Macquarie Infrastructure Co LLC
Form 10-Q
October 29, 2014

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2014

OR

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

For the Transition Period from ______ to ______

Commission File Number: 001-32384

MACQUARIE INFRASTRUCTURE COMPANY LLC

(Exact Name of Registrant as Specified in Its Charter)

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

125 West 55th Street
New York, New York 10019

(Address of Principal Executive Offices) (Zip Code)

(212) 231-1000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

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

There were 70,949,977 LLC interests, or shares, without par value outstanding at October 28, 2014.

MACQUARIE INFRASTRUCTURE COMPANY LLC

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

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Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this quarterly report on Form 10-Q (the Quarterly Report) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, and Section 21E of the Exchange Act. Forward-looking statements may appear throughout this Quarterly Report, including without limitation, the Management s Discussion and Analysis of Financial Condition and Results of Operations section. We use words such as believe, intend, expect, anticipate, plan, may, wil estimate, potential, project and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to the risks identified in our Annual Report on the Form 10-K for the year ended December 31, 2013, and in other reports we file from time to time with the Securities and Exchange Commission (the SEC).

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

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PART I

FINANCIAL INFORMATION

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

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

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

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

International Matex Tank Terminals or IMTT : a bulk liquid terminals business which provides bulk liquid storage and handling services at ten marine terminals in the United States and two in Canada and is one of the largest participants in this industry in the U.S., based on storage capacity. On July 16, 2014, we completed the acquisition of the remaining 50% interest that we did not previously own;

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

Atlantic Aviation: a network of fixed-base operations (FBO) that provide fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) jet aircraft at 68 airports in the U.S. The network is the one of the largest in the U.S. air transportation industry.

Contracted Power and Energy (CP&E) segment: controlling interests in five contracted solar power generation facilities and one contracted wind power generation facility in the southwest U.S., and an equity interest in a wind power generation facility in Idaho. On August 21, 2014, we completed the sale of our controlling interest in the district energy business.

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

Overview

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

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

At Hawaii Gas, we seek to grow our business by increasing the number of customers, the volume of gas sold and the margins achieved on gas sales. Hawaii Gas actively markets its products to develop new customers throughout Hawaii.

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

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

Dividends

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

Declared	Period Covered	$ per Share	Record Date	Payable Date
October 27, 2014	Third quarter 2014	$ 0.98	November 10, 2014	November 13, 2014
July 3, 2014	Second quarter 2014	$ 0.95	August 11, 2014	August 14, 2014
April 28, 2014	First quarter 2014	$ 0.9375	May 12, 2014	May 15, 2014
February 18, 2014	Fourth quarter 2013	$ 0.9125	March 3, 2014	March 6, 2014
October 25, 2013	Third quarter 2013	$ 0.875	November 11, 2013	November 14, 2013
July 29, 2013	Second quarter 2013	$ 0.875	August 12, 2013	August 15, 2013
April 26, 2013	First quarter 2013	$ 0.6875	May 13, 2013	May 16, 2013

It remains our intent to distribute a significant portion of the Free Cash Flow generated by our businesses in the form of a quarterly cash dividend to our shareholders. Free Cash Flow includes cash generated by our businesses after cash payments for interest, taxes, pension contributions and maintenance capital expenditures and excludes changes in working capital. The payment of a quarterly cash dividend of $0.98 per share for the quarter ended September 30, 2014 is being paid out of the underlying Free Cash Flow generated by our operating entities. Each of IMTT, Atlantic Aviation, Hawaii Gas and the CP&E segment may distribute cash to MIC.

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

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

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Recent Developments

Atlantic Aviation Acquisitions

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

Equity Offering

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

Convertible Senior Notes Offering

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

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

IMTT Acquisition of Remaining Interest (IMTT Acquisition)

On July 16, 2014, we acquired the remaining 50% interest of IMTT for a purchase price of $1.029 billion, consisting of $913.6 million in cash and $115.0 million in our shares, excluding transaction costs. We funded the cash consideration for the acquisition using a portion of the proceeds from the July 15, 2014 equity and convertible senior notes offerings mentioned above, and issued 1,729,323 shares to the seller in satisfaction of the equity consideration for the acquisition.

In connection with this acquisition, each of the CEO, chairman and head of government relations of IMTT, all of whom were members of the founding family, retired. The CEO of MIC has assumed the role of interim CEO and chairman of IMTT. Two individuals formerly working with MIC have been named CFO and head of financial planning and analysis, respectively, at IMTT. The former CFO of IMTT assumed the role of chief banking officer of IMTT.

MIC Revolver

In July of 2014, we entered into a senior secured revolving credit facility with a syndicate of banks. The senior secured revolving credit facility provides for a five-year, $250.0 million senior secured first lien revolving credit facility that bears interest at LIBOR plus 1.75%. This facility is guaranteed by Macquarie Infrastructure Company Inc.

(MIC Inc.), a direct wholly-owned subsidiary of the Company. At October 29, 2014, the senior secured revolving credit facility remains undrawn. Along with undrawn amounts on facilities at our businesses and other liquid resources, drawings on the revolving credit facility are available to fund growth projects and acquisitions by our existing businesses.

CP&E Acquisition

On July 3, 2014, we completed the acquisition of a 20 megawatt wind power generating facility located in eastern New Mexico for $10.1 million. The facility commenced operations in February of 2014 and all power generated is being sold to a local utility. The acquisition has been accounted for as a business combination and is part of our CP&E segment.

On August 1, 2014, we completed the acquisition of a holding entity which owns a 10% equity interest in a 183 megawatt wind power generation facility located in Idaho for $11.5 million through an LLC agreement with a co-investor. The facility commenced operation in February of 2011 and all power generated is being sold to a local utility. The 10% equity interest has been accounted for under equity method of accounting and is part of our CP&E segment.

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District Energy Business Sale

On August 21, 2014, we completed the previously disclosed sale of the district energy business that had been a part of our CP&E segment for approximately $270.0 million. We previously held a 50.01% controlling interest in the business. Proceeds of the sale, after repayment of debt and customary closing costs, were divided between us and our co-investor in the business. We deployed our portion of the proceeds to fund a majority of the performance fee (payable to our Manager) generated by the Company over the third quarter of 2014.

