJDEP) to address ammonia emissions levels that exceeded levels outlined in BEC's air permit, as identified by tests carried out in February 2018. The ACO prescribes a fine of \$119,000 plus \$3,000 per month from July 2018 until the terms of the ACO are met. This is expected to be achieved no later than December 2018.

#### **Item 1A. Risk Factors**

There have been no material changes to the risk factors set forth under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018, except for the following:

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

We value constructive input from our stockholders and the investment community. However, there is no assurance that the actions taken by our Board of Directors and management in seeking to maintain constructive engagement with our stockholders will be successful. Certain of our shareholders have expressed views with respect to the operation of our business, our business strategy, corporate governance considerations or other matters. Responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. The perceived uncertainties as to our future direction due to activist actions could affect the market price of our securities, result in the loss of potential business opportunities and make it more difficult to attract and retain qualified personnel, board members and business partners.

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

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

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

In April 2018, two purported securities class action lawsuits were filed against us and certain current and former officers of ours and one of our subsidiaries alleging violations of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder. These lawsuits allege knowing material misstatements and omissions in our public disclosures concerning our business and the sustainability of our dividend to stockholders. While we intend to vigorously defend against these lawsuits, there is no assurance that we will be successful in the defense or that insurance will be available or adequate to fund any settlement or judgment or the litigation costs of the actions. In addition, we are obligated to indemnify and incur legal expenses on behalf of current and former officers under certain circumstances. These lawsuits, and any similar proceedings or claims that may be brought against us in the future, may divert management resources and cause us to incur substantial costs, and any unfavorable outcome could result in payment of damages and could damage our reputation, any or all of which could materially adversely impact our business and results of operations.

TABLE OF CONTENTS

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

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

**Our pending sale of BEC subjects us to various risks and uncertainties.**

On July 27, 2018, our subsidiary entered into a definitive agreement to sell 100% of BEC. The pending sale is subject to various risks and uncertainties, including the following: the attention of our management and employees may be diverted due to activities related to the sale; and BEC may be unable to pursue certain business opportunities because the purchase and sale agreement requires that BEC's business be conducted in the ordinary course of business and requires the buyer's consent to take certain actions. In addition, if the sale is not consummated, we may have less capital available for growth capital opportunities, dividend payments and other potential capital uses. We have incurred, and will incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the sale, which are generally payable by us regardless of whether the sale is consummated.

The consummation of the sale is subject to the satisfaction or waiver of specified closing conditions, including, among others, receipt of certain regulatory approvals, and there can be no assurance that the sale will be consummated. Although the buyer is required to pay us a termination fee under certain circumstances, there can be no assurance that a remedy will be available to us in the event of a breach of the purchase and sale agreement by the buyer or that we will recover for any damages incurred by us in connection with the sale. A failed transaction may result in negative publicity and a negative impression of BEC and/or us among our business partners or in the business community generally.

Our subsidiary has agreed to indemnify the buyer, subject to the terms and limitations in the purchase and sale agreement, for breaches of representations, warranties and covenants in the purchase and sale agreement, and we will guarantee our subsidiary's payment and certain post-closing indemnity obligations. In addition, following the sale, our businesses will be less diversified and our exposure to the risks inherent in our remaining businesses will increase.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not Applicable.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

An exhibit index has been filed as part of this Report on page E-1 and is incorporated herein by reference.

61

---

TABLE OF CONTENTS

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MACQUARIE INFRASTRUCTURE CORPORATION**  
(Registrant)

By:

/s/ Christopher Frost

Dated: August 1, 2018

Name: Christopher Frost  
Title: Chief Executive Officer

By:

/s/ Liam Stewart

Dated: August 1, 2018

Name: Liam Stewart  
Title: Chief Financial Officer



TABLE OF CONTENTS

**EXHIBIT INDEX**

Number	Description
<u>3.1</u>	<u>Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on May 21, 2015).</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of the Registrant, dated as of February 18, 2016 (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 23, 2016).</u>
<u>31.1*</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer</u>
<u>31.2*</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer</u>
<u>32.1**</u>	<u>Section 1350 Certification of Chief Executive Officer</u>
<u>32.2**</u>	<u>Section 1350 Certification of Chief Financial Officer</u>
	The following materials from the Quarterly Report on Form 10-Q of Macquarie Infrastructure Corporation for the quarter ended June 30, 2018, filed on August 1, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets as of June 30, 2018 (Unaudited) and December 31, 2017, (ii) the Consolidated
101.0*	Condensed Statements of Operations for the quarters and six months ended June 30, 2018 and 2017 (Unaudited), (iii) the Consolidated Condensed Statements of Comprehensive Income for the quarters and six months ended June 30, 2018 and 2017 (Unaudited), (iv) the Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2018 and 2017 (Unaudited) and (v) the Notes to Consolidated Condensed Financial Statements (Unaudited).

\*  
\*\*

Filed herewith.  
Furnished herewith.