As a result of sale of the district energy business, we deconsolidated its assets and liabilities from our consolidated financial statements effective August 21, 2014. We recorded a pre-tax gain of $78.9 million in gain from acquisition/divestiture of businesses, which has been reflected in our consolidated condensed statement of operations for the third quarter of 2014.

Costs and Payments Affecting Reporting Metrics

We incurred performance fees payable in cash, pension contributions and transaction-related expenses, including legal and professional costs. These affected EBITDA excluding non-cash items and Free Cash Flow, as defined in Results of Operations *Consolidated: Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Free Cash Flow* , for the quarter and nine months ended September 30, 2014.

We incurred a performance fee of $116.6 million during the quarter ended September 30, 2014. Our Board requested, and our Manager agreed, that $65.0 million of the performance fee be settled in cash using the proceeds from the sale of the district energy business in order to minimize dilution. The remainder of the fee of $51.6 million was reinvested in additional shares of MIC.

We made contributions to the IMTT defined benefit pension plan and the Hawaii Gas defined benefit pension plan during the quarter ended September 30, 2014 of $20.0 million and $5.0 million, respectively. These contributions were voluntary and funded both plans to levels such that we do not believe any pension contributions will be required for several years. The contributions were funded from cash on hand from financing activities and are fully tax deductible.

We incurred acquisition-related expenses, including legal and professional costs, during the quarter and nine months ended September 30, 2014. These expenses totaled $18.6 million.

Change in Presentation

The acquisition of the 50% of IMTT we did not already own has simplified our reporting as we now consolidate IMTT s results with those of our other businesses. We have further simplified our reporting by condensing certain revenue and cost of revenue line items that are not required. For IMTT, we have combined terminal and environmental revenue, cost of revenue and the gross profit line items. For Hawaii Gas, we have combined utility revenue with non-utility revenue, cost of revenue including transmission, distribution and production costs, and have eliminated contribution margin. For Atlantic Aviation, we have concluded that items formerly reported as product revenue and cost of product sales are more appropriately reported as service revenue and cost of services, and have combined these items. Prior period amounts have been reclassified to conform to current period presentation.

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Results of Operations

Consolidated

Key Factors Affecting Operating Results:

consolidation of results of IMTT since July 16, 2014, the date of the IMTT Acquisition;
improved gross profit, partially offset by increased cash interest expense and acquisition-related costs at Atlantic Aviation;
increased gross profit contribution from a larger number of contracted power generation facilities in operation; and
increased volume and gross profit per therm during the quarter ended September 30, 2014 at Hawaii Gas; partially offset by
higher performance fees; and
increased costs primarily related to the acquisition of the remaining interest in IMTT.

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Results of Operations: *Consolidated* (continued)

Our consolidated results of operations are as follows:

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2014	2013	$	%	2014	2013	$	%
	($ In Thousands) (Unaudited)							
Revenue								
Service revenue	$317,915	$198,784	119,131	59.9	$725,623	$ 577,458	148,165	25.7
Product revenue	70,344	64,118	6,226	9.7	218,317	200,255	18,062	9.0
Financing and equipment lease income	379	817	(438)	(53.6)	1,836	2,779	(943)	(33.9)
Total revenue	388,638	263,719	124,919	47.4	945,776	780,492	165,284	21.2
Costs and expenses								
Cost of services	158,476	111,074	(47,402)	(42.7)	386,927	326,904	(60,023)	(18.4)
Cost of product sales	47,815	44,626	(3,189)	(7.1)	148,651	139,343	(9,308)	(6.7)
Gross profit	182,347	108,019	74,328	68.8	410,198	314,245	95,953	30.5
Selling, general and administrative	77,497	53,669	(23,828)	(44.4)	189,797	154,998	(34,799)	(22.5)
Fees to manager-related party	130,501	15,242	(115,259)	NM	153,990	76,912	(77,078)	(100.2)
Depreciation	35,958	10,039	(25,919)	NM	60,540	28,730	(31,810)	(110.7)
Amortization of intangibles	11,369	8,618	(2,751)	(31.9)	29,590	25,866	(3,724)	(14.4)
Loss from customer contract termination	1,269		(1,269)	NM	1,269	1,626	357	22.0
Loss on disposal of assets	20	50	30	60.0	886	226	(660)	NM
Total operating expenses	256,614	87,618	(168,996)	(192.9)	436,072	288,358	(147,714)	(51.2)
Operating (loss) income	(74,267)	20,401	(94,668)	NM	(25,874)	25,887	(51,761)	(199.9)
Other income (expense)								
Dividend income	257		257	NM	257		257	NM
Interest income	10	39	(29)	(74.4)	105	182	(77)	(42.3)
Interest expense[(1)]	(16,566)	(15,767)	(799)	(5.1)	(48,522)	(31,190)	(17,332)	(55.6)
Loss on extinguishment of debt	(90)		(90)	NM	(90)	(2,472)	2,382	96.4
Equity in earnings and amortization charges of investee	993	8,576	(7,583)	(88.4)	26,079	30,327	(4,248)	(14.0)
Gain from acquisition/divestiture of businesses	1,027,054		1,027,054	NM	1,027,054		1,027,054	NM
Other income, net	821	829	(8)	(1.0)	3,078	514	2,564	NM
Net income before income taxes	938,212	14,078	924,134	NM	982,087	23,248	958,839	NM
Benefit (provision) for income taxes	52,462	(5,829)	58,291	NM	38,491	(9,241)	47,732	NM
Net income	$990,674	$8,249	982,425	NM	$1,020,578	$14,007	1,006,571	NM
Less: net loss attributable to noncontrolling interests	(319)	(2,158)	(1,839)	(85.2)	(481)	(1,423)	(942)	(66.2)
	$990,993	$10,407	980,586	NM	$1,021,059	$15,430	1,005,629	NM

Net income attributable to MIC LLC

NM Not meaningful

(1) Interest expense includes gains on derivative instruments of $820,000 and losses of $13.1 million for the quarter and nine months ended September 30, 2014, respectively. For the quarter and nine months ended September 30, 2013, interest expense includes losses on derivative instruments of $8.0 million and $9.6 million, respectively.

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Results of Operations: *Consolidated* (continued)

Gross Profit

Consolidated gross profit increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily reflecting the consolidation of IMTT s results, improved results at Atlantic Aviation and increased contributions from both CP&E and Hawaii Gas for the nine months ended September 30, 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily as a result of the consolidation of IMTT s results, increases in legal and transaction costs primarily related to the IMTT Acquisition and the acquisition activities of Atlantic Aviation.

Fees to Manager

Our Manager is entitled to a monthly base management fee based primarily on our market capitalization, and potentially a quarterly performance fee, based on the performance of our stock relative to a U.S. utilities index. For the quarter and nine months ended September 30, 2014, we incurred base management fees of $13.9 million and $32.4 million, respectively, and performance fees of $116.6 million and $121.5 million, respectively. Our Board requested, and our Manager agreed, that $65.0 million of the performance fee be settled in cash using the proceeds from the sale of the district energy business in order to minimize dilution. The remainder of the fee of $51.6 million was reinvested in additional shares of MIC. For the quarter and nine months ended September 30, 2013, we incurred base management fees of $8.3 million and $23.5 million, respectively, and performance fees of $6.9 million and $53.4 million, respectively. Except for the portion of the third quarter of 2014 performance fee that was paid in cash in October of 2014, in all of the other periods listed below, our Manager elected to reinvest the base management and any performance fees in additional shares.

The unpaid portion of the base management fees and performance fees, if any, at the end of each reporting period is included in due to manager-related party in the consolidated condensed balance sheets.

Period	Base Management Fee Amount ($ in thousands)	Performance Fee Amount ($ in thousands)	Shares Issued
2014 Activities:			
Third quarter 2014	$ 13,915	$ 116,586	947,583 (1)
Second quarter 2014	9,535	4,960	243,329
First quarter 2014	8,994		164,546
2013 Activities:			
Fourth quarter 2013	$ 8,455	$	155,943
Third quarter 2013	8,336	6,906	278,480
Second quarter 2013	8,053	24,440	603,936
First quarter 2013	7,135	22,042	522,638

(1) In October of 2014, our Board requested, and our Manager agreed, that $65.0 million of the performance fee be settled in cash using the proceeds from the sale of the district energy business in order to minimize dilution. The remainder of the fee of $51.6 million was reinvested in additional shares of MIC. We issued 947,583 shares, of which 816,053 shares were issued in October of 2014 for the September of 2014 base management fee and the portion of the third quarter of 2014 performance fee. We also paid the cash portion of the performance fee to our Manager during October of 2014.

Depreciation

Depreciation expense increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily as a result of fixed assets acquired in conjunction with the IMTT Acquisition and the depreciation associated with solar and wind power generation facilities that became operational during 2013 and 2014. Depreciation expense was also higher at Atlantic Aviation due to acquisitions in 2013 and 2014.

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Results of Operations: *Consolidated* (continued)

Interest Expense and Gain/Loss on Derivative Instruments

Interest expense also includes gains on derivative instruments of $820,000 and losses of $13.1 million for the quarter and nine months ended September 30, 2014, respectively, and losses of $8.0 million and $9.6 million for the quarter and nine months ended September 30, 2013, respectively. Gains/losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments and include the reclassification of amounts from accumulated other comprehensive loss into earnings. Excluding the derivative adjustments, interest expense increased primarily due to the consolidation of IMTT, higher interest rate on Atlantic Aviation s term loan that was refinanced during the second quarter of 2013, and higher average term loan balances at both Atlantic Aviation and CP&E.

Equity in Earnings and Amortization Charges of Investee

The decrease in equity in earnings for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 is primarily due to the consolidation of IMTT s results from July 16, 2014 and thereafter compared with the equity method accounting for IMTT s results prior to the acquisition date.

Gain From Acquisition/Divestiture of Businesses

On August 21, 2014, we completed the previously disclosed sale of our 50.01% controlling interest in the district energy business, within CP&E, for approximately $270.0 million. Proceeds of the sale were used to repay the outstanding debt balance. The remaining amounts were divided between us and our co-investor in the business. Our share of the remaining proceeds was $59.6 million. As a result of this transaction, we deconsolidated the assets and liabilities of district energy business and recorded a pre-tax gain of $78.9 million.

On July 16, 2014, we completed the acquisition of the remaining 50% of IMTT we did not already own for $1.029 billion. Prior to this acquisition, our investment in IMTT was accounted for using the equity method of accounting. As of the closing date for the transaction we have consolidated IMTT s results and the business is considered a reportable segment. The acquisition of the remaining 50% interest in IMTT requires that all assets and liabilities of IMTT be recorded at fair value including our previous 50% ownership. This resulted in a pre-tax gain of $948.1 million due to the remeasuring to fair value of our previous 50% ownership of IMTT.

Income Taxes

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

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

The change from income tax expense to income tax benefit for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 is primarily due to the income tax benefit associated with the performance fee recognized in the third quarter of 2014 and the write-off of the deferred tax liability associated with the investment in IMTT under the equity method of accounting. These benefits are partially offset by the capital gain generated on the sale of the district energy business. For tax purposes, a gain of $30.4 million was recognized on the district energy sale, resulting in a capital gain tax of $10.6 million. This amount is expected to be fully offset by our net operating loss, or NOLs.

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Results of Operations: *Consolidated* (continued)

For 2014, we expect any federal income taxes for our consolidated entities to be fully offset by our NOL carryforwards. At December 31, 2013, our federal NOL balance was $198.6 million, which is available to offset future taxable income, if any, through 2033. As a result of having federal NOL carryforwards, together with other planned tax strategies, we do not expect to make regular federal tax payments until after 2016. For the year ending December 31, 2014, we do not expect to pay any Alternative Minimum Tax.

Absent acquisitions and/or divestitures, we expect that our effective tax rate would be higher than the U.S. federal statutory rate of 35% primarily because of state and local income taxes. For 2014, we expect a state tax benefit of $571,000 (net of minimum franchise taxes). In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOL carryforwards, the utilization of which is not assured beyond a reasonable doubt. In addition, we expect to incur certain expenses that will not be deductible in determining state taxable income. Accordingly, these expenses have also been excluded in determining our state income tax expense.

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

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

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

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

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

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Results of Operations: *Consolidated* (continued)

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

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2014	2013	$	%	2014	2013	$	%
	($ In Thousands) (Unaudited)							
Net income attributable to MIC LLC[1]	$990,993	$10,407			$1,021,059	$15,430		
Interest expense, net[2]	16,556	15,728			48,417	31,008		
(Benefit) provision for income taxes	(52,462)	5,829			(38,491)	9,241		
Depreciation[3]	35,958	10,039			60,540	28,730		
Depreciation cost of services[3]	963	1,620			4,374	5,021		
Amortization of intangibles[4]	11,369	8,618			29,590	25,866		
Loss from customer contract termination	1,269				1,269	1,626		
Loss on extinguishment of debt	90				90	2,434		
Loss on disposal of assets	6				822	106		
Gain from acquisition/divestiture of businesses	(1,027,181)				(1,027,181)			
Equity in earnings and amortization charges of investee	(993)	(8,576)			(26,079)	(30,327)		
Equity distributions from investee[5]		11,146			25,086	19,025		
Base management fees to be settled/settled in shares	13,915	8,336			32,444	23,524		
Performance fees to be settled/settled in cash/shares[6]	116,586	6,906			121,546	53,388		
Other non-cash expense (income), net	1,988	(1,340)			1,696	(1,969)		
EBITDA excluding non-cash items	$109,057	$68,713	40,344	58.7	$255,182	$183,103	72,079	39.4
EBITDA excluding non-cash items	$109,057	$68,713			$255,182	$183,103		
Interest expense, net[2]	(16,556)	(15,728)			(48,417)	(31,008)		
Adjustments to derivative instruments recorded in interest expense[2]	(9,304)	4,449			(3,937)	1,160		
Amortization of debt financing costs[2]	2,326	995			4,467	2,892		
Equipment lease receivables, net	777	740			2,805	2,814		

Benefit/provision for income taxes, net of changes in deferred taxes	3,620	(799)			(321)	(2,674)		
Pension contribution[7]	(25,825)				(26,960)			
Changes in working capital[6]	(1,067)	(7,707)			11,544	(28,527)		
Cash provided by operating activities	63,028	50,663			194,363	127,760		
Changes in working capital[6]	1,067	7,707			(11,544)	28,527		
Maintenance capital expenditures	(5,783)	(3,889)			(12,246)	(10,897)		
Free cash flow	$58,312	$54,481	3,831	7.0	$170,573	$145,390	25,183	17.3

(1) Net income attributable to MIC LLC excludes net loss attributable to noncontrolling interests of $319,000 and $481,000 for the quarter and nine months ended September 30, 2014, respectively, and net loss attributable to noncontrolling interests of $2.2 million and $1.4 million for the quarter and nine months ended September 30, 2013, respectively.

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

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Results of Operations: *Consolidated* (continued)

(3) Depreciation cost of services includes depreciation expense for our previously owned district energy business, a component of CP&E segment, which is reported in cost of services in our consolidated condensed statements of operations. Depreciation and Depreciation cost of services does not include acquisition-related step-up depreciation expense of $315,000 and $4.2 million for the quarter and nine months ended September 30, 2014, respectively, compared with $2.0 million and $5.9 million for the quarter and nine months ended September 30, 2013, respectively, in connection with our previous 50% investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated condensed statements of operations.

(4) Amortization of intangibles does not include acquisition-related step-up amortization expense of $14,000 and $185,000 for the quarter and nine months ended September 30, 2014, respectively, compared with $85,000 and $256,000 for the quarter and nine months ended September 30, 2013, respectively, in connection with our previous 50% investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated condensed statements of operations.

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

(6) In October of 2014, our Board requested, and our Manager agreed, that $65.0 million of the performance fee be settled in cash using the proceeds from the sale of the district energy business in order to minimize dilution. The remainder of the fee of $51.6 million was reinvested in additional shares of MIC. The impact of the cash settled portion has been excluded from the calculation of Free Cash Flow.

(7) For the quarter and nine months ended September 30, 2013, pension contributions of $900,000 and $2.3 million, respectively, were reported in changes in working capital for those periods.

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

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

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2014	2013	$	%	2014	2013	$	%
	($ In Thousands) (Unaudited)							
Free Cash Flow Consolidated basis	$58,312	$54,481	3,831	7.0	$170,573	$145,390	25,183	17.3
Equity distributions from investee[(1)]		(11,146)			(25,086)	(19,025)		
100% of CP&E Free Cash Flow included in consolidated Free Cash Flow	(4,645)	(4,261)			(11,468)	(11,671)		

MIC s share of IMTT Free Cash Flow(2)	(6,203)	16,581			31,324	45,926		
MIC s share of CP&E Free Cash Flow	2,435	1,392			6,175	5,052		
Free Cash Flow Proportionately Combined basis	$49,899	$57,047	(7,148)	(12.5)	$171,518	$165,672	5,846	3.5

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

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

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Results of Operations: *IMTT*

Prior to July 16, 2014, we accounted for our 50% interest in IMTT using the equity method of accounting. As of July 16, 2014, we have consolidated IMTT on 100% basis. To enable meaningful analysis of IMTT s performance across periods, IMTT s overall performance is discussed below, rather than IMTT s contribution to our consolidated results.

Key Factors Affecting Operating Results:

- gross profit increased principally due to:
  - increased levels of spill response;
  - an increase in revenue from firm commitments; and
  - a weather-related increase in heating gross profit in the first quarter of 2014; partially offset by
- higher costs primarily related to the IMTT Acquisition.

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Results of Operations: *IMTT* (continued)

	Quarter Ended September 30, 2014	2013	Change Favorable/ (Unfavorable)		Nine Months Ended September 30, 2014	2013	Change Favorable/ (Unfavorable)	
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	131,920	126,447	5,473	4.3	422,516	383,753	38,763	10.1
Cost of services(1)	59,090	55,572	(3,518)	(6.3)	187,649	164,242	(23,407)	(14.3)
Gross Profit	72,830	70,875	1,955	2.8	234,867	219,511	15,356	7.0
General and administrative expenses(2)	13,619	8,084	(5,535)	(68.5)	31,982	24,420	(7,562)	(31.0)
Depreciation and amortization	27,506	19,051	(8,455)	(44.4)	65,426	56,109	(9,317)	(16.6)
Casualty losses, net(1)		200	200	100.0		6,700	6,700	100.0
Operating income	31,705	43,540	(11,835)	(27.2)	137,459	132,282	5,177	3.9
Interest expense, net(3)	(5,558)	(9,376)	3,818	40.7	(21,504)	(17,099)	(4,405)	(25.8)
Other (expense) income	(188)	620	(808)	(130.3)	1,683	1,804	(121)	(6.7)
Provision for income taxes	(9,531)	(15,181)	5,650	37.2	(46,088)	(48,894)	2,806	5.7
Noncontrolling interest	(190)	(44)	(146)	NM	(328)	(220)	(108)	(49.1)
Net income(4)	16,238	19,559	(3,321)	(17.0)	71,222	67,873	3,349	4.9
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income(4)	16,238	19,559			71,222	67,873		
Interest expense, net(3)	5,558	9,376			21,504	17,099		
Provision for income taxes	9,531	15,181			46,088	48,894		
Depreciation and amortization	27,506	19,051			65,426	56,109		
Casualty losses, net(1)		200				6,700		
Other non-cash expenses(5)	2,519	253			6,020	429		
EBITDA excluding non-cash items	61,352	63,620	(2,268)	(3.6)	210,260	197,104	13,156	6.7
EBITDA excluding non-cash items	61,352	63,620			210,260	197,104		
Interest expense, net(3)	(5,558)	(9,376)			(21,504)	(17,099)		
Adjustments to derivative instruments recorded in interest expense(3)	(5,518)	(1,768)			(12,167)	(15,784)		
Amortization of debt financing costs(3)	956	824			2,643	1,990		
Provision for income taxes, net of changes in deferred taxes	(6,101)	(5,624)			(32,822)	(13,847)		
Pension contribution(6)	(20,000)				(20,000)			
Changes in working capital	2,219	2,619			(2,722)	4,035		
	27,350	50,295			123,688	156,399		

Cash provided by operating activities								
Changes in working capital	(2,219)	(2,619)			2,722	(4,035)		
Maintenance capital expenditures[(7)]	(11,169)	(14,514)			(37,395)	(60,513)		
Free cash flow	13,962	33,162	(19,200)	(57.9)	89,015	91,851	(2,836)	(3.1)

NM Not meaningful

(1) Casualty losses, net, includes $2.5 million and $1.5 million related to the quarters ended December 31, 2012 and March 31, 2013, respectively, which were recorded in cost of services in those periods. These amounts have been included in the nine months ended September 30, 2013.

(2) General and administrative expenses for the quarter and nine months ended September 30, 2014 includes transactional costs in connection with the IMTT Acquisition.

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

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Results of Operations: *IMTT* (continued)

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

(5) IMTT management s calculation of IMTT s EBITDA prior to acquisition included various non-cash items, unlike MIC s other businesses. In order to ensure IMTT s EBITDA excluding non-cash items does in fact excludes non-cash items, and to promote consistency across its reporting segments, MIC has excluded known non-cash items when calculating IMTT s EBITDA excluding non-cash items including primarily the non-cash pension expense of $2.3 million and $5.6 million for the quarter and nine months ended September 30, 2014, respectively. The non-cash pension expense of $2.9 million and $8.5 million was reported in changes in working capital for the quarter and nine months ended September 30, 2013, respectively.

(6) Pension contribution of $4.5 million for the quarter and nine months ended September 30, 2013 were reported in changes in working capital for those periods.

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

Revenue and Gross Profit

Revenue increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 predominately as a result of increased spiIl response activity and higher firm commitments, notwithstanding marginally lower tank utilization. In addition, the increase in revenue for the nine months ended September 30, 2014 also reflects the increase in weather-related heating revenue in the first quarter of 2014.

Capacity utilization increased to 92.5% for the quarter ended September 30, 2014 from 91.6% for the quarter ended June 30, 2014 as a large tank came back into service following its scheduled cleaning and inspection.

Operating costs were higher for the quarter ended September 30, 2014 compared with the quarter ended September 30, 2013 primarily as a result of higher spill response activity and higher costs associated with a ship colliding into our dock at Gretna (for which we will seek reimbursement from the parties responsible), partially offset by lower repairs and maintenance costs, property taxes and labor costs. Operating costs were higher for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013 as a result of higher spill response activity, heating and insurance costs.

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

General and Administrative Expenses

General and administrative expenses increased for the quarter and nine months ended September 30, 2014 as compared with the quarter and nine months ended September 30, 2013 primarily due to costs associated with the IMTT Acquisition. IMTT anticipates that additional employee costs associated with the IMTT Acquisition will be incurred over the next five quarters.

Depreciation and amortization

Depreciation and amortization expense increased for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 primarily due to remeasuring to fair value of the fixed assets and intangibles in connection with the IMTT Acquisition.

Casualty Losses, Net

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

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Results of Operations: *IMTT* (continued)

Interest Expense, Net

Interest expense includes gains on derivative instruments of $894,000 and losses of $1.6 million for the quarter and nine months ended September 30, 2014, respectively, and losses of $2.9 million and gains of $2.2 million for the quarter and nine months ended September 30, 2013, respectively. Excluding the derivative adjustments, interest expense decreased slightly during the quarter ended September 30, 2014 compared with the quarter ended September 30, 2013 and remained flat for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013.

Cash interest paid totaled $10.0 million and $30.5 million for the quarter and nine months ended September 30, 2014, respectively, and $12.5 million and $30.6 million for the quarter and nine months ended September 30, 2013, respectively. The decrease in cash interest paid during the quarter ended September 30, 2014 was primarily due to lower debt balances as a result of a net reduction of IMTT s revolving credit facility drawn balance.

Income Taxes

IMTT filed a consolidated federal income tax return for tax periods through and including July 16, 2014, the date of the IMTT Acquisition, and state income tax returns in the states in which it operates. Subsequent to July 16, 2014, IMTT became part of the MIC consolidated federal taxpayer group. As a result, MIC inherited certain tax attributes of IMTT, including $5.5 million of NOLs, which MIC currently believes it will not be able to utilize.

The Provision for income taxes, net of changes in deferred taxes of $32.8 million for the nine months ended September 30, 2014 in the table above, includes $30.0 million of federal income taxes and $2.8 million of state income taxes. The increase in current income taxes payable is due to higher taxable income and changes in federal tax laws.

We expect IMTT s current federal income taxes for its short tax year ending July 16, 2014 to be approximately $30.0 million. Subsequent to the IMTT Acquisition, we do not expect to have any 2014 current federal income taxes attributable to IMTT. Any future current federal income taxes attributable to IMTT are eligible to be offset in consolidation by MIC NOLs. We expect the business to incur approximately $1.4 million in current state income taxes for the remaining period ending December 31, 2014.

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

Result of Operations: *Hawaii Gas*

Key Factors Affecting Operating Results:

increase in the gross profit margin per therm and a small increase in the volume of therms sold; and
absence of severance costs incurred in 2013.

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Results of Operations: *Hawaii Gas* (continued)

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2014	2013			2014	2013		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	64,494	61,469	3,025	4.9	202,979	193,088	9,891	5.1
Cost of product sales[1]	46,746	44,230	(2,516)	(5.7)	145,859	138,285	(7,574)	(5.5)
Gross profit	17,748	17,239	509	3.0	57,120	54,803	2,317	4.2
Selling, general and administrative expenses	4,970	4,818	(152)	(3.2)	15,364	16,139	775	4.8
Depreciation and amortization	2,308	2,160	(148)	(6.9)	6,861	6,508	(353)	(5.4)
Operating income	10,470	10,261	209	2.0	34,895	32,156	2,739	8.5
Interest expense, net[2]	(1,589)	(2,097)	508	24.2	(5,267)	(5,040)	(227)	(4.5)
Other expense	(42)	(146)	104	71.2	(181)	(251)	70	27.9
Provision for income taxes	(3,590)	(3,191)	(399)	(12.5)	(11,709)	(10,669)	(1,040)	(9.7)
Net income[3]	5,249	4,827	422	8.7	17,738	16,196	1,542	9.5
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income[3]	5,249	4,827			17,738	16,196		
Interest expense, net[2]	1,589	2,097			5,267	5,040		
Provision for income taxes	3,590	3,191			11,709	10,669		
Depreciation and amortization	2,308	2,160			6,861	6,508		
Other non-cash expenses[1]	453	604			1,585	1,592		
EBITDA excluding non-cash items	13,189	12,879	310	2.4	43,160	40,005	3,155	7.9
EBITDA excluding non-cash items	13,189	12,879			43,160	40,005		
Interest expense, net[2]	(1,589)	(2,097)			(5,267)	(5,040)		
Adjustments to derivative instruments recorded in interest expense[2]	(203)	269			(57)	(426)		
Amortization of debt financing costs[2]	121	113			360	342		
Provision for income taxes, net of changes in deferred taxes	4,674	(94)			(662)	(3,961)		
Pension contribution[4]	(5,825)				(6,960)			
Changes in working capital	1,703	(3,023)			(2,074)	(3,810)		
Cash provided by operating activities	12,070	8,047			28,500	27,110		
Changes in working capital	(1,703)	3,023			2,074	3,810		
	(1,821)	(1,916)			(5,612)	(5,337)		

Maintenance capital expenditures								
Free cash flow	8,546	9,154	(608)	(6.6)	24,962	25,583	(621)	(2.4)

(1) For the nine months ended September 30, 2013, cost of product sales includes non-cash income of $489,000 for asset retirement obligation credit that is not expected to recur. This non-cash income is excluded when calculating EBITDA excluding non-cash items.

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

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

(4) For the quarter and nine months ended September 30, 2013, pension contributions of $900,000 and $2.3 million, respectively, were reported in changes in working capital for those periods.

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Results of Operations: *Hawaii Gas* (continued)

Gross Profit and Operating Income

Volume increased by 1.1% and was flat for the quarter and nine months ended September 30, 2014, respectively, compared with the quarter and nine months ended September 30, 2013, driven by increased volumes at commercial customers, partially offset by lower residential consumption. Gross profit per therm increased during the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 as a result of lower inter-island transportation costs, partially offset by non-utility commodity margin compression and the timing of pipeline repairs for the quarter ended September 30, 2014.

Local liquified petroleum gas, or LPG, production reliability improved in the second and third quarter of 2014, however long-term reliability remains uncertain and may continue to impact the sourcing of Hawaii Gas s LPG supplies. Hawaii Gas sources its naphtha feedstock for its synthetic natural gas, or SNG, plant from Hawaii Independent Energy and, effective October 1, 2014, the naphtha feedstock agreement was extended through June 30, 2016. The business continues to implement several initiatives to mitigate volatility in naphtha and LPG prices and supply, including hedging, storage expansion and diversification of the supply base.

On March 6, 2014, Hawaii Gas received approval from the Hawaii Public Utilities Commission (HPUC) to land containerized liquefied natural gas (LNG) in Hawaii as a back-up fuel for its SNG system on Oahu. Hawaii Gas is currently the only company with regulatory approval to land and utilize LNG in Hawaii. On April 2, 2014, Hawaii Gas received its first shipment of LNG which was subsequently re-gasified and injected into the utility pipeline network. On October 16, 2014, Hawaii Gas filed an application with the HPUC indicating its intent to spend approximately $12.8 million in its utility business for a smaller-scale containerized LNG import project to provide natural gas as a replacement for up to 30% of SNG gas demand. Regular deliveries of containerized LNG are expected to commence by late 2015. Hawaii Gas also continues to work with stakeholders throughout the state to pursue a larger-scale bulk import, storage and distribution program to supply multiple end markets including power generation and ground and marine transportation.

Selling, general and administrative expenses for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013 included higher marketing expenses, which were offset by the absence of severance costs for the nine months ended September 30, 2014.

Interest Expense, Net

Interest expense includes losses on derivative instruments of $324,000 and $1.6 million for the quarter and nine months ended September 30, 2014, respectively, and losses of $875,000 and $1.4 million for the quarter and nine months ended September 30, 2013, respectively. Excluding the derivative adjustments, interest expense decreased during the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013.

Cash interest paid totaled $2.8 million and $6.1 million for the quarter and nine months ended September 30, 2014, respectively, and $2.8 million and $6.2 million for the quarter and nine months ended September 30, 2013, respectively.

Income Taxes

Income from Hawaii Gas is included in our consolidated federal income tax return, and is subject to Hawaii state income taxes. The tax expense in the table above includes both state taxes and the portion of the consolidated federal tax liability attributable to the business. For the year ending December 31, 2014, the business expects to pay $100,000 in state income taxes. The Provision for income taxes, net of changes in deferred taxes of $662,000 for the nine months ended September 30, 2014 in the above table, includes $625,000 of federal income taxes payable to MIC and $37,000 of state income taxes. Any current federal income tax liability is expected to be offset in consolidation by the application of NOLs.

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Results of Operations: *Atlantic Aviation*

Key Factors Affecting Operating Results:

- contribution from acquired FBOs;
- increases in gross profit primarily due to increase in volume of gallons sold and rental revenue for the quarter and nine months ended September 30, 2014 and de-icing revenue for the nine months ended September 30, 2014; partially offset by
- higher selling, general and administrative expenses due to acquisition-related expenses, higher employee benefit costs and weather-related expenses; and
- higher cash interest expense driven by higher average cost of debt, partially offset by reduced average debt levels.

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Results of Operations: *Atlantic Aviation* (continued)

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2014	2013			2014	2013		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	197,980	183,198	14,782	8.1	585,153	541,840	43,313	8.0
Cost of services	104,543	100,553	(3,990)	(4.0)	318,047	301,722	(16,325)	(5.4)
Gross Profit	93,437	82,645	10,792	13.1	267,106	240,118	26,988	11.2
Selling, general and administrative expenses	49,288	44,342	(4,946)	(11.2)	143,598	130,729	(12,869)	(9.8)
Depreciation and amortization	16,493	14,072	(2,421)	(17.2)	47,033	41,917	(5,116)	(12.2)
Loss on disposal of assets	20	50	30	60.0	886	226	(660)	NM
Operating income	27,636	24,181	3,455	14.3	75,589	67,246	8,343	12.4
Interest expense, net[1]	(4,689)	(11,481)	6,792	59.2	(27,606)	(20,206)	(7,400)	(36.6)
Loss on extinguishment of debt						(2,472)	2,472	100.0
Other income	35	54	(19)	(35.2)	22	54	(32)	(59.3)
Provision for income taxes	(9,231)	(5,185)	(4,046)	(78.0)	(18,001)	(18,009)	8	
Net income[2]	13,751	7,569	6,182	81.7	30,004	26,613	3,391	12.7
Reconciliation of net income to EBITDA excluding non-cash items and cash provided by operating activities to Free Cash Flow:								
Net income[2]	13,751	7,569			30,004	26,613		
Interest expense, net[1]	4,689	11,481			27,606	20,206		
Provision for income taxes	9,231	5,185			18,001	18,009		
Depreciation and amortization	16,493	14,072			47,033	41,917		
Loss on extinguishment of debt						2,434		
Loss on disposal of assets	6				822	106		
Other non-cash expense (income)	115	(1)			271	(116)		
EBITDA excluding non-cash items	44,285	38,306	5,979	15.6	123,737	109,169	14,568	13.3
EBITDA excluding non-cash items	44,285	38,306			123,737	109,169		
Interest expense, net[1]	(4,689)	(11,481)			(27,606)	(20,206)		
Adjustments to derivative instruments recorded in interest expense[1]	(3,593)	5,551			4,712	5,604		
Amortization of debt financing costs[1]	812	702			2,328	2,011		
Provision for income taxes, net of changes in deferred taxes	(442)	(394)			(2,568)	(5,569)		
Changes in working capital	5,170	(3,609)			2,925	1,284		

Cash provided by operating activities	41,543	29,075			103,528	92,293		
Changes in working capital	(5,170)	3,609			(2,925)	(1,284)		
Maintenance capital expenditures	(2,611)	(1,910)			(4,610)	(5,248)		
Free cash flow	33,762	30,774	2,988	9.7	95,993	85,761	10,232	11.9

NM Not meaningful

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

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

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Results of Operations: *Atlantic Aviation* (continued)

Revenue and Gross Profit

The majority of the revenue and gross profit earned by Atlantic Aviation is generated through fueling GA aircraft at facilities located at 68 U.S. airports at which Atlantic Aviation operates. The business generally pursues a strategy of maintaining and, where appropriate, increasing dollar-based margins. Generally, fluctuations in the cost of fuel are passed through to the customer. Revenue and gross profit are driven by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales.

Atlantic Aviation completed the Galaxy Acquisitions on April 30, 2014. Together with the acquisition of Kansas City FBO in December of 2013, these acquisitions are performing in-line with or better than expectations and contributed to the increases in revenue, gross profit and costs for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013. On a same store basis, gross profit increased 5.4% and 6.4% for the quarter and nine months ended September 30, 2014 compared with the quarter and nine months ended September 30, 2013, respectively, driven by increases in fuel gross profit, rental revenue and de-icing revenue.

On September 23, 2014, we were issued a certificate of occupancy for the new hangar at our West Palm Beach FBO, which was acquired as part of the Galaxy Acquisitions. The issuance of the certificate of occupancy represented a delay of approximately five months from when we originally anticipated receiving such certification. Since commencing operations, occupancy at the hangar is in-line with our expectations.

At the FBOs acquired in the Galaxy Acquisitions, historically FAA GA activity for May through September period, which corresponds to our period of ownership, has represented on average 26.9% of annual GA activity over a period of fourteen years. We expect this historical trend to continue and expect an annualized EBITDA contribution from these FBOs of approximately $21.3 million.

Atlantic Aviation seeks to extend FBO leases prior to their maturity and to increase the portfolio s weighted average lease life. The weighted average lease life increased from 18.3 years at September 30, 2013 to 19.3 years at September 30, 2014, notwithstanding the passage of one year.

Selling, General and Administrative Expenses

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

On a same store basis, costs were 2.3% and 3.8% higher for the quarter and nine months ended September 30, 2014, respectively, primarily due to costs associated with the colder weather in the Northeast U.S. during the first quarter of 2014 and increased employee benefit costs incurred during the nine months ended September 30, 2014.

Interest Expense, Net

Interest expense includes gains of $1.5 million and losses of $10.6 million on derivative instruments for the quarter and nine months ended September 30, 2014, respectively, and losses of $6.7 million for both the quarter and nine months ended September 30, 2013.

Excluding the derivative adjustments, interest expense increased due to the lower cost of debt in the prior comparable period, as the principal amount was unhedged until it was refinanced on May 31, 2013, partially offset by lower average debt levels in the current period. Cash interest paid was $7.4 million and $20.6 million for the quarter and nine months ended September 30, 2014, respectively, and $5.4 million and $12.7 million for the quarter and nine months ended September 30, 2013, respectively.

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Results of Operations: *Atlantic Aviation* (continued)

Income Taxes

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

During the first quarter of 2014, Atlantic Aviation completed a tax planning initiative which is expected to reduce state taxes by approximately $2.0 million over the next several years. For 2014, the business expects to pay state income taxes of approximately $2.8 million. The Provision for income taxes, net of changes in deferred taxes of $2.6 million for the nine months ended September 30, 2014 in the above table, includes $829,000 of federal income taxes payable to MIC and $1.8 million of state income taxes.

Result of Operations: *Contracted Power and Energy*

Key Factors Affecting Operating Results:

revenue generated by the incremental increase in generating capacity, including investments in wind power generation facilities during the third quarter of 2014; partially offset by

sale of our controlling interest in the district energy business; and

legal and professional expenses primarily relating to transaction costs during the nine months ended September 30, 2014.

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

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2014	2013			2014	2013		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Service revenues	8,952	15,586	(6,634)	(42.6)	29,487	35,618	(6,131)	(17.2)
Product revenues	5,850	2,649	3,201	120.8	15,338	7,167	8,171	114.0
Finance lease revenues	379	817	(438)	(53.6)	1,836	2,779	(943)	(33.9)
Total revenues	15,181	19,052	(3,871)	(20.3)	46,661	45,564	1,097	2.4
Cost of revenue service[1]	6,364	10,520	4,156	39.5	21,311	25,181	3,870	15.4
Cost of revenue product	1,069	396	(673)	(169.9)	2,792	1,058	(1,734)	(163.9)
Cost of revenue total	7,433	10,916	3,483	31.9	24,103	26,239	2,136	8.1
Gross profit	7,748	8,136	(388)	(4.8)	22,558	19,325	3,233	16.7
Selling, general and administrative expenses	2,541	3,231	690	21.4	6,858	5,573	(1,285)	(23.1)
Depreciation	3,832	2,096	(1,736)	(82.8)	10,894	5,174	(5,720)	(110.6)
Amortization of intangibles	190	329	139	42.2	838	997	159	15.9
Loss from customer contract termination	1,269		(1,269)	NM	1,269	1,626	357	22.0
Operating (loss) income	(84)	2,480	(2,564)	(103.4)	2,699	5,955	(3,256)	(54.7)
Interest expense, net[2]	(2,422)	(2,172)	(250)	(11.5)	(7,757)	(5,914)	(1,843)	(31.2)
Loss on extinguishment of debt	(90)		(90)	NM	(90)		(90)	NM
Equity in loss of investee	(68)		(68)	NM	(68)		(68)	NM
Other income	1,380	920	460	50.0	3,789	3,156	633	20.1
Provision for income taxes	(199)	(1,557)	1,358	87.2	(1,414)	(2,972)	1,558	52.4
Noncontrolling interest	911	3,836	(2,925)	(76.3)	2,008	3,580	(1,572)	(43.9)
Net (loss) income	(572)	3,507	(4,079)	(116.3)	(833)	3,805	(4,638)	(121.9)
Reconciliation of net (loss) income to EBITDA excluding non-cash items and cash provided by (used in) operating activities to Free Cash Flow:								
Net (loss) income	(572)	3,507			(833)	3,805		
Interest expense, net[2]	2,422	2,172			7,757	5,914		
Provision for income taxes	199	1,557			1,414	2,972		
Depreciation[1]	4,795	3,716			15,268	10,195		
Amortization of intangibles	190	329			838	997		
Loss on extinguishment of debt	90				90			
Loss from customer contract termination	1,269				1,269	1,626		
Equity in loss of investee	68				68			
Other non-cash income	(915)	(3,805)			(3,805)	(6,142)		
	7,546	7,476	70	0.9	22,066	19,367	2,699	13.9

EBITDA excluding non-cash items				
EBITDA excluding non-cash items	7,546	7,476	22,066	19,367
Interest expense, net(2)	(2,422)	(2,172)	(7,757)	(5,914)
Adjustments to derivative instruments recorded in interest expense(2)	(1,425)	(1,371)	(4,509)	(4,018)
Amortization of debt financing costs(2)	116	180	502	539
Equipment lease receivable, net	777	740	2,805	2,814
Provision for income taxes, net of changes in deferred taxes	116	(529)	(903)	(